

MY: Life Water - Flowing with an expansion-led growth



Company Info
Board: MAIN
Shariah

Issue Price: 13/11/24: RM0.65
Market Cap: RM308m
Free Float: 26.5%

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Key stock statistics

FYE Jun (RM m)	2021A	2022A	2023A	2024A
Revenue	103.53	121.40	150.96	166.53
GP	47.79	51.74	65.15	80.02
EBITDA	27.26	28.07	36.18	50.37
PATAMI	17.66	15.74	20.62	28.12
Basic EPS (sen)	3.73	3.33	4.36	5.94
Net Gearing (x)	0.25	0.58	0.38	0.44
DPS (sen)	0.53	0.25	0.21	0.85
Div. Yield (%)	0.81	0.39	0.33	1.30
P/E (x)	17.4	19.5	14.9	10.9
P/BV (x)	5.16	4.15	3.28	2.52
ROE (%)	29.62	23.52	24.54	26.05
ROA (%)	14.81	11.30	12.39	13.49

SOURCE: COMPANY

Major shareholders (Post-IPO)

Name of shareholders	% of Shares
Scarecrow Holding	36.68
Tan Hwong Kuen	18.35
Lim Young Piau	18.35

SOURCE: COMPANY

Peers Comparison (as of 22 Oct)

Companies	12m-trailing P/E (x)	Market Cap (RM m)
Fraser & Neave Holdings	19.2	11,407
Spritzer	13.7	882
Life Water	10.9	308
Simple Average (ex-Life Water)	16.4	

SOURCE: BLOOMBERG, COMPANY

Analyst(s)

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What does the company do?

- Life Water is a dominant producer of drinking water and carbonated drinks with a well-established market presence in Sabah. It offers a wide range of beverage products and are sold through a diverse distribution channel including retailers, hotels, wholesalers, food service operators and end consumers. Operational since 2001 (24 years of industry presence), the group achieved several growth milestones, raising its competitive profile and strengths over the years with a 11% bottled water market share in Malaysia in 2023. The group is capable of producing 448m litres of drinking water p.a. and 37m litres of carbonated drinks p.a. - catering to its key drinking water house brands (K2, Sasa, and Sabah Water) and carbonated and fruit drinks house brands (2more, TRITONiC and Kitzai).
- Strategically located manufacturing facilities and distribution centres (DC) are among the group's key competitive advantages and will be the main focus for its expansion plans post-IPO. Geographically, the facilities are located in Sandakan, Kota Kinabalu, Lahad Datu and Keningau. Existing distribution logistics focuses on Sabah, Labuan, Brunei and parts of Sarawak.

Is the company profitable?

- In FY21-24, the group achieved commendable double-digit growth in revenue and net profit: 3-year revenue CAGR of 17.2% and net profit CAGR of 16.8%. This was supported by average gross profit (GP) margin of 45% and net profit margin of 15%. Notably, core net profit margin in FY24 rose to 17% vs 14% in FY23 – due to lower PET resin prices and initiation of in-house production of bottle closures. The group delivered a robust 36.4% yoy growth in net profit to RM28.1m in FY24 – a new high.
- Overall performance in FY21-24 was driven by: 1) Higher sales of drinking and carbonated drinks, 2) Favorable sales/product mix, and 3) Higher ASPs.
- In terms of margins by product type, drinking water generates the highest GP margin of 49.1% in FY24 while carbonated drink at 42.9%. Revenue-wise, drinking water constitutes 83% of FY24 revenue while carbonated drinks made up the balance 16%.

Does the company have debt or cash?

- FY24 net gearing stood at 0.44x vs 0.38x in FY23.

Does the company pay any dividends?

- Post-IPO, the group targets a dividend payout ratio of not less than 20%.

Who owns the company?

- Post-IPO, Scarecrow Holding will hold a 36.7% stake – equally owned by Liaw Hen Kong (Managing Director) and Chin Lee Ling (Executive Director). Promoters and non-independent, non-executive Senior Directors Tan Hwong Kuen and Lim Young Piau will hold a 18.4% stake each.

