**RESULTS REPORT**

30 Jul 2013

Spritzer Berhad		Market Price:	RM1.82
		Market Capitalisation:	RM240.0m
		Board:	Main Market
Recommendation:	BUY	Sector:	Consumer Products
Target Price:	RM2.10	Stock Code/Name:	7103 / SPRITZR

Analyst: Edmund Tham

KEY FINANCIALS

Key Stock Statistics	2014F
Earnings/Share (sen)	17.9
P/E Ratio (x)	10.2
Gross Div/Share (sen)	5.3
NTA/Share (RM)	1.40
Book Value/Share (RM)	1.40
Issued Capital (mil shares)	131.9
52-weeks share price (RM)	0.80 – 1.90
Major Shareholders:	%
.Yee Lee Group/Lim A Heng	56.6
.Skim Amanah Saham Bumiputera	5.2

Ratios Analysis	2011	2012	2013	2014F
Book Value/Sh. (RM)	1.09	1.15	1.27	1.40
Earnings/Sh. (sen)	6.2	8.1	14.6	17.9
Gross Div/Sh. (sen)	3.3	4.0	5.3	5.3
Div. Payout Ratio (%)	40.3	37.0	27.4	22.3
P/E Ratio (x)	29.4	22.5	12.5	10.2
P/Book Value (x)	1.67	1.58	1.44	1.30
Dividend Yield (%)	1.8	2.2	2.9	2.9
ROE (%)	5.7	7.0	11.5	12.8
Net Gearing (Cash) (x)	0.60	0.54	0.40	0.32

P&L Analysis (RM mil)	2011	2012	2013	2014F
FY end: May 31				
Revenue	147.7	178.2	201.9	219.1
Operating Profit	13.9	19.0	26.9	32.7
Depreciation	(8.5)	(11.0)	(10.6)	(10.5)
Interest Expenses	(3.7)	(4.8)	(4.1)	(3.7)
Pre-tax Profit (PBT)	10.2	14.3	22.8	29.0
Effective Tax Rate (%)	20.3	25.7	15.6	18.5
Net Profit after Tax	8.1	10.6	19.2	23.6
Operating Margin (%)	9.4	10.7	13.3	14.9
Pre-tax Margin (%)	6.9	8.0	11.3	13.2
Net Margin (%)	5.5	5.9	9.5	10.8

*RM0.50 par value

*2014 figures are our estimates

RESULTS – 4Q/FY13

4Q/ 31 May	4Q13	4Q12	yov %	3Q13	qoq%
Rev (RMm)	50.5	46.7	8.2	57.1	(11.6)
EBIT (RMm)	6.7	4.2	59.3	6.4	4.9
NPAT (RMm)	5.9	2.0	194.9	5.0	18.8
EPS (sen)	4.5	1.5	194.9	3.8	18.8

12M/ 31 May	FY13	FY12	yov %
Rev (RMm)	201.9	178.2	13.3
EBIT (RMm)	25.1	17.7	41.7
NPAT (RMm)	19.2	10.6	81.6
EPS (sen)	14.6	8.0	81.6

*NPAT=net profit after tax

*EPS based on 131.9mil shares

“Q4 –results were within expectations”

Spritzer’s 4Q/FY13 results (3-month period ended 31st May 2013) were within our earlier estimates.

“Higher volumes, lower PET resin prices”

During 4Q/FY13 ended 31st May 2013, the group recorded revenue of RM50.5 million and NPAT of RM5.9 million. This was a y-o-y improvement of 8.2% and 194.9%, respectively. The strong performance was attributed to the higher sales volume, the overall reduction in PET resin (for packaging materials) prices, and a gain on revaluation of investment properties (RM0.53 million).

Versus the preceding 3Q/FY13, the group recorded revenue that was lower by 11.6%. However, group NPAT during 4Q/FY13 was higher by 18.8% versus the preceding quarter. The revenue drop was attributed to the quarter

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being a off-peak quarter (Christmas and the Lunar Chinese New Year occurred during 3Q/FY13). The improved profits in 4Q/FY13 were mainly due to sales of higher margin products as well as better selling prices for products sold for the 13th General Election (GE13). The improvement in operations efficiency and productivity also contributed to the better results.

OUTLOOK/CORP. UPDATES

“Supportive domestic demand”

On the demand side for Spritzer, the **domestic economic environment is still supportive**. This is despite of the current weak global economic growth rates, particularly in Europe. Most of the group’s sales are derived from the domestic market (whereby the group is the market leader).

Malaysia’s official government figures reflect forecasted 2013 GDP growth of around 5.0%-6.0%. The country recorded 1Q/2013 GDP growth of 4.1% and a June 2013 CPI of 1.8%. Bank Negara Malaysia (BNM) has still maintained its accommodative overnight policy rate (OPR) at 3.0%. The domestic unemployment level is low at 3.3%, while the tourism sector is still growing.

