

Spritzer Berhad

(7103 | SPZ MK) Main | Consumer Products & Services | Food & Beverages

Stronger Sales Volume; Improved Margin

KEY INVESTMENT HIGHLIGHTS

- **Above expectations**
- **Double-digit core PATANCI margin in 3QFY23**
- **Raised FY23F-24F earnings projections but maintained FY25F forecast**
- **Robust sales in 9MFY23 amidst tourism rebound and favorable weather conditions**
- **Maintained BUY with a higher TP of RM2.10 (from RM1.85)**

Above expectations. Spritzer reported a core PATANCI of RM36.3m in 9MFY23, excluding a one-time off item of RM0.2m. This surpassed both our and consensus' full-year FY23F projections, constituting 87.1% of ours and 95.7% of consensus'. The positive variance was primarily attributed to (1) higher-than-anticipated sales volume, (2) economies of scale and lower pet resin prices leading to lower-than-expected raw material costs, and (3) stronger sales of high-margin products which significantly boosted overall margins. As anticipated, no dividend was declared during the quarter.

Double-digit core PATANCI margin in 3QFY23. On a yearly basis, the group's revenue rose +10.8%yoy to RM132.6m. This growth was primarily driven by a surge in bottled water sales volume from the manufacturing sector, which more than compensated for the decline in volume from the trading segment. The EBIT margin increased +6.9ppt yoy to 17.6% in 3QFY23. This was attributed to higher revenue, lower raw material costs, and a slight drop in other gains, offset by higher selling and distribution expenses. As such, the core PATANCI surged +50.4%yoy to RM17.2m. Sequentially, revenue saw a +7.2%qoq increase to RM132.6m in 3QFY23, driven by robust sales of premium bottled water despite the absence of festive celebrations during the quarter. This, coupled with reduced raw material costs (in tandem with lower pet resin prices and economies of scale), led to a +4.3ppt qoq improvement in the EBIT margin to 17.6%. Hence, core PATANCI increased by 45.2%qoq to RM17.2m.

Robust sales in 9MFY23 amidst tourism rebound and favorable weather conditions. Cumulatively, revenue increased by +12.7%yoy to RM365.7m in 9MFY23, mainly fueled by both a higher average selling price (adjusted in 1QFY23) and increased sales volume (particularly of premium products). The combination of strong sales volume in high-margin products and a reduction in raw material costs propelled the core PATANCI up by +43.5%yoy to RM36.3m in 9MFY23.

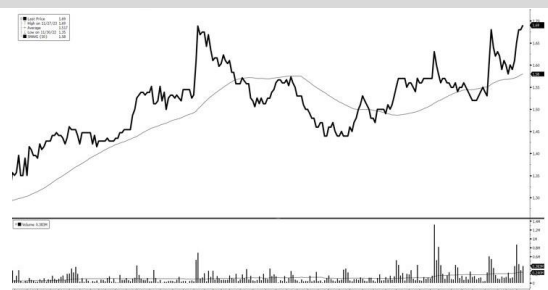
Maintain BUY

Revised Target Price: RM2.10
(Previously RM1.85)

RETURN STATISTICS

Price @ 27 th Nov 2023 (RM)	1.69
Expected share price return (%)	+24.00
Expected dividend yield (%)	3.80
Expected total return (%)	+27.80

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	4.7	3.4
3 months	4.7	-5.4
12 months	17.8	20.0

INVESTMENT STATISTICS

FYE Dec	2023F	2024F	2025F
Revenue	510.6	569.7	627.6
EBITDA	95.6	105.5	115.3
Profit before tax (PBT)	73.1	81.0	88.5
Core PATANCI	55.6	61.5	67.3
Core EPS (sen)	17.1	19.0	20.7
DPS (sen)	6.0	6.6	7.3
Dividend Yield (%)	3.5	3.9	4.3


KEY STATISTICS

FBM KLCI	1,448.15
Issue shares (m)	314.99
Estimated free float (%)	17.48
Market Capitalization (RM'm)	536.30
52-wk price range	RM1.34-RM1.78
3-mth average daily volume (m)	0.23
3-mth average daily value (RM'm)	0.37
Top Shareholders (%)	
Yee Lee Corp Bhd	32.03
YEE Lee Holdings Sdn Bhd	12.95
Lim A Heng	10.78

Analyst(s)

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Raised FY23F-24F earnings projections but maintained FY25F forecast. Given that the earnings came in above our estimation, we revised our earnings forecasts for FY23F-24F upward by +33.4% / +21.1% but maintained our FY25F earnings projection. This was after factoring in: (1) stronger sales volume (with a higher contribution from the higher-margin products), mainly driven by robust tourist activities as well as business events, and (2) lower raw material cost due to the reduced PET resin as well as the economies of scale on the back of stronger product demand.