What is the company's business direction?

- The group will embark on an extensive capacity expansion and streamline of its manufacturing lines and distribution centres to cater to: 1) Rising demand, 2) New markets, and 3) New products.
- Expansion of manufacturing facilities:** 1) Construction of a new factory in Kota Kinabalu KK IZ8 Plant 2 to accommodate a relocation of 1 drinking manufacturing line - (RM38.5m, 8.2-acre new land), 2) Expansion of existing plastic packaging facilities in Kota Kinabalu – converting KK IZ8 plant 1 plant into a dedicated manufacturing plant for plastic packaging; relocating drinking water line to KK IZ8 plant 2 by 1H2027 (RM9.6m total cost), 3) Set up a drinking water manufacturing lines in Sandakan – Sibuga plant 1 (total cost RM19m, by 1H2025), Sibuga plant 2 (50k sq ft, RM21m total cost, by 2H2027).
- Expansion of warehouse facilities:** Two distribution centres in Tawau (new market, 1-year renovation works to start in 1Q2025; RM6.3m - operational in 1H2026) and Sandakan (2nd distribution centre/DC, RM12.6m total cost).
- Expansion of geographical markets:** Penetrating other parts of Sarawak and Brunei (appointment of distributors targeted by end-2025) to extend distribution coverage.

- **Expansion of beverage products:** Expanding portfolio of beverage products via: 1) New range of flavored drink under the brand "Mandak" (trial production ongoing, trademark registration obtained). Launch/commercialisation targeted by 2H2025 – to be produced at Sandakan Sibuga plant 1. 2) Mineral water – still at exploratory stage and in the process of identifying suitable ground water source.

Any corporate development?

- **The IPO will raise total proceeds of RM63.4m.** 1) RM19m (29.9%) will be used to set-up additional drinking water manufacturing line for Sandakan Sibuga Plant 1, 2) RM12m (18.9%) for the purchase of drinking water manufacturing line for Sandakan Sibuga Plant 2, 3) RM12.6m (19.9%) for the setting up of a second distribution centre in Sandakan, 4) RM9.6m (15.2%) for the expansion of existing plastic packaging facilities in Kota Kinabalu, 5) RM4.2m (6.6%) for working capital, and 6) RM6m (9.5%) for listing expenses.
- The closing date for IPO application is on 30 October 2024 and Life Water will be listed on the Main Market on 13 November 2024.

Figure 1: Utilisation of RM63.4m IPO proceeds

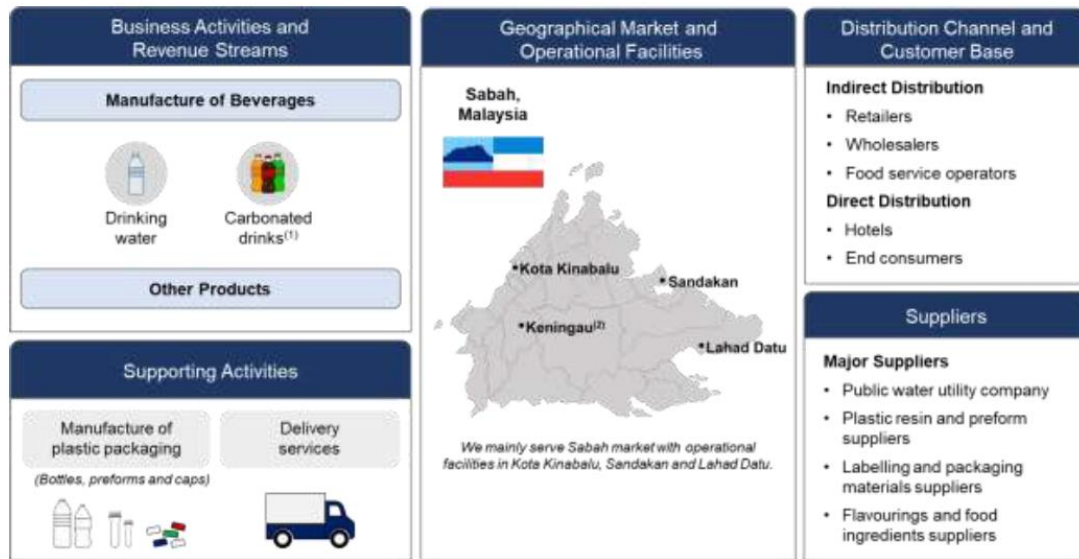
Utilisation of proceeds	Amount of proceeds		Estimated timeframe for utilisation from the date of our Listing
	RM'000	%	
Set-up additional drinking water manufacturing line for Sandakan Sibuga Plant 1	19,000	29.96	Within 9 months
Purchase of drinking water manufacturing line for Sandakan Sibuga Plant 2	12,000	18.92	Within 32 months
Set-up second distribution centre in Sandakan	12,600	19.87	Within 39 months
Expansion of existing plastic packaging facilities in Kota Kinabalu	9,606	15.15	Within 14 months
Working capital	4,210	6.64	Within 3 months
Estimated listing expenses	6,000	9.46	Within 3 months
Total	63,416	100.00	

