



Life Water Berhad

A Splash of Refreshing Change

Main Market
Consumer Sector
SUBSCRIBE
IPO Price: RM0.65
Fair Value: RM0.74

Valuation / Recommendation

We have a **SUBSCRIBE** recommendation on Life Water Berhad with an **FV of RM0.74 based on 11x FY25F EPS**, translating to 14% upside to the IPO price. Our target PE is at a slight discount to the valuation of its closest peer (13x of Spritzer Bhd), given Life Water's smaller market share. We like Life Water for its strong position in the Sabah market, well-established distribution network, and opportunistic expansion into the Sarawak market.

Investment Highlights

Beverage powerhouse in Sabah. Life Water holds 11% of the market share in Malaysia's bottled water sector and is likely the largest producer in Sabah. With a customer base exceeding 3,460 and a remarkable production CAGR of 17.4%, the company increased its output from 167.6m bottles in FY21 to 271.2m in FY24. This growth has driven a 3-year revenue CAGR of 17.2%, reaching RM166.5m in FY24. Life Water's success is further supported by a wide distribution network of over 4,020 touchpoints. This extensive reach ensures that its products are consistently available to customers in both bustling urban centers and more rural areas in Sabah. As Sabah's population and household incomes continue to rise, the company is well-positioned to capture the growing demand through its expanding distribution network.

Expanding footprint to neighbouring markets. Life Water is extending its reach beyond Sabah, targeting Sarawak, Labuan, and Brunei as key growth areas. With an initial focus on Sarawak, the company plans to partner with established local distributors in regions like Limbang and Lawas. This approach allows the company to enter these markets with minimised capital investment by leveraging existing infrastructure. The combined population of Sarawak and Brunei is approximately 2.9m, indicating a new sizeable potential market that Life Water can tap into.

Capacity expansion for higher volume. Life Water is doubling its production capacity by 2027 through a strategic expansion plan funded by internal resources and IPO proceeds. This includes a new 59m litre line in Keningau by December 2024, followed by a 178m litre line at Sandakan Sibuga Plant 1 in 2025, and another 178m litre line at Sandakan Sibuga Plant 2 by 2027. While the utilisation rate for these new lines expansion will take some time to ramp up (we assume lower 53-58% utilisation rate in FY26-27F), it eventually will help and position Life Water to capture rising demand as it scales into new markets like Brunei and Sarawak.

Risk factors for Life Water include (1) Disruption in water supply at manufacturing plants. (2) Fluctuation and shortages in raw material prices.

FY Jun	FY23	FY24	FY25F	FY26F	FY27F
Revenue (RM m)	151.0	166.5	180.0	204.8	241.8
EBITDA (RM m)	36.2	50.1	53.8	58.8	65.6
PAT (RM m)	20.6	28.1	31.6	33.4	37.7
PAT Margin (%)	13.7	16.9	17.5	16.3	15.6
EPS (sen)	5.5	7.5	6.7	7.1	8.0
EPS Growth (%)	31.0	36.4	-10.9	5.8	12.8
BV Per Share (sen)	25.0	32.5	43.6	49.2	55.6
PE (x)	11.8	8.7	9.7	9.2	8.2
Net Gearing (%)	0.4	0.4	Cash	Cash	Cash
ROE (%)	22.0	23.0	15.3	14.3	14.3

Business Overview

Life Water Berhad are principally a manufacturer of beverages namely drinking water and carbonated drinks. It's also supported by other business activities including the manufacture of plastic packaging, as well as delivery and distribution services, with key operations based in Sabah.

Listing Details

Listing date	13 Nov 2024
New shares (m)	97.6
Offer for sale (m)	28.4
Funds raised (RM m)	63.4

Post Listing

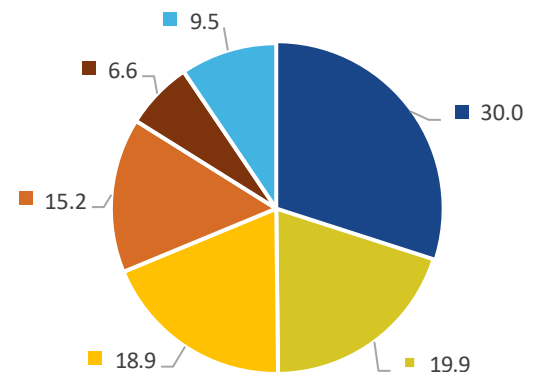
Ordinary shares (m)	473.2
Market cap (RM m)	307.6
Free float (%)	26.6
P/E (FY25F)	9.7

