

**RESULTS REPORT**

26 Apr 2011

Spritzer Berhad		Market Price:	RM1.00
		Market Capitalisation:	RM130.7m
		Board:	Main Market
Recommendation:	BUY	Sector:	Consumer Products
Target Price:	RM1.21	Stock Code/Name:	7103 / SPRITZR

Analyst: Edmund Tham

KEY FINANCIALS

Key Stock Statistics	2012F
EPS (sen)	11.0
P/E Ratio (x)	9.1
Dividend/Share (sen)	3.7
NTA/Share (RM)	1.38
Book Value/Share (RM)	1.38
Issued Capital (mil shares)	130.6
52-weeks share price (RM)	0.80 – 1.28
Major Shareholders:	%
.Yee Lee group/Lim A Heng	56.8
.Skim Amanah Saham Bumiputera	5.2

Per Share Data	2009	2010	2011E	2012F
Book Value/Sh. (RM)	0.97	1.05	1.30	1.38
Earnings/Sh. (sen)	6.2	9.6	10.5	11.0
Dividend/Sh. (sen)	2.7	3.3	3.7	3.7
Payout Ratio (%)	32.2	26.0	26.2	24.9
P/E Ratio (x)	16.1	10.4	9.5	9.1
P/Book Value (x)	1.0	1.0	0.8	0.7
Dividend Yield (%)	2.7	3.3	3.7	3.7
ROE (%)	6.4	9.1	8.1	8.0
Net Gearing (Cash) (x)	0.24	0.51	0.50	0.49

P&L Analysis (RM mil)	2009	2010	2011E	2012F
Year end: May 31				
Revenue	108.3	131.6	145.0	153.4
Operating Profit	10.1	16.6	18.6	19.8
Depreciation	(6.3)	(6.6)	(6.9)	(7.1)
Interest Expenses	(1.4)	(2.3)	(3.2)	(3.9)
Pre-tax Profit	8.7	14.3	15.4	16.0
Effective Tax Rate (%)	6.3	12.4	10.9	9.9
Net Profit	8.1	12.5	13.7	14.4
Operating Margin (%)	9.3	12.6	12.8	12.9
Pre-tax Margin (%)	8.0	10.9	10.6	10.4
Net Margin (%)	7.5	9.5	9.5	9.4

*RM0.50 par value

*2011-2012 figures are our estimates

RESULTS – 3Q/FY11

3Q/ 28 Feb	3Q11	3Q10	yov %	2Q11	qoq%
Rev (RMm)	34.1	32.5	4.9	35.8	(4.9)
EBIT (RMm)	4.0	4.2	(6.0)	3.3	21.5
NPAT (RMm)	2.2	3.2	(32.7)	2.9	(26.3)
EPS (sen)	1.7	2.5	(32.7)	2.2	(26.3)

9M/ 28 Feb	9M/FY11	9M/FY10	yov %
Rev (RMm)	104.7	93.3	12.3
EBIT (RMm)	11.4	11.3	0.8
NPAT (RMm)	7.8	9.4	(16.7)
EPS (sen)	6.0	7.2	(16.7)

Spritzer's annualized 9M/FY11 revenue was within our earlier expectations, but its net profit after tax (NPAT) fell short of our projections.

“Revenue in-line, but NPAT falls short”

The group recorded a slight increase in revenue to RM34.1 million during its 3Q/FY11 ended 28th February 2011. This was an increase of RM1.6 million (or 4.9%) higher as compared to the corresponding 3Q/FY10. The slight increase in revenue was mainly contributed by the higher sales of various bottled water products.

However, group's 3Q/FY11 net profit after tax (NPAT) had decreased from RM3.2 million in 3Q/FY10 to RM2.2 million. This was as a result of higher operating expenses and finance costs attributed mainly to the group's expansion plan and the setting up of the new bottling plant in Shah Alam, Selangor. Compared to RM35.8 million reported in the preceding 2Q/FY11, the revenue of the group had decreased slightly to RM34.1 million in 3Q/FY11.

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OUTLOOK/CORP. UPDATES

In tandem with the improving domestic economy, we expect that the group's local retail sales would grow steadily. Bottled water is a relatively inexpensive consumer product, and we foresee that the demand would grow steadily. Currently, less than 10% of Spritzer's group sales are derived from exports.

“Economic growth”

The latest available Malaysian economic data revealed reasonably positive news. Malaysia had reported a very respectable 4Q/2010 GDP growth of +4.8% (+7.2% for full year 2010 GDP), stable 4Q/2010 unemployment rate of 3.2% and a still-manageable CPI of 3.0% (March 2011). Meanwhile, Bank Negara Malaysia (BNM) had last reaffirmed its accommodative overnight policy rate (OPR) of 2.75% in March 2011.

“Steady demand growth”

In line with the group's expansion plan and the enhancement of its production capacity, Spritzer has been increasing its product range to cater to the needs of the various market segments. With these continuous efforts to promote and nurture their various brands, the group's sales volumes of its various bottled water products will continue to grow.

As part of its **Corporate Social Responsibility (CSR)**, the group had sent RM250,000 worth of mineral water in humanitarian aid to the Japan Disaster Relief Agency. This was following the Tohoku earthquake and disaster that occurred on 11th March 2011.

VALUATION/CONCLUSION

The group had declared a first and final tax exempt dividend of 2.5 sen per share (2.5 sen DPS) for its financial year ended 31st May 2010 (FY10). The dividend was subsequently paid out during December 2010. Spritzer has a consistent dividend payout track record in recent years, of around 25-30% of its annual net earnings.

With a relatively strong adjusted beta (correlation factor) of 1.27 to the KLCI, Spritzer (+9.9%) has outperformed KLCI's (+0.6%) performance this year. Spritzer's stock price had gone up by 19.0% since our last report. Market conditions have also been volatile lately, impacted by the political uprisings in the Middle East/North Africa and major earthquake in Japan. As Spritzer is not an especially large market-cap stock, this may put a dampener on its market visibility and trading volume.

“Maintain Buy Call”

Based on our new forecast of Spritzer's FY12 EPS and an estimated P/E of 11 times (within its historical range), we set a **FY12-end Target Price (TP) of RM1.21**. This TP offers 21.3% upside from its current market price and reflects a P/BV of 0.88 times over its FY12F BV/share. Meanwhile, the local beverage sector's average P/E and P/BV is 12.8 times and 2.6 times, respectively.

“Solid fundamentals”

We are pleased with Spritzer's steady top-line growth rate. Spritzer's P/E and P/BV valuations are undemanding, while it has reasonable levels of net gearing, dividend yields and ROEs. Nevertheless, Spritzer's business also face possible risks such as a slower rate of economic growth, weak product demand, foreign exchange fluctuations, rising production costs (raw materials – e.g. plastic for bottling) and stiff competition from other manufacturers.

Spritzer: Share Price



Source: NextView

Results Report

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