SOURCES: COMPANY REPORTS, PROSPECTUS

Risks, mitigating factors and competitive advantages

- **Key risks:** 1) Disruption of water supply at manufacturing plants – potable water is sourced Sabah State Water department and stored in storage tanks at each manufacturing plants, 2) Fluctuation of raw material prices and shortage of raw materials – plastic packaging/resin – 55.2% of total FY24 purchases, flavour and ingredients – 7.8% of total FY24 purchases, 3) Geopolitical conflicts and spikes in oil prices, leading to higher resin prices, 4) Inability to timely pass on higher material and manufacturing costs, 5) Changes in consumer demand, 6) Forex fluctuations – PET resins, flavour and ingredients; 50.6% of total purchases in FY24 were transacted in US\$, 7) Revocation and non-renewal of licences/permits/certificates, 8) Competition from other players.
- **Competitive strengths and operational advantages:** 1) Strategically located manufacturing facilities within Sabah and a diverse distribution channel – 3,250 retail outlets, 520 food service outlets, 150 wholesalers and 100 hotels, 2) Strong growth potential for drinking water and carbonated drinks within Sabah and beyond, 3) Proven past track record with a strong and growing brand portfolio and efficient distribution/delivery system – 75 delivery trucks backed by logistics service providers, 4) Hands-on and experience key management, 5) Commendable market share with growth prospects in Sabah, 6) Earnings outlook supported by economies of scale, 7) Advanced water purification and bottling technologies ensuring high productivity, quality and efficiency, 8) Robust expansion opportunities in Sarawak and Brunei (total 6.3m population vs 3.4m population for Sabah).

Figure 2: Business model

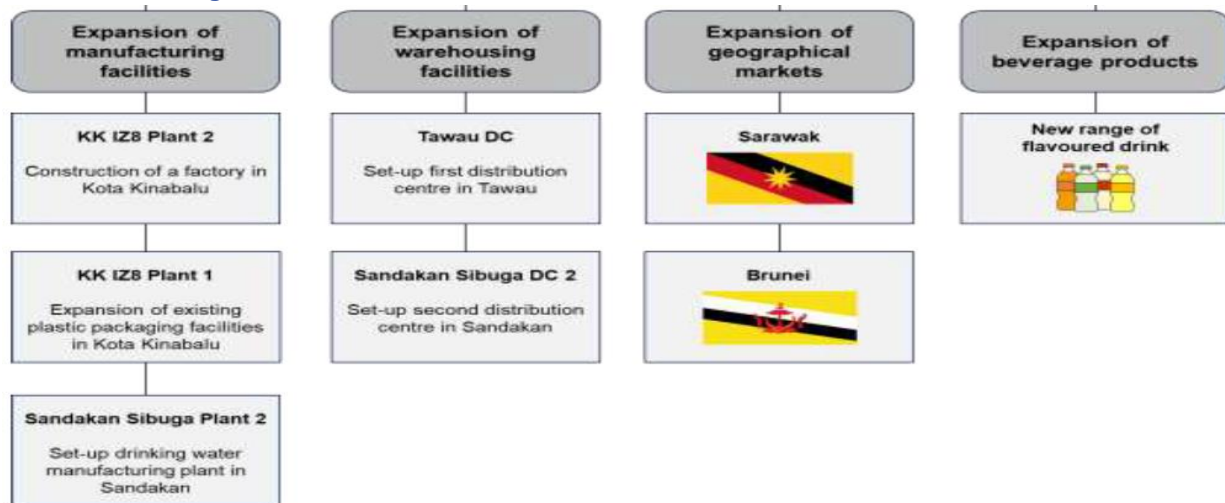


SOURCES: COMPANY REPORTS, PROSPECTUS

• **Utilisation rates and summary of growth strategies:**

- ✓ The group will embark on an extensive capacity expansion and streamline of its manufacturing lines and distribution centres to cater to: 1) Rising demand, 2) New markets, and 3) New products. The expansion and streamlining plans will become operational spanning from 1H2025 to 2H2027.
- ✓ Carbonated drink manufacturing plant's utilisation rate ranged from 38.8% to 43.3% in FY21-24 and at 43.2% in Jul 24-LPD) – this manufacturing plant requires frequent maintenance and repair (actual efficiency rate is lower than design capacity).
- ✓ Utilisation rates for PET preform ranged from 47.6% to 60.3% in FY21-24 and at 62.8% in Jul-24-LPD), while bottle caps manufacturing capacity utilisation rate stood at 49.8%.

