

Biggest Beverage Manufacturing Company in Sabah

LIFE WATER BERHAD

Fair Value: RM0.83 (+28%)

Company Description

Life Water Berhad ("Life Water") is principally a manufacturer of beverages, which are drinking water and carbonated drinks. The Group mainly market the beverages under its brands for drinking water ("K2", "Sasa" and "Sabah Water") and carbonated drinks ("2more" and "TRITONiC").

Investment Highlight

- Healthier-alternative approach boosts demand factor:** The increase in health consciousness serves as an important role in the growing demand for bottled water as a healthier alternative compared to other types of beverages. This is seen in the comparison of sales volume compound annual growth rate ("CAGR") between 2021 and 2023 – shows domestically manufactured bottled water rose 7.6% – while soft drinks decline at an average rate of 1.1%.
- Highest profit margin in industry offers great investment return:** Life Water, as a local manufacture, has great advantage in terms of operation and logistic costs in Sabah compared to other manufacturer from other parts of Malaysia. The Group offers a competitive price with good margin compare to its competitors, thereby offers good return on investment ("ROI").
- Opportunities as import substitution:** Sabah is a net importer of beverages, which recorded RM545.4 million ("mn") of imported beverages in 2023. Thus, as Life Water mainly serves the market in Sabah, there is a good opportunity for import substitution from locally manufactured beverages.
- Advanced technologies ensure quality and efficiency:** The Group uses advanced water purification and bottling technologies to ensure products at good quality and operation efficiency. Some of technology used are factory automation, Reverse Osmosis ("RO"), sales portal and enterprise resources ("ERP") system, fleet and fuel management system, and Manufacturing Execution System ("MES").
- Economic growth drives long-term sustainability:** The real gross domestic product ("GDP") of Malaysia is forecasted to expand between 4.0% and 5.0% in 2024. This shows potential future output of quantity of goods and services produced. Hence, it is expected more turnover in the sales of beverages, fundamentally supported by consumers' purchasing power.

Valuation / Recommendation

We derive a fair value of RM0.83 based on 11.9x multiple to its FYE2026F EPS of 7.04sen. The IPO aims to raise approximately RM63.42 million from the issuance of 97.56mn new shares. A total of 83.90% of proceeds will be utilised for capital expenditure, 6.64% is allocated for working capital, while the remaining 9.46% of it will be utilised for listing expenses.

Life Water has solid capability to repay its current liabilities, given its healthy current ratio of 2.64x, i.e. above 1x (as of FYE2024). As the gearing ratio is low below 1x at 0.29x, this implies healthy funding ability. Looking forward, we expect to see a sustainable growth for the Group.

IPO TIMELINE

Opening Date	22 Oct 2024
Closing Date	30 Oct 2024
Listing Date	13 Nov 2024

IPO Price (RM)	0.65
Expected Return	28%
Market/ Sector	Food & Beverages
Bursa Code	5328

IPO Details	Shares(mn)
Offer for Sale	28.39
Public Issue	97.56
Enlarged share	473.18

	RM(mn)
Market Cap	307.57
Shariah compliant	Yes

Major Shareholders	Shares(mn)	(%)
Scarecrow Holding	173.61	36.68
Tan Hwong Kuen	86.81	18.35
Lim Young Piau	86.81	18.35

Utilisation of IPO Proceeds	RM(mn)	(%)
Set-up additional drinking water manufacturing line for Sandakan Sibuga Plant	19.00	29.96
Purchase of drinking water manufacturing line for Sandakan Sibuga Plant 2	12.00	18.92
Set-up second distribution centre in Sandakan	12.60	19.87
Expansion of existing plastic packaging facilities in Kota Kinabalu	9.61	15.15
Working capital	4.21	6.64
Estimated listing expenses	6.00	9.46
Total	63.42	100.00

Allocation	Shares(mn)	(%)
Public Issue		
Malaysian Public via balloting process:		
• Public investors	11.83	2.50
• Bumiputera public investors	11.83	2.50
Eligible Parties	14.20	3.00
Private placement to selected investors	0.56	0.12
Private placement to identified Bumiputera investors approved by the MITI	59.15	12.50
Subtotal	97.56	20.62

Offer for sale	Shares(mn)	(%)
Private placement to Selected Investors	28.39	6.00
Subtotal	28.39	6.00
Total	125.95	26.62

Total enlarged share capital upon listing 473.18

Source: Company Prospectus

Key Financial Summary

FYE Jun (RMmn)	2023A	2024A	2025F	2026F	2027F
Revenue	150.96	166.53	181.21	197.26	214.83
Gross Profit	65.15	80.02	87.07	94.78	103.22
Pre-tax Profit	24.23	36.55	39.77	43.30	47.15
Core Net Profit	20.62	28.12	30.60	33.31	36.28
Core EPS (Sen)	4.36	5.94	6.47	7.04	7.67
P/E (x)	14.92	10.94	10.05	9.23	8.48
DPS (Sen)	1.53	1.27	1.29	1.41	1.53
Dividend Yield (%)	2.35	1.95	1.99	2.17	2.36

Source: Company Prospectus, Eco Asia Research Estimates

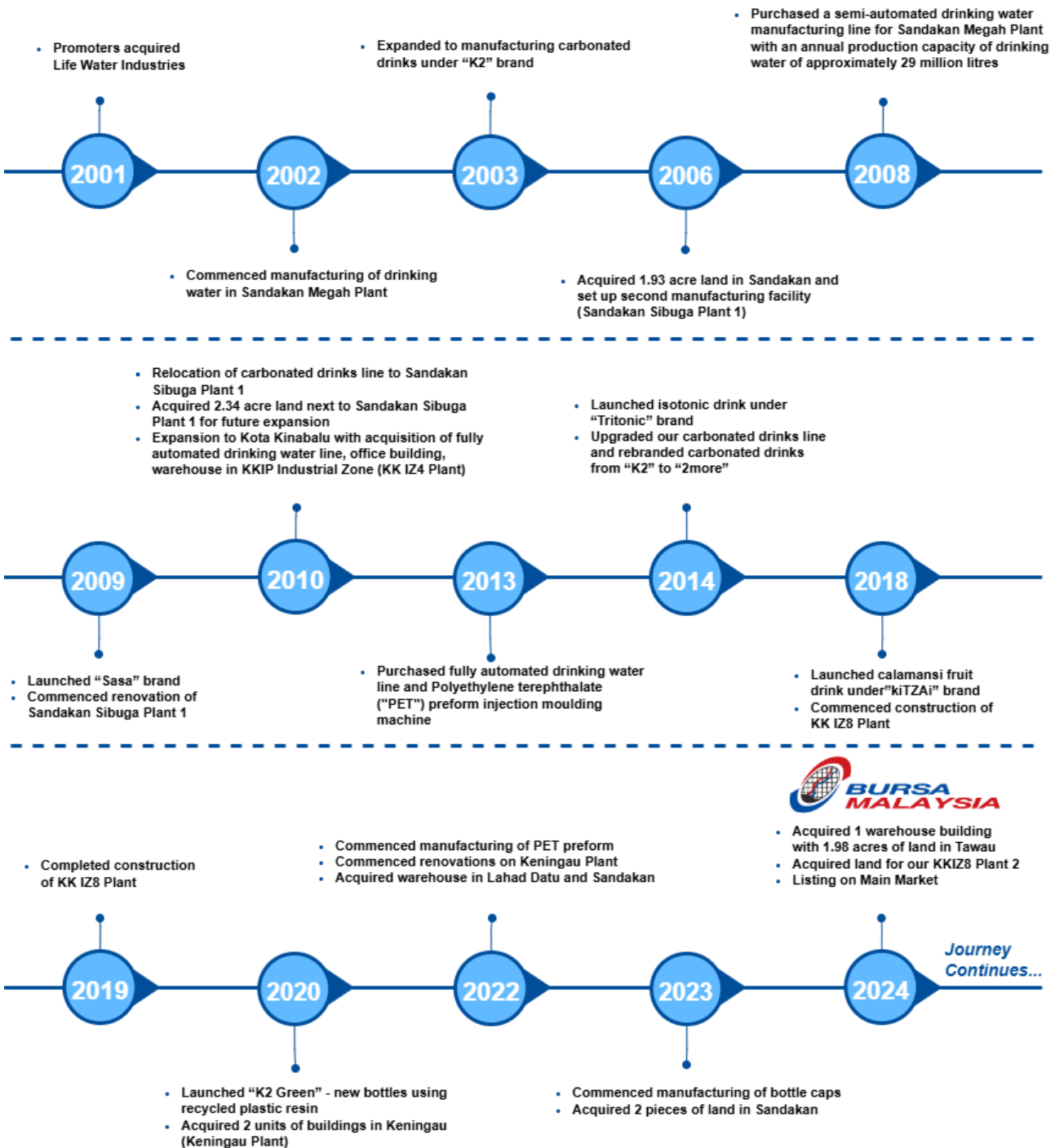
EPS, P/E and DPS from 2023A to 2024A (pre-IPO) are on pro-forma basis for comparative purposes only.



Company Background

Life Water was incorporated in Malaysia under the Act on 20 January 2023 as a private limited company under the name of Life Water Sdn Bhd. The Group then converted to a public limited company under the name of Life Water Berhad on 19 December 2023 – to facilitate the Listing. Its head office and manufacturing facilities are in Sandakan as well as manufacturing facilities in Kota Kinabalu. Below is the illustration of its milestones of history and development.

Key Milestones



Source: Company Prospectus



Business activities

Manufacture of beverages: Operating from its head office and two manufacturing facilities in Sandakan and Kota Kinabalu, the Group markets the beverages under its 6 private label brands:

- Drinking water – “K2”, “Sasa” and “Sabah Water”
- Carbonated drinks – “2more”, “TRITONiC” and “kiTZai (isotonic drinks)

Life Water operates 3 operational beverage manufacturing facilities, which are Sandakan Sibuga Plant 1 in Sandakan, KK IZ4 Plant and KK IZ8 Plant 1 in Kota Kinabalu. The Group also undertakes contract manufacturing of drinking water under private labels for petrol stations, supermarkets, wholesalers and hotels.

Other products: The sales of plastic bottles, containers and related accessories, as well as battery water (except Financial Years Under Review (“FYE”) 2024). Life Water discontinued the sales of battery water, as its contribution to Group’s revenue is immaterial. Thus, Life Water focuses on its core business of manufacturing beverages.

In-house supporting activities is supported by other business activities that serves beverage manufacturing operations as follow:

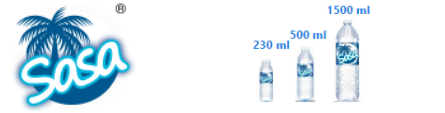
- Manufacture of plastic packaging: Injection moulding of polyethylene terephthalate (“PET”) preforms, blow moulding of PET preforms into plastic bottles, as well as manufacture of plastic bottle caps.
- Delivery services: Carried out by the Group’s subsidiary, K2 Water, comprises a fleet of 75 delivery trucks – coupled with the utilisation of external service providers to carry out the distribution of beverage products.

Brand Portfolio

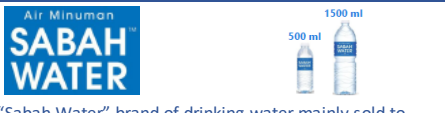
Drinking Water



“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

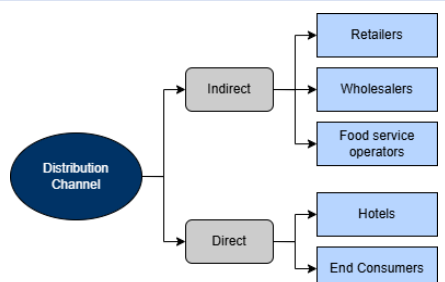


“Tritonic” carbonated isotonic electrolyte drinks marketed as sports drinks to replace electrolytes

