

31 May 2018 | 1QFY18 Results Review

Spritzer Berhad

Sales boosted by hot weather and water rationing

Maintain NEUTRAL
Revised Target Price (TP): RM2.27
(Previously RM2.10)

INVESTMENT HIGHLIGHTS

- **1QFY18 earnings rose by +37.3%yoy to RM6.8m**
- **Higher sales boosted by hot weather and water rationing**
- **Earnings were lifted by better cost management**
- **Nevertheless, tough operating environment to persist**
- **Maintain NEUTRAL with a revised TP of RM2.27**

Earnings within our expectation. Spritzer 1QFY18 normalised earnings rose by +37.3%yoy to RM6.8m. This came in within ours and consensus expectations, accounting for 26.9% and 24.1% of full year FY18 earnings forecasts respectively.

Higher sales boosted by hot weather and water rationing. The revenue for 1QFY18 increased by +13.7%yoy to RM82.5m. This was mainly attributable to the: (i) higher sales volume as a consequence of hot weather and water rationing in Selangor which occurred in March 2018 and; (ii) revision of selling prices for some of its products by not more than +5.0%yoy from 2QFY17.


Earnings were lifted by better cost management. The increase in raw material costs, particularly prices of polyethylene terephthalate (PET) resin, following the trend of oil prices caused the cost of sales to rise by +16.0%yoy. Nevertheless, the increase in costs was mitigated by the revision of selling prices last year. In addition, operating expenses reduced by -7.0%yoy as Spritzer's trading unit in China incurred a lower selling and distribution costs. This was due to the lower advertising and promotion activities during winter season in China.

Tough operating environment for FY18. Despite the commendable 1QFY18 result, we expect that the group outlook for the year 2018 will remain challenging due to the increasing competition in the local bottled water market and slow product acceptance rate in China. We expect that China's trading operation will take longer than the original stipulated timeframe of three years to breakeven. The group is expected to remain committed to invest in advertising and promotion activities to drive up sales in Chinese market. In addition, the rising costs of raw materials particularly PET resin in line with the uptrend in oil prices will continue to compress gross profit margin.

RETURN STATS	
Price (30 May 2018)	RM2.35
Target Price	RM2.27
Expected Share Price Return	-3.4%
Expected Dividend Yield	+2.8%
Expected Total Return	-0.6%

STOCK INFO		
KLCI	1,719.28	
Bursa / Bloomberg	7103 SPZ MK	
Board / Sector	Main / Consumer	
Syariah Compliant	Yes	
Issued shares (m)	209.97	
Market cap. (RM'm)	493.43	
Price over NA	1.31	
52-wk price Range	RM2.13-RM2.50	
Beta (against KLCI)	0.48	
3-mth Avg Daily Vol	0.01m	
3-mth Avg Daily Value	RM0.03m	
Major Shareholders (%)		
Yee Lee Corporation	28.88	
Tasik Puncak	13.04	
Yee Lee Holdings	10.86	
Price Performance (%)	Absolute	Relative
1 month	+2.2	+10.7
3 months	-2.9	+6.2
12 months	-4.5	-1.9

Impact to earnings. We made no change to FY18 earnings estimate. However, we are revising our FY19 earnings estimates downward by –10.0% as we input: i) profit margins compression in view of the increase in raw material costs; and ii) longer gestation period for the China operation.

Maintain NEUTRAL. We are maintaining our **NEUTRAL** recommendation on the stock with a revised target price of **RM2.27** (previously RM2.10) per share as we rolled forward our valuation base year to FY19. This is based on pegging FY19 EPS of 13.0sen against forward PER of 17.5x. 

INVESTMENT STATISTICS

FYE Dec	FY15*	FY16**	FY17	FY18F	FY19F
Revenue (RM'm)	253.7	185.9	313.8	340.2	375.9
Pretax Profit (RM'm)	32.0	18.3	35.3	33.2	35.8
Net Profit (RM'm)	22.8	12.5	25.5	25.2	27.2
Normalised Net Profit (RM'm)	22.8	12.5	23.2	25.2	27.2
Normalised EPS (sen)	10.9	6.0	11.1	12.0	13.0
EPS growth (%)	0.1	N/A	N/A	0.1	0.1
PER (x)	17.3	N/A	20.7	19.6	18.1
Net Dividend (sen)	5.0	3.5	5.5	6.0	6.5
Dividend yield (%)	2.1	1.5	2.3	2.6	2.8

Source: Company, MIDF Research

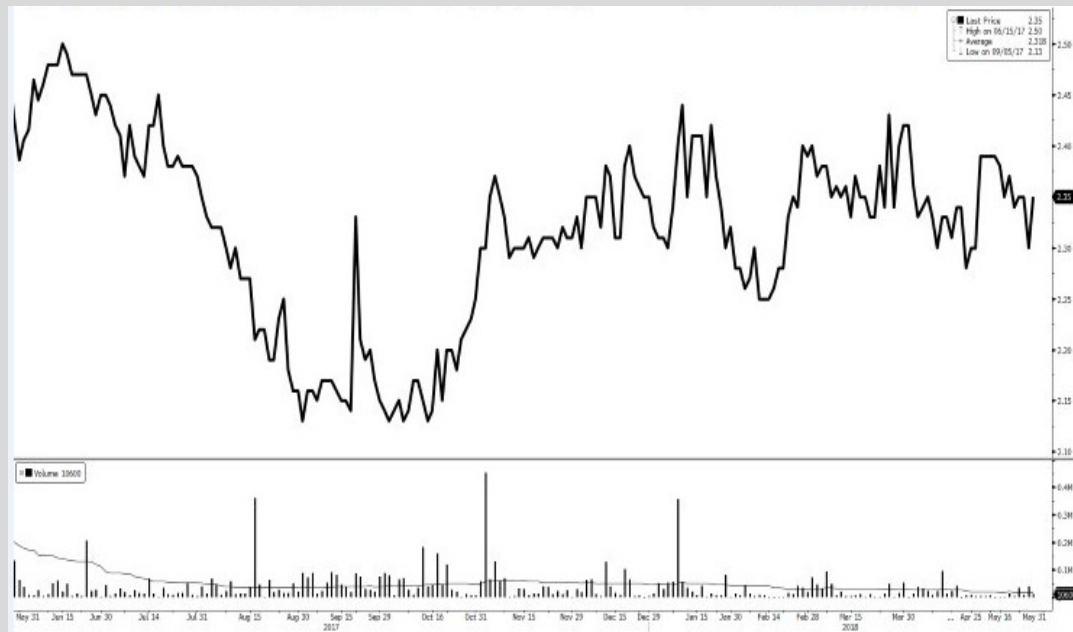
*FYE May **May to Dec 2016, seven months only due to change in financial year end

SPRITZER: 1QFY18 Results Summary

FYE Mac (RMm)	Quarterly results				
	1QFY18	4QFY17	1QFY17	YoY (%)	QoQ (%)
Revenue	82.5	79.4	72.6	13.7	3.9
Other gains and losses	0.7	1.3	(0.2)	(463.6)	(43.0)
Cost of sales and other operating expenses	(73.6)	(71.5)	(65.1)	13.1	3.0
Finance costs	(0.2)	(0.2)	(0.3)	(17.1)	(3.5)
PBT	9.5	9.0	7.1	33.6	4.8
Taxation	(2.7)	(1.7)	(2.1)	29.6	54.9
PAT	6.8	7.3	5.0	35.3	(7.1)
Basic and diluted EPS (sen)	3.2	4.0	2.8	17.0	(18.2)

Source: MIDF Research, Company

DAILY PRICE CHART



Source: Bloomberg

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.