Figure 3: Growth strategies

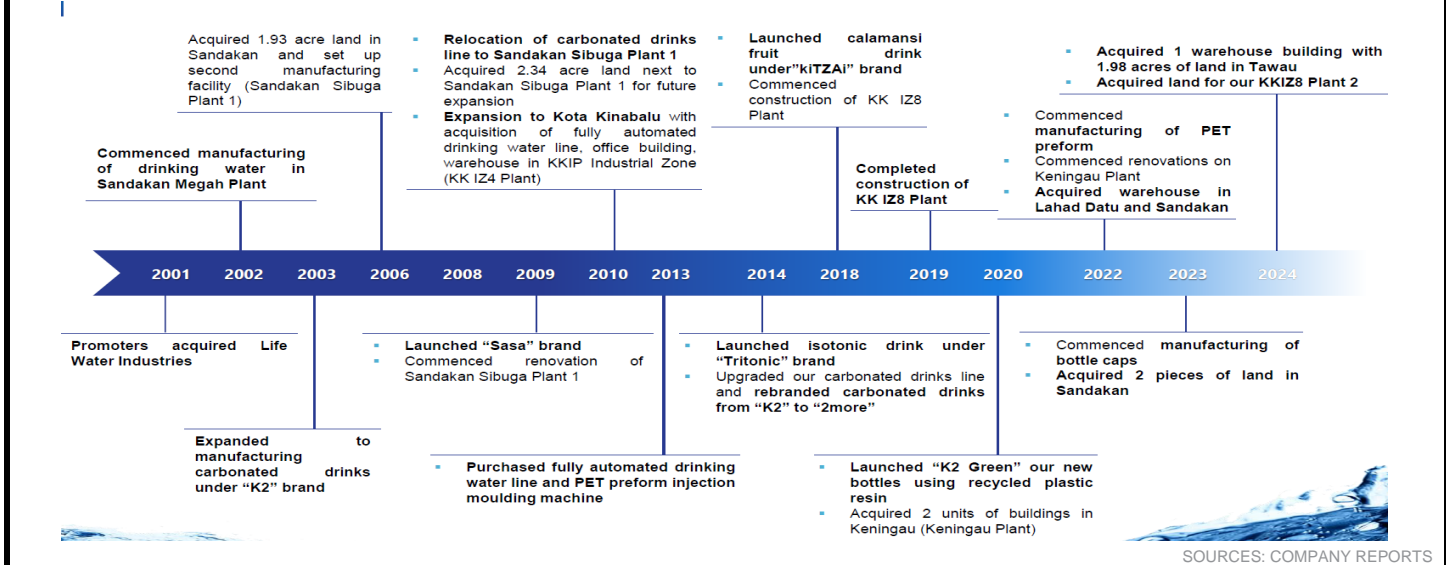


SOURCES: COMPANY REPORTS, PROSPECTUS

• **Medium to long term macro and demand drivers:**

- ✓ **Private consumption and higher disposable income theme.** Robust private consumption angle supported by the 13% rise in minimum wage to RM1,700/month effective 1 February 2025 (1 Aug 2025 for employers with less than 5 staff) including higher cash handouts (Budget 2025 initiatives), EPF account 3 withdrawals, and the 7-15% civil servants salary hike. For Sabah, mean monthly household income increased from RM5,215 to RM6,171 – CAGR of 8.8% from 2020-2022. Mean monthly household expenditure on F&B products in Sabah has been on a riding trend, at RM712 in 2022.
- ✓ **Industry growth driven by population growth.** Population growth has been the base for sales volume and customer growth. Sales value increased by 13% since 2021, while customer base rose 5.5% yoy in FY24 to 3,460.
- ✓ **Demand growth supported tourism-related consumption.** Consumption boost on F&B is also supported by tourism-related activities. There is still upside to sales volume from higher levels of tourism arrivals in Sabah, as the recovery remains below pre-pandemic levels.

Figure 4: Key milestones



Valuations?

- The IPO price of RM0.65 (RM308m market capitalisation) values Life Water at a core FY24 P/E of 10.9x – a 33.5% discount to its peer average trailing P/E of 16.4x.
- This also compares to Bursa Malaysia Consumer Index (KLSU) FY24 P/E of 16.7x, according to Bloomberg.

