

**RESULTS REPORT**

30 Jan 2015

Spritzer Berhad		Market Price:	RM2.09
		Market Capitalisation:	RM290.3m
		Board:	Main Market
Recommendation:	HOLD	Sector:	Consumer Products
Target Price:	RM2.09	Stock Code/Name:	7103 / SPRITZR

KEY FINANCIALS

Key Stock Statistics	2015E
Earnings/Share (sen)	15.7
P/E Ratio (x)	13.3
Dividend/Share (sen)	4.0
NTA/Share (RM)	1.50
Book Value/Share (RM)	1.50
Issued Capital (mil shares)	138.9
52-weeks share price (RM)	1.53 – 2.38
Major Shareholder(s):	% (approx)
.Yee Lee Group/Lim A Heng	56.4

Ratios Analysis	2012	2013	2014	2015E
Book Value/Sh. (RM)	1.15	1.27	1.42	1.50
Earnings/Sh. (sen)	8.1	14.6	16.3	15.7
Dividend/Sh. (sen)	4.0	5.3	4.0	4.0
Div. Payout Ratio (%)	37.0	27.4	24.6	25.5
P/E Ratio (x)	25.8	14.3	12.9	13.3
P/Book Value (x)	1.82	1.65	1.48	1.39
Dividend Yield (%)	1.9	2.6	1.9	1.9
ROE (%)	7.0	11.5	11.5	10.4
Net Gearing (Cash) (x)	0.54	0.40	0.33	0.18

P&L Analysis (RM mil)	2012	2013	2014	2015E
FY end: May 31				
Revenue	178.2	201.9	238.8	249.4
Operating Profit	19.0	26.9	31.8	32.0
Depreciation	(11.0)	(10.6)	(11.3)	(12.0)
Interest Expenses	(4.8)	(4.1)	(3.5)	(3.1)
Pre-tax Profit (PBT)	14.3	22.8	28.3	28.9
Effective Tax Rate (%)	25.7	15.6	23.8	24.6
Net Profit after Tax	10.6	19.2	21.6	21.8
Operating Margin (%)	10.7	13.3	13.3	12.8
Pre-tax Margin (%)	8.0	11.3	11.9	11.6
Net Margin (%)	5.9	9.5	9.0	8.7

*RM0.50 par value

*2015 figures are our estimates

RESULTS – 2Q/FY15

2Q/ 30 Nov	2Q15	2Q14	yoy %	1Q15	qoq%
Rev (RMm)	57.8	55.2	4.8	62.4	(7.3)
EBIT (RMm)	5.3	5.4	(2.3)	9.2	(42.7)
NPAT (RMm)	3.5	3.4	2.9	6.7	(48.0)
EPS (sen)	2.5	2.4	2.9	4.8	(48.0)

6M/ 30 Nov	6M/FY15	6M/FY14	yoy %
Rev (RMm)	120.2	110.8	8.5
EBIT (RMm)	14.5	12.4	17.0
NPAT (RMm)	10.1	8.6	17.9
EPS (sen)	7.3	6.2	17.9

*NPAT=net profit after tax

“Q2 – results within expectations”

Spritzer’s 2Q/FY15 results (3-month period ended 30th November 2014) were generally within our earlier estimates.

“Higher sales volume y-o-y”

The group recorded revenue of RM57.8 million during 2Q/FY15, an increase of 4.8% y-o-y. The better revenue was attributed to both higher sales volume and higher ASPs (average selling prices). Meanwhile, NPAT recorded was RM3.5 million, higher by 2.9% y-o-y.

Compared to the preceding 1Q/FY15, Spritzer’s 1Q/FY15 revenue and NPAT were both lower. Sales volume was lower q-o-q while the group incurred higher A&P (advertising and promotion) costs during the quarter.

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OUTLOOK/CORP. UPDATES

“Steady domestic demand”

On the demand side for Spritzer, the **domestic economic environment is still supportive**. This is so due to the fact that most of the group’s sales are derived from the domestic market (whereby the group is the market leader). This is despite of the current weak global economic growth rates. Bottled water remains an “essential” and in-demand consumer product, with its attractiveness of quality, purity, availability, convenience, affordability and hydration.

