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Life Water Berhad

Largest Drinking Water Manufacturer in Sabah

TP: RM0.87 (+34.2%)

Main Market Listing

NOT RATED

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Background

Incorporated in 1997, Life Water Berhad (LWB) is primarily involved in the manufacture of bottled water and carbonated drinks in Sabah. The group's operations are further supported by other business activities, including plastic packaging production and delivery and distribution centers.

IPO Statistic

The IPO involves an offering of up to 126.0mn shares in conjunction with the listing on the Main Market of Bursa Malaysia. This includes a public issue of 97.6mn new shares and an offer for sale of up to 28.4mn existing shares. Of the total public issue of 97.6mn shares, 23.7mn will be offered to the Malaysian public, 14.2mn to eligible persons, 59.2mn to Miti-approved Bumiputera investors, and 0.6mn to selected investors, at an IPO price of RM0.65 per share. Collectively, these share offers represent 26.6% of the group's enlarged issued share capital.

Competitive Advantages

1. Leading Brand in the Sabah Market
2. Wide Distribution Network
3. Experienced Management Team

Valuation

LWB is valued at a PER of 10.9x FY24 EPS, based on an IPO price of RM0.65 per share. We assign a fair value of **RM0.87/share** to LWB, using a PER of 13.3x for its CY25 EPS, which aligns with the simple average PER of comparable companies in the beverages sector. **Not Rated**

Earnings Summary

FYE June (RM'mn)	FY23	FY24	FY25F	FY26F	FY27F
Revenue	151.0	166.5	184.9	209.8	241.7
EBITDA	28.7	41.4	45.6	47.4	58.7
EBIT	26.5	39.3	43.4	45.1	56.2
Net finance cost	(2.7)	(3.5)	(4.0)	(4.0)	(4.2)
PBT	24.2	36.6	39.4	41.1	52.0
Taxation	(3.6)	(8.4)	(9.1)	(9.4)	(12.5)
PAT	20.6	28.1	30.3	31.6	39.5
Adj PAT	20.6	28.1	30.3	31.6	39.5
EPS (sen) *	4.4	5.9	6.4	6.7	8.4
DPS (sen)	0.2	0.8	1.3	1.3	1.7
Dividend Yield (%) ^	0.3	1.3	2.0	2.1	2.6
PE (x) ^	14.9	10.9	10.1	9.7	7.8

*Based on enlarged issued share capital of 473.2mn

^Based on IPO price of RM0.65/share

Share Information

Listing	Main Market
Enlarged Share Capital (mn)	473.2
Market Cap @ RM0.65 (RM'mn)	307.6
Issue price (RM)	0.65
Oversubscription rate	N/A
Estimated free float (%)	26.6

Tentative Listing Dates

Opening of the IPO	22-Oct-24
Closing of the IPO	30-Oct-24
Balloting of Applications	4-Nov-24
Allotment of Shares	11-Nov-24
Listing	13-Nov-24

Ratio & Analysis

NTA per share (post IPO) (RM)	0.4
Price to NTA (x)	1.7
Proforma Net Gearing (x)	0.38

