

22 November 2018 | 3QFY18 Results Review

Spritzer Berhad

Anticipating a sequentially weaker 4QFY18

INVESTMENT HIGHLIGHTS

- **3QF18 earnings dropped by -8.2%yoy to RM96.0m mainly due to higher operating expenses**
- **Despite higher revenue achieved, earnings was dragged by higher cost of sales and S&D expenses**
- **We expect weaker 4QFY18 earnings in anticipation of lower sales volume and higher raw material price**
- **Maintain NEUTRAL with an unchanged TP of RM2.27**

Earnings came in within expectation. Despite a strong revenue growth of +15.3%yoy, Spritzer 3QF18 normalised earnings dropped by -8.2%yoy to RM7.4m. This brings its 9MFY18 earnings to RM20.8m which is broadly within ours and consensus expectations, accounting for 82.0% and 74.0% of full year FY18 earnings forecasts respectively.

Revenue for the quarter rose by +15.3%yoy. Revenue for 3QFY18 rose by +15.3%yoy to RM96.0m mainly driven by the increase in volume of bottled water sold. During the quarter, sales volume increased due to the; (i) successful sales campaigns, incentives plan, and special discounts; (ii) tax holiday spending; (iii) customers increased stock holdings in anticipation of price adjustments as well as; (iv) improved sales performance from China operations.

Earnings dragged by higher operating expenses. The increase in raw material costs such as polyethylene terephthalate (PET) resin, following the trend of oil prices coupled with the 10% sales tax imposed on raw materials and consumables effective from 1 September 2018 caused the cost of sales to rise by +23.0yoy. In addition, operating expenses rose by +12.0%yoy due to the increase in selling and distribution expenses in order to entice customer to spend during tax holiday period.

Impact to earnings. We maintain our FY18F and FY19F forecast at this juncture as our estimates are still within expectation.

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
Unchanged Target Price (TP): RM2.27

RETURN STATS

Price (21 th November 2018)	RM2.16
Target Price	RM2.27
Expected Share Price Return	+5.1%
Expected Dividend Yield	+3.0%
Expected Total Return	+8.1%

STOCK INFO

KLCI	1,695.37	
Bursa / Bloomberg	7103 SPZ MK	
Board / Sector	Main / Consumer	
Syariah Compliant	Yes	
Issued shares (m)	209.97	
Market cap. (RM'm)	453.53	
Price over NA	1.18	
52-wk price Range	RM2.13-RM2.46	
Beta (against KLCI)	0.29	
3-mth Avg Daily Vol	0.03m	
3-mth Avg Daily Value	RM0.07m	
Major Shareholders (%)		
Yee Lee Corporation	29.71	
Tasik Puncak	13.04	
Yee Lee Holdings	10.86	
Price Performance (%)	Absolute	Relative
1 month	-1.8	-0.2
3 months	-5.3	-1.3
12 months	-6.5	-4.9

Maintain NEUTRAL. In the near term, we are expecting a weak 4QFY18 earnings in view of the: (i) higher PET resin cost; (ii) temporary lower sales volume resulting from the increase in retail prices and (iii) slower demand in China due to winter season. Nonetheless, we favour Spritzer's strong brand equity in the local market which has been instrumental in sustaining its earnings performance. Also, we view that Spritzer's strategy of manufacturing its own PET preform, bottles and caps would help to keep cost at bay as compared to its peers. Meanwhile, we expect that the loss from China's will gradually reduce as the group's revamped its marketing strategy to be more consumers centric. All things considered, we are reiterating our **NEUTRAL** recommendation on Spritzer. 