Figure 5: Revenue, Gross profit (GP) and GP margin

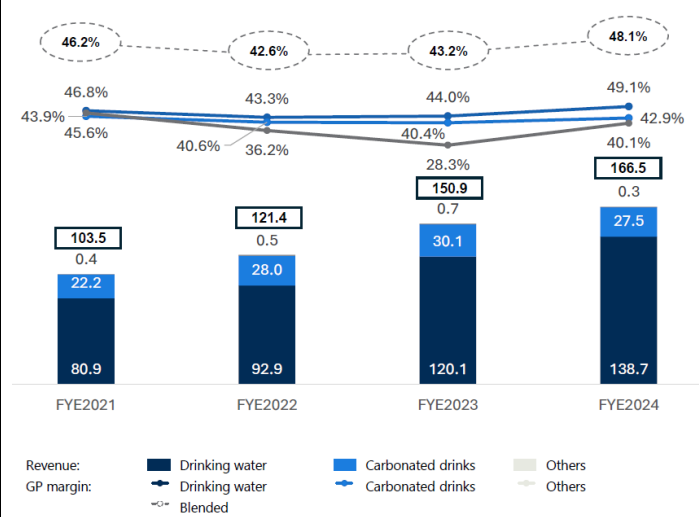


Figure 6: Net profit & net profit margin

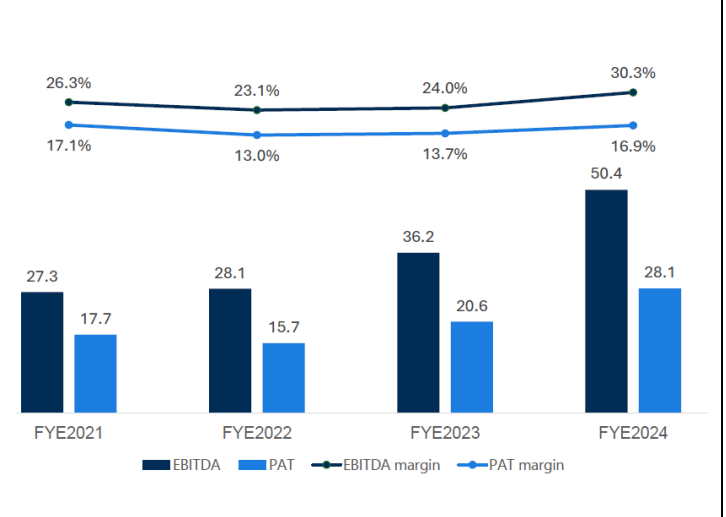
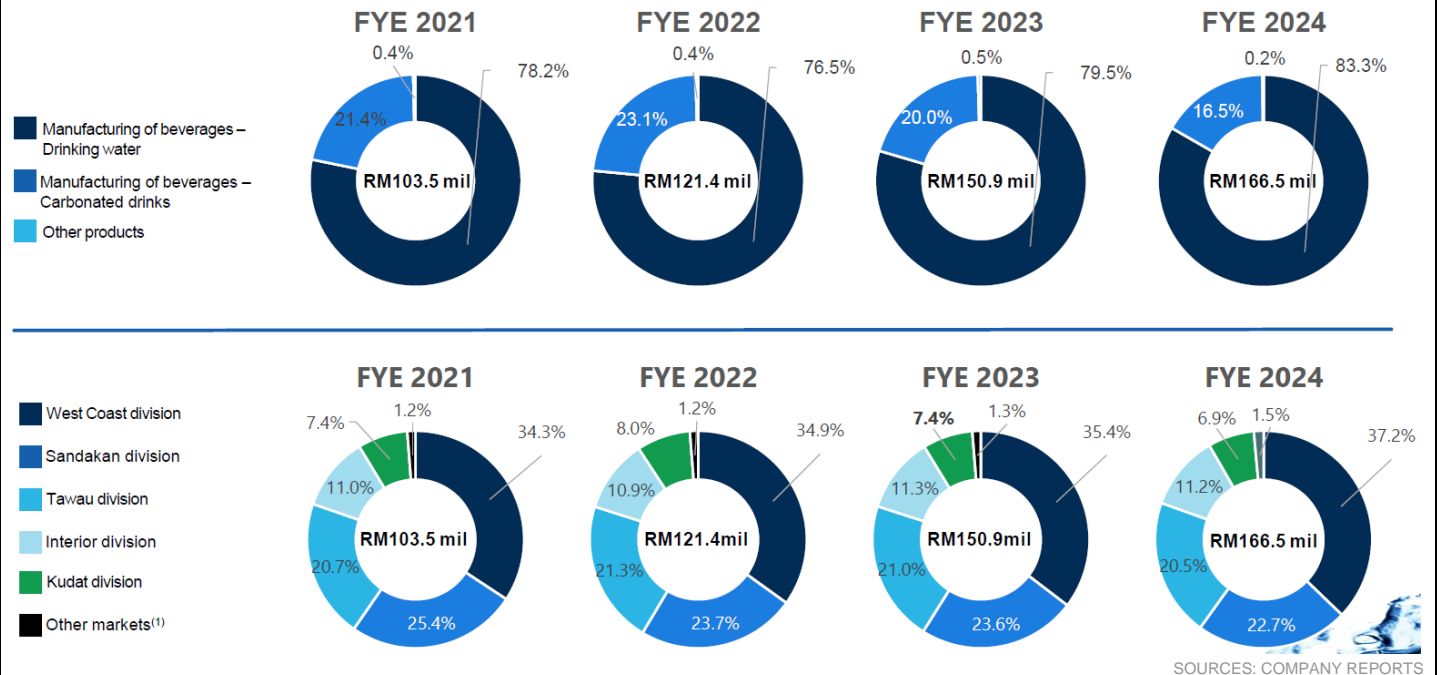


Figure 7: Revenue by business segment



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Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

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Distribution of stock ratings and investment banking clients for quarter ended on 30 September 2024		
588 companies under coverage for quarter ended on 30 September 2024		
	Rating Distribution (%)	Investment Banking clients (%)
Add	67.0%	0.5%
Hold	23.5%	0.9%
Reduce	9.5%	0.2%

Recommendation Framework

Stock Ratings

Definition:

- Add** The stock’s total return is expected to exceed 10% over the next 12 months.
- Hold** The stock’s total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock’s total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.