Maintained BUY with a higher TP of RM2.10 (from RM1.85). Our revised **TP** of **RM2.10** is based on higher FY24F EPS of 19sen (from 15.7sen) that peg to updated PER of 11.1x (near to its 3-year historical PER). Going forward, we are upbeat about Spritzer's FY24F outlook underpinned by: (1) its defensive business nature; (2) benefiting from increased tourist movement and out-of-home activities, which may increase demand for bottled water; (3) rising business events and activities post-border reopening that raised the demand for bottled water during the events; and (4) potential expansion into the Singapore market. Hence, we maintain our **BUY** call on Spritzer. **The downside risks** are: (1) a further increase in Polyethylene terephthalate (PET) resin prices and (2) higher-than-expected logistic costs. 

Spritzer: 3QFY23 Results Summary

FYE DEC (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue	132.6	123.7	119.6	10.8	7.2	365.7	324.6	12.7
Cost of sales & other operating expenses	(109.8)	(108.7)	(107.7)	1.9	1.0	(319.2)	(295.0)	8.2
Other gains (losses)	0.6	1.5	1.0	(39.7)	(61.1)	3.2	2.7	19.2
EBIT	23.4	16.5	12.8	82.3	41.9	49.6	32.3	53.8
Net finance income/(cost)	(0.5)	(0.4)	(0.3)	72.2	51.6	(1.1)	(0.6)	89.0
Profit before tax (PBT)	22.8	16.1	12.5	82.5	41.6	48.5	31.7	53.2
Tax expense	(5.9)	(4.1)	(1.1)	440.4	44.5	(12.3)	(6.0)	106.3
Profit After tax (PAT)	17.0	12.1	11.4	48.5	40.7	36.2	25.7	40.8
PATANCI	17.0	12.0	11.4	48.5	41.8	36.1	25.7	40.4
Core PATANCI	17.2	11.9	11.5	50.4	45.2	36.3	25.3	43.5
Core EPS (sen)	5.3	3.7	5.2	1.5	42.8	12.4	11.6	6.2
DPS (sen)	0.0	0.0	0.0	n.m.	n.m.	0.0	0.0	n.m.
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
EBIT Margin	17.6	13.3	10.7	6.9	4.3	13.6	9.9	3.6
PAT Margin	12.8	9.7	9.6	3.2	3.0	9.9	7.9	2.0
Core PATANCI Margin	13.0	9.6	9.6	3.4	3.4	9.9	7.8	2.1
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Effective tax rate (%)	25.7	25.2	8.7	17.0	0.5	25.4	18.9	6.5

Source: Company, MIDFR

Spritzer: Breakdown by operating segment

FYE DEC (RM'm)	Quarterly results					Cumulative results		
	3QFY23	2QFY23	3QFY22	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Revenue (External):								
Manufacturing	127.1	117.6	112.7	12.8	8.1	349.2	306.2	14.0
Trading	5.2	5.9	6.6	(22.1)	(12.1)	15.7	17.7	(11.2)
Others	0.3	0.3	0.3	18.2	14.7	0.8	0.7	11.1
Total	132.6	123.7	119.6	10.8	7.2	365.7	324.6	12.7
Operating Profit:								
Manufacturing	23.7	16.7	13.5	75.7	42.0	51.0	33.2	53.3
Trading	(0.3)	(0.7)	8.3	>(100.0)	(58.9)	(1.8)	9.8	>(100.0)
Others	0.7	4.8	(0.7)	>(100.0)	(84.8)	6.3	(1.3)	>(100.0)
Eliminations	(0.9)	(4.4)	(8.3)	(89.6)	(80.1)	(6.1)	(9.6)	(36.0)
Total	132.6	123.7	119.6	10.8	7.2	365.7	324.6	12.7
Operating profit margin (%):								
Manufacturing	18.6	14.2	12.0	6.7	4.4	14.6	10.9	3.7
Trading	(5.3)	(11.4)	125.8	>(100.0)	6.1	(11.3)	55.2	(66.6)
Others	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Total	17.6	13.3	10.7	6.9	4.3	13.5	9.9	3.6

