

29 August 2018 | 2QFY18 Results Review

Spritzer Berhad

1HFY18 earnings within expectation

INVESTMENT HIGHLIGHTS

- 2QF18 earnings rose by +30.2%yoy to RM6.7m mainly due to increase in volume of bottled water
- Growth of cost of sales and operating expenses was in line with the growth in revenue
- Outlook remain challenging
- Maintain NEUTRAL with an unchanged TP of RM2.27

Earnings within expectations. Spritzer 2QF18 earnings rose by +30.2%yoy to RM6.7m. This brings its 1HFY18 earnings to RM13.5m which is within ours but below consensus expectations, accounting for 53.0% and 48.0% of full year FY18 earnings forecasts respectively.

Revenue for the quarter rose by +6.5%yoy. Revenue for 2QFY18 rose by +6.5%yoy to RM83.6m. The group recorded increase in volume of bottled water sold locally as a result of sales campaigns and special discounts offered on bottled water just before and after GST was zero-rated on the 1st June 2018. In addition, the group's China operations also showed improvement in sales performance.

Earnings were lifted by prudent cost management. The increase in cost of sales (+14.0%yoy) in 2QFY18 was mainly due to the increase in raw material cost, in particular polyethylene terephthalate (PET) resin cost which is in line with the uptrend of oil prices. Nonetheless, other operating expenses decreased by -8.0%yoy due to better overall cost control and lower advertising and promotion cost incurred in China.

Target Price. Our target price remains unchanged at **RM2.27** per share. This is based on pegging FY19 EPS of 13.0sen against forward PER of 17.5x.

Maintain NEUTRAL. Despite the commendable 2QFY18 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 profit margin. Due to this, we are reiterating our **NEUTRAL** recommendation on Spritzer. 

Maintain NEUTRAL
Unchanged Target Price (TP): RM2.27

RETURN STATS

Price (28 th August 2018)	RM2.33
Target Price	RM2.27
Expected Share Price Return	-2.6%
Expected Dividend Yield	+2.8%
Expected Total Return	+0.2%

STOCK INFO

KLCI	1,826.9	
Bursa / Bloomberg	7103 SPZ MK	
Board / Sector	Main / Consumer	
Syariah Compliant	Yes	
Issued shares (m)	209.97	
Market cap. (RM'm)	489.23	
Price over NA	1.28	
52-wk price Range	RM2.13-RM2.46	
Beta (against KLCI)	0.42	
3-mth Avg Daily Vol	0.01m	
3-mth Avg Daily Value	RM0.04m	
Major Shareholders (%)		
Yee Lee Corporation	28.88	
Tasik Puncak	13.04	
Yee Lee Holdings	10.86	
Price Performance (%)	Absolute	Relative
1 month	-0.9	-4.0
3 months	+0.9	-3.6
12 months	+6.9	+3.5

INVESTMENT STATISTICS

FYE Dec	FY15*	FY16**	FY17	FY18F	FY19F
Revenue (RM'm)	253.7	474.2	313.8	340.2	375.9
Pretax Profit (RM'm)	32.0	55.3	35.3	33.2	35.8
Net Profit (RM'm)	22.8	41.0	25.5	25.2	27.2
Normalised Net Profit (RM'm)	22.8	41.0	23.2	25.2	27.2
Normalised EPS (sen)	10.9	19.5	11.1	12.0	13.0
EPS growth (%)	5.8%	N/A	N/A	8.5%	8.0%
PER (x)	17.2	N/A	20.5	19.4	18.0
Net Dividend (sen)	5.0	9.0	5.5	6.0	6.5
Dividend yield (%)	2.1	N/A	2.4	2.6	2.8

Source: Company, MIDFR

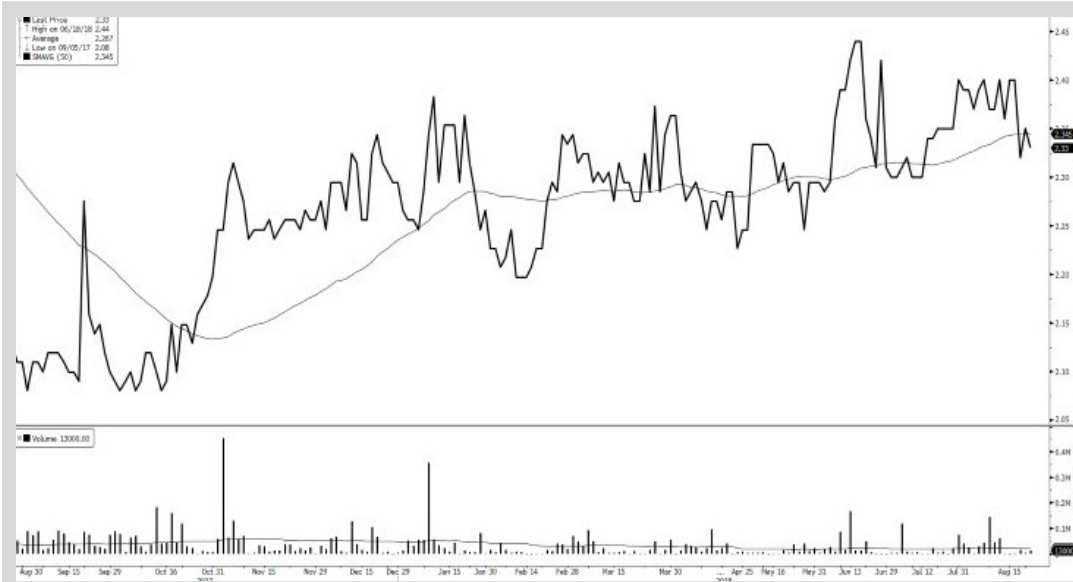
*FYE May **June 2015 to Dec 2016, 19 months due to change in financial year end

SPRITZER BERHAD: 2QFY18 RESULTS SUMMARY

FYE Mac (RMm)	Quarterly results				Cumulative results		
	2QFY18	1QFY18	YoY (%)	QoQ (%)	1HFY18	1HFY17	YoY (%)
Revenue	83.6	82.5	6.5	1.4	166.2	151.2	9.9
Other gains and losses	1.2	0.7	n.m.	76.0	2.0	(0.3)	n.m.
Cost of sales and other opex exp.	(75.3)	(73.6)	6.6	2.3	(148.9)	(135.7)	9.7
Finance costs	(0.2)	(0.2)	(10.8)	43.3	(0.4)	(0.5)	(14.1)
PBT	9.4	9.5	23.3	(0.5)	18.9	14.7	28.3
Taxation	(2.7)	(2.7)	9.0	0.8	(5.4)	(4.6)	18.3
PAT	6.7	6.8	30.2	(1.1)	13.5	10.1	32.7
Basic and diluted EPS (sen)	3.2	3.2	13.2	(0.6)	6.4	5.6	15.1

Source: Company, MIDFR

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.