

Spritzer Berhad

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

Reduced Sales Volumes of Bottled Water in 4QFY23

Downgrade to Neutral

(Previously BUY)

Revised Target Price: RM2.08

(Previously RM2.10)

KEY INVESTMENT HIGHLIGHTS

- **Below our expectation but within consensus**
- **Lower bottled water sales volume in 4QFY23**
- **Greater dividend in tandem with better cumulative core PATANCI**
- **Revised FY24-25F earnings forecast lower and introduce FY26F earnings**
- **Downgrade to Neutral with revised TP of RM2.08**

Below our expectation but within consensus. Spritzer reported a 12MFY23 core PATANCI of RM50.8m, after excluding a one-time item of RM1.3m. This missed our FY23 full-year estimation (accounted for 91.3% of our forecast) but was within consensus (accounted for 100.5% of consensus forecast). The negative deviation was mainly due to lower-than-expected sales volume and higher-than-expected operating expenses.

Lower bottled water sales volume in 4QFY23. On a sequential basis, topline dropped by -5.7%qoq to RM125m in 4QFY23, mainly due to lower bottled water sales volume. The core PATANCI decreased -17.7%qoq to RM14.3m, largely due to lower revenue and higher operating costs per unit.

Lower Core PATANCI in 4QFY23 on a yearly basis. The group revenue rose +15%yoy to RM125m, mainly due to higher sales volume and ASP from the manufacturing segment. Despite higher revenue, the increase in operating expenses, particularly distribution costs, has dragged down the core PATANCI lower by -17.6%yoy to RM14.3m.

Better 12MFY23 core PATANCI. Cumulatively, core PATANCI increased by +19.1%yoy to RM50.8m, in tandem with the increased revenue by +13.2%yoy to RM490.7m. This was largely due to higher bottled water sales volume, ASP, and lower raw material costs.

Greater dividend in tandem with better cumulative core PATANCI. Considering the better cumulative profit, Spritzer proposed a 1st and final single-tier dividend of 5.5sen/share for FY23, higher than the FY22 total dividend of 4.17sen/share (adjusted for enlarged share capital post-bonus issue). That translates into a dividend yield of 2.6%.

Revised FY24-25F earnings forecast lower and introduce FY26F earnings. Given that earnings came in below our expectations, we lower our earnings forecast for FY24-25 by -12.2%/-14.3%, respectively. This was after factoring in lower sales volume on the back of a high base for the past 2 years and higher operating costs, particularly distribution and staff costs.

RETURN STATISTICS

Price @ 28 th Feb 2024 (RM)	2.13
Expected share price return (%)	-2.40
Expected dividend yield (%)	2.60
Expected total return (%)	0.15

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	2.3	-0.5
3 months	19.7	22.3
12 months	43.4	34.8

INVESTMENT STATISTICS

FYE Dec	2024F	2025F	2026F
Revenue	519.2	569.1	617.5
EBITDA	97.3	104.4	115.0
Profit before tax (PBT)	71.1	75.8	83.8
Core PATANCI	54.0	57.6	63.7
Core EPS (sen)	17.1	18.2	20.2
DPS (sen)	5.1	5.5	6.0
Dividend Yield (%)	2.4	2.6	2.8

KEY STATISTICS

FBM KLCI	1,545.59
Issue shares (m)	314.99
Estimated free float (%)	17.17
Market Capitalization (RM'm)	699.27
52-wk price range	RM1.42-RM2.28
3-mth average daily volume (m)	0.52
3-mth average daily value (RM'm)	1.02
Top Shareholders (%)	
Yee Lee Corp Bhd	32.03
TASIK PUNCAK HOLDINGS LTD	10.36
YEE Lee Holdings Sdn Bhd	1.55

Analyst(s)

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Downgrade to Neutral (from BUY) with a lower TP of RM2.08 (from RM2.10). Our TP of RM2.08 is based on an revised FY24F EPS of 17.1sen (from 19sen) pegged to a PER of 12.2x (from 11x ; based on the updated 3-year historical mean PER).

