

27 February 2018 | 4QFY17 Results Review

## Spritzer Berhad

*FY17 performance came in as expected*

**Downgrade to NEUTRAL**

*(Previously BUY)*

**Revised Target Price (TP): RM2.10**

*(Previously RM2.53)*

### INVESTMENT HIGHLIGHTS

- Lower sales and higher costs impacted 4Q17 normalised earnings
- Full year FY17 earnings met ours and consensus expectations
- Final dividend declared of 5.5sen per share
- Competition to keep FY18 earnings at bay
- Downgrade to NEUTRAL with a revised TP of RM2.10

**Earnings met expectations.** Spritzer 4QF17 normalised earnings dropped by -37.2%qoq to RM5.0m. The dropped in quarterly normalised earnings was attributable to: (i) sales in prior quarter was boosted due to the higher demand for bottled water during the SEA Games and ASEAN Para Games; (ii) weaker sales in China's trading unit of bottle water due to the winter season in that region and; (iii) high operating costs resulted in normalised net profit margin to drop from 13.8% in 3QFY17 to 6.3% in the 4QFY17.

**FY 17 earnings impacted both by lower sales and higher costs.** Cumulatively, FY17 normalised earnings amounted to RM23.2m. This came in within ours and consensus expectations, accounting for 97% and 99% of full year FY17 earnings forecasts respectively. Note that there is no year-over-year comparison due to the change in financial year end (i.e. from May to December). For FY17, the operating costs remained elevated due to: (i) increase in cost of raw materials such as PET resin and; (ii) high selling and distribution costs for the local and China's operation.


**Final dividend declared of 5.5sen per share.** A first and final dividend declared of 5.5sen per share. This represents 50% dividend payout ratio on normalised earnings.

**Tough operating environment for FY18.** 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 slower than expected product acceptance rate in China. In addition, the rising costs of raw materials particularly PET resin costs in line with the uptrend in oil prices will compress gross profit margin. Additionally, the group is expected to incur higher advertising and promotion expenses to drive up sales.

RETURN STATS	
Price (26 February 2018)	RM2.34
Target Price	RM2.10
Expected Share Price Return	-10.3
Expected Dividend Yield	+2.6%
<b>Expected Total Return</b>	<b>-7.7%</b>

STOCK INFO		
KLCI	1,860.08	
Bursa / Bloomberg	7103 SPZ MK	
Board / Sector	Main / Consumer	
Syariah Compliant	Yes	
Issued shares (m)	209.97	
Market cap. (RM'm)	491.33	
Price over NA	1.40	
52-wk price Range	RM2.13-RM2.59	
Beta (against KLCI)	0.48	
3-mth Avg Daily Vol	0.03m	
3-mth Avg Daily Value	RM0.06m	
Major Shareholders (%)		
Yee Lee Corporation	28.15	
Tasik Puncak	13.04	
Yee Lee Holdings	10.86	
<b>Price Performance (%)</b>	<b>Absolute</b>	<b>Relative</b>
1 month	+1.7	+1.4
3 months	-0.4	-6.7
12 months	+0.0	-8.9

**Impact to earnings.** We revised our FY18 earnings forecast downwards by -17.1% due to: (i) expectation of slower turnaround for the China operation; (ii) increase in raw material costs and; (iii) higher advertising and promotion expenses.

**Downgrade to NEUTRAL.** We downgrade our recommendation to **NEUTRAL** (previously BUY) a revised target price of **RM2.10** (previously RM2.53) per share. We our valuation is based on pegging the FY18 EPS of 12.0sen per share to unchanged forward PER of 17.5x which is a 33% discount to the average PER of other beverage companies listed on Bursa. 

## INVESTMENT STATISTICS

FYE Dec	FY15*	FY16**	FY17	FY18F	FY19F
Revenue (RM'm)	253.67	185.94	313.85	340.17	375.91
Pretax Profit (RM'm)	31.96	18.27	35.27	33.15	39.77
Net Profit (RM'm)	22.81	12.51	25.48	25.20	30.23
Normalised Net Profit (RM'm)	22.81	12.51	23.22	25.20	30.23
Normalised EPS (sen)	10.86	5.96	11.06	12.00	14.40
EPS growth (%)	5.75%	N/A	N/A	8.52%	19.96%
PER (x)	17.27	N/A	20.63	19.50	16.26
Net Dividend (sen)	5.0	3.5	5.5	6.0	7.2
Dividend yield (%)	2.14	1.50	2.35	2.56	3.08

