

Spritzer Bhd

1H19 Broadly In Line

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1H19 earnings of RM15.6m (+16%) and absence of dividend were as expected. Top-line performance could stay relatively stable, on the back of inelastic demand and effective marketing strategies. The automated warehouse in Taiping could kick in soon, spelling better operating efficiency FY20 onwards. However, we believe its China operation will remain in the red at least for the near-term, due to its challenging operating environment. Maintain MP and TP of RM2.40.

Broadly in line. 1H19 net profit of RM15.6m came in broadly within expectations, accounting for 56% of our and consensus forecasts. The absence of dividend was expected, as the group typically pays a single year-end dividend.

Overall better results. 1H19 net profit rose 16% YoY thanks to: (i) better sales volume (+14%), likely spurred by warmer weather in tandem with several water supply disruptions, and (ii) narrowing losses from China operation to -RM1.3m (from -RM1.7m in 1H18) thanks to better cost-management. For 2Q19, net profit was up by 17% to RM6.7m, similarly due to the aforementioned reasons.

QoQ, 2Q19 net profit of RM7.9m was flattish with a 2% growth sequentially. While sales saw a very minor dip, which we believe could be due to lower demand during the fasting month, EBITDA margin expanded by 1.1ppt to 15.5% which could be thanks to softer raw material prices.

Sustainable demand growth? The group's resilient sales performance may be sustainable moving forward, on the back of their inelastic nature as compared to other generic bottled water offerings, coupled with the group's effective marketing strategies which seem to be persistently gaining local market share. Furthermore, the expected commencement of its automated warehouse in Taiping by 1Q20 should also enhance cost efficiency in the longer-term. However, as mentioned, we believe the group's trading segment in China will continue to act as a dampener, dragged by stiff competition and costly marketing expenses.

Post results, we made no changes to our earnings forecast.

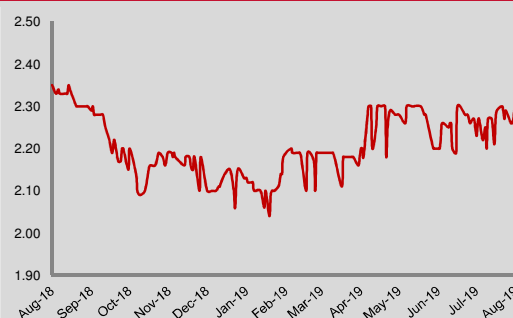
Reiterated MARKET PERFORM with an unchanged TP of RM2.40. Our TP is premised on an unchanged 16.0x FY20E PER (in line with its 3-year average). We deem our valuations to be fair at this juncture as positives seem to be priced in, also taking into account the lacklustre trading sentiment for the counter.

Risks to our call include: (i) better/poorer-than-expected sales, and (ii) lower/higher-than-expected costs exposure.

MARKET PERFORM ↔

Price : RM2.30
Target Price : RM2.40 ↔

Share Price Performance



KLCI 1,590.84
YTD KLCI chg -5.9%
YTD stock price chg 9.5%

Stock Information

| | |
|---------------------|---------------|
| Shariah Compliant | Yes |
| Bloomberg Ticker | SPZ MK Equity |
| Market Cap (RM m) | 482.9 |
| Shares Outstanding | 210.0 |
| 52-week range (H) | 2.35 |
| 52-week range (L) | 2.00 |
| 3-mth avg daily vol | 5,406 |
| Free Float | 43% |
| Beta | 0.3 |

Major Shareholders

| | |
|---------------------------|-------|
| Yee Lee Corporation | 29.8% |
| CIMB Group Holdings | 14.0% |
| Tasik Puncak Holdings Ltd | 13.0% |

Summary Earnings Table

| FY Dec (RM m) | 2018A | 2019E | 2020E |
|-------------------|-------------|-------------|-------------|
| Turnover | 347.7 | 365.5 | 369.9 |
| EBITDA | 34.5 | 38.0 | 43.3 |
| PBT | 33.9 | 37.7 | 43.0 |
| Net Profit | 24.2 | 27.8 | 31.4 |
| Consensus (NP) | - | 27.8 | 30.8 |
| Earnings Revision | - | 0.0% | 0.0% |
| Core EPS (sen) | 11.5 | 13.2 | 14.9 |
| Core EPS growth | -11.6% | 14.6% | 13.0% |
| NDPS (sen) | 3.5 | 4.0 | 5.0 |
| BVPS (RM) | 1.9 | 1.9 | 2.0 |
| PER (x) | 19.9 | 17.4 | 15.4 |
| PBV (x) | 1.2 | 1.2 | 1.1 |
| Net Gearing (x) | (0.0) | (0.0) | (0.0) |
| Net Div. Yield | 1.5% | 1.7% | 2.2% |