Source: Company, MIDF

FINANCIAL SUMMARY

Income Statement (RM'm)	2021A	2022A	2023F	2024F	2025F
Revenue	331.0	433.3	510.6	569.7	627.6
Raw Material consumed	(127.8)	(152.2)	(165.0)	(193.3)	(217.7)
Purchased of finished goods and trading merchandise	(3.6)	(28.0)	(21.4)	(24.4)	(27.0)
Changes in inventories	1.0	2.6	(16.8)	(12.6)	(12.2)
Gross Profit	200.7	255.7	307.3	339.4	370.7
Other Income/(losses)	1.7	4.7	5.6	6.0	7.0
Employee benefit expenses	(58.9)	(69.2)	(70.6)	(73.1)	(74.9)
Other expenses	(93.5)	(125.7)	(146.6)	(166.8)	(187.5)
EBITDA	50.0	65.5	95.6	105.5	115.3
Profit before tax (PBT)	30.3	45.2	73.1	81.0	88.5
Profit After tax (PAT)	24.2	37.0	55.6	61.5	67.3
PATANCI	24.2	37.0	55.6	61.5	67.3
Core PATANCI	24.2	37.1	55.6	61.5	67.3
Core EPS (sen)	11.2	17.1	17.1	19.0	20.7
DPS (sen)	4.5	6.3	6.0	6.6	7.3
Balance Sheet (RM'm)	2021A	2022A	2023F	2024F	2025F
Property, plant and equipment	315.7	411.9	426.7	432.1	438.1
Intangible assets	0.2	0.2	0.3	0.3	0.3
Total Non-current assets	323.0	421.2	436.6	442.5	449.1
Inventories	35.3	44.1	40.7	47.7	53.7
ST - Trade and other receivables	71.7	82.2	101.9	113.7	125.2
Cash and cash equivalents	21.8	21.7	34.2	38.4	42.5
Total current assets	234.9	179.7	214.2	241.4	267.3
Total Assets	557.9	601.0	650.8	684.0	716.4
Total Equity	462.8	493.5	517.3	540.7	564.4
LT Loans and borrowings	0.0	0.0	27.0	27.3	27.6
Total Non-current liabilities	21.1	22.6	53.7	57.0	60.3
ST Trade and other payables	40.8	36.8	36.2	42.4	47.7
ST Loans and borrowings	5.5	16.1	11.6	11.7	11.8
Total Current Liabilities	74.1	84.9	79.8	86.2	91.7
Total Liabilities	95.2	107.5	133.5	143.3	152.1
Cash Flow (RM'm)	2021A	2022A	2023F	2024F	2025F
Pretax profit	30.3	45.2	73.1	81.0	88.5
Cash flow from operations	35.6	40.7	47.3	55.9	60.7
Cash flow from investing	(27.8)	(38.8)	(35.8)	(28.7)	(31.7)
Cash flow from financing	(9.1)	(2.3)	1.1	(23.0)	(24.9)
Net cash flow	(1.3)	(0.3)	12.5	4.2	4.1
(+/-) Adjustments	(0.1)	0.3	0.0	0.0	0.0
Net cash/(debt) b/f	23.2	21.7	21.7	34.2	38.4
Net cash/(debt) c/f	21.7	21.7	34.2	38.4	42.5
Key Metrics	2021A	2022A	2023F	2024F	2025F
Effective tax rate (%)	20.1	18.2	24.0	24.0	24.0
Dividend Yield (%)	2.7	3.7	3.5	3.9	4.3
PER (x)	14.6	9.6	9.9	8.9	8.2
Net Cash per share (RM)	0.2	0.2	0.1	0.2	0.2
Profitability Margins	2021A	2022A	2023F	2024F	2025F
Gross Profit Margin (%)	60.6	59.0	60.2	59.6	59.1
EBIT Margin (%)	9.3	10.5	14.6	14.5	14.3
Core PATANCI Margin (%)	7.3	8.6	10.9	10.8	10.7

Source: Bloomberg, 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.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology