

31 May 2017

## Power Root Bhd FY17 Missed, Higher Taxation

FY17 results were below estimates due to higher-than-expected effective tax. YTD dividend of 10.0 sen was broadly in line with our expectations. Going forward, while domestic sales may continue to show softness amidst weak consumer sentiment, group earnings should be driven by the vibrant MENA export market. Maintain **OUTPERFORM** and TP of **RM2.90**.

**Heftier tax exposure.** FY17 PATAMI of RM43.5m is below our expectation, making up 90% of our full-year estimate mainly due to higher-than-expected effective tax. Our PBT estimate of RM55.6m was closely in-line with the reported RM54.8m. An interim 2.5 sen dividend was declared for a YTD total dividend of 10.0 sen, which is broadly in line with our 11.0 sen expectation.

**YoY,** 12M17 sales of RM399.7m expanded by 9% overall, with the decline in domestic sales (-4%) offset by stronger performance from the export market (+28%). However, core EBITDA only improved by 5%, likely due to rising commodity prices driving production costs. As compared to FY16, which saw a tax gain of RM0.8m, FY17 was pressured by an effective tax of 13.8% resulting in net earnings of RM47.2m (+4%).

**QoQ,** 4Q17 revenue was weaker by 11% against 3Q17 as domestic sales and exports fell by 15% and 6%, respectively. We reckon the poorer domestic sales could be due to a certain degree of forward buying from the early Chinese New Year festivities while exports were lower due to some easing of demand from the MENA region. While operating profit margin was consistent, net profit in 4Q17 was reduced by 24% from higher effective tax (+13.0 percentage points to 25.2%).

**Sentiment unchanged.** While the group continue to stand on shaky ground with domestic consumers, its export markets should continue to shine optimism on the group's earnings prospects with the current full-year numbers showing a solid 28% growth rate. While the construction of the UAE plant may only be completed in 2019, we are hopeful that its market share will continue to expand from resilient demand, backed by the MENA region's higher population base as well as higher standard of living. While net earnings results may have disappointed our forecast for the year, we believe the higher tax rates in the last quarter will normalise in FY18 on expectations of higher capex outlays.

**Post results,** we adjust our FY18E earnings marginally by 0.8% for housekeeping as we incorporate FY17 numbers. In addition, we introduce our FY19 estimates.

**Maintain OUTPERFORM with an unchanged TP of RM2.90.** Our TP is based on the ascribed 17.0x PER on FY18E earnings per share of 17.0 sen, representing +2SD-level above the stocks 2-year average Fwd. PER. We believe a higher valuation premium should be ascribed on this stock given the increase in export exposure. At the current price point, the stock commands a strong potential dividend yield of 4.7%/5.1% in FY18/FY19, based on an estimated 70% pay-out ratio.

## OUTPERFORM ↔

**Price:** RM2.57  
**Target Price:** RM2.90 ↔

**Expected Capital Gain:** RM0.33 +12.8%  
**Expected Div. Yield:** RM0.12 +4.7%  
**Expected Total Return:** RM0.37 +17.5%

**KLCI Index** 1,765.34

### Stock Information

Bloomberg Ticker	PWRT MK Equity
Bursa Code	7237
Listing Market	Main Market
Shariah Compliant	Yes
Issued shares	323.5
Market Cap (RM m)	831.4
Par value per share (RM)	0.20
52-week range (H)	2.75
52-week range (L)	1.95
Free Float	42%
Beta	0.5
3-mth avg daily vol:	227,769

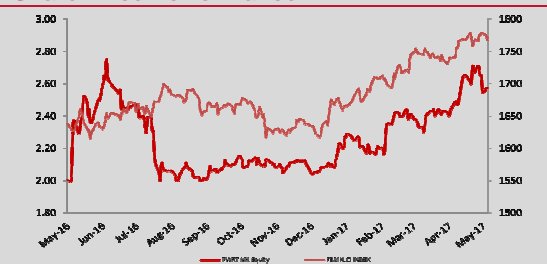
### Major Shareholders

Chee Yen Low	20.0%
Say Swee How	19.6%
Fuei Boon Wong	18.8%

### Summary Earnings Table

FY Mar (RM m)	2017A	2018E	2019E
Turnover	399.7	443.9	475.6
EBIT	53.8	59.2	67.2
PBT	54.8	60.0	67.8
<b>Net Profit</b>	<b>47.2</b>	<b>55.8</b>	<b>56.4</b>
<b>PATAMI</b>	<b>43.5</b>	<b>53.0</b>	<b>56.4</b>
Consensus (NP)	-	-	-
Earnings Revision	-	0.8%	-
Core EPS (sen)	14.1	17.1	18.2
Core EPS growth (%)	-15.6%	21.8%	6.4%
NDPS (sen)	10.0	12.0	13.0
NTA per Share (RM)	0.81	0.86	0.91
Price to NTA (x)	3.2	3.0	2.8
PER (x)	18.3	15.0	14.1
Debt-to-Equity ratio (x)	(0.2)	(0.2)	(0.1)
Return on Asset (%)	12.7%	14.6%	14.7%
Return on Equity (%)	17.8%	20.5%	20.5%
Net Div. Yield (%)	3.9%	4.7%	5.1%

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-5.1%	19.0%	28.5%
Relative (%)	-4.9%	14.8%	20.7%

Clement Chua  
[clement.chua@kenanga.com.my](mailto:clement.chua@kenanga.com.my)  
+603-2172 2645