Top 3 Shareholders

Scarecrow Holding	36.7%
Tan Hwong Kuen	18.4%
Lim Yong Piau	18.4%

Utilisation of Proceeds

	RM m
Setup of a new drinking water manufacturing line	30.0
Setup second distribution centre	19.9
Purchase of drinking water manufacturing line	18.9
Expansion of existing plastic packaging facilities	15.2
Working Capital	6.6
Listing Expenses	9.5



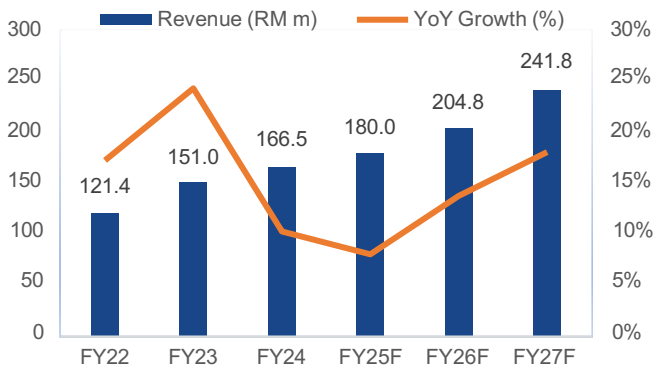
Source: Company, Mercury Securities



Financial Highlights and Valuation

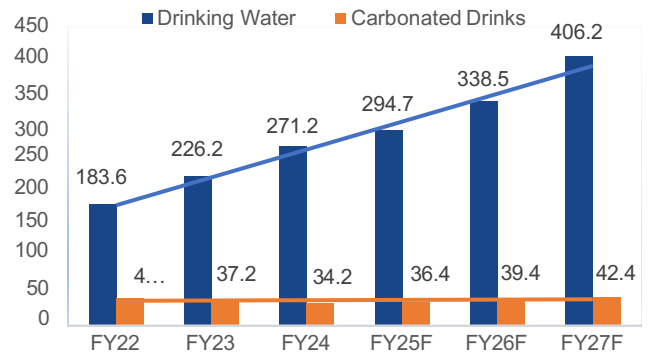
Leading beverage manufacturer in Sabah. Life Water holds 11% of the market share in Malaysia’s bottled water market, and is likely the largest producer in Sabah. With a customer base exceeding 3,460 throughout Sabah, Life Water’s drinking water production output has grown at an impressive CAGR of 17.4%, increasing from 167.6m bottles in FY21 to 271.2m in FY24. Alongside this volume growth, the company has also experienced robust revenue growth, with a 3-year CAGR of 17.2%, rising from RM103.5m to RM166.5m in FY24.

Figure 1: Revenue trend (in RM m)



Source: Company, Mercury Securities

Figure 2: Volume output (in m bottles)

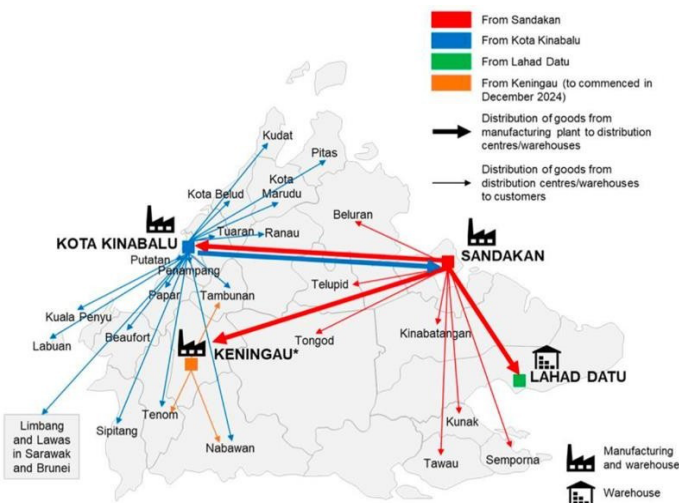


Source: Company, Mercury Securities

Wide distribution network. Life Water has established a comprehensive distribution network in Sabah comprising over 4,020 touchpoints and utilising 75 delivery trucks. This network covers 3,250 retail outlets, 520 food service outlets, 150 wholesalers, and 100 hotels, providing a solid foundation for flexible and timely deliveries. Thanks to this extensive reach, the company ensures that its products are consistently available to all customers, whether in bustling urban centers or more rural areas.