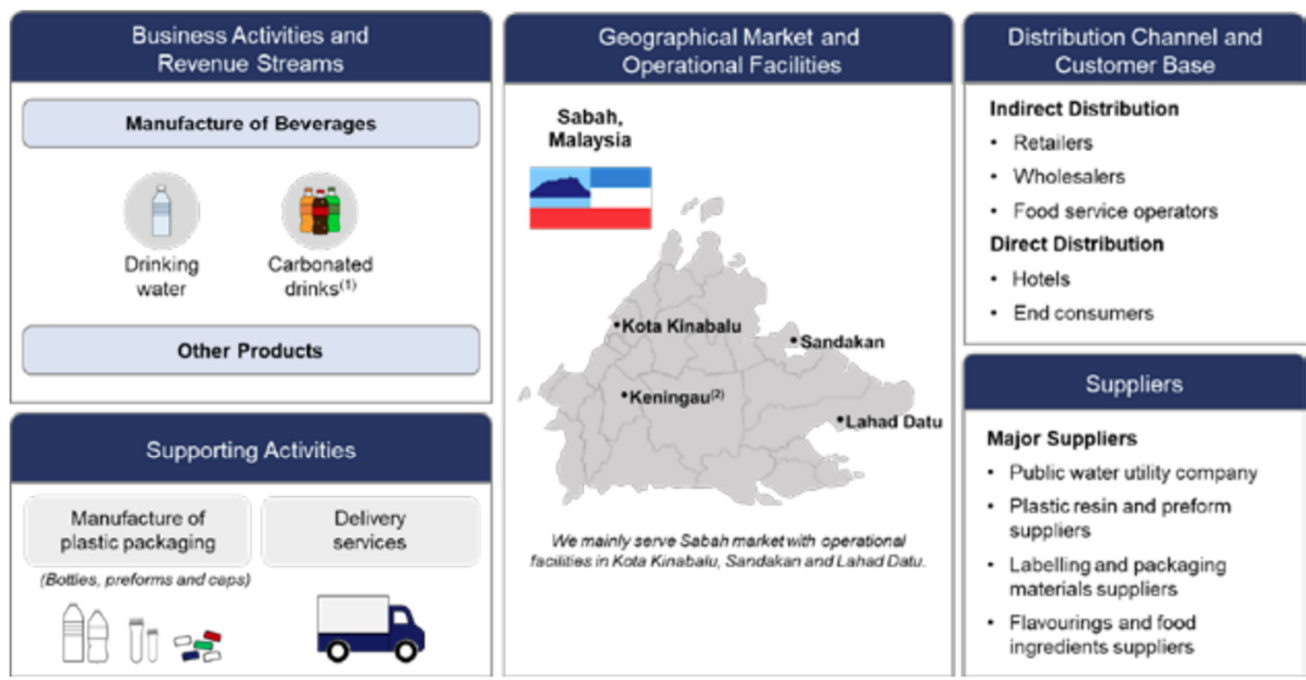
Utilisation of Proceeds	RM'mn	%
Additional drinking water manufacturing line for Sandakan Sibuga Plant 1	19.0	30.0
Purchase of drinking water line for Sandakan Sibuga Plant 2	12.0	18.9
Set-up second distribution centre in Sandakan	12.6	19.9
Expansion of packaging facilities	9.6	15.1
Working capital	4.2	6.6
Estimated listing expenses	6.0	9.5
TOTAL	63.4	100.0

Business Overview

Life Water Berhad (LWB) is primarily involved in the manufacture of bottled water and carbonated drinks in Sabah. The group's operations are further supported by other business activities, including plastic packaging production and delivery and distribution centers. LWB's head office and main manufacturing facility are located in Sandakan, and it also operates facilities in Kota Kinabalu.

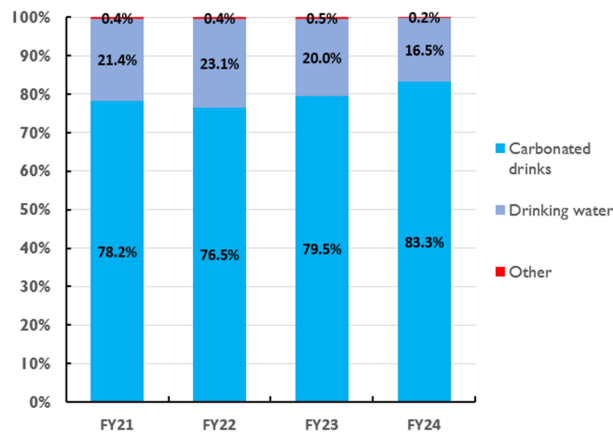
The group markets its beverages under several key brands: 'K2,' 'Sasa' and 'Sabah Water' for drinking water; '2more' for flavoured carbonated drinks; and 'TRITONiC', an isotonic carbonated beverage. Additionally, LWB offers contract manufacturing for private label drinking water for petrol stations, supermarkets, wholesalers, and hotels.

Figure 1: Business Model of Life Water Berhad



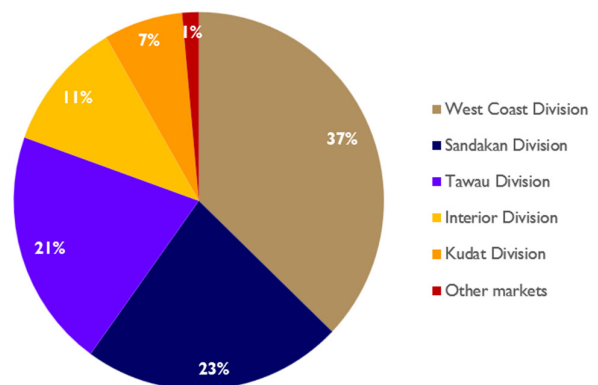
Source: Company, TA Securities

Figure 2: Segmental Revenue breakdown



Source: Company, TA Securities

Figure 3: Geographical Revenue Breakdown in FY24



Source: Company, TA Securities

Table 1: Share Allocation

Public Issue to:	No. of Shares ('000)	% of Enlarged Share Capital	Amount (RM'000)
Malaysian Public	23,660	5.0%	15,379
Eligible Persons	14,195	3.0%	9,227
Placement for selected investors	560	0.1%	364
Bumiputera Investors approved by MITI	59,148	12.5%	38,446
Total	97,563	20.6%	63,416

Offer for Sale to:	No. of Shares ('000)	% of Enlarged Share Capital	Amount (RM'000)
Placement for selected investors	28,390	6.0%	18,454
Total	28,390	6.0%	18,454

Source: Company, TA Securities

Table 2: Shareholding Changes Pre & Post-IPO

Name	Designation	Pre - IPO	Post - IPO
Scarecrow Holding		46.2%	36.7%
Tan Hwong Kuen	Non-Independent Executive Senior Director	25.0%	18.4%
Lim Young Piau	Non-Independent Executive Senior Director	25.0%	18.4%
Liaw Hen Kong	Managing Director	1.9%	-
Chin Lee Ling	Executive Director	1.9%	-
Total		100.0%	73.4%

Source: Company, TA Securities

Table 3: Utilisation of Proceeds

Purpose	Amount (RM'000)	% of Gross Proceeds	Timeframe
Business Expansion			
- Set-up additional drinking water manufacturing line for Sandakan Sibuga Plant 1	19,000	30.0%	Within 9 months
- Purchase of drinking water manufacturing line for Sandakan Sibuga Plant 2	12,000	18.9%	Within 32 months
- Set-up 2nd distribution centre in Sandakan	12,600	19.9%	Within 39 months
- Expansion of existing plastic packaging facilities in KK	9,606	15.1%	Within 14 months
Working capital	4,210	6.6%	Within 3 months
Estimated listing expenses	6,000	9.5%	Within 3 months
Total	63,416	100.0%	

Source: Company, TA Securities

Investment Thesis

1) Leading Brand in the Sabah Market

Life Water has a proven track record of approximately 22 years since beginning its manufacturing operations in 2002. Over this time, the group has developed and promoted a brand portfolio that includes 'K2', 'Sasa', '2more' and 'TRITONiC' in the Sabah market.

In Malaysia, Life Water commands approximately 11% of the RM1.28bn bottled water market in 2023, generating RM138.7mn in revenue in FY24. We believe the group's market position will remain strong, supported by its solid track record, brand recognition, economies of scale, and technological investments.

As a testament to its strong market acceptance and continuous growth in the Sabah beverage market, the group's revenue from beverage products has grown at a CAGR of 17.2% over the past three years. Meanwhile, its drinking water production output grew from 182.0mn liters in FY21 to 265.7mn liters in FY24.

Life Water's primary customers include retailers, food service operators, wholesalers, and hotels. The group also serves as a contract manufacturer for private label drinking water brands for petrol stations, hotels, and hypermarkets, including Mesra, Shell, Water2go, Seafest Hotel, and Sabah Hotel. As a result, Life Water's customer base grew to 3,460 in FY24, up from 2,815 in FY21.

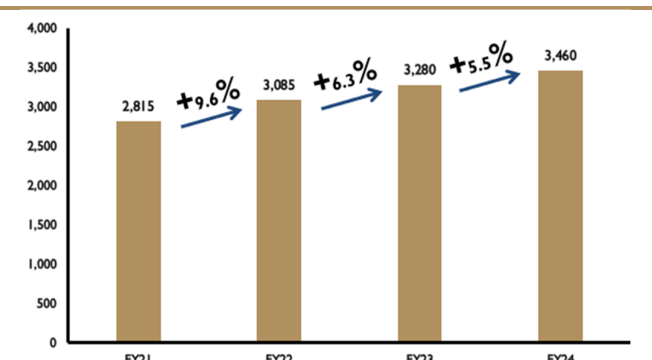
Moving forward, we believe that the group's upcoming new products, combined with ongoing marketing and promotional activities, will enable its brands to maintain prominence and capitalize on new opportunities in the Sabah market as well as in neighbouring markets like Sarawak and Brunei.

