

2 February 2010

BUY
RM0.68

Target Price: RM0.79

Stock data

Market cap (RMm):	889			
Issued shares (m):	130.7			
52-week range:	RM0.48-RM0.80			
3-mth avg daily volume:	97,630			
Bloomberg code:	SPZ MK			
YTD price chg:	-2.2%			
YTD KLCI chg:	-1.1%			
Est. free float:	10.5%			
Major shareholders:				
Yee Lee Corp:	28.1%			
Yee Lee Hldgs S/B:	14.1%			
Lim Kok Boon:	8.0%			
ASB:	6.1%			
KLCI	FBM30	FBM70	Syariah	Hijrah
No	No	No	No	No

Consensus

FYE 31 May	2010E	2011E
Net profit (RMm):	n.a.	n.a.
EPS (sen):	n.a.	n.a.

Forecast revision

FYE 31 May	2010E	2011E
Prev. net profit (RMm):	94	10.1
Revision (%):	11.7%	26.7%
Rev. net profit (RMm):	105	128

Share price chart

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Spritzer

1HFY10 results above expectations

- **Spritzer's 1HFY10 net profit of RM6.2m was above expectations**, constituting 66% of our FY10 forecast of RM9.4m. Improving consumer confidence underpinned robust demand for Spritzer's bottled water products in 1HFY10. Anticipate sales in 2HFY10 to be stronger than 1HFY10 in-line with seasonality and festive kicker from Chinese New Year in 3QFY10.
- **Bottled water sales in both the OBM and OEM segments drove Spritzer's 1HFY10 revenue up by 16% YoY**. OEM sales have been on a steady rising trend with growing orders from hypermarkets. OEM sales currently comprise slightly more than 15% of total group sales. EBIT rose by 64% and EBIT margin improved by 4% due to improved operating efficiencies (from the upgraded Chuan Sin plant in Taiping), greater economies of scale and lower packaging costs. Pretax profit in 1HFY10 rose by 76% YoY in response, aided by lower finance cost.
- **Softer sales in the September fasting month caused a 5% dip QoQ in 2QFY10 revenue**. Pretax profit declined by 4% QoQ in-line with lower sales.
- **The Shah Alam bottling plant is on-track to begin production in 4QFY10** and is expected to raise Spritzer's total capacity by 20% in FY11, its first year of operations. Approximately 80% of the RM62.5m total cost of investment for the plan will be funded via borrowings, thus explaining net gearing having more than doubled YoY to 0.4x at end-November 2009.
- **Revising FY10 net profit forecast upwards by 12% to RM10.5m** after raising revenue estimate by 4% to RM124.4m and EBIT margin to 11.2% (from 10.5%) to take into account strong sales growth in keeping with economic recovery in consumer confidence. Also raised FY11 net profit estimate by 27% to RM12.8m and EBIT margin assumption of 11.5%.
- **Raise recommendation to BUY with new target price of RM0.79** adjusted to reflect revised earnings estimates as well as rolling-over to FY11 earnings. We utilised a target PER of 8x (at 35% discount to local beverage players) to FY11 EPS of 9.8 sen. Our target price represents a 16% upside to the current share price. The major positive catalyst for the stock is the new Shah Alam plant beginning operations. Previous RM0.72 target price was based on 10x PER applied to FY10 EPS of 7.2 sen.

