



**RESULTS REPORT**

03 Nov 2015

<b>Spritzer Berhad</b>		<b>Market Price:</b>	RM1.98
		<b>Market Capitalisation:</b>	RM280.6m
		<b>Board:</b>	Main Market
<b>Recommendation:</b>	HOLD	<b>Sector:</b>	Consumer Products
<b>Target Price:</b>	RM2.12	<b>Stock Code/Name:</b>	7103 / SPRITZR

**KEY FINANCIALS**

Key Stock Statistics	2016F
Earnings/Share (sen)	19.3
P/E Ratio (x)	10.3
Dividend/Share (sen)	5.0
NTA/Share (RM)	1.67
Book Value/Share (RM)	1.67
Issued Capital (mil shares)	141.7
52-weeks share price (RM)	1.71 – 2.19
<b>Major Shareholder(s):</b>	<b>% (est)</b>
.Yee Lee Group/Lim A Heng	56.8

Ratios Analysis	2013	2014	2015	2016F
Book Value/Sh. (RM)	1.27	1.42	1.52	1.67
Earnings/Sh. (sen)	14.6	16.3	16.1	19.3
Dividend/Sh. (sen)	5.3	4.0	5.0	5.0
Div. Payout Ratio (%)	27.4	24.6	31.0	25.9
P/E Ratio (x)	13.6	12.2	12.3	10.3
P/Book Value (x)	1.56	1.40	1.30	1.19
Dividend Yield (%)	2.7	2.0	2.5	2.5
ROE (%)	11.5	11.5	10.6	11.6
Net Gearing (Cash) (x)	0.40	0.33	0.13	0.03

P&L Analysis (RM mil)	2013	2014	2015	2016F
<b>FY end: May 31</b>				
Revenue	201.9	238.8	253.7	271.8
Operating Profit	26.9	31.8	34.7	40.0
Depreciation	(10.6)	(11.3)	(12.1)	(12.2)
Interest Expenses	(4.1)	(3.5)	(2.7)	(2.4)
Pre-tax Profit (PBT)	22.8	28.3	32.0	37.7
Effective Tax Rate (%)	15.6	23.8	28.7	27.4
Net Profit after Tax	19.2	21.6	22.8	27.4
Operating Margin (%)	13.3	13.3	13.7	14.7
Pre-tax Margin (%)	11.3	11.9	12.6	13.9
Net Margin (%)	9.5	9.0	9.0	10.1

\*RM0.50 par value

\*2016 figures are our estimates

**RESULTS – 1Q/FY16**

1Q/ 31 Aug	1Q16	1Q15	yov %	4Q15	qoq%
Rev (RMm)	66.7	62.4	6.9	71.7	(7.1)
EBIT (RMm)	9.5	9.2	3.4	11.1	(14.5)
NPAT (RMm)	7.3	6.7	9.5	7.3	0.2
EPS (sen)	5.1	4.7	9.5	5.1	0.2

\*NPAT=net profit after tax

**“Q1 – results within expectations”**

Spritzer’s 1Q/FY16 results (3-month period ended 31<sup>st</sup> August 2015) were generally within our earlier expectations.

**“Higher sales y-o-y”**

The group recorded revenue of RM66.7 million during 1Q/FY16, an increase of 6.9% y-o-y. The better revenue was mainly attributed to higher sales volumes and higher ASPs (average selling prices).

Meanwhile, NPAT recorded was RM7.3 million, higher by 9.5% y-o-y. The better NPAT was aided by the reduction in packaging material costs.

Compared to the preceding 4Q/FY15, Spritzer’s 1Q/FY16 revenue was lower by 7.1%, while its NPAT was marginally higher by 0.2% q-o-q, respectively. Sales volume was lower q-o-q, while margins were affected by the increase in packaging materials and other production costs as a result of the weakness of the Ringgit against major currencies, in particular the US Dollar during the quarter.



## OUTLOOK/CORP. UPDATES

### “Steady domestic demand”

On the demand side for Spritzer, the **domestic economic environment still appears 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, ease of availability, convenience, affordability and hydration.

Malaysia’s central bank Bank Negara Malaysia (BNM) had announced a **2Q/2015 GDP growth of 4.9%**. Bank Negara Malaysia (BNM) has still maintained its accommodative overnight policy rate (OPR) at 3.25%. Malaysia’s consumer inflation index, the CPI stands at 2.6% (September 2015).

Nevertheless, the weak global crude oil prices, volatile Ringgit and slower GDP growth in China are all 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 essential consumer products like bottled water.

### “Challenges”

In the mean time, Spritzer 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).

### “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 550 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/beverage 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. Scientific studies indicate possible benefits of OSA to produce collagen and to counter aluminium intake (and thus Alzheimer’s disease), among other benefits.

### “New subsidiary”

In June 2015, a newly wholly-owned subsidiary company, Spritzer (HongKong) Ltd (“SPRHK”) was incorporated in Hong Kong. SPRHK has a proposed paid-up capital of HKD100,000 comprising 100,000 ordinary shares of HKD 1 each. The nature of business to be carried out by SPR HK is as an investment holding company.

### “Multitude of Accolades Received”

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

In July 2015, the Spritzer brand emerged (for the 14<sup>th</sup> time) as the Platinum Winner of the



Readers' Digest Trusted Brands Award 2015. The group's "Cactus" brand has also (for the 2<sup>nd</sup> time), won the Gold award of the Readers' Digest Trusted Brand Award. The recognitions are appropriate as Spritzer and Cactus brands are the No. 1 and No. 2 mineral water brands in Malaysia.

In August 2015, Spritzer has been awarded (for the 2<sup>nd</sup> time) Gold in the Beverage – Non-alcoholic, at the Putra Brand Awards 2015. These awards are an initiative by the Association of Accredited Advertising Agents Malaysia and endorsed by MATRADE.

In October 2015, Spritzer has (for the 6<sup>th</sup> consecutive year) been awarded the prestigious Asia Pacific Bottled Water Company of the Year, 2015 by Frost & Sullivan. For this award, 2 key factors are evaluated – "Visionary Innovation & Performance" and "Customer Impact."

Meanwhile, after a very thorough sanitation audit of the Spritzer's water sources and facilities in June 2015 by a team of auditors from the US Army Public Health Command District – Western Pacific, Spritzer has been approved and listed in the Directory of Sanitarily Approved Food Establishments for Armed Forces Procurement, for the delivery of bottled water.

## VALUATION/CONCLUSION

### "FY15 dividend payable in December"\*

The group has proposed a first and final dividend of 5 sen (FY14: 4 sen) per ordinary share of 50 sen each, single tier, for its FY15 ended 31<sup>st</sup> May 2015. This first and final dividend is subject to approval by shareholders at the upcoming AGM on 19<sup>th</sup> November 2015.\* Thereafter, the company's shares will trade ex-dividend on 2<sup>nd</sup> December 2015, and the dividend payable on 18<sup>th</sup> December 2015.

Currently, Spritzer (-4.3% YTD) has **mirrored** the KLCI's performance (-4.5% YTD) in 2015. Market conditions have been volatile during the past year, impacted by the timing of central bank 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 FY16 EPS and an estimated P/E of 11 times, we set a **FY16-end Target Price (TP) of RM2.12**. This TP is 7.1% above its market price on the date of this report and reflects a P/BV of 1.27 times over its FY16F BV/share.

Spritzer had achieved "RM200 million revenue per year" at the end of its FY13 (FY-ending 31<sup>st</sup> May), and has gone past **RM250 million** by the end of its FY15. Meanwhile, Spritzer's FY16F P/E, P/BV, net gearing, dividend yield and ROE 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