

Life Water Bhd

Quenching For Growth

- Established in 2001, the group is principally a manufacturer of beverages, namely drinking water and carbonated drinks, as well as other business activities including (i) the manufacture of plastic packaging and (ii) delivery and distribution centers.
- Moving forward, we project a 3-year earnings CAGR of 9.8%, with core PAT expected to reach RM31.5-37.2m over the next three years, largely supported by (i) its extensive distribution network, which creates business opportunities to tap into larger geographical markets, coupled with (ii) substantial capacity expansion of over 100%.
- We assign a fair value of RM0.92 per share for LWSABAH, representing a 41.5% upside from the IPO price of RM0.65. This valuation is based on a P/E ratio of 13x, pegged to the mid-FY26f EPS of 7.04 sen, and we believe the P/E ratio is fair as the closest peer, SPRITZER's historical and forward P/E stood around 12.9-13.4x.

Investment Highlights

Sabah's leading beverage company. Life Water Berhad (LWSABAH), Sabah's leading beverage company, has established itself as a fast-growing FMCG player in the bottled water and soft drink markets since 2001. The group currently holds c.11% market share of bottled water in Malaysia.

A wide distribution network to provide customer convenience and accessibility. The group has a wide distribution networks that includes retailers and wholesalers comprising: (i) 3,250 retail outlets, including supermarkets, hypermarkets, minimarkets, convenience stores, sundry shops, pharmacies, petrol stations, hardware stores, and stationery shops; (ii) 520 food service outlets, such as restaurants, cafes, coffee shops, canteens, and bakeries; (iii) 150 wholesalers who use their respective networks to reach areas within Sabah; and (iv) 100 hotels, for the consumption of hotel guests.

Paving the way towards larger geographical reach. As of the LPD, c.99% of the group's revenue came from Sabah and LWSABAH serves the fringes of Sarawak namely Limbang and Lawas which is located near to Sabah. Moving forward, we anticipate LWSABAH is well-positioned to leverage its extensive distribution network to tap into broader markets like Sarawak and Brunei, with minimal CapEx. This should result in increased production utilisation and output.

Capacity expansion. Currently, the group has a total production capacity of ~389m litres of drinking water and ~37m litres of soft drinks across 3 plants: (i) KK IZ4 Plant 1, (ii) KK IZ8 Plant 1, and (iii) Sandakan Sibuga Plant 1, with an overall utilisation rate above 70%. Moving forward, we believe the drinking water segment will be the growth driver for the group, in tandem with (i) the expected commencement of the new Keningau Plant by December 2024 and (ii) the setup of two new drinking water manufacturing lines in Sandakan, which will increase its total annual production capacity to ~804m litres by 2027.

Superior margins than peers. Excluding listing expenses, LWSABAH's recent PAT margins of 13-17%, outshined its closest listed peers like SPRITZER (10-12%) and FRASER & NEAVE (3-4%). We believe this is mainly due to two key differentiating factors such as (i) lower tax rates, as its carbonated drinks do not surpass the sugar tax threshold, and (ii) strong customer preference for LWSABAH's products, despite being sold at a premium in Sabah, contributing to higher margins.

IPO Note – Not rated

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Non-Rated

Share price	RM0.65
Target price	RM0.92
Previous TP	-
Capital upside	41.5%
Dividend return	2.2%
Total return	43.7%

Company profile

Through its wholly-owned subsidiaries, the group is principally a manufacturer of beverages, namely drinking water and carbonated drinks, as well as other business activities including (i) the manufacture of plastic packaging and (ii) delivery and distribution centers.

