

**INITIATION REPORT**

21 Mar 2011

<b>Spritzer Berhad</b>		<i>Market Price:</i>	RM0.84
		<i>Market Capitalisation:</i>	RM109.8m
		<i>Board:</i>	Main Market
<i>Recommendation:</i>	BUY	<i>Sector:</i>	Consumer Products
<i>Target Price:</i>	RM1.10	<i>Stock Code/Name:</i>	7103 / SPRITZR

Analyst: Edmund Tham



Source: Spritzer

**BACKGROUND**

Spritzer Berhad was listed on the Second Board of Bursa Malaysia during September 2000 under the sector of Consumer Products. The company was subsequently transferred to the Main Board.

Spritzer group is based in Taiping, Perak. It has a vast 295 acre site in Taiping with multiple underground water sources. The group is the reputedly the most integrated and largest bottled water producer in Malaysia.

**“Top bottled water producer”**

From its humble beginning as a small set-up in Taiping in the late 1980s, the Spritzer group now comprises five subsidiaries which are involved in the manufacturing and distribution of natural mineral water, sparkling natural mineral water, distilled drinking water, carbonated fruit flavoured drink, non-carbonated fruit flavoured drink, toothbrushes, preforms and packaging bottles.

The “Spritzer” brand, Malaysia best selling natural mineral water is produced and bottled out of a vast site with bountiful natural mineral water resources in an area surrounded by lush tropical rainforests greenery, away from pollution, housing and industrial areas.

**“Vast area for its water sources”**

The group’s production lines are completely automated and equipped with the state-of-the-art bottling technologies. The plant is manned by qualified professionals such as food technologists, chemists, microbiologists and engineers. Over the years, Spritzer’s bottled water products have garnered a number of awards and set many milestones.

**“Water sourced from aquifer”**

The mineral water for each bottle is extracted from an aquifer located over 400 feet deep underground in the tropical rainforest. An aquifer is a wet underground layer of water-bearing permeable rock or unconsolidated materials (gravel, sand, silt or clay) from which groundwater can be usefully extracted using water well. Taiping is said to be the town with the highest rainfall in Peninsular Malaysia, with about 4000mm of rain per year.

The Spritzer group has pioneered conservation measures to ensure that its water sources are not polluted. Their water source and surrounding rainforest are has been designated as a private protected reserve.

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme (“CBRS”) administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia’s website at: [http://www.bursamalaysia.com/website/bm/listed\\_companies/cmdf\\_bursa\\_research\\_scheme/](http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/)



The water extracted from the aquifer within the group's land contains beneficial trace minerals. Naturally filtered through the long distance and a variety of rock strata, the water is naturally rich in minerals, in particular **Orthosilicic Acid (OSA)**. OSA has numerous health benefits. It keeps skin young, smooth and supple by stimulating the formation of natural collagen. It also said to help maintain a head full of thick and luscious hair. Hair with higher silicon content has more shine and lustre, and tends to drop less. Every litre of Spritzer natural mineral water contains 35 mg of soluble silicon in the form of OSA, which is an active and bio-available form of dietary silicon that the human body can absorb.

#### “Plenty of minerals, including OSA”

The group has a full range of bottled water including natural mineral water, sparkling natural mineral water, distilled drinking water, carbonated fruit flavoured drink, non-carbonated fruit flavoured drink and functional water. Spritzer advocates that "Not all bottled waters are the same." For the protection of its customers and in line with the Malaysian Food Act and Regulation, Spritzer bottled waters are clearly distinguished by their caps - white for drinking water and assorted colours for natural mineral water.

#### Spritzer: Range of Products

Product Type	Basic Description
Natural mineral water	Filtered mineral water from underground source
Distilled / RO drinking water	Distilled water with no micro-organisms, chemicals or minerals
Love natural mineral water	Mineral water (marketed to teenagers & kids)
Sparkling	Carbonated water with fizz
Tinge	Mineral water with flavour (marketed to teenagers)
Pop	Carbonated and flavoured
+Fibre	Contains dietary fibres

Source: Spritzer

Other than selling bottled water under its Spritzer and Cactus brands, the group also supplies mineral water to other third parties, such as hypermarkets, supermarkets and petrol stations, which sell the bottled water under their own in-house brands. Interestingly, upon checking out Spritzer's homepage, we find that the group even provides an online option for consumers to buy its bottled water. With a minimum order of 2 cartons, the buyers even get a complimentary delivery service for locations within the Klang Valley.

#### Spritzer : Subsidiary Companies

Company :
Chuan Sin Sdn Bhd
Chuan Sin Cactus Sdn Bhd
Hidro Dinamik Sdn Bhd
Pet Master Sdn Bhd
Angenet Sdn Bhd
Golden Pet Industries Sdn Bhd

Source: Spritzer

Spritzer group is led by Dato' Lim A Heng @ Lim Kok Cheong, its Non-Independent Non-Executive Chairman and Mr Lim Kok Boon, its Managing Director (MD). The chairman has more than 40 years of experience in the trading and manufacturing of edible oils and consumer products industry. He also holds top positions for the Perak Chinese Chamber of Commerce and Industry, Associated Chinese Chambers of Commerce & Industry of Malaysia, and the Malaysia-China Chamber of Commerce (Perak Branch). Dato' Lim is also involved in Yee Lee Corporation Bhd.