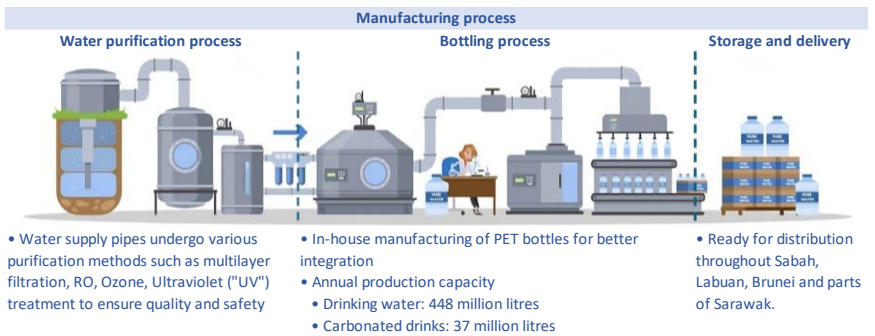


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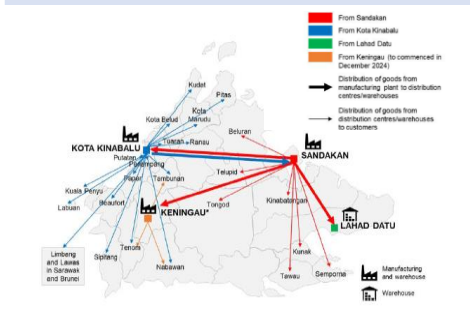
Distribution channels