Figure 4: Proven Beverage Manufacturing Track Record



Source: Company, TA Securities

Figure 5: Increasing Number of Customers



Source: Company, TA Securities

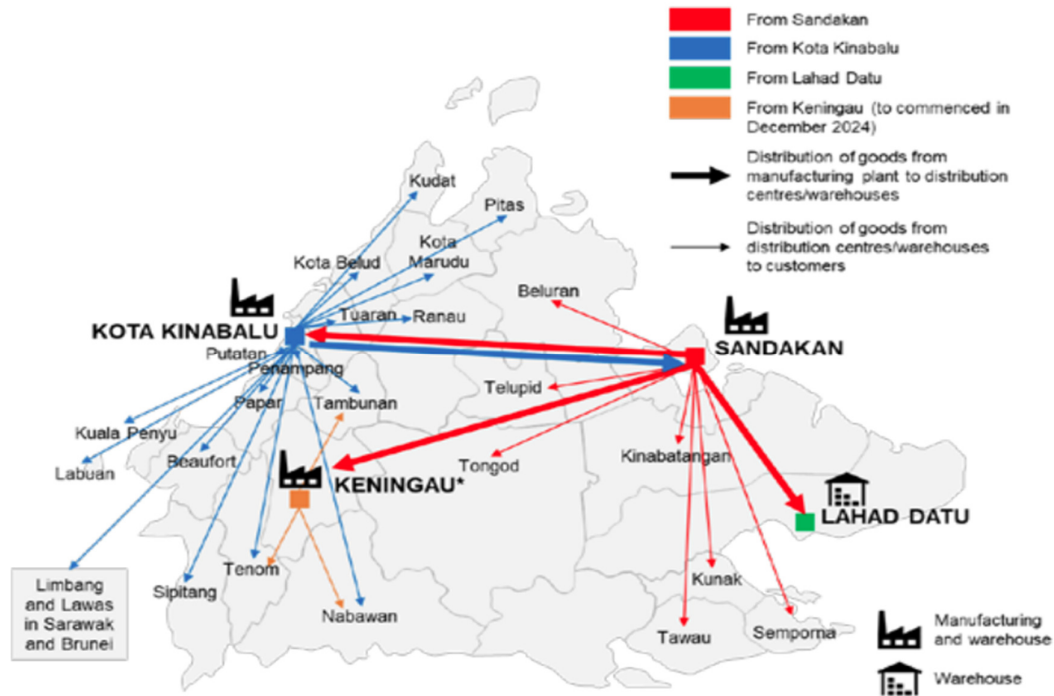
2) Wide Distribution Network

The group has extensive distribution capabilities through its fleet of 75 delivery trucks and 30 external logistics service providers for distributing its beverage products. This allows Life Water to provide exceptional convenience, consistent product availability, and flexible, timely delivery options for all types of customers, ranging from urban centres to rural areas.

In FY24, the number of delivery destinations includes approximately 3,250 retail outlets (supermarkets, hypermarkets, convenience stores, sundry shops, pharmacies, petrol stations, hardware stores, and stationery shops), 520 food

service outlets (restaurants, cafes, coffee shops, canteens, and bakeries), 150 wholesalers, and 100 hotels catering to hotel guests.

Figure 6: Distribution Network Throughout Sabah



Source: Company, TA Securities

3) Experienced Management Team

The group’s Managing Director, Liaw Hen Kong, and Executive Director, Chin Lee Ling, have been instrumental in shaping the overall strategic direction and development of the group. Together, they each bring about 22 years of experience in the beverage manufacturing industry. Meanwhile, the financial controller, operations manager, and technical manager of Life Water have 23, 17, and 14 years of experience, respectively, in the beverage manufacturing and related industries.

Figure 7: Key Management Personnel

				
Liaw Hen Kong Managing Director	Chin Lee Ling Executive Director	Christina Yap Chui Fui Financial Controller	Chin Lee Yung Operations Manager	Chin Chun Ming Technical Manager
<ul style="list-style-type: none"> •23 years of industry experience •Diploma in Business Studies from SEGi and completed LCCI and ACCA 	<ul style="list-style-type: none"> •23 years of industry experience •International Diploma in Computer Studies •Completed LCCI and ACCA 	<ul style="list-style-type: none"> •23 years of accounting, finance and audit experience •Ex-KPMG employee •Completed ACCA 	<ul style="list-style-type: none"> •Over 17 years of industry experience •Responsible for overseeing the production, quality, logistics and warehouse departments 	<ul style="list-style-type: none"> •Over 14 years of industry experience •Diploma in Electrical and Electronic Engineering from INTI College