Meanwhile, the MD has more than 30 years of working experience in the sales and distribution of F&B products and is the Past President/Consultant of the Asia and Middle East Bottled Water Association (ABWA). He was instrumental in the growth of Chuan Sin Sdn Bhd, a wholly-owned subsidiary of the group, when it successfully switched to the production of bottled water in 1988 and is now overseeing the group's day to day operations.

Initiation Report

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: [http://www.bursamalaysia.com/website/bm/listed\\_companies/cmdf\\_bursa\\_research\\_scheme/](http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/)

**PERFORMANCE – 1H/FY11**

2Q/ 30 Nov	2Q11	2Q10	yov %	1Q11	qoq%
Rev (RMm)	35.8	29.5	21.3	34.8	2.9
EBIT (RMm)	3.3	3.3	(0.8)	4.1	(20.4)
NPAT (RMm)	2.9	3.2	(7.1)	2.8	5.9
EPS (sen)	2.2	2.4	(7.1)	2.1	5.9

6M/ 30 Nov	1H/FY11	1H/FY10	yov %
Rev (RMm)	70.6	60.8	16.2
EBIT (RMm)	7.4	7.1	4.8
NPAT (RMm)	5.7	6.2	(8.5)
EPS (sen)	4.4	4.8	(8.5)

The group had recorded a higher revenue of RM35.8 million during its 2Q/FY11 ended 30<sup>th</sup> November 2010, an increase of RM6.3 million representing a 21.3% increase as compared to the corresponding 2Q/FY10. The increase in group revenue was mainly contributed by the higher sales of various bottled water products.

However, the group's profit before tax (PBT) had decreased from RM3.4 million in its 2Q/FY10 to RM2.8 million in its 2Q/FY11. This was as a result of the higher operating expenses and finance cost attributed mainly to the group's expansion plan and the setting-up of the bottling plant in Shah Alam, Selangor.

**“New plant in Shah Alam”**

As compared to RM34.8 million reported in the preceding 1Q/FY11, the group's revenue had increased slightly to RM35.8 million in 2Q/FY11. Group PBT had decreased from RM3.3 million in the preceding 1Q/FY11 to RM2.8 million in 2Q/FY11. This was a decrease of approximately 15.3%, mainly attributed to the higher operating expenses and finance cost as mentioned earlier.

**Spritzer Natural Mineral Water****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. At the moment, less than 10% of Spritzer's group sales are derived from exports (to destinations such as within Asia and Australia).

**“Steady demand growth expected”**

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.

**“Expanding product range”**

Spritzer is also looking at expanding its sales of water in larger container sizes (up to 5 gallons) for the use of water dispensers at office or home premises. Besides Taiping and Shah Alam, the group also has a bottling facility in Yong Peng, Johor.

**“Economy growing steadily”**

The latest available Malaysian economic data (January 2011) revealed reasonably positive growth rates in y-o-y percentage terms, for instance: IPI (+1.0 y-o-y), and Manufacturing Sales (+7.7% y-o-y), Exports (+3.0% y-o-y) and Imports (+13.5% y-o-y).

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 manageable CPI of 2.4% (January 2011). Meanwhile, Bank Negara Malaysia (BNM) had last reaffirmed its accommodative overnight policy rate (OPR) of 2.75% in March 2011.

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: [http://www.bursamalaysia.com/website/bm/listed\\_companies/cmdf\\_bursa\\_research\\_scheme/](http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/)



## VALUATION

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 31<sup>st</sup> May 2010 (FY10). The dividend was subsequently paid out during December 2010. Spritzer has a consistent dividend payout track record in recent years, of at least 25% of its annual net earnings.

### “Consistent dividend payout”

With a relatively strong adjusted beta of 1.24 to the KLCI, Spritzer has mirrored KLCI's performance this year (by -7.69% vs. -0.98% year-to-date (YTD)). Market conditions have also been volatile lately, impacted by the recent political uprisings in the Middle East/North Africa and major earthquake in Japan. Nevertheless, as Spritzer is not a particularly large market-cap stock, this may put a dampener on its market visibility and trading volume.

### “Buy Call with substantial upside”

Based on our forecast of Spritzer's FY11 EPS and an estimated P/E of 9 times (within its historical range), we set a FY11-end Target Price (TP) of RM1.10. This TP is 31.4% upside from its current market price. Our TP for Spritzer reflects a P/BV of 0.96 times over its FY11F BV/share. Meanwhile, the local beverage sector's average P/E and P/BV is 11.8 times and 2.5 times, respectively.