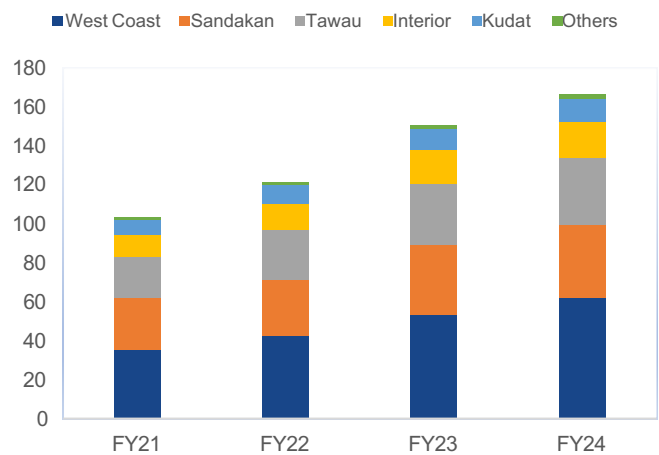
While its distribution network continues to expand, the target market has remained steady. The West Coast Division consistently leads, followed closely by the Sandakan and Tawau Divisions. Even without new markets emerging among the top three, the overall volume continues to grow, highlighting ongoing expansion opportunities. As Sabah's population and household incomes rise, Life Water is well-positioned to capture the growing demand across its expanding distribution network.

Figure 3: Distribution network overview



Source: Company, Mercury Securities

Figure 4: Revenue breakdown by geography

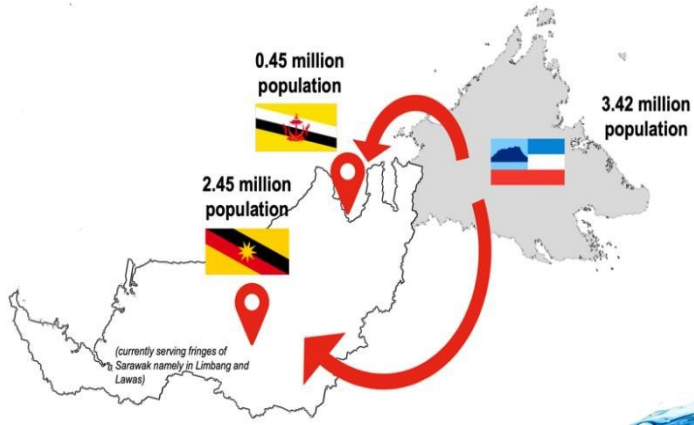


Source: Company, Mercury Securities



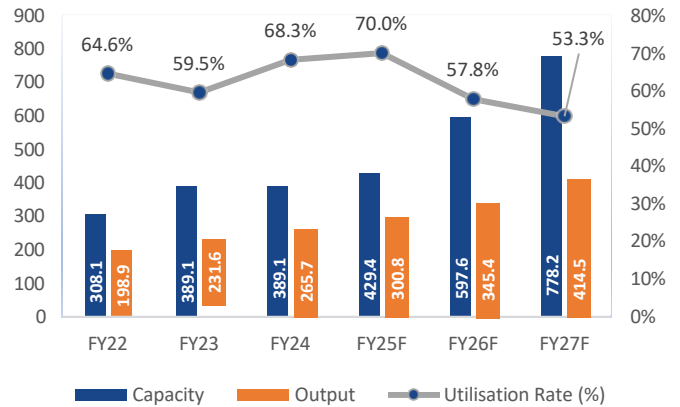
Expanding footprint to neighbouring markets. Life Water is strategically expanding beyond Sabah by exploring opportunities in Sarawak, Labuan, and Brunei. The company will initially focus on Sarawak, aiming to establish partnerships with local distributors in regions such as Limbang and Lawas. This strategy enables Life Water to enter new markets while minimising capital expenditure risks, as collaborating with established local distributors reduces the need for significant upfront investments in infrastructure. The combined population of Sarawak and Brunei is approximately 2.9m, indicating a new sizeable potential market that Life Water can tap into.