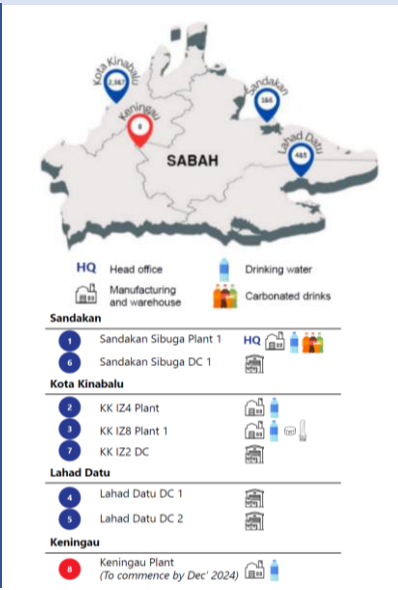
Source: Company Prospectus



Wide distribution via fleet of 75 delivery trucks



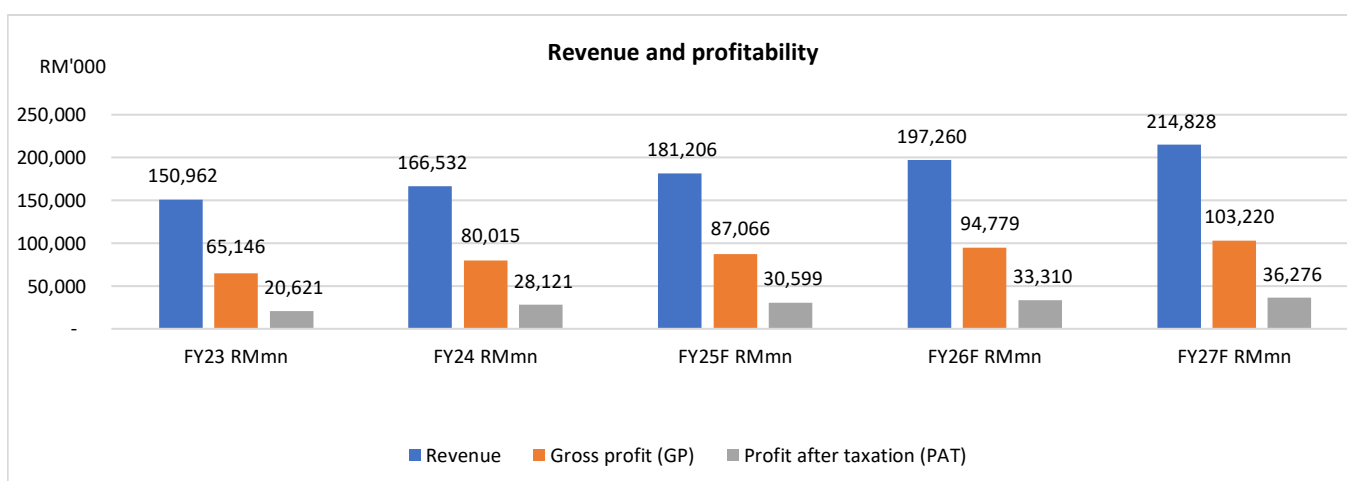
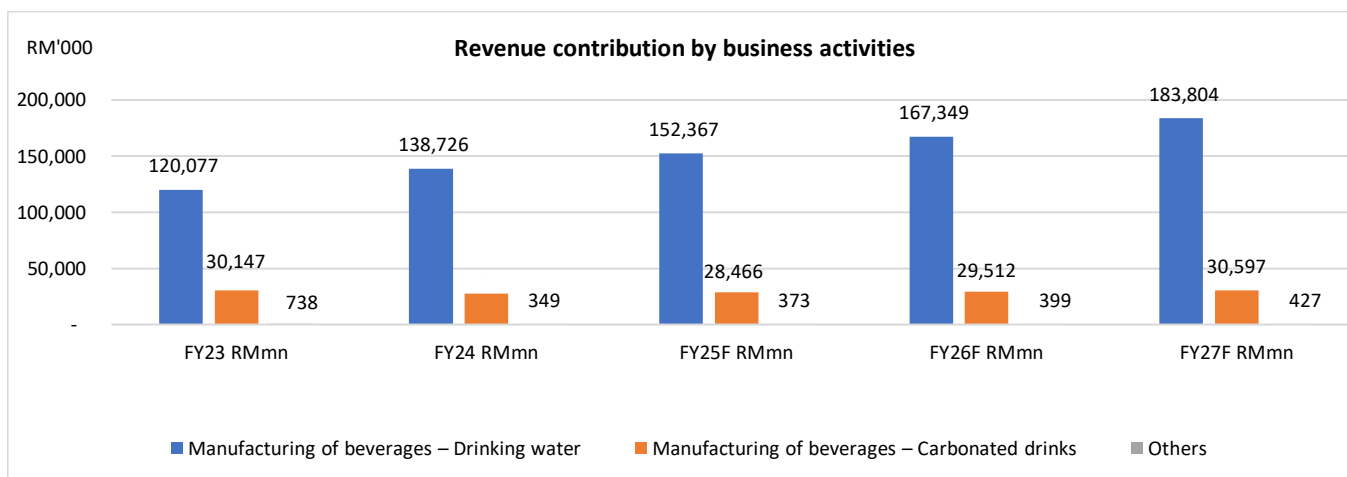
Facilities



- Over 4,020 distribution touchpoints covering:
- 3,250 retail outlets:** Covering supermarkets, hypermarkets, convenience stores, sundry shops, pharmacies, petrol stations, hardware stores, and stationery shops.
 - 520 food service outlets:** Encompassing restaurants, cafes, coffee shops, canteens, and bakeries.
 - 150 wholesalers:** Utilising their extensive networks to further distribute our products.
 - 100 hotels:** Providing our beverages for the comfort of hotel guests.

Revenue and Profitability

Life Water revenue from FYE2023 to FYE2024 was mainly derived from the manufacturing of beverages – drinking water, which accounted more than 80% of the Group's total revenue (as of FYE2024). The following shows revenue contributions by business activities as well as the revenue and profitability from FYE2023 to FYE2024, FYE2025F, FYE2026F and FYE2027F:



Source: Company Prospectus / Eco Asia Research Estimates

Future Plans

- **Expansion of manufacturing facilities:**
 - **Keningau Plant (20,000 square feet ("sq ft") comprising factory & warehouse & office):**
 - To expand drinking water manufacturing capacity by setting up 1 new production line to cater to the interior division (begin operations by end of December 2024).
 - **Set up new drinking water line – Sandakan Sibuga Plant 1:**
 - To expand drinking water manufacturing capacity by setting up 1 new drinking water manufacturing line (target to begin operations by 2025).
 - **Conversion of KK IZ8 Plant 1 to dedicated plastic packaging plant:**
 - Dedicated plastic packaging plant set up automated warehouse racking system. To purchase 1 PET preform injection moulding machine to cater for future production of 18/26 gram ("g") of preform (target by 2025).