28 August 2019

Results Highlights

| | 2Q | 1Q | QoQ | 2Q | YoY | 6M | 6M | YoY |
|--------------------|-------------|-------------|--------------|-------------|--------------|--------------|--------------|--------------|
| FYE Dec (RM'm) | FY19 | FY19 | Chg | FY18 | Chg | FY19 | FY18 | Chg |
| Revenue | 94.8 | 95.1 | -0.3% | 83.6 | 13.3% | 189.9 | 166.2 | 14.3% |
| EBITDA | 14.7 | 13.7 | 7.4% | 12.9 | 14.2% | 28.4 | 26.1 | 8.9% |
| PBT/(LBT) | 10.7 | 10.0 | 7.4% | 9.4 | 13.9% | 20.7 | 18.9 | 9.5% |
| Taxation | -2.8 | -2.3 | -26.3% | -2.7 | -4.7% | -5.1 | -5.4 | 5.7% |
| Net Profit | 7.9 | 7.7 | 1.8% | 6.7 | 17.6% | 15.6 | 13.5 | 15.7% |
| EPS (sen) | 3.7 | 3.7 | 1.8% | 3.2 | 17.6% | 7.4 | 6.4 | 15.7% |
| DPS (sen) | 0.0 | 0.0 | | 0.0 | | 0.0 | 0.0 | |
| EBITDA margin | 15.5% | 14.4% | | 15.4% | | 15.0% | 15.7% | |
| PBT margin | 11.3% | 10.5% | | 11.2% | | 10.9% | 11.4% | |
| Core NP margin | 8.3% | 8.1% | | 8.0% | | 8.2% | 8.1% | |
| Effective tax rate | 26.6% | 22.6% | | 28.9% | | 24.7% | 28.7% | |