Figure 5: Expanding footprint to Brunei and Sarawak



Source: Company, Mercury Securities

Figure 6: Capacity and utilisation analysis (in m litres)

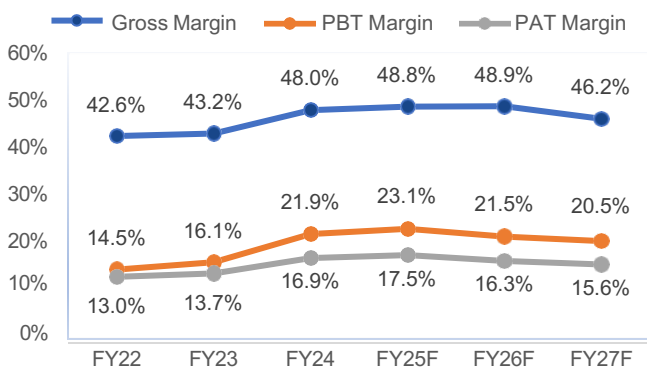


Source: Company, Mercury Securities

Capacity expansion to support higher production volume. Life Water plans to use internal funds and proceeds from its IPO to install new manufacturing lines for drinking water at various plant locations over the next three years. The new capacities will be as follows: 1) A new line in Keningau by December 2024 (59m litres); 2) A new line at the Sandakan Sibuga Plant 1 by 2025 (178m litres); and 3) A new line at the Sandakan Sibuga Plant 2 by 2027 (another 178m litres). Once all expansion plans are completed, Life Water will double its drinking water manufacturing capacity by 2027. Given the massive capacity expansion from Sandakan Sibuga Plant 1 and 2, we expect the utilisation rate to fall to 53-58% in FY26-27F, as the expansion into Brunei and Sarawak markets will likely take some time to fully ramp up as well. See Figure 6.

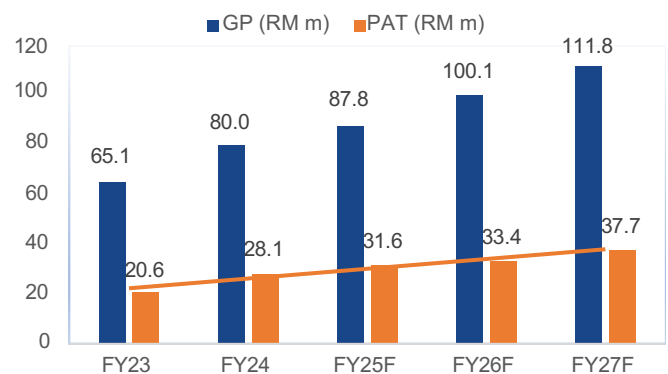
Healthy revenue growth with stable margins. Life Water's growth outlook is strengthened by its effective and extensive distribution network, coupled with a strategic capacity expansion plan. These two key factors are anticipated to drive a 3-year revenue CAGR of 13.2%, growing from RM166.5m in FY24 to RM241.8m by FY27F. To note, we expect a slight decline in margin trends from FY25F to FY27F, mainly due to the establishment of new manufacturing facilities. These facilities are expected to initially operate at a low utilisation rate and may incur losses during their early stages of operation

Figure 7: Margin trend (%)



Source: Company, Mercury Securities

Figure 8: GP and PAT trend (in RM m)



Source: Company, Mercury Securities



Healthy balance sheet. Despite declaring a sizable FY24 dividend totalling RM6.6m, Life Water maintains a solid balance sheet with a net gearing ratio of 0.44x. With cash proceeds from the IPO, its balance sheet will be strengthened and turned into a net cash position post-IPO. Due to its strong cash flow generation, Life Water has committed to a minimum dividend policy of a 20% payout moving forward.

RM0.74 FV based on 11x FY25 EPS. We have identified two domestic peers from the consumer beverages sector, namely F&N Bhd and Spritzer Bhd. We have set a target PE valuation of 11x for Live Water, which is slightly lower than the valuation of Spritzer Bhd. Both companies have similar business models, but Spritzer's size is roughly three times that of Live Water. Applying it to our FY25F EPS of 6.7sen, we arrive at a fair value of RM0.74.

