

**RESULTS REPORT**

29 Apr 2015

Spritzer Berhad		Market Price:	RM2.03
		Market Capitalisation:	RM282.0m
		Board:	Main Market
Recommendation:	HOLD	Sector:	Consumer Products
Target Price:	RM2.14	Stock Code/Name:	7103 / SPRITZR

KEY FINANCIALS

Key Stock Statistics	2015E
Earnings/Share (sen)	15.8
P/E Ratio (x)	12.8
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)	1.80 – 2.38
Major Shareholder(s):	% (approx)
.Yee Lee Group/Lim A Heng	56.3

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	15.8
Dividend/Sh. (sen)	4.0	5.3	4.0	4.0
Div. Payout Ratio (%)	37.0	27.4	24.6	25.3
P/E Ratio (x)	25.0	13.9	12.5	12.8
P/Book Value (x)	1.77	1.60	1.43	1.35
Dividend Yield (%)	2.0	2.6	2.0	2.0
ROE (%)	7.0	11.5	11.5	10.5
Net Gearing (Cash) (x)	0.54	0.40	0.33	0.17

P&L Analysis (RM mil)	2012	2013	2014	2015E
FY end: May 31				
Revenue	178.2	201.9	238.8	253.3
Operating Profit	19.0	26.9	31.8	32.8
Depreciation	(11.0)	(10.6)	(11.3)	(12.0)
Interest Expenses	(4.8)	(4.1)	(3.5)	(2.8)
Pre-tax Profit (PBT)	14.3	22.8	28.3	30.0
Effective Tax Rate (%)	25.7	15.6	23.8	26.7
Net Profit after Tax	10.6	19.2	21.6	22.0
Operating Margin (%)	10.7	13.3	13.3	12.9
Pre-tax Margin (%)	8.0	11.3	11.9	11.8
Net Margin (%)	5.9	9.5	9.0	8.7

*RM0.50 par value

*2015 figures are our estimates

RESULTS – 3Q/FY15

3Q/ 28 Feb	3Q15	3Q14	yoy %	2Q15	qoq%
Rev (RMm)	61.7	59.7	3.5	57.8	6.7
EBIT (RMm)	8.3	8.2	0.7	5.3	56.8
NPAT (RMm)	5.4	6.1	(12.1)	3.5	55.6
EPS (sen)	3.9	4.4	(12.1)	2.5	55.6

9M/ 28 Feb	9M/FY15	9M/FY14	yoy %
Rev (RMm)	181.9	170.5	6.7
EBIT (RMm)	22.7	20.6	10.5
NPAT (RMm)	15.5	14.7	5.4
EPS (sen)	11.2	10.6	5.4

*NPAT=net profit after tax

“Q3 – results within expectations”

Spritzer’s 3Q/FY15 results (3-month period ended 28th February 2015) were generally within our earlier estimates.

“Higher sales y-o-y”

The group recorded revenue of RM61.7 million during 3Q/FY15, an increase of 4.8% y-o-y. The better revenue was mainly attributed to higher sales volumes. Meanwhile, NPAT recorded was RM5.4 million, lower by 12.1% y-o-y.

Compared to the preceding 2Q/FY15, Spritzer’s 3Q/FY15 revenue and NPAT were higher by and 6.7% and 55.6% q-o-q, respectively. Better profits were mainly due to lower q-o-q A&P (advertising and promotion) costs, and higher sales volume, better ASPs (average selling prices) and also lower packaging material costs during the quarter.

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/market/listed-companies/research-repository/research-reports>



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 **4Q/2014 GDP growth of 5.8%** (and +6.0% for full year 2014). Bank Negara Malaysia (BNM) has still maintained its accommodative overnight policy rate (OPR) at 3.25%. Malaysia’s inflation index, the CPI stands at 0.9% (March 2015).

Malaysia’s tourist arrivals in year 2014 had grown by 6.7% y-o-y. The weak external environment (particularly in Europe and Japan) persists.

Nevertheless, the weak global crude oil prices and volatile Ringgit are both areas of concern for Malaysia. We do not expect that the GST implementation in Malaysia (in April 2015) will really affect the long term consumption levels of basic products like bottled water.

“External challenges”

In the mean time, the group faces challenges such as perceived 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).

“Group 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 produce collagen and to counter aluminium intake (and thus Alzheimer’s disease), among other benefits.

“Award”

Spritzer was recently recognised at the World Branding Awards in Paris with a Brand of the Year 2015 National Award in the Water category.

Results Report

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme (“CBRS”) administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia’s website at: <http://www.bursamalaysia.com/market/listed-companies/research-repository/research-reports>

VALUATION/CONCLUSION

“4 sen DPS expected for FY15”

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.

Thus far, Spritzer (-1.9% YTD) has **underperformed** versus the KLCI (+4.5% YTD) in 2015. Market conditions have been volatile during the past year, impacted by rate decisions, commodity prices and economic data. As Spritzer is not an especially large market-cap stock, this may put a dampener on its market visibility and trading volume.

“Maintain Hold Call”

Based on our forecast of Spritzer’s FY15 EPS and an estimated P/E of 13.5 times, we set a **FY15-end Target Price (TP) of RM2.14**. This TP is slightly above 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** (on revenue growth) 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

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: <http://www.bursamalaysia.com/market/listed-companies/research-repository/research-reports>