Stock information

Bursa Code	5328
Bloomberg ticker	LWSABAH MK
Listing market	MAIN
Share issued (m)	473.2
Market Cap (m)	307.6
Shariah compliant	YES

Major shareholders

Scarecrow Holdings	36.7
Tan Hwong Kuen	18.4
Lim Yong Piau	18.4

Earnings snapshot

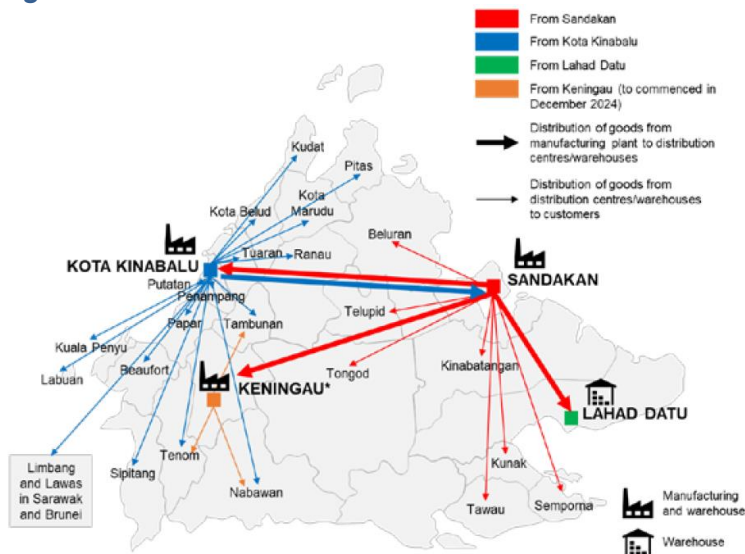
FYE (Jun)	FY24	FY25f	FY26f
PATMI (m)	28.1	31.5	35.1
EPS (sen)	5.94	6.66	7.42
P/E (x)	10.9	9.8	8.8

Timetable of IPO

Opening of application	22 October
Closing of application	30 October
Balloting of application	4 November
Allotment of the IPO shares	11 November
Listing on the MAIN market	13 November



Fig #1 Satellite illustration of Life Water's distribution network



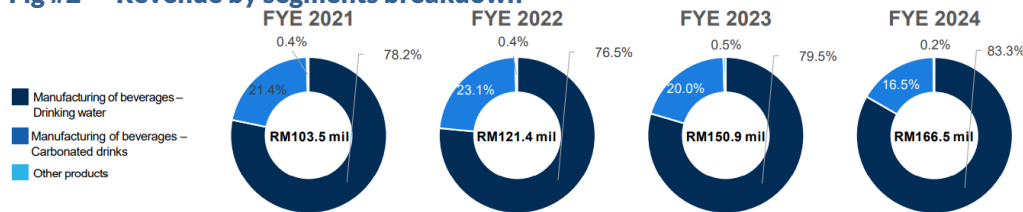
Source: Life Water Berhad

Company Background

Through its wholly-owned subsidiaries, the group is principally a manufacturer of beverages, namely drinking water and carbonated drinks, as well as other business activities including (i) the manufacture of plastic packaging and (ii) delivery and distribution centers. The group operates from its head office and manufacturing facilities in Sandakan, as well as additional manufacturing facilities in Kota Kinabalu.

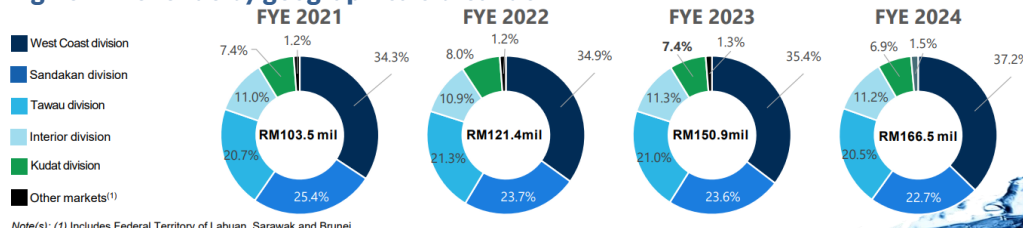
LWSABAH markets its beverages under its in-house brands like "K2," "Sasa," and "Sabah Water" for drinking water and "2more" and "TRITONiC" for carbonated drinks. The group also contract-manufactures private label brands of drinking water for petrol stations, supermarkets, wholesalers, and hotels, including Mesra, Hiap Lee, Water2go, Ikame, Seafest Hotel, and Sabah Hotel.