- **Construction of new manufacturing plant KK IZ8 Plant 2 100,000 sq ft comprising factory, warehouse, and office:**
 - Land acquisition completed in March 2024 (8.16 acres) Relocate 1 drinking water manufacturing line from KK IZ8 Plant 1 (target by 2027).
- **Set up new drinking water manufacturing plant – Sandakan Sibuga Plant 2 50,000 sq ft comprising factory & office:**
 - To set up 1 new production line to serve the Sandakan and Tawau divisions (Target by 2027).
- **Expansion of warehousing:**
 - To set up first Tawau distribution centre 12,600 sq ft. Strengthening distribution network to capture potential market from this densely populated area (target by 2026).
 - To set up second Sandakan distribution centre C. 70,000 sq ft with 10,000 sq ft depot area to support Sibuga DC 1 and Plant 1 (target by 2027).
- **Expand its footprint in Sarawak and Brunei markets:**
 - Additional to Limbang and Lawas markets – appointing local distributors for efficient channel distribution.
- **To introduce new beverages for expansion of product line up:**
 - New range of flavoured drink called "Mandak" – currently in the midst of carrying out research and development ("R&D") on the flavoured drink recipe and have undertaken a trial production run for one batch of flavours.
 - Mineral Water to be named as "Sabah Water" – Currently at early exploratory stages to identify suitable groundwater source.

Key Risks

Disruption in water supply at manufacturing plants: Life water has experienced frequent disruptions in public water supply due to few factors such as water rationing, burst water pipes, water contamination, and maintenance and repair works on water treatment plants conducted by Sabah State Water Department. In the event of significant disruption, water supply may be insufficient to meet the Group's business needs. Hence may adversely affect its operations and business prospects.

Vulnerable to changes in the price and supply of raw materials: Despite no shortage of raw materials in the past, Life Water is exposed to price fluctuation risk due to shortage of supply of raw materials from suppliers. This leads to higher raw material prices that increases operating cost.

Disruptions to business operations at manufacturing plants: Any interruption of electricity supply may lead to unscheduled shutdown of manufacturing facilities. Other unforeseen events such as fire outbreaks, burglaries, floods and earthquakes could also lead to emergency shutdowns. This adversely affects Group's production schedules.

Industry Outlook

Market trends and consumer preferences show positive correlation with the consumption of bottled water. This is mainly boosted by the growing health consciousness that increased the demand for bottled water as a healthier alternative. The sales volume of domestically manufactured bottled water grew at a CAGR of 7.6% (between 2021 and 2023). Meanwhile – soft drinks declined at an average rate of 1.1% – an indicative of change of preference towards healthier drink. Looking forwards, it is expected more consumption of bottled water in line with consumers' healthy-preference approach.



DEFINITION OF RATINGS

Eco Asia Investment Advice uses the following rating system:

STOCK RECOMMENDATION

BUY Total return (price appreciation plus dividend yield) is expected to exceed 10% in the next 12 months.

TRADING BUY Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain.

HOLD Share price may fall within the range of +/- 10% over the next 12 months

TAKE PROFIT Target price has been attained. Fundamentals remain intact. Look to accumulate at lower levels.

TRADING SELL Share price may fall by more than 15% in the next 3 months.

SELL Share price may fall by more than 10% over the next 12 months.

NOT RATED Stock is not within regular research coverage.

SECTOR RECOMMENDATION

OVERWEIGHT The Industry as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months

NEUTRAL The Industry as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months

UNDERWEIGHT The Industry as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months

Applicability of ratings

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