Result Highlights

FYE: 31 May (RMm)	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10	QoQ Chg	YoY Chg	1HFY09	1HFY10	YoY YTD Chg
Revenue	23.9	27.8	28.2	31.2	29.5	-5.4%	23.7%	52.3	60.8	16.2%
EBIT	1.9	3.1	2.3	3.9	3.8	-2.9%	97.9%	4.7	7.6	63.9%
Pretax profit	1.6	2.8	1.9	3.6	3.4	-3.8%	117.7%	4.0	7.0	76.0%
Taxation	(0.2)	(0.4)	0.1	(0.5)	(0.3)	-44.8%	10.5%	(0.3)	(0.8)	190.9%
Net Profit	1.3	2.4	2.0	3.1	3.2	2.8%	137.7%	3.7	6.2	67.8%
EPS (sen)	1.0	1.9	1.5	2.3	2.4	2.8%	137.7%	2.8	4.8	67.8%
DPS (sen)	-	-	2.0	-	-	-	-	-	-	-
Net gearing (x)	0.2	0.1	0.2	0.1	0.4	184.7%	158.9%	0.2	0.4	158.9%
EBIT margin (%)	8.0%	11.3%	8.0%	12.4%	12.7%	0.3%	4.8%	8.9%	12.6%	3.6%
Pretax margin (%)	6.6%	10.1%	6.7%	11.4%	11.6%	0.2%	5.0%	7.6%	11.5%	3.9%
Net profit margin (%)	5.5%	8.7%	7.1%	9.8%	10.7%	0.9%	5.1%	7.1%	10.2%	3.1%
Effective tax rate (%)	15.7%	13.4%	-5.2%	13.9%	8.0%	-5.9%	-7.7%	6.7%	11.0%	4.3%

Results Review

YoY (RMm)	1HFY10	1HFY09	Chg	Comments
Revenue	60.8	52.3	16.2%	Due to higher sales of bottled water, particularly in the OEM segment that makes up just over 15% of group revenue.
EBIT	7.6	4.7	63.9%	Because of improved operating efficiencies from upgraded Taiping plant, as well as lower packaging costs and greater economies of scale from higher sales volume.
Net gearing	0.4	0.2	158.9%	From higher level of borrowings (at RM58.7m, up by RM35.9m YoY) for the construction of Shah Alam plant.

QoQ (RMm)	2QFY10	1QFY10	Chg	Comments
Revenue	29.5	31.2	-5.4%	Due to softened demand for bottled water during the fasting month.
Pretax profit	3.4	3.6	-3.8%	In-line with lower revenue.

Peer comparison

Company	Share Price 29/01/2010	Mkt Cap (RMm)	FYE	EPS (RM)		PER (x)		Div. Yield		ROE	
				2010E	2011E	2010E	2011E	2010E	2011E	2010E	2011E
Spritzer*	0.68	88.8	May	8.0	9.8	8.5	6.9	2.9%	3.7%	6.9%	8.0%
Local peers											
CI Holdings	1.90	269.8	June	19.3	21.7	9.8	8.8	4.7%	5.3%	21.5%	25.6%
Fraser & Neave Hldgs	11.00	3,921.4	Sept	65.0	68.8	16.9	16.0	5.4%	5.7%	17.9%	16.0%
Average						13.4	12.4	5.1%	5.5%	19.7%	20.8%

Based on *Kenanga and Bloomberg estimates

Earnings Estimates

FYE: 31 May (RMm)	2007	2008	2009	2010E	2011E
Revenue	76.8	98.7	108.3	124.4	149.7
EBIT	5.8	9.8	10.1	13.7	17.2
Finance costs	(1.1)	(1.4)	(1.4)	(2.3)	(3.3)
Pretax profit	4.7	8.4	8.7	11.3	13.9
Taxation	(0.9)	(0.5)	(0.5)	(0.8)	(1.0)
Net profit	3.8	7.8	8.1	10.5	12.8
EPS (sen)	2.9	6.0	6.2	8.0	9.8
DPS (sen)	1.1	1.5	2.0	2.0	2.5
NTA/ share (RM)	0.87	0.93	0.97	1.16	1.23
Net gearing (x)	0.2	0.1	0.2	0.4	0.4
PER (x)	23.3	11.3	10.9	8.5	6.9
P/ NTA (x)	0.8	0.7	0.7	0.6	0.6
Div. Yield (%)	1.7%	2.2%	2.9%	2.9%	3.7%
EV/ EBITDA (x)	9.9	6.4	6.7	6.9	5.8

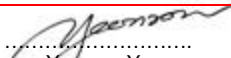
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