Outlook. Going forward, we are upbeat about Spritzer's solid FY24F outlook, supported by resilient demand for bottled water due to higher tourist movement, increased out-of-home activities, hot weather conditions (likely continue in 1H24), and the normalization of business events and activities. However, we are cautious about potential inflationary pressure on operating expenses, which may arise from the cost pass-through from logistics players due to the services tax. The stock is currently trading at its FY24F PER of 12.5x, fairly valued relative to its historical 3-year mean PER of 12.2x. Hence, **we downgrade to Neutral** (from BUY) on Spritzer.

Downside risks are: (1) a further increase in Polyethylene terephthalate (PET) resin prices and (2) higher-than-expected logistic costs. 📉

Spritzer: 4QFY23 Results Summary

FYE DEC (RM'm)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
Revenue	125.0	132.6	108.7	15.0	(5.7)	490.7	433.3	13.2
Cost of sales & other operating expenses	(107.6)	(109.8)	(97.3)	10.6	(2.0)	(426.8)	(392.3)	8.8
Other gains (losses)	0.4	0.7	2.4	(81.5)	(35.8)	3.7	5.0	(26.6)
EBIT	17.8	23.5	13.8	29.2	(24.1)	67.5	46.1	46.6
Net finance income/(cost)	(0.5)	(0.5)	(0.3)	85.9	(6.0)	(1.6)	(0.9)	88.0
Profit before tax (PBT)	17.3	22.9	13.5	28.1	(24.5)	65.9	45.2	45.8
Tax expense	(4.1)	(5.9)	(2.3)	82.0	(30.2)	(16.4)	(8.2)	99.6
Profit After tax (PAT)	13.2	17.1	11.3	17.3	(22.5)	49.5	37.0	33.9
PATANCI	13.2	17.1	11.3	17.3	(22.5)	49.5	37.0	33.9
Core PATANCI	14.3	17.3	17.3	(17.6)	(17.7)	50.8	42.6	19.1
Core EPS (sen)	4.5	5.3	8.0	(43.4)	(15.5)	16.9	19.6	(13.7)
DPS (sen)	5.5	0.0	6.3	(12.0)	n.m.	5.5	6.3	(12.0)
Growth & Margin (%)				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
EBIT Margin	14.3	17.7	12.7	1.6	(3.5)	13.8	10.6	3.1
PAT Margin	10.6	12.9	10.4	0.2	(2.3)	10.1	8.5	1.6
Core PATANCI Margin	11.4	13.1	15.9	(4.5)	(1.7)	10.3	9.8	0.5
Ratios & Valuation				+ / (-) ppts	+ / (-) ppts			+ / (-) ppts
Effective tax rate (%)	0.0	0.0	0.0	0.0	(0.0)	0.0	0.0	0.0

Source: Company, MIDFR

Spritzer: Breakdown by operating segment

FYE DEC (RM'm)	Quarterly results					Cumulative results		
	4QFY23	3QFY23	4QFY22	YoY (%)	QoQ (%)	12MFY23	12MFY22	YoY (%)
Revenue (External):								
Manufacturing	119.4	127.1	103.2	15.7	(6.0)	468.6	409.4	14.4
Trading	5.2	5.2	5.1	1.1	0.2	20.9	22.8	(8.4)
Others	0.4	0.3	0.4	15.1	37.7	1.2	1.1	12.4
Total	125.0	132.6	108.7	15.0	(5.7)	490.7	433.3	13.2
Operating Profit:								
Manufacturing	18.1	23.7	15.1	20.4	(23.4)	69.1	48.3	43.0
Trading	(0.6)	(0.3)	(1.0)	(40.0)	110.1	(2.4)	8.8	(126.8)
Others	8.1	0.7	1.1	669.2	1,018.1	14.4	(0.3)	(5,002.0)
Eliminations	(8.0)	(0.9)	(1.4)	455.1	816.7	(14.1)	(11.0)	28.0
Total	17.7	23.3	13.7	28.9	(24.0)	67.1	45.8	46.4
Operating profit margin (%):								
Manufacturing	15.2	18.6	14.6	0.6	(3.4)	14.7	11.8	2.9
Trading	(11.2)	(5.3)	(18.9)	7.7	(5.9)	(11.3)	38.6	(49.9)
Others	1,924.8	237.0	287.9	1,636.8	1,687.7	1,170.8	(26.8)	1,197.6
Total	14.1	17.6	12.6	1.5	(3.4)	13.7	10.6	3.1