Fig #2 Revenue by segments breakdown



Source: Life Water Berhad

Fig #3 Revenue by geographicals breakdown



Note(s): (1) Includes Federal Territory of Labuan, Sarawak and Brunei

Source: Life Water Berhad



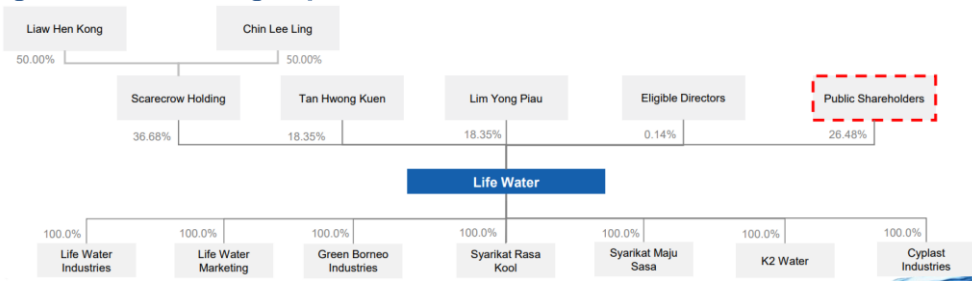
Monday, 28 Oct, 2024

Fig #4 Life Water's products under the belt



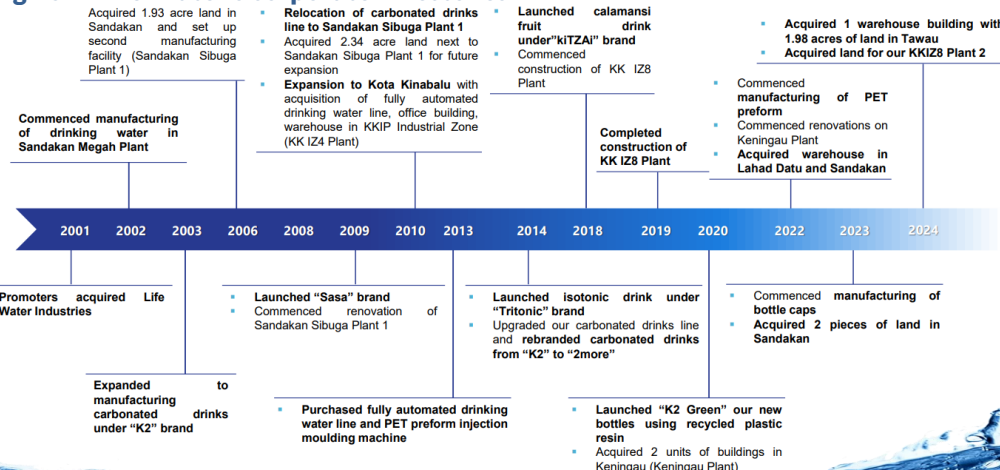
Source: Life Water Berhad

Fig #5 Life Water's group structure



Source: Life Water Berhad

Fig #6 Life Water's corporate milestones



Source: Life Water Berhad

Fig #7 Utilisation of Proceeds

Use of proceeds	RM'm	%	Estimated time frame
Set-up additional drinking water manufacturing line for Sandakan Sibuga Plant 1	19.0	29.96	Within 9 months
Purchase of drinking water manufacturing line for Sandakan Sibuga Plant 2	12.0	18.92	Within 32 months
Set-up second distribution centre in Sandakan	12.6	19.87	Within 39 months
Expansion of existing plastic packaging facilities in Kota Kinabalu	9.6	15.15	Within 14 months
Working capital	4.2	6.64	Within 3 months
Estimated listing expenses	6.0	9.46	Within 3 months
Total	63.4	100.00	

Source: Life Water Berhad



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Financials

Revenue highlights. The group reported revenue of RM166.5m in FY24, an increase of 10.31% YoY, mainly due to (i) an increase in revenue from its in-house brands of drinking water by 16.2%, largely from the “Sasa” and “K2” brands, in tandem with an increase in sales volume. This increase in sales volume was primarily due to a combination of increased orders from its existing major customers, such as Bataras Group, Eco Water, Mu Group, Servay Group, and Sabanah Group, which cumulatively represented 16.3% of the total drinking water sales volume. Core earnings also rose by 36.4% to RM28.1m.