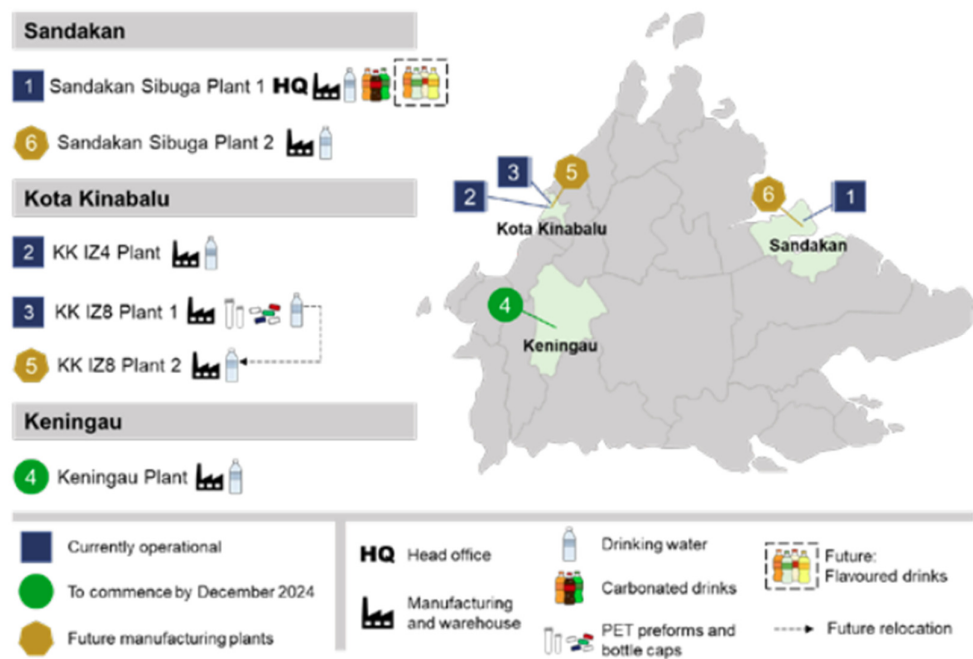
Source: Company, TA Securities

Future Plans and Business Strategies

1) Expansion of Manufacturing Facilities via:

- i) Commissioning the new drinking water manufacturing plant, Keningau Plant, involves setting up one new production line to serve the interior division. The Keningau plant is expected to begin operations by the end of December 2024.
- ii) A new drinking water line is set to be established at the Sandakan Sibuga Plant I, with operations expected to commence by 2025.
- iii) The KK IZ8 Plant I will be converted into a dedicated plastic packaging facility. Plans include the installation of an automated warehouse racking system and the purchase of a PET preform injection molding machine to support future production of 18/26 g preforms by 2025.
- iv) Construct a new manufacturing plant, KK IZ8 Plant 2, and relocate one drinking water manufacturing line from KK IZ8 Plant I. The new plant will have adequate space to accommodate the future expansion of drinking water manufacturing, targeting the West Coast and Kudat divisions by 2027.
- v) Establish a new drinking water manufacturing plant, Sandakan Sibuga Plant 2, by setting up a new production line to serve the Sandakan and Tawau divisions by 2027.
- vi) Establish the first Tawau distribution center by 2026 to strengthen the distribution network and capture potential markets in this densely populated area. Tawau is the third most populous district in Sabah, following Kota Kinabalu and Sandakan.
- vii) Set up a second Sandakan distribution center by 2027, located adjacent to Sandakan Sibuga DC I and Sibuga Plant I, as the current floor space is fully utilised.

Figure 8: Existing and Future Manufacturing Facilities in Sabah



Source: Company, TA Securities

Figure 9: Summary of Capacity Expansion

Drinking water	FYE2024				Proposed expansion							
	KK IZ4	Sandakan Sibuga Plant 1	KK IZ8 Plant 1	Total	Sandakan Sibuga Plant 1	Sandakan Sibuga Plant 2	Keningau	Total				
No. of production lines	2	2	1	5	1	1	1	8				
Maximum annual capacities (mil litres)	108.9	116.82	163.65	389.07	178.20	178.20	59.40	804.87				
Utilisation rate FYE2024	53.4%	81.0%	69.1%	68.3%								
From 1 July 23 September 2024	44.3%	86.5%	87.7%	75.2%								
Carbonated drink	Sandakan Sibuga Plant 1			Total	Proposed expansion							
No. of production lines	1			1								
Maximum annual capacities (mil litres)	37.04			37.04								
Utilisation rate FYE2024	35.1%			35.1%								
From 1 July 23 September 2024	43.2%			43.2%								
Manufacturing PET preform	KK IZ8 Plant 1			Total	Proposed expansion							
No. of production lines	4			4	KK IZ8 Plant 1							
Maximum annual capacities (mil pieces)	473.19			473.19	168.77							
Utilisation rate FYE2024	59.1%			59.1%								
From 1 July 23 September 2024	62.8%			62.8%								
Manufacturing bottle caps	KK IZ8 Plant 1			Total	Proposed expansion							
No. of production lines	1			1								
Maximum annual capacities (mil pieces)	345.05			345.05								
Utilisation rate FYE2024	61.4%			61.4%								
From 1 July 23 September 2024	49.9%			49.9%								
Floor Area (sq ft)	IZ4 Plant	KK IZ8 Plant 1	As at LPD Sandakan		Lahad Datu		Keningau Plant	Total	Tawau DC	Proposed expansion Sandakan DC2	Total	
Office	6,098	4,800	3,423	500	455		1,453	16,729				
Factory	30,425	93,315	38,793				8,234	170,767				
Warehouse	23,394	25,525	8,000	35,069	46,462	4,387	5,137	10,667	158,641	12,600	70,000	241,241