Peer Comparison (as at 28 Oct 2024)

Company	Bloomberg Ticker	Share Price (RM)	Mkt Cap (in RM m)	EPS Growth (%)		P/E (x)		P/B (x)		ROE (%)		Dividend Yield (%)	
				2024	2025	2024	2025	2024	2025	2024	2025	2024	2025
Malaysia				RM m									
Fraser & Neave Berhad	FNH MK	31.20	11,450.8	17.7	4.2	18.8	18.0	3.1	2.9	16.6	15.6	2.7	2.7
Spritzer Berhad	SPZ MK	2.74	872.3	33.2	2.9	13.2	12.9	3.0	2.7	11.3	11.7	2.3	2.4
Simple Average MY				25.5	3.6	16.0	15.5	3.1	2.8	14.0	13.7	2.5	2.6
Life Water Berhad		0.65	307.6	36.4	(10.9)	8.7	9.7	2.0	1.5	23.0	15.3	0.0	2.1

Source: Bloomberg, Mercury Securities

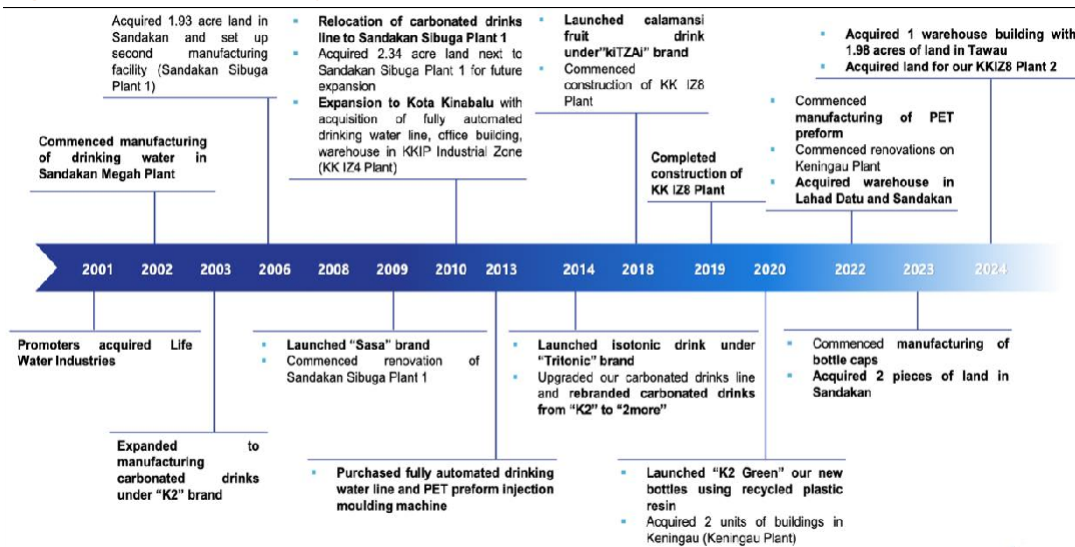


Company Background

Beverage industry leader in Sabah. Life Water Berhad is a leading beverage manufacturer specializing in drinking water and carbonated drinks. With end-to-end operations in plastic packaging, distribution, and logistics, the company is based primarily in Sandakan, where its main factory and headquarters are located, with additional facilities in Kota Kinabalu.

Life Water markets its own brands of drinking water, including "K2," "Sasa," and "Sabah Water," as well as carbonated drinks under "2more" and "TRITONIC." The company also contract manufactures private label drinking water for major clients such as Petronas Mesra, Hiap Lee, Water2go, Ikame, Seafest Hotel, and Sabah Hotel, serving petrol stations, hypermarkets, wholesalers, and hotels.

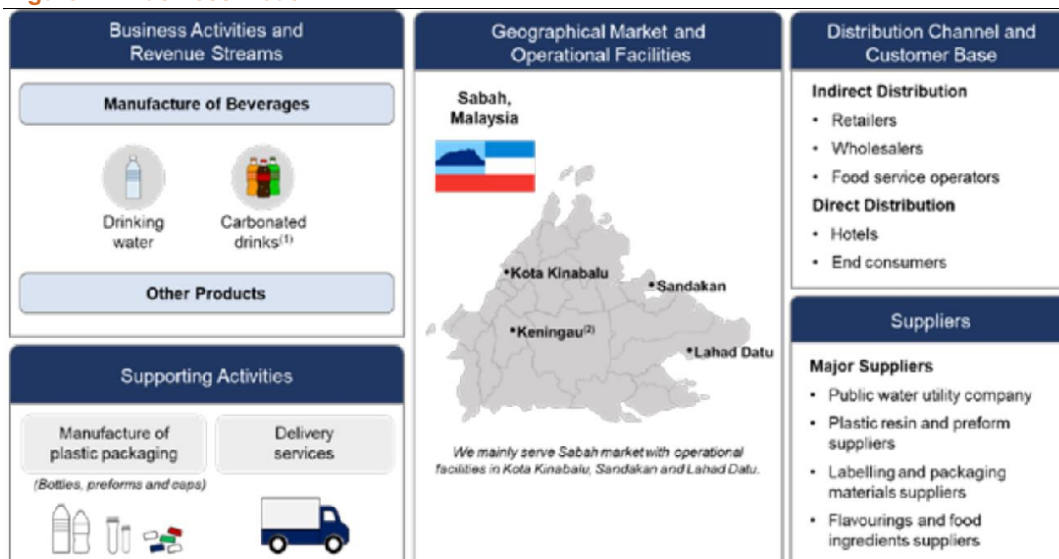
Figure 10: Life Water history and corporate milestones



