

Spritzer Berhad

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

Stable Demand

KEY INVESTMENT HIGHLIGHTS

- **Growing bottled water demand**
- **Rising sparkling bottled water demand**
- **Export sales remained small but better margin**
- **Stable raw material cost ahead**
- **Maintain Neutral with an unchanged TP of RM2.55**

We recently attended Spritzer's briefing. While we remain optimistic about the bottled water demand outlook, we believe the current share price has already factored in this optimism. Key highlights from the briefing are as follows:

Growing bottled water demand. Spritzer has fully commissioned two new production lines for 250ml-500ml bottled water, increasing total production capacity to 1.2b litres. The current average utilization rate is 75%, mainly driven by hot weather, a return of tourists, and water supply disruptions in certain states. Moving forward, management plans to allocate RM70-80m for FY24F capex for a new sparkling water production line, replacement of old production lines, and expanding ASRS warehouse capacity from 15k to 20k pallets.

Rising sparkling bottled water demand. Management observed significant double-digit growth in sparkling water sales over the past two quarters, with a +34.3%qoq increase in 1QFY24 and a +25.4%qoq increase in 4QFY23. The group currently offers two stock keeping unit (SKUs) for sparkling water: 1-litre bottles (56% of total sales, mainly original flavour) and 400ml bottles (44% of total sales, with 26% original and 17% lemon flavour). While sparkling water sales contribute only 2-3% of total sales, management aims to expand this segment due to growing demand and a low base.

Export sales remained small but better margin. Export sales contributed 7-8% of total revenue, mainly from Singapore. While all brands are sold in Singapore, the Spritzer brand, with its better margins, remains the primary focus.

Stable raw material cost ahead. The average PET resin cost increased slightly from RM4.38/kg in 4QFY23 to RM4.39/kg in 1QFY24. Currently, PET resin costs around RM4.50/kg. Moving forward, with Brent crude oil prices remaining below USD90/barrel, we expect PET resin costs to stay within the RM4.35-RM4.50/kg range. This could indicate a stable gross profit margin ahead. Management also indicated a 2-month stock of PET resin with local sourcing options, which minimize the supply risks.

Energy savings initiatives. The group installed solar rooftop panels with a capacity of 2.846 kWp, with an additional 1.092 kWp in progress. This has saved RM356.7k in electricity costs in 1QFY24.

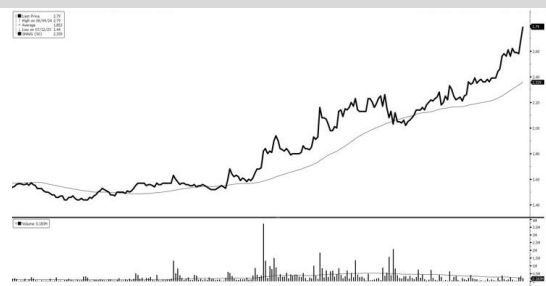
Maintain NEUTRAL

Unchanged Target Price: RM2.55

RETURN STATISTICS

Price @ 4 th June 2024 (RM)	2.81
Expected share price return (%)	-9.4
Expected dividend yield (%)	+1.8
Expected total return (%)	-7.6

SHARE PRICE CHART



Price performance (%)	Absolute	Relative
1 month	16.8	15.7
3 months	24.7	30.0
12 months	77.4	52.7

INVESTMENT STATISTICS

FYE Dec	2024F	2025F	2026F
Revenue	522.1	572.2	620.9
EBITDA	88.7	94.8	104.4
Profit before tax (PBT)	72.1	76.9	84.9
Core PATANCI	54.0	57.6	63.7
Core EPS (sen)	16.6	17.7	19.5
DPS (sen)	5.0	5.3	5.9
Dividend Yield (%)	1.8	1.9	2.1

KEY STATISTICS

FBM KLCI	1,615.40
Issue shares (m)	319.31
Estimated free float (%)	18.28
Market Capitalization (RM'm)	887.66
52-wk price range	RM1.42-RM2.80
3-mth average daily volume (m)	0.24
3-mth average daily value (RM'm)	0.53
Top Shareholders (%)	
Yee Lee Corp Bhd	31.94
TASIK PUNCAK HOLDINGS LTD	12.87
YEE Lee Holdings Sdn Bhd	10.72

Analyst(s)


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Advertising and promotional activities. Spritzer introduced new brand ambassadors, including Syafiq Kyle and Aina Abdul. Overall, the advertising and promotional expenses account for 5% of Spritzer's revenue to boost brand recognition and market share.

Potential price adjustments. Management alludes that if third-party logistic providers are not exempted from diesel subsidy rationalization and pass on the cost to Spritzer, the group will have no choice but to implement higher price adjustments.