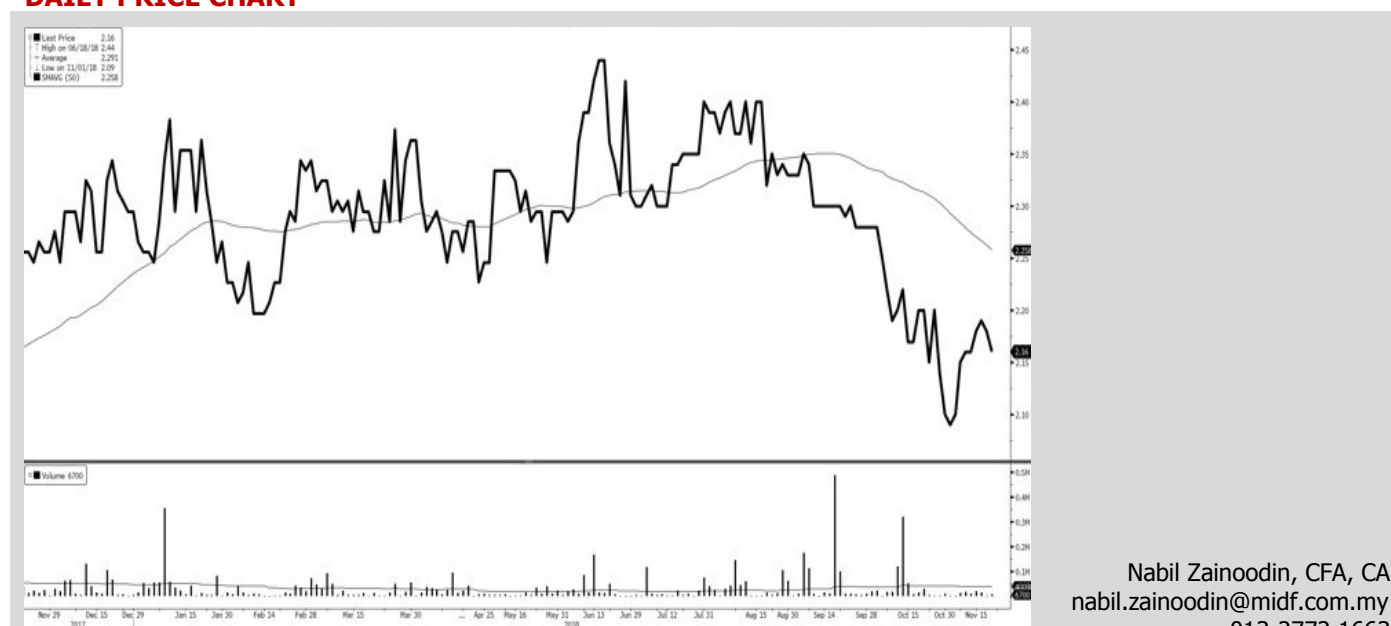
INVESTMENT STATISTICS

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	8.7%	7.8%
PER (x)	15.9	N/A	15.6	18.0	16.7
Net Dividend (sen)	5.0	9.0	5.5	6.0	6.5
Dividend yield (%)	2.3	N/A	2.5	2.8	3.0

Source: Company, MIDFR

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

DAILY PRICE CHART



Source: Bloomberg

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SPRITZER BERHAD: 3QFY18 RESULTS SUMMARY

FYE Mac (RMm)	Quarterly results				Cumulative results			
	3QFY18	2QFY18	3QFY17	YoY (%)	QoQ (%)	9MFY18	9MFY17	YoY (%)
Revenue	96.0	83.6	83.2	15.3	14.8	262.2	234.4	11.9
Other gains and losses	0.6	1.2	(0.1)	(590.0)	(52.3)	2.6	(0.4)	740.6
Cost of sales and other opex exp.	(85.6)	(75.3)	(71.3)	20.0	13.7	(234.4)	(207.0)	13.3
Finance costs	(0.3)	(0.2)	(0.3)	(13.4)	20.5	(0.7)	(0.8)	(13.8)
Profit before tax	10.8	9.4	11.5	(6.6)	14.4	29.6	26.2	13.0
Tax expense	(3.4)	(2.7)	(3.5)	(2.9)	24.3	(8.8)	(8.1)	9.2
Profit after tax	7.4	6.7	8.0	(8.2)	10.4	20.8	18.2	14.6
Basic and diluted EPS (sen)	3.5	3.2	4.4	(20.2)	10.4	9.9	10.0	(0.7)
				<i>+ / (-) ppts</i>	<i>+ / (-) ppts</i>			<i>+ / (-) ppts</i>
PBT margin (%)	11.2	11.2	13.8	(2.6)	0.0	11.3	11.2	0.1
PAT margin (%)	7.7	8.0	9.6	(2.0)	0.3	7.9	7.8	0.2
Effective tax rate (%)	31.4	28.9	30.2	1.2	(2.5)	29.7	30.7	(1.0)

Source: Company, MIDFR

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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.