Source: Company

Leading beverage brand in Sabah. Life Water offers a range of beverages across the state of Sabah, including "K2" and "Sabah Water" drinking water in Sandakan and Tawau, and "Sasa" for the West Coast, Interior, and Kudat markets. Carbonated options include "2more" in various flavours, "Tritonic" isotonic sports drinks with low sugar, and "kiTZAI" calamansi, a local favourite thirst-quencher.

Figure 11: Business model



Source: Company



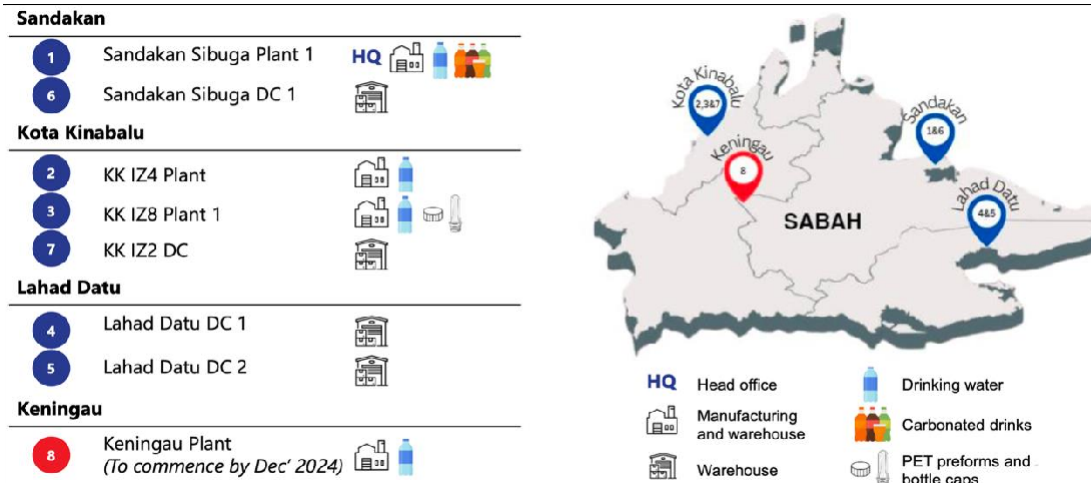
Figure 12: Life Water's beverage lineup



Source: Company

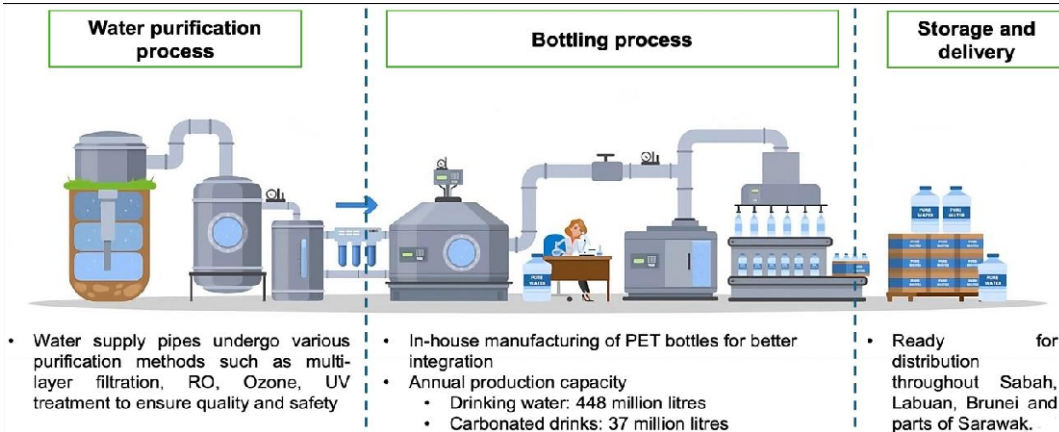
Strategic distribution network. Live Water have a wide distribution strategy of retailers and wholesalers to extend the market coverage in the Sabah market. The company's delivery destinations reflect its broad market access and are tailored to meet customer needs, including retail outlets, food service establishments, warehouses, and hotels. In FY24, Life Water's beverage products reached approximately 3,250 retail outlets, which consist of supermarkets, hypermarkets, minimarkets, convenience stores, sundry shops, pharmacies, petrol stations, hardware stores, and stationery shops. Additionally, the company services around 520 food service outlets, including restaurants, cafes, coffee shops, canteens, and bakeries, as well as approximately 150 wholesalers who leverage their networks to penetrate further into Sabah. Furthermore, Life Water supplies about 100 hotels, ensuring guests have access to its products.