Source: Company, MIDF

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023E	2024F	2025F	2026F
Revenue	433.3	490.7	519.2	569.1	617.5
Raw Material consumed	(152.2)	(158.6)	(175.4)	(193.1)	(212.7)
Purchased of finished goods and trading merchandise	(28.0)	(20.6)	(22.6)	(25.0)	(27.4)
Changes in inventories	2.6	(12.7)	(2.9)	(9.5)	(9.3)
Gross Profit	255.7	298.8	318.4	341.4	368.1
Other Income/(losses)	4.7	3.6	3.7	4.2	4.6
Employee benefit expenses	(69.2)	(94.1)	(95.9)	(97.8)	(99.7)
Other expenses	(125.7)	(118.3)	(129.0)	(143.5)	(158.0)
EBITDA	65.5	90.0	97.3	104.4	115.0
Profit before tax (PBT)	45.2	65.9	71.1	75.8	83.8
Profit After tax (PAT)	37.0	49.5	54.0	57.6	63.7
PATANCI	37.0	49.5	54.0	57.6	63.7
Core PATANCI	37.1	50.8	54.0	57.6	63.7
Core EPS (sen)	17.1	16.1	17.1	18.2	20.2
DPS (sen)	6.3	5.5	5.1	5.5	6.0

Balance Sheet (RM'm)	2022A	2023E	2024F	2025F	2026F
Property, plant and equipment	411.9	473.4	524.2	579.9	640.8
Intangible assets	0.2	0.2	0.2	0.3	0.3
Total Non-current assets	421.2	486.1	538.5	596.0	658.5
Inventories	44.1	41.4	47.6	52.4	57.7
ST - Trade and other receivables	82.2	96.0	94.8	103.9	112.7
Cash and cash equivalents	21.7	30.2	32.2	35.4	38.6
Total current assets	179.7	201.9	210.7	231.3	252.0
Total Assets	601.0	687.9	749.2	827.4	910.6
Total Equity	493.5	527.0	584.0	653.9	728.6
LT Loans and borrowings	0.0	30.4	30.7	31.0	31.4
Total Non-current liabilities	22.6	61.4	63.5	66.9	70.3
ST Trade and other payables	36.8	41.5	43.5	47.9	52.7
ST Loans and borrowings	16.1	17.3	17.5	17.6	17.8
Total Current Liabilities	84.9	99.5	101.8	106.5	111.7
Total Liabilities	107.5	160.9	165.3	173.4	182.0

Cash Flow (RM'm)	2022A	2023E	2024F	2025F	2026F
Pretax profit	45.2	65.9	71.1	75.8	83.8
Cash flow from operations	40.7	79.4	46.9	52.0	56.4
Cash flow from investing	(38.8)	(82.1)	(27.8)	(30.5)	(33.1)
Cash flow from financing	(2.3)	11.4	(17.2)	(18.3)	(20.1)
Net cash flow	(0.3)	8.6	1.9	3.3	3.2
(+/-) Adjustments	0.3	(0.1)	0.0	0.0	0.0
Net cash/(debt) b/f	21.7	21.7	30.2	32.2	35.4
Net cash/(debt) c/f	21.7	30.2	32.2	35.4	38.6

Key Metrics	2022A	2023E	2024F	2025F	2026F
Effective tax rate (%)	18.2	24.0	24.0	24.0	24.0
Dividend Yield (%)	2.9	2.6	2.4	2.6	2.8
PER (x)	12.1	11.4	12.5	11.7	10.6
Net Cash per share (RM)	0.2	0.3	0.1	0.2	0.2

Profitability Margins	2022A	2023E	2024F	2025F	2026F
Gross Profit Margin (%)	59.0	60.9	61.3	60.0	59.6
EBIT Margin (%)	10.5	13.8	13.9	13.5	13.7
Core PATANCI Margin (%)	8.6	10.3	10.4	10.1	10.3

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