Maintain Neutral with an unchanged TP of RM2.55. Post briefing, we retain our FY24-26F earnings forecast. Our **TP** is unchanged at **RM2.55**, based on FY25F EPS of 17.7 sen pegged to unchanged PER of 14.4x (5-year historical +0.5SD PER).

Outlook. Looking forward, we expect solid demand for Spritzer's bottled water due to strong tourist traffic, increased out-of-home activities, hot weather, water supply disruption across Peninsular Malaysia and the normalization of business events. The group also benefits from the normalization of Brent crude oil trading below USD90/barrel, which will sustain the PET resin prices. Note that Brent crude oil is the key commodity for PET resin. Yet, we believe the recent share price hike has already factored in this optimism. Hence, we maintain **NEUTRAL** on Spritzer. The stock currently trades at a FY24F PER of 14.6x, above 5-year historical mean PER of 13.6x.

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

FINANCIAL SUMMARY

Income Statement (RM'm)	2022A	2023A	2024F	2025F	2026F
Revenue	433.3	490.7	522.1	572.2	620.9
Raw Material consumed	(152.2)	(172.9)	(185.8)	(202.4)	(220.4)
Purchased of finished goods and trading merchandise	(28.0)	(6.8)	(7.5)	(8.2)	(8.9)
Changes in inventories	2.6	(0.7)	(3.3)	(9.5)	(9.3)
Gross Profit	255.7	310.3	325.5	352.1	382.3
Other Income/(losses)	4.7	3.6	3.7	4.2	4.7
Employee benefit expenses	(69.2)	(79.7)	(84.5)	(89.6)	(95.0)
Other expenses	(125.7)	(144.2)	(156.1)	(172.0)	(187.5)
EBITDA	65.5	90.0	88.7	94.8	104.4
Profit before tax (PBT)	45.2	65.6	72.1	76.9	84.9
Profit After tax (PAT)	37.0	49.2	54.0	57.6	63.7
PATANCI	37.0	49.2	54.0	57.6	63.7
Core PATANCI	37.1	50.5	54.0	57.6	63.7
Core EPS (sen)	17.1	15.5	16.6	17.7	19.5
DPS (sen)	6.3	5.5	5.0	5.3	5.9

Balance Sheet (RM'm)	2022A	2023A	2024F	2025F	2026F
Property, plant and equipment	411.9	473.4	484.4	496.4	509.2
Intangible assets	0.2	0.2	0.2	0.3	0.3
Total Non-current assets	421.2	486.1	498.7	512.3	526.4
Inventories	44.1	41.4	46.2	50.3	54.8
ST - Trade and other receivables	82.2	96.0	95.3	104.5	113.3
Cash and cash equivalents	21.7	30.2	32.3	35.6	38.8
Total current assets	179.7	201.9	210.2	230.3	250.3
Total Assets	601.0	687.9	708.9	742.5	776.7
Total Equity	493.5	527.0	544.7	570.8	597.1
LT Loans and borrowings	0.0	30.4	30.7	31.0	31.4
Total Non-current liabilities	22.6	61.4	63.7	67.1	70.5
ST Trade and other payables	36.8	41.5	42.3	46.0	50.1
ST Loans and borrowings	16.1	17.3	17.5	17.6	17.8
Total Current Liabilities	84.9	99.5	100.6	104.7	109.1
Total Liabilities	107.5	160.9	164.2	171.8	179.6

Cash Flow (RM'm)	2022A	2023A	2024F	2025F	2026F
Pretax profit	45.2	65.6	72.1	76.9	84.9
Cash flow from operations	40.7	79.4	47.6	52.5	56.9
Cash flow from investing	(38.8)	(82.1)	(28.3)	(31.0)	(33.6)
Cash flow from financing	(2.3)	11.4	(17.2)	(18.3)	(20.1)
Net cash flow	(0.3)	8.6	2.1	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	32.3	35.6
Net cash/(debt) c/f	21.7	30.2	32.3	35.6	38.8

Key Metrics	2022A	2023A	2024F	2025F	2026F
Effective tax rate (%)	18.2	25.0	25.0	25.0	25.0
Dividend Yield (%)	2.2	2.0	1.8	1.9	2.1
PER (x)	15.9	18.1	17.0	15.9	14.4
Net Cash per share (RM)	0.2	0.2	0.1	0.2	0.2

Profitability Margins	2022A	2023A	2024F	2025F	2026F
Gross Profit Margin (%)	59.0	63.2	62.4	61.5	61.6
EBIT Margin (%)	10.5	13.7	14.0	13.6	13.8
Core PATANCI Margin (%)	8.6	10.3	10.3	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