Malaysia’s central bank Bank Negara Malaysia (BNM) had announced a **3Q/2014 GDP growth of 5.6%**. Bank Negara Malaysia (BNM) has still maintained its accommodative overnight policy rate (OPR) at 3.25%. Malaysia’s inflation index, the CPI stands at 2.7% (December 2014).

The domestic unemployment level (2.7% in October 2014) is considered low, while the tourism sector is still growing. The weak external environment (particularly in Europe and Japan) persists. Nevertheless, the weak global crude oil prices and weak Ringgit are both areas of concern for Malaysia.

“Challenges”

In the mean time, the group faces challenges such as GST implementation (affecting consumer sentiment), domestic inflation, implementation of minimum wages, extension of workers’ retirement age, hike in electricity tariffs and the volatility of raw material prices. Despite of the weak external environment, the group is also working on improving its sales for the export market (for instance Singapore, Hong Kong, Japan, Australia and the Middle East).

“Management efforts”

With the group’s continuous efforts to promote its various brands and range of bottled water products, enhance its production capacity and to upgrade its warehousing facilities, the sales

volume of its bottled water products is poised to continue growing.

The group plans to continue focusing on improving its productivity and operational efficiency in order to remain competitive. The group’s **production capacity** is currently about 500 million litres, derived from 15 bottling line facilities (9 lines in Taiping, 2 lines in Shah Alam and 4 lines in Johor). The group has also upgraded its warehousing facilities. These efforts will help the group maintain its market leadership position against a few major global and regional water bottlers.

In line with its expansion plan and higher installed capacity, the group will further **increase its product range** (e.g. carbonated water and water bottles for kids) to cater to the needs of various market segments. Product developments include the introduction of mini water dispensers (for bottles 5.5-20 litres in capacity) and “Hot & Warm” mini water dispensers (for bottles 5.5-9.5 litres in capacity).

“Health benefits of OSA (silica)”

The group is also promoting the health benefit of its Spritzer natural mineral water, which is naturally rich in Orthosilicic Acid (OSA), a trace mineral (silica) associated with numerous health benefits. Recent studies indicate possible benefits of OSA to counter aluminium intake and thus Alzheimer’s disease, among other things.

VALUATION/CONCLUSION

“FY14 dividend paid out”

In December 2014, Spritzer paid out a first and final dividend per share (DPS) of 4.0 sen (single tier) for its FY14 ended 31st May 2014. We expect that the group’s FY15 DPS to be the same.

“In-line with the KLCP”

Results Report

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Thus far, Spritzer (+1.0% YTD) has mirrored the KLCI (+1.1% YTD) in 2015. Market conditions have been volatile during the past year, impacted by events in the US, Europe and China. As Spritzer is not an especially large market-cap stock, this may put a dampener on its market visibility and trading volume.

“Revise to Hold Call”

Based on our forecast of Spritzer’s FY15 EPS and an estimated P/E of 13.3 times, we set a **FY15-end Target Price (TP) of RM2.09**. This TP is the same as its market price on the date of this report and reflects a P/BV of 1.4 times over its FY15F BV/share.

Spritzer had joined the “**RM200 million revenue per year club**” at the end of its FY13 (FY-ending 31st May), and might go past RM250 million by the end of its FY15. Meanwhile, Spritzer’s P/E, P/BV, net gearing, dividend yields and ROEs are all at reasonable levels.

Nevertheless, our **cautious view** is based on the cautious external environment, perceived inflationary pressures, margins and also the volatility in raw material (PET resins) costs for bottling (due to foreign exchange rates).

In general, as a consumer product-based business, Spritzer also faces **possible routine risks** such as a slower rate of economic growth, weak product demand growth, foreign exchange fluctuations, rising production costs (raw materials – e.g. PET resins for plastic bottling) and stiff competition from other major bottled water manufacturers (e.g. Coca Cola group, Permanis, Nestle, Danone and F&N).

Spritzer: Share Price



Source: Bursa

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