Source: Company, Kenanga Research

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28 August 2019

Peer Comparison

| Name | Last Price (RM) | Market Cap (RM'm) | Shariah Compliant | Current FYE | Revenue Growth | | Core Earnings Growth | | PER (x) - Core Earnings | | | PBV (x) | | ROE (%) | | Net Div Yld (%) | Target Price (RM) | Rating |
|----------------------------------|-----------------|-------------------|-------------------|-------------|----------------|-------------|----------------------|--------------|-------------------------|-------------|-------------|-------------|-------------|---------------|-------------|-----------------|-------------------|--------|
| | | | | | 1-Yr. Fwd. | 2-Yr. Fwd. | 1-Yr. Fwd. | 2-Yr. Fwd. | Hist. | 1-Yr. Fwd. | 2-Yr. Fwd. | Hist. | 1-Yr. Fwd. | 1-Yr. Fwd. | 1-Yr. Fwd. | | | |
| F&B AND RETAIL | | | | | | | | | | | | | | | | | | |
| 7-ELEVEN MALAYSIA HOLDINGS BHD | 1.48 | 1,733.8 | N | 12/2019 | 12.4% | 4.9% | 13.6% | 5.5% | 35.6 | 31.3 | 29.7 | 24.6 | 23.9 | 77.5% | 2.7% | 1.35 | UP | |
| AEON CO (M) BHD | 1.65 | 2,316.6 | Y | 12/2019 | 5.5% | 5.4% | -18.2% | 9.6% | 18.6 | 22.7 | 20.7 | 1.1 | 1.1 | 5.0% | 2.4% | 1.70 | MP | |
| AMWAY MALAYSIA HOLDINGS BHD | 6.08 | 999.5 | Y | 12/2019 | 2.2% | 2.0% | 5.5% | 6.3% | 18.3 | 17.4 | 16.4 | 4.3 | 4.0 | 23.8% | 4.5% | 5.90 | MP | |
| DUTCH LADY MILK INDUSTRIES BHD | 63.90 | 4,089.6 | Y | 12/2019 | -3.0% | 2.0% | -17.4% | 10.0% | 33.0 | 39.9 | 36.3 | 38.8 | 38.2 | 97.9% | 2.5% | 54.60 | UP | |
| FRASER & NEAVE HOLDINGS BHD | 35.78 | 13,123.3 | Y | 09/2019 | 5.9% | 7.0% | 9.4% | 2.9% | 33.1 | 30.2 | 29.4 | 5.7 | 5.2 | 18.0% | 1.8% | 36.60 | MP | |
| HAI-O ENTERPRISE BHD | 2.23 | 647.5 | N | 04/2020 | 1.7% | 2.3% | 0.1% | 1.8% | 13.7 | 13.7 | 13.4 | 2.0 | 2.1 | 15.1% | 5.8% | 1.95 | UP | |
| MYNEWS HOLDINGS BHD | 1.40 | 955.0 | N | 10/2019 | 27.3% | 14.2% | 21.0% | 20.7% | 36.0 | 29.8 | 24.7 | 3.1 | 3.0 | 10.2% | 0.7% | 1.55 | OP | |
| NESTLE (MALAYSIA) BHD | 148.60 | 34,846.7 | Y | 12/2019 | 2.5% | 3.8% | 3.5% | 7.2% | 53.7 | 51.9 | 48.4 | 53.3 | 52.5 | 104.6% | 2.0% | 128.00 | UP | |
| PADINI HOLDINGS BHD | 3.38 | 2,223.7 | Y | 06/2020 | 6.2% | -1.6% | 21.8% | 12.7% | 14.2 | 11.7 | 10.3 | 3.4 | 2.9 | 26.8% | 3.4% | 3.75 | OP | |
| PARKSON HOLDINGS BHD | 0.22 | 234.8 | Y | 06/2019 | 1.2% | 0.2% | -50.4% | 718.1% | N.A. | N.A. | 28.4 | 0.1 | 0.1 | -1.7% | 0.0% | 0.24 | UP | |
| POWER ROOT BHD | 1.96 | 776.3 | Y | 03/2020 | 12.3% | 9.7% | 26.6% | 16.0% | 23.4 | 19.1 | 17.0 | 3.5 | 3.3 | 18.1% | 4.6% | 2.30 | OP | |
| QL RESOURCES BHD | 6.92 | 11,227.3 | Y | 03/2020 | 10.9% | 4.5% | 13.0% | 4.2% | 51.8 | 45.8 | 44.0 | 5.6 | 5.2 | 12.1% | 0.8% | 6.05 | UP | |
| SPRITZER BHD | 2.30 | 482.9 | Y | 12/2019 | 5.1% | 1.2% | 14.6% | 13.0% | 19.9 | 17.4 | 15.4 | 1.2 | 1.2 | 7.0% | 1.7% | 2.40 | MP | |
| Simple Average | | | | | 6.9% | 4.3% | 3.3% | 63.7% | 29.3 | 27.6 | 25.7 | 11.3 | 11.0 | 31.9% | 2.5% | | | |
| SIN | | | | | | | | | | | | | | | | | | |
| BRITISH AMERICAN TOBACCO (M) BHD | 20.06 | 5,727.7 | N | 12/2019 | -12.8% | 0.6% | -22.3% | 0.7% | 12.2 | 13.8 | 13.6 | 13.6 | 13.0 | 84.5% | 6.0% | 24.40 | UP | |
| CARLSBERG BREWERY MALAYSIA BHD | 25.92 | 7,973.5 | N | 12/2019 | 11.4% | 4.6% | 6.9% | 4.8% | 29.1 | 27.2 | 26.0 | 46.9 | 51.2 | 186.7% | 3.9% | 25.95 | OP | |
| HEINEKEN MALAYSIA BHD | 24.76 | 7,479.9 | N | 12/2019 | 6.1% | 5.0% | 2.8% | 5.1% | 26.5 | 25.7 | 24.5 | 20.2 | 20.0 | 77.9% | 3.8% | 23.25 | MP | |
| Simple Average | | | | | 1.6% | 3.4% | -4.2% | 3.5% | 22.6 | 22.3 | 21.3 | 26.9 | 28.1 | 116.4% | 4.6% | | | |
| CONSENSUS ESTIMATES | | | | | | | | | | | | | | | | | | |
| BERJAYA FOOD BHD | 1.55 | 555.9 | N | 06/2019 | 9.8% | 8.4% | 14.3% | 9.1% | 21.1 | 18.5 | 16.9 | 1.5 | 1.5 | 7.5% | 3.0% | 1.94 | BUY | |
| BONIA CORPORATION BHD | 0.26 | 205.2 | Y | 06/2019 | 3.4% | 3.1% | -29.7% | 18.2% | 10.4 | 14.8 | 12.5 | 0.6 | 0.6 | 3.2% | 2.7% | 0.30 | SELL | |
| COCOALAND BHD | 1.87 | 427.9 | Y | 12/2019 | 5.7% | 7.1% | 2.9% | 7.0% | 13.8 | 13.4 | 12.6 | 1.7 | 1.7 | 13.1% | 4.1% | 2.29 | NEUTRAL | |
| KAWAN FOOD BHD | 1.21 | 435.0 | Y | 12/2019 | 10.5% | 14.5% | -41.0% | 61.1% | 19.1 | 32.3 | 20.0 | 1.4 | 1.3 | 4.1% | 2.1% | 1.14 | SELL | |
| MAGNI-TECH INDUSTRIES BHD | 5.19 | 844.2 | Y | 04/2020 | 18.8% | 4.5% | 13.0% | 5.2% | 8.2 | 7.3 | 6.9 | 1.6 | N.A. | 20.3% | N.A. | 6.60 | BUY | |

Source: Bloomberg, Kenanga Research

28 August 2019

Stock Ratings are defined as follows:**Stock Recommendations**

| | |
|----------------|--|
| OUTPERFORM | : A particular stock's Expected Total Return is MORE than 10% |
| MARKET PERFORM | : A particular stock's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERPERFORM | : A particular stock's Expected Total Return is LESS than -5% |

Sector Recommendations***

| | |
|-------------|---|
| OVERWEIGHT | : A particular sector's Expected Total Return is MORE than 10% |
| NEUTRAL | : A particular sector's Expected Total Return is WITHIN the range of -5% to 10% |
| UNDERWEIGHT | : A particular sector's Expected Total Return is LESS than -5% |

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

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