26 September 2018 | Corporate Update

Spritzer Berhad

Earnings to trend lower in 2HFY18

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

INVESTMENT HIGHLIGHTS

- **Possible upward revision in selling price to partially offset rising PET resin cost**
- **China's operation to remain loss-making, albeit slower quantum, aided by revamp in marketing strategy**
- **Spritzer's competitive edge of manufacturing own bottle lead to better cost management as compared to its peers**
- **Maintain NEUTRAL with an unchanged TP of RM2.27**

Earnings to weaken in 2HFY18. To recall, 1HFY18 earnings rose by +32.7%yoy to RM13.5m. This is in view of the increase in volume of bottled water sold locally and lower advertising and promotion cost incurred in China. For the 2HFY18, we expect earnings to be weaker mainly due to the rising cost of sales. Nonetheless, this will be partially mitigated by the: (i) narrowing loss from China's operation and; (ii) continue resilient domestic performance.

Rising cost of sales to compress profit margins. Approximately 70.0% of Spritzer's cost of sales are in packaging. Breaking this down further, about 50.0% of packaging cost is made up of PET resin cost. We gathered that PET resin price has spiked by +24.0%yoy or RM1,000 per metric tonne in line with the uptrend in oil prices and weakening Ringgit. Due to the aforementioned factors, management is anticipating to increase in product prices by +5.0%.

Loss from China's operation to narrow. We expect the operating loss from China's operation to narrow further in FY18 from –RM10m in FY17. Note that as at 1HFY18, the loss reduced to –RM2.0m. To recall, the operating loss recorded for FY17 was mainly impacted by costly advertising strategies. Previously, the group focused on renting up space in retail outlets to display its products. Management has since revamped its marketing strategies to engage directly with end consumers.

Resilient domestic performance. Despite the expectation of price increase, we believe that the sales growth to remain at high single digit. This is premised on the expectation that Spritzer's competitor will raise their prices as well to account for higher PET resin cost. In addition, we view that Spritzer's strategy of manufacturing its own PET preform, bottles and caps help to keep cost at bay as compared to its peers. With economies of scale, it is also able to maintain a healthy profit margin.

RETURN STATS	
Price (25th September 2018)	RM2.30
Target Price	RM2.27
Expected Share Price Return	-1.3%
Expected Dividend Yield	+2.8%
Expected Total Return	**+1.5%**

STOCK INFO		
KLCI	1,794.47	
Bursa / Bloomberg	7103 SPZ MK	
Board / Sector	Main / Consumer	
Syariah Compliant	Yes	
Issued shares (m)	209.97	
Market cap. (RM'm)	482.93	
Price over NA	1.28	
52-wk price Range	RM2.13-RM2.46	
Beta (against KLCI)	0.36	
3-mth Avg Daily Vol	0.02m	
3-mth Avg Daily Value	RM0.04m	
Major Shareholders (%)		
Yee Lee Corporation	29.58	
Tasik Puncak	13.04	
Yee Lee Holdings	10.86	
Price Performance (%)	**Absolute**	**Relative**
1 month	-2.1	-1.4
3 months	-0.4	-8.1
12 months	+4.1	+2.6

Impact to earnings. No change to our earnings estimates as our forecast is 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 PER of 17.5x.

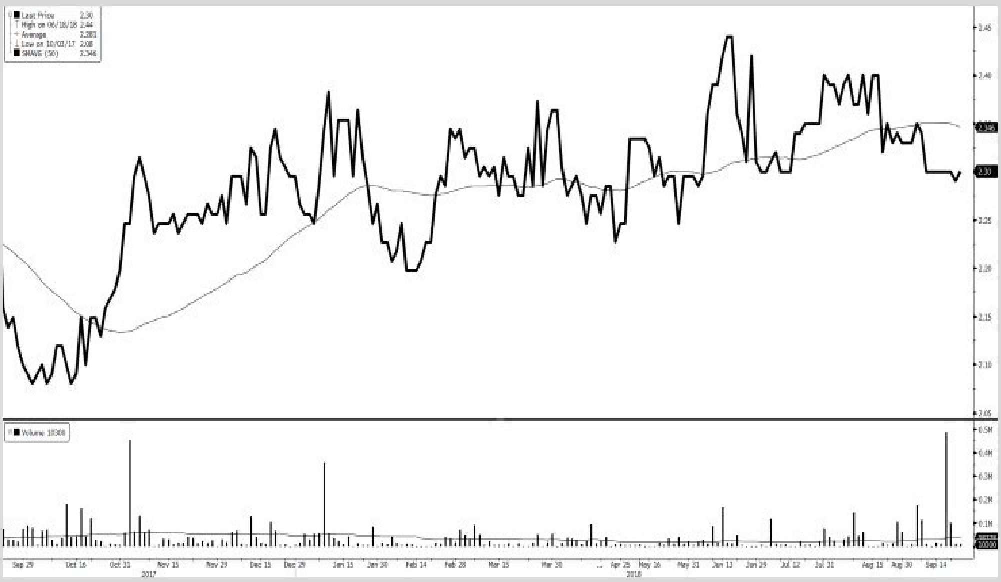
Maintain NEUTRAL. We favour Spritzer's strong brand equity in the local market which has been instrumental in sustaining its earnings performance. However, in the near term, we are expecting a decline in 2HFY18F earnings in view of the rising PET resin cost. Management guided that there is a possibility of passing part of the cost to consumer. We view that this could negatively affect the volume of bottle sold. Meanwhile, we expect that the China's operation would still be loss making. Nonetheless, we believe the loss will gradually reduce as the group's revamped its marketing strategy to be more consumers centric. Given the lack of positive rerating catalyst, 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
PBT Profit (RM'm)	32.0	55.3	35.3	33.2	35.8
PAT Profit (RM'm)	22.8	41.0	25.5	25.2	27.2
Normalised PAT (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)	17.0	N/A	20.3	19.2	17.8
Net Dividend (sen)	5.0	9.0	5.5	6.0	6.5
Dividend yield (%)	2.2	N/A	2.4	2.6	2.8
PBT margin (%)	12.6	11.7	11.2	9.7	9.5
PAT margin (%)	9.0	8.6	8.1	7.4	7.2

Source: Company, MIDF Research
**FYE May **June 2015 to Dec 2016, 19 months due to change in financial year end*

DAILY PRICE CHART



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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 *rise* 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 *fall* 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.