Figure 13: Overview of Life Water facilities



Source: Company

Figure 14: Drinking water production process



Source: Company



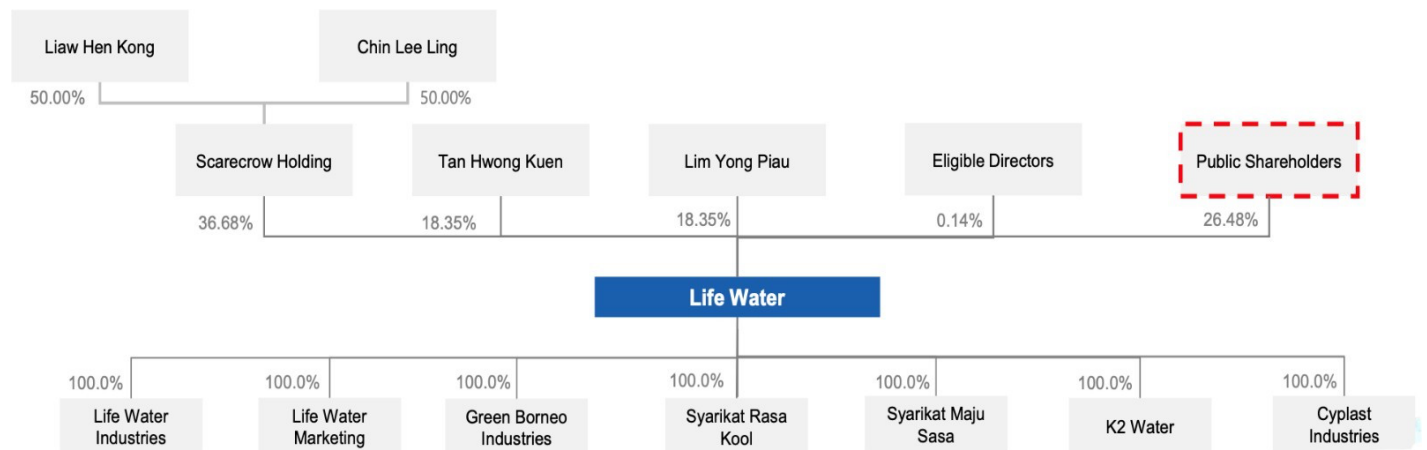
Figure 15: Key Management Team

Name and Designation	Age	Profile
Liaw Hen Kong Managing Director	53	<ul style="list-style-type: none"> Appointed to Board on 27 November 2023. Responsible for the overall strategic direction as well as business growth and development. Chairman of the Malaysian Plastic Manufacturers Association Sabah Branch. Diploma in Business Studies from SEGi University with a member of the London Chamber of Commerce and Industry (LCCI) and Association of Chartered Certified Accountants (ACCA).
Chin Lee Ling Executive Director	52	<ul style="list-style-type: none"> Oversees human resources, product development, IT, branding and marketing activities. Diploma in Computer Studies from Informatics Institute with a member of the London Chamber of Commerce and Industry (LCCI) and Association of Chartered Certified Accountants (ACCA).
Christina Yap Chui Fui Financial Controller	46	<ul style="list-style-type: none"> Oversees financial accounting, taxation, and corporate activities, including planning and coordinating financial reporting. More than 23 years of experience in accounting, finance and internal audit, and over 6 years of experience in the Group She is a Chartered Accountant with a member of ACCA and MIA since 2008.
Chin Lee Yung Operations Manager	49	<ul style="list-style-type: none"> Oversees the production, quality, logistics and warehouse departments of the Group. More than 17 years of experience in drinking water industry and with the Group. Kinabalu Commercial College, Sabah.
Chin Chun Ming Technical Manager	51	<ul style="list-style-type: none"> Overseeing the machinery installation plans and infrastructure, maintenance and upgrading of machinery of the Group's factories. More than 14 years of experience in drinking water industry and with the Group. Diploma in Electrical and Electronic Engineering from INTI College Malaysia, KL.