Earnings forecasts. Moving forward, we project a 3-year earnings CAGR of 9.8%, with core PAT expected to reach RM31.5m, RM35.1m, and RM37.2m over the next three years, largely supported by (i) its extensive distribution network, which creates business opportunities to tap into larger geographical markets, coupled with (ii) substantial capacity expansion of over 100%, increasing production capacity from 389m litres to approximately 804m litres, facilitated by the new Keningau Plant expected to commence by the end of 2024 and additional production lines to be added from the proceeds of the IPO.

Fig #8 Financial Highlights

FYE Jun (RM'm)	FY23	FY24	FY25f	FY26f	FY27f
Revenue	151.0	166.5	189.6	208.2	221.3
EBITDA	36.2	50.4	57.6	64.0	67.9
EBIT	26.5	39.3	45.0	49.7	52.7
PBT	24.2	36.6	41.5	46.2	49.0
PAT	20.6	28.1	31.5	35.1	37.2
PATMI – Core	20.6	28.1	31.5	35.1	37.2
PATMI – Reported	20.6	28.1	31.5	35.1	37.2
% change YoY – Core PATM	31.0%	36.4%	12.0%	11.5%	6.0%
Core EPS (sen)	4.36	5.94	6.66	7.42	7.87
P/E (x)	14.9	10.9	9.8	8.8	8.3
DPS (sen)	0.2	0.8	1.3	1.5	1.6
Yield (%)	0.3%	1.3%	2.0%	2.3%	2.4%
BVPS (RM/share)	0.20	0.26	0.43	0.49	0.56
P/B (x)	3.3	2.5	1.5	1.3	1.2
ROE (%)	24.5%	26.0%	19.2%	16.0%	15.0%
Net Gearing (%)	0.4	0.4	CASH	CASH	CASH

M+ Research

Valuations

We assign a fair value of RM0.92 per share for LWSABAH, representing a 41.5% upside from the IPO price of RM0.65. This valuation is based on a P/E ratio of 13x, pegged to the mid-FY26f EPS of 7.04 sen. We believe the ascribed P/E is fair as the closest peer, SPRITZER's historical and forward P/E stood at 12.9x-13.4x.

Meanwhile, we do not rule out the possibility of LWSABAH being traded higher due to its superior profit margin of 16.9% and solid ROE of 26.0% during FY24, which is above its peer average profit margin and ROE of 10.2% and 13.4%, respectively.



Fig #9 Peer comparison

Company	Market Group	FYE	Price (RM)	Market Cap (RM'm)	P/E (x)	Forward P/E (x)	ROE (%)	NP Margin (%)
Life Water Berhad	MAIN	Jun	0.65	307.6	*10.9	**9.8	*26.0	*16.9
Fraser & Neave Holdings Bhd	MAIN	Sep	31.20	11,443.5	19.2	18.9	17.7	10.7
Spritzer BHD	MAIN	Dec	2.74	872.3	13.3	13.2	12.5	10.1
Power Root Bhd	MAIN	Mar	1.40	608.2	19.7	15.1	9.8	9.9
Avg ex-Life Water Berhad				4,308.0	17.4	15.7	13.4	10.2

Source: M+ Research (*FY24, **FY25f)

Investment risks

Dependent on key senior management. Discontinuation of service of the key senior management may disrupt key decision making within LWSABAH's business operations.

Economic, social, political and regulatory risks. Changes in the economic, social and political landscape, which may give rise to unfavourable tariffs, embargos, etc.

Disruption in water supply at its manufacturing plant. Any shortages of water supply could adversely affect LWSABAH's business operations and financial condition.

Fluctuations in commodities and raw material prices. Any inability to pass on the price decrease of commodities and raw material prices may adversely affect financial performance.

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Stock recommendation guide

BUY	The share price is expected to appreciate more than 10% over the next 12 months
HOLD	The stock price is expected to range between -10% and +10% over the next 12 months
SELL	The share price is expected to fall more than 10% over the next 12 months
TRADING BUY	The share price is projected to rise more than 10% over the next three (3) months due to an ongoing or impending corporate development. The stock price is also expected to be volatile over the next three months
TRADING SELL	The stock price is expected to fall more than 10% over the next three months due to an ongoing or impending corporate developments. The stock price is also expected to be volatile over the next three months
NOT RATED	No recommendation is assigned