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## Results Highlights

	4Q	3Q	QoQ	4Q	YoY	12M	12M	YoY
FYE Mar (RM'm)	FY17	FY17	Chg	FY16	Chg	FY17	FY16	Chg
<b>Turnover</b>	<b>92.0</b>	<b>103.3</b>	<b>-11.0%</b>	<b>89.0</b>	<b>3.3%</b>	<b>399.7</b>	<b>367.8</b>	<b>8.7%</b>
Adj. EBITDA*	14.5	15.8	-8.4%	9.7	48.4%	58.9	55.8	5.4%
EBIT	13.4	15.1	-11.7%	4.7	184.9%	53.8	43.4	23.9%
PBT/(LBT)	13.7	15.4	-11.1%	4.9	181.9%	54.8	44.4	23.4%
Taxation	-3.5	-1.9	-84.3%	1.4	-340.1%	-7.5	0.8	n.m.
<b>Net Profit</b>	<b>10.2</b>	<b>13.5</b>	<b>-24.3%</b>	<b>6.3</b>	<b>62.5%</b>	<b>47.2</b>	<b>45.2</b>	<b>4.4%</b>
<b>PATAMI</b>	<b>9.4</b>	<b>12.5</b>	<b>-25.3%</b>	<b>5.9</b>	<b>58.4%</b>	<b>43.5</b>	<b>43.4</b>	<b>0.2%</b>
EPS (sen)	2.5	3.8	-34.9%	4.2	-41.7%	13.4	17.7	-24.4%
DPS (sen)	2.5	2.5		2.0		10.0	11.0	
Adj. EBITDA margin	15.7%	15.3%		10.9%		14.7%	15.2%	
EBIT margin	14.5%	14.6%		5.3%		13.5%	11.8%	
PBT margin	14.9%	14.9%		5.4%		13.7%	12.1%	
PATAMI margin	10.2%	13.1%		7.1%		11.8%	12.3%	
Effective tax rate	-25.2%	-12.2%		29.6%		-13.8%	1.9%	

Note:

\* Adj. EBITDA is derived after adjusting for goodwill and inventories written off / (reversed) in the respective quarters

Source: Company, Kenanga Research

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## Peer Comparison

NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Historical ROE	P/BV	Net Profit (RMm)			1Y Fwd Growth (%)	2Y Fwd Growth (%)	Target Price (RM)	Rating
	(30-May-17) (RM)	(RMm)	Historical	1Y Fwd	2Y Fwd				Historical	1Y Fwd	2Y Fwd				
<b>Consumer - Retail</b>															
Aeon Co (M) Bhd	2.35	3,299.4	44.0	35.7	32.8	1.7%	3.9%	1.77	75.0	92.4	100.5	23.3%	8.7%	2.38	MP
Amway (Malaysia) Holdings Bhd	7.77	1,277.3	23.4	21.3	18.1	3.9%	23.4%	6.07	54.6	60.0	70.7	9.7%	17.9%	8.17	MP
Hai-O Enterprise Bhd	3.90	1,128.6	31.0	20.7	16.3	3.6%	20.3%	3.75	36.4	54.5	69.3	49.8%	27.2%	3.64	MP
Padini Holdings Bhd	3.29	2,164.5	15.8	13.5	11.6	4.4%	32.3%	4.62	137.4	160.4	186.9	16.7%	16.5%	3.80	OP
Parkson Holdings Bhd	0.60	640.3	(7.2)	(14.3)	13.6	8.3%	-4.6%	0.26	(105.6)	(46.4)	48.2	-56.1%	-203.9%	0.88	OP
<b>Consumer - F&amp;B</b>															
Dutch Lady Milk Industries Bhd	58.00	3,712.0	24.9	25.7	23.3	4.1%	75.7%	22.43	149.1	144.6	159.2	-3.0%	10.0%	55.44	MP
Nestle (M) Bhd	81.50	19,111.8	30.0	28.2	27.2	3.3%	75.9%	29.53	637.1	677.9	702.7	6.4%	3.7%	83.90	MP
Oldtown Bhd	2.73	1,264.6	19.9	16.7	15.9	4.0%	18.5%	3.24	60.8	72.4	76.0	19.1%	5.0%	2.95	MP
Power Root Bhd	2.57	831.36	18.2	15.0	14.1	4.7%	16.5%	3.17	43.5	53.0	56.4	21.8%	6.4%	2.90	OP
QL Resources Bhd	4.80	5,990.5	30.6	27.9	26.9	1.5%	11.7%	3.43	195.9	215.0	222.7	9.7%	3.6%	4.30	UP
<b>Consumer - Sin</b>															
British American Tobacco Bhd	44.52	12,711.8	18.8	20.3	18.9	4.8%	152.3%	20.72	675.1	626.2	670.9	-7.2%	7.1%	42.30	UP
Carlsberg Brewery Malaysia Bhd	14.58	4,485.1	21.8	19.1	17.3	4.7%	54.1%	13.09	205.0	233.7	257.8	14.0%	10.3%	14.84	MP
Heineken Malaysia Bhd	18.80	5,679.4	13.3	19.0	16.7	5.1%	75.7%	14.46	427.3	298.2	339.5	-30.2%	13.8%	21.38	OP

Source: Bloomberg, Kenanga Research

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**Stock Ratings are defined as follows:****Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

**Sector Recommendations\*\*\***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 12, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

This report is accessible at [www.bursamids.com](http://www.bursamids.com) too.



Chan Ken Yew  
Head of Research