Source: Company, Mercury Securities

Experienced and aspiring founders. Liaw Hen Kong and Chin Lee Ling transitioned from established accounting careers to establishing Life Water Industries in 2001, as they saw the business opportunity for clean drinking water in Sabah.

Figure 16: Group Structure Post Listing



Source: Company, Mercury Securities



Future Plans & Business Strategies

Expansion of manufacturing facilities. Life Water's expansion plans include constructing KK IZ8 Plant 2 in Kota Kinabalu by 2027, with a 100,000 sq. ft. facility costing RM38.5m, to accommodate a relocated drinking water manufacturing line. Concurrently, the existing KK IZ8 Plant 1 will be repurposed as a dedicated plastic packaging plant, with a total investment of RM9.6m for new machinery and an automated warehouse system by 2025. In Sandakan, plans involve adding a third drinking water line to the existing Sandakan Sibuga Plant 1 by 2025 at RM19m, and building a new Sandakan Sibuga Plant 2, expected to begin operations in 2027, costing RM21m.

Adding 2 new distribution centres. Life Water plans to expand its warehousing network with two new distribution centres in Tawau and Sandakan to meet rising demand. Tawau DC, the company's first in the region, covers 12,600 sq. ft. and is expected to be operational by mid-2026 following renovations, costing RM6.3m. Sandakan Sibuga DC 2, adjacent to the existing DC 1, will include a 70,000 sq. ft. warehouse and a 10,000 sq. ft. depot, with operations targeted for 2027. The total cost for Sandakan's expansion is RM12.6m, funded by IPO proceeds. These expansions aim to strengthen Life Water's distribution capabilities across Sabah.

Penetrating into Brunei and Sarawak. Currently, Life Water primarily operates in Sabah, which accounts for 98.6% (RM164.1m) of its total revenue for 2024. To expand its reach, Life Water plans to establish a stronger presence in Sarawak and is actively looking for distributors in both Sarawak and Brunei. By the end of 2025, the company aims to finalise distribution agreements that outline terms such as agreement duration, territorial coverage, and product offerings to boost its market penetration in these regions.

Introducing new beverage products. Life Water is adding new flavored drinks to its lineup under the brand name "Mandak," aiming to launch them in Sabah by late 2025. The recipes are being finalised, and an initial trial batch has already been made using the company's current carbonated drink equipment at the Sandakan plant. Life Water is also exploring the production of mineral water, though this project is still in the early stages and depends on finding a good groundwater source. If a suitable source is found, mineral water production will move forward, but the plan may be shelved if not.

Key Risks

Disruption in water supply at manufacturing plants. Disruptions in water supply pose a significant risk, as operations rely on a single source from the Sabah State Water Department for beverage production. Issues such as water rationing, burst pipes, contamination, and maintenance can lead to interruptions, which have occurred in the past and lasted from a few minutes to five days. While not all plants are affected at once, any significant disruption could severely impact operations if alternative water sources are not secured quickly.

Fluctuation in raw material prices and shortages of raw materials. Materials such as plastic packaging and essential ingredients are particularly susceptible to price changes. Sudden supply disruptions or increases in costs can significantly impact expenses. While adjustments to selling prices are made to compensate for these rising costs, there may be delays in implementation, which can hurt profit margins.

Changes in consumer demands. Consumer demands evolve with their tastes, preferences, and values, reshaping their purchasing decisions, and hence, they may be difficult to predict. If market popularity or consumer demand for the products declines, or if Life Water fails to react promptly to any significant shifts or changes in consumer preferences, dietary habits or tastes, sales volumes, business and profitability may be negatively affected.



IPO Details

	Offer for Sale (m)	Public Issue (m)	Total (m)	(%)
<u>Retail Offering</u>				
Eligible Persons	-	14.2	14.2	3.0
Malaysian Public (Bumiputera)	28.4	0.6	29.0	6.1
Malaysian Public (Non-Bumiputera)	-	23.7	23.7	5.0
<u>Institutional Offering</u>				
Selected investors	-	59.1	59.1	12.5
<u>Total</u>	-	97.6	125.9	26.6

Source: Company



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