“Various management efforts”

In the mean time, the group faces challenges such as domestic inflation, implementation of minimum wages and the volatility of raw material prices. Despite of the weak external environment, the group is also working on improving its sales for the export market (for instance Singapore, Hong Kong, Japan, Australia and the Middle East).

With the group’s continuous efforts to promote its various brands and range of bottled water products, enhance its production capacity and to upgrade its warehousing facilities, the sales volume of its bottled water products is poised to continue growing. Furthermore, the group is also taking steps to introduce lighter-weight

bottles for its products to reduce material consumption. This is for the purposes of cost savings as well as to be environmentally friendly.

The group plans to continue focusing on improving its productivity and operational efficiency in order to remain competitive. The group’s production capacity is currently more than 450 million litres, derived from 15 bottling line facilities (9 lines in Taiping, 2 lines in Shah Alam and 4 lines in Johor). This will help the group maintain its market leadership position against other major water bottlers, such as Coca Cola group, Permanis, Nestle, Danone and F&N.

In line with its expansion plan and higher installed capacity, the group will further increase its product range (e.g. carbonated water and water bottles for kids) to cater to the needs of various market segments. Recent developments include the introduction of mini water dispensers (for bottles 5.5-20 litres in capacity) and “Hot & Warm” mini water dispensers (for bottles 5.5-9.5 litres in capacity).

“Health benefits”

The group is promoting the health benefit of its Spritzer natural mineral water, which is naturally rich in Orthosilicic Acid (OSA), a trace mineral (silica) associated with numerous health benefits. Recent scientific studies indicate possible benefits of OSA for bone health, and to counter aluminium intake (and thus Alzheimer’s disease), among other things.

VALUATION/CONCLUSION

“Interim dividend for FY13 declared”

The group’s Board of Directors (BOD) has just declared an interim 4 sen dividend per share (DPS), tax-exempt for its FY13 ended 31st May 2013. This leads to a gross DPS of 5.3 sen (net DPS of 4 sen). The date of the book closure and payment will be announced later. This announcement is in-line with our earlier

Results Report

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expectations that the group's dividends will be increased. Judging from the trend in previous years, the group's final dividend might be announced around October or November 2013.

“Easily outperformed KLCI”

Thus far, Spritzer (+75.0 % YTD) has **easily outperformed** the KLCI (+6.5% YTD) in 2013. The stock moved up noticeably in recent months. Market conditions have been volatile during the past few years, impacted by the “Arab Spring” uprisings, “sovereign debt” issue in Europe, and also the “fiscal cliff” and “debt ceiling” issues in the US. As Spritzer is not an especially large market-cap stock, this may limit its market visibility and trading volume.

“Maintain Buy Call, with revised TP”

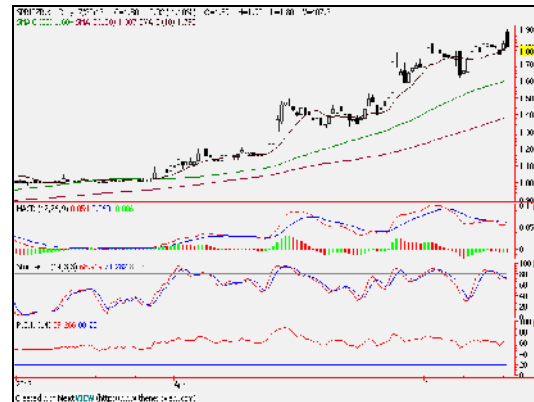
Based on our forecast of Spritzer's FY14 EPS and an estimated P/E of 11.7 times, we set a **FY14-end Target Price (TP) of RM2.10**. Our earlier TP was RM1.40, which was already reached. This TP offers 15.4% upside from its current market price and reflects a P/BV of 1.5 times over its FY14F BV/share. Spritzer had successfully reached the “**RM200 million revenue**” milestone at the end of its FY13 (FY-ending 31st May).

“RM200mil milestone reached”

With Spritzer's positive results, we maintain our Buy Call. We are pleased with the group's overall performance in recent quarters. Additionally, raw material (PET resins) costs for bottling seem to be off its previously high levels. Spritzer's P/E, P/BV, net gearing, dividend yields and ROEs are all at reasonable levels.

In general, as a consumer product-based business, Spritzer faces **possible routine risks** such as a slower rate of economic growth, weak product demand growth, foreign exchange fluctuations, rising production costs (raw materials – e.g. PET resins for plastic bottling) and stiff competition from other major bottled water manufacturers.

Spritzer: Share Price



Source: NextView

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