Source: Company, TA Securities

2) Expansion of Manufacturing Facilities via:

At this juncture, the group's sales remain heavily dependent on the Sabah market, which contributes 98.6% of FY24 revenue, while the remainder comes from Sarawak, Labuan, and Brunei. Currently, Life Water is only serving customers in the fringes of Sarawak, such as Limbang and Lawas, and there is no appointed distributor for its beverage products in these areas.

Going forward, Life Water intends to expand into other parts of Sarawak and Brunei. The group is in the process of identifying local distributors in these regions to leverage their local knowledge and distribution networks, with the goal of appointing distributors by the end of 2025.

2) Introduction of New Products

Looking ahead, Life Water plans to introduce a new range of flavored drinks under the brand 'Mandak.' The group aims to commercialise and launch this product to existing customers in the second half of 2025.

Regarding mineral water, Life Water is currently in the preliminary stages of identifying suitable groundwater sources. It is important to note that the main difference between drinking water and mineral water lies in the water source. As such, the group will be able to leverage its experience in drinking water manufacturing to venture into the production and bottling of mineral water with some modifications to the treatment process.

Key Risks Relating to Business and Industry

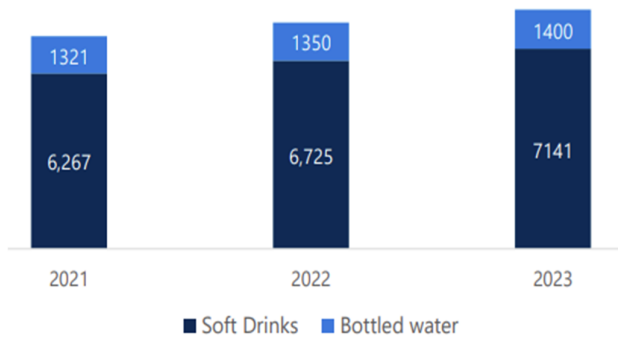
- i) Dependent on revenue from Sabah,
- ii) Disruption in water supply,
- iii) Fluctuation in raw material prices and shortages of raw materials.

Outlook

Based on independent market research conducted by Viral Factor Consulting, the bottled water and carbonated drinks industry is driven by: i) steady population growth, ii) increasing household income and expenditure, and iii) a growing travel industry in Sabah. Population growth is expected to enhance the sales value of manufactured beverages, as a larger population will lead to increased demand within the food and beverage sector. Additionally, the rise in disposable income will contribute to an overall increase in spending on beverages.

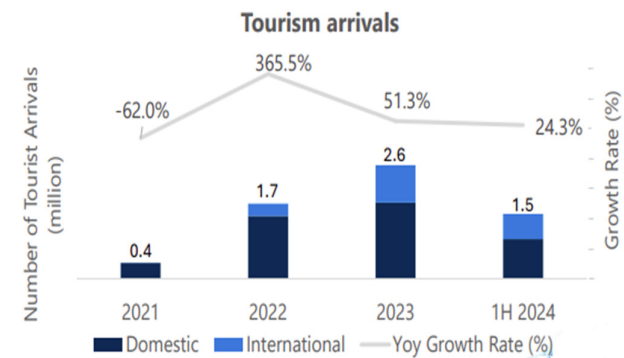
In 2023, tourism arrivals in Sabah rose by 51.3% YoY, highlighting significant growth potential as the industry rebounds. In the first half of 2024, tourism arrivals increased by approximately 24.3% compared to the same period in 2023. Consequently, the expanding tourism sector is expected to drive growth in the beverage industry as consumer spending rises.