### “Steady growth rate”

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 dividend yields and ROEs. Meanwhile, the group appears to be gearing up, in order to expand its production capacity. The group has recently set up a bottling plant in Shah Alam and also commissioned a high speed and fully automated PET Combi-line (costing Euro 2.5 million) at its Taiping premises during 2010. Meanwhile, the group has approved and contracted for RM13.6 million in capital expenditure (capex) for plant and machinery.

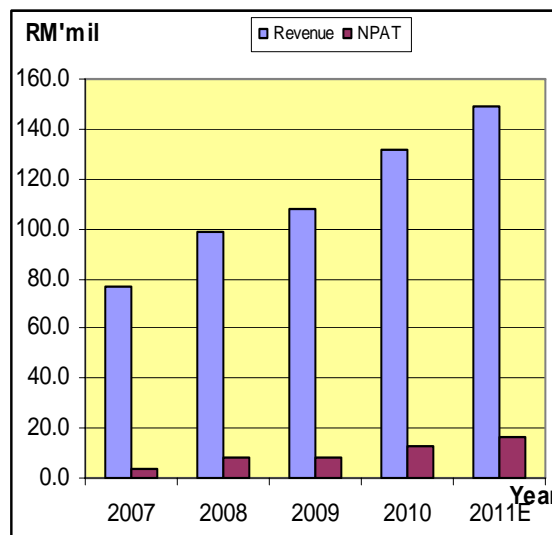
Nevertheless, Spritzer's business also face risks such as a possible slower rate of economic growth, weak product demand, foreign exchange fluctuations, rising production costs (raw materials – e.g. plastic for water bottles) and stiff competition from other existing and new manufacturers.

### Spritzer: 6-month Share Price



Source: NextView

### Spritzer: Revenue and NPAT trend



Source: Spritzer

\*2011E figures are our estimates

Initiation Report

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: [http://www.bursamalaysia.com/website/bm/listed\\_companies/cmdf\\_bursa\\_research\\_scheme/](http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/)

**KEY FINANCIALS**

<b>Key Stock Statistics</b>	<b>2011E</b>
EPS (sen)	12.3
P/E (x)	6.9
Dividend/Share (sen)	3.3
NTA/Share (RM)	1.15
Book Value/Share (RM)	1.15
Issued Capital (mil shares)	130.6
52-weeks share price (RM)	0.80 – 1.28
<b>Major Shareholders:</b>	<b>%</b>
Yee Lee Organization Bhd	46.9
Lim A Heng	9.9
Skim Amanah Saham Bumiputera	5.2

<b>Per Share Data</b>	<b>2008*</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>
Book Value (RM)	0.93	0.97	1.05	1.15
Earnings (sen)	6.0	6.2	9.6	12.3
Dividend (sen)	2.0	2.7	3.3	3.3
Payout Ratio (%)	25.0	32.2	26.0	20.4
PER (x)	14.0	13.5	8.7	6.9
P/Book Value (x)	0.9	0.9	0.8	0.7
Dividend Yield (%)	2.4	3.2	4.0	4.0
ROE (%)	6.5	6.4	9.1	10.7
Net Gearing (cash) (x)	0.15	0.24	0.51	0.56

\*adjusted for share bonus and split

<b>P&amp;L Analysis (RM mil)</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011E</b>
<b>Year end: May 31</b>				
Revenue	98.7	108.3	131.6	149.3
Operating Profit	9.8	10.1	16.6	21.1
Depreciation	(6.4)	(6.3)	(6.6)	(6.7)
Interest Expenses	(1.4)	(1.4)	(2.3)	(3.2)
Pre-tax Profit	8.4	8.7	14.3	18.0
Effective Tax Rate (%)	6.4	6.3	12.4	10.9
Net Profit	7.8	8.1	12.5	16.0
Operating Margin (%)	9.9	9.3	12.6	14.2
Pre-tax Margin (%)	8.5	8.0	10.9	12.0
Net Margin (%)	7.9	7.5	9.5	10.7

\*RM0.50 par value

\*2011E figures are our estimates

**Spritzer +Fibre****Spritzer Drinking Water****Spritzer Love Natural Mineral Water****Spritzer Sparkling****Spritzer Tinge****Spritzer Pop**

All information, views and advice are given in good faith but without legal responsibility. Mercury Securities Sdn. Bhd. or companies or individuals connected with it may have used research material before publication and may have positions in or may be materially interested in any stocks in the markets mentioned.

This report has been prepared by Mercury Securities Sdn Bhd for purposes of CMDF-Bursa Research Scheme ("CBRS") administered by Bursa Malaysia Berhad and has been compensated to undertake the scheme. Mercury Securities Sdn Bhd has produced this report independent of any influence from CBRS or the subject company. For more information about CBRS and other research reports, please visit Bursa Malaysia's website at: [http://www.bursamalaysia.com/website/bm/listed\\_companies/cmdf\\_bursa\\_research\\_scheme/](http://www.bursamalaysia.com/website/bm/listed_companies/cmdf_bursa_research_scheme/)