Source: Company, MIDF Research

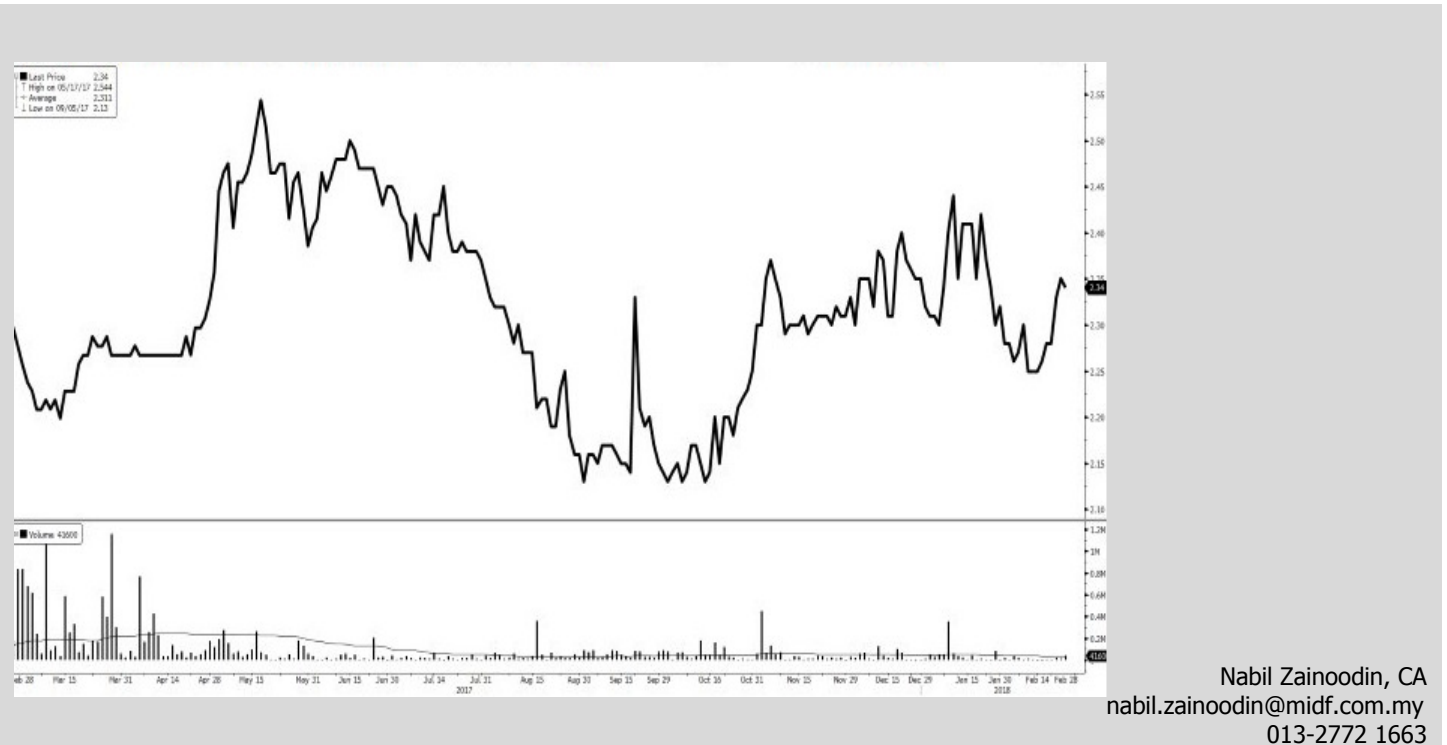
\*FYE May \*\*May to Dec 2016, seven months only due to change in financial year end

## SPRITZER: 4QFY17 Results Summary

FYE Dec (RM' m, unless otherwise stated)	Quarterly Results		Cumulative
	4QFY17 (RM' m)	QoQ (%)	FY17 (RM' m)
Revenue	79.4	-4.6	313.8
PBT	9.0	-21.5	35.3
Net Profit	7.3	-9.1	25.5
Exceptional items	-2.3	n.a.	-2.3
Normalised Net Profit	5.0	-37.2	23.2
Normalised EPS (sen)	2.4	-45.4	11.1
Normalised Net Profit Margin (%/ppt)	6.3	6.2	11.2

Source: MIDF Research, Company

## DAILY PRICE CHART



Source: Bloomberg

Nabil Zainoodin, CA  
nabil.zainoodin@midf.com.my  
013-2772 1663

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(Bank Pelaburan)

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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.