Figure 10: Sales Value of Manufactured Beverages in Malaysia (RM'bn)



Source: Company, TA Securities

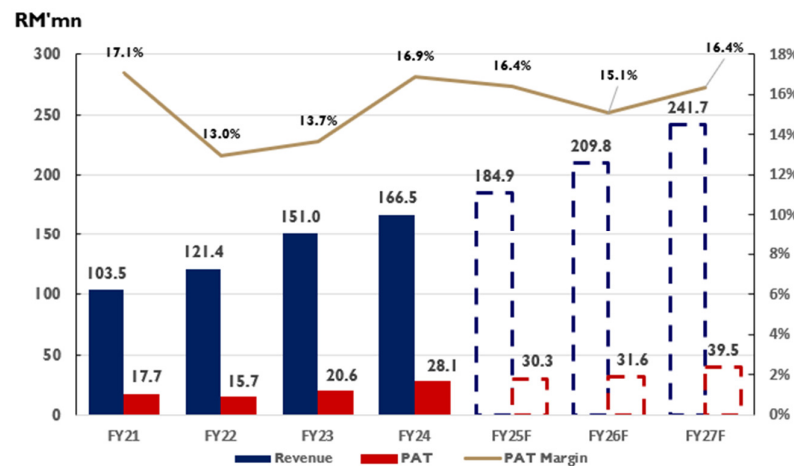
Figure 11: Growing Travel Industry in Sabah



Source: Company, TA Securities

Financial Highlights & Earnings Forecast

Figure 12: FY21-27F Financial Performance



Source: Company, TA Securities

Life Water Berhad has delivered steady revenue growth, with turnover increasing at a 3-year CAGR of 17.2% since FY21, driven by improved sales of drinking water and carbonated drinks. Supported by rising demand for

beverages, drinking water sales volume grew at a CAGR of 17.4%, reaching 271.1mn bottles from FY21 to FY24.

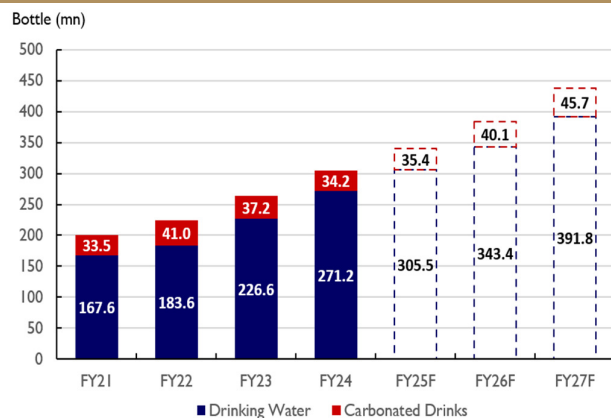
In FY22, the gross profit (GP) margin declined by 3.6% YoY to 42.6%, as the 25.0% YoY increase in the cost of sales outpaced the 17.3% YoY revenue growth. This rise in costs was primarily driven by a higher average price of plastic resin, which surged 52.8% YoY to RM4.95/kg. Consequently, the increased production cost of bottles eroded the group's GP margin. Additionally, higher selling, distribution, administrative, and finance expenses further pressured profitability, leading to a decline in LWB's net profit margin to 13.0% in FY22

Going forward, we project revenue growth of 11.0%/13.5%/15.2% for FY25/FY26/FY27, respectively. Our FY25-26 earnings projections are based on the following key assumptions:

- i) Robust tourist arrivals in Sabah, boosting demand from HORECA distributors,
- ii) An increase in drinking water sales volume by 12.7%/12.4%/14.1% to 308.1/346.3/395.1mn bottles for FY25/26/27, respectively and,
- iii) Higher household incomes in Malaysia, driving discretionary spending on bottled water and carbonated drinks.

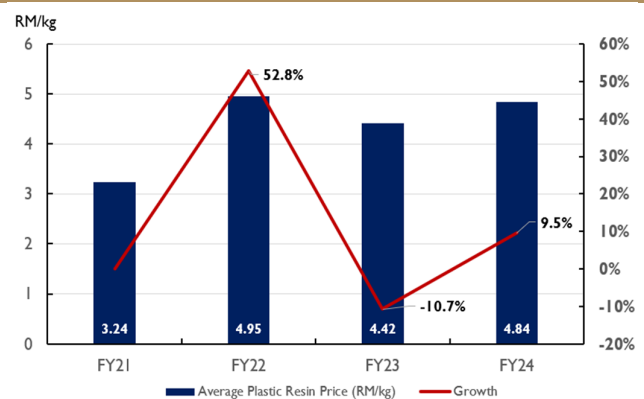
Consequently, we anticipate net profit to improve by 7.8%/4.3%/25.0% for FY25/FY26/FY27, respectively.

Figure 13: Sales Volume of Beverages (mn Bottles)



Source: Company, TA Securities

Figure 14: Average Price of Plastic Resin for FY21-24



Source: Company, TA Securities

Balance Sheet

Net gearing will reduce to 0.38x from 0.88x after the listing, with the IPO proceeds being utilised.

Dividend Policy

The group intends to pay out at least 20% of its net profit. Thus, we project forward dividend yields of 2.0%/2.1%/2.6% for FY25/FY26/FY27, respectively.

Valuation

LWB is valued at a PER of 10.9x FY24 EPS, based on an IPO price of RM0.65 per share. We assign a fair value of **RM0.87/share** to LWB, using a PER of 13.3x for its CY25 EPS, which aligns with the simple average PER of comparable companies in the beverages sector. **Not Rated.**

Table 4: Earnings Summary (RM'mn)

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DPS (sen)	0.2	0.8	1.3	1.3	1.7
Dividend Yield (%) ^	0.3	1.3	2.0	2.1	2.6
PE (x) ^	14.9	10.9	10.1	9.7	7.8

*Based on enlarged issued share capital of 473.2mn

^Based on IPO price of RM0.65/share

Table 5: Peers Comparison

Stock	Share Price (RM)	Market Cap (RM'mn)	EPS growth (%)		PE Ratio (x)		Div Yield (%)	
			CY24	CY25	CY24	CY25	CY24	CY25
Power Root Berhad *	1.40	608.2	9.3	10.2	15.1	13.7	4.9	5.9
Spritzer Berhad *	2.74	872.3	33.2	2.9	13.2	12.9	2.3	2.4
Simple Average			21.2	6.6	14.2	13.3	3.6	4.2
Life Water Berhad	0.65	307.6	4.1	6.0	10.5	9.9	1.6	2.0


*Based on consensus estimates

Source: TA Securities


Appendix


Exhibit I: House Brand Portfolio Offered by Life Water Berhad

Drinking Water





"K2" brand of drinking water mainly sold to customers in the Sandakan and Tawau Divisions markets






"Sasa" brand drinking water mainly sold to customers in the West Coast, Interior and Kudat Division markets







"Sabah Water" brand of drinking water mainly sold to customers in the Sandakan and Tawau Divisions markets



Carbonated & Fruit Drinks




"2more" brand of flavoured carbonated drinks marketed under various flavours containing less than 5mg of sugar per 100ml




330 ml 1250 ml


Mango Cola Orange Strawberry Tutti Fruitti Mango Ice Cream Soda Cola Orange Strawberry Tutti Fruitti Apple




"Tritonic" carbonated isotonic electrolyte drinks marketed as sports drinks to replace electrolytes



330 ml 1250 ml



"kiTZAI" calamansi fruit drink marketed as thirst quencher based on a local favourite fruit drink



330 ml

Sector Recommendation Guideline

OVERWEIGHT: The total return of the sector, as per our coverage universe, exceeds 12%.

NEUTRAL: The total return of the sector, as per our coverage universe, is within the range of 7% to 12%.

UNDERWEIGHT: The total return of the sector, as per our coverage universe, is lower than 7%.

Stock Recommendation Guideline

BUY : Total return of the stock exceeds 12%.

HOLD : Total return of the stock is within the range of 7% to 12%.

SELL : Total return of the stock is lower than 7%.

Not Rated: The company is not under coverage. The report is for information only.

Total Return of the stock includes expected share price appreciation, adjustment for ESG rating and gross dividend. Gross dividend is excluded from total return if dividend discount model valuation is used to avoid double counting.

Total Return of the sector is market capitalisation weighted average of total return of the stocks in the sector.

ESG Scoring & Guideline

	Environmental	Social	Governance	Average
Scoring	NR	NR	NR	NR
Remark	NR	NR	NR	NR

★★★★★ (≥80%)	: Displayed market leading capabilities in integrating ESG factors in all aspects of operations, management and future directions.	+5% premium to target price
★★★★ (60-79%)	: Above adequate integration of ESG factors into most aspects of operations, management and future directions.	+3% premium to target price
★★★ (40-59%)	: Adequate integration of ESG factors into operations, management and future directions.	No changes to target price
★★ (20-39%)	: Have some integration of ESG factors in operations and management but are insufficient.	-3% discount to target price
★ (<20%)	: Minimal or no integration of ESG factors in operations and management.	-5% discount to target price

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As of Monday, October 28, 2024, the analyst, Liew Yi Jiet, who prepared this report, has interest in the following securities covered in this report:
(a) nil

Kaladher Govindan – Head of Research

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