

30 August 2017

Power Root Bhd

Sales Boosted by Heavier Marketing

1Q18 core PATAMI (-48%) is below estimates, impacted by higher raw material and marketing costs. 4.0 sen dividend announced was within estimates. Despite poorer results, we believe group earnings could benefit in the coming quarters with an improvement in commodity prices and marketing initiatives as they had historically managed to secure better sales despite poor seasonality. Maintain **OUTPERFORM** with a lower TP of RM2.70, from RM2.90 previously.

Below expectations. While 1Q18 topline of RM109.2m is within our expectations, core PATAMI of RM3.9m is below, accounting for 8% of our full-year estimates. The negative deviation was due to higher-than-expected marketing expenses incurred alongside expanding pressure from commodity prices. An interim 4.0 sen dividend was announced, within our estimates.

YoY, 1Q18 sales of RM109.2m grew by 4%, derived from a decrease in domestic sales (-5%) mitigated by better export sales (+17%). However, adjusted EBITDA performance declined by 65% to RM5.8m with lower margins at 5.3% (-10.3 pts) due to unfavourable commodity pricing (i.e. coffee and sugar) and higher marketing expenses incurred during the quarter from more aggressive advertising in the Middle East. Thanks to lower effective taxes from deferred tax income exposure, 1Q18 closed with a core PATAMI of RM3.9m (-48%).

QoQ, 1Q18 revenue improved by 19% against 4Q17 on the back of better sales in both the domestic and foreign regions, likely to be driven by the stronger marketing initiatives, reflected in the increase operating expenses. While operating profit declined by 60%, core earnings declined by 50% due to higher tax expenses incurred during the previous quarter.

Stronger sales clouded by higher costs. Despite a supposedly seasonally weaker quarter with the fasting period in conjunction with the Hari Raya festivities, demand for group products proved resilient in both markets likely due to the widening of consumer outreach achieved. While this comes at a price of higher marketing spend, the group could potentially secure a loyal customer base which may further translate to better performances in the near future. However, the strategy appears untimely with the industry-wide higher average commodity costs. While we believe lower production costs could be expected in the coming quarters, given the easing price trends, we believe the group may still be aggressive with its marketing efforts to stimulate the soft domestic consumer market.

Post results, while we slightly improve our sales growth estimates for FY18E/FY19E, we revise our net earnings estimates by 12.9%/11.7% as we apply more conservative margins assumptions from the above.

Maintain OUTPERFORM with a lower TP of RM2.70 (from RM2.90, previously). Our new TP is derived from a roll-over base year to FY19E with its revised 15.8 sen EPS against an unchanged 17.0x PER (+2SD-level above the stocks 2-year average Fwd. PER). Although we have trimmed our TP, we believe the stock could be well positioned to benefit from a turnaround in consumer spending as it is still capable of registering growth on "pessimistic" sentiment levels. The stock still commands a strong potential yield of 5.9%/6.3% in FY18E/FY19E as we leave our dividend estimates unchanged.

OUTPERFORM ↔

Price: RM2.05
Target Price: RM2.70 ↓

Expected Capital Gain: RM0.65 +31.7%
Expected Divd. Yield: RM0.12 +5.9%
Expected Total Return: RM0.77 +37.6%

KLCI Index 1,761.14

Stock Information

Bloomberg Ticker	PWRT MK Equity
Bursa Code	7237
Listing Market	Main Market
Shariah Compliant	Yes
Issued shares	Yes
Market Cap (RM m)	323.7
Par value per share (RM)	663.5
52-week range (H)	0.20
52-week range (L)	2.75
Free Float	1.95
Beta	42%
3-mth avg daily vol:	0.5

Major Shareholders

Chee Yen Low	20.0%
Say Swee How	19.5%
Fuei Boon Wong	18.8%

Summary Earnings Table

FY Mar (Rm m)	2017A	2018E	2019E
Turnover	399.7	446.2	482.8
EBIT	53.9	52.5	60.8
PBT	54.8	53.3	61.2
Net Profit	47.2	49.6	53.5
PATAMI	43.5	46.1	49.8
Consensus (NP)	-	-	-
Earnings Revision	-	-12.9%	-11.7%
Core EPS (sen)	13.8	14.6	15.8
Core EPS growth (%)	-17.4%	6.0%	7.9%
NDPS (sen)	11.5	12.0	13.0
NTA per Share (RM)	0.79	0.82	0.85
Price to NTA (x)	2.6	2.5	2.4
PER (x)	14.9	14.0	13.0
Debt-to-Equity ratio (x)	(0.2)	(0.1)	(0.1)
Return on Asset (%)	12.7%	12.8%	13.3%
Return on Equity (%)	17.8%	18.1%	18.9%
Net Div. Yield (%)	5.6%	5.9%	6.3%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-6.8%	-20.2%	2.0%
Relative (%)	-6.9%	-20.0%	-3.0%

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Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Mar (RM'm)	FY18	FY17	Chg	FY17	Chg	FY18	FY17	Chg
Turnover	109.2	92.0	18.8%	105.1	4.0%	109.2	105.1	4.0%
Adj. EBITDA*	5.8	14.5	-60.3%	16.4	-64.6%	5.8	16.4	-64.6%
EBIT	3.0	13.4	-77.8%	11.3	-73.7%	3.0	11.3	-73.7%
PBT/(LBT)	3.2	13.7	-76.9%	11.5	-72.4%	3.2	11.5	-72.4%
Taxation	-0.1	-3.5	97.9%	-1.1	93.4%	-0.1	-1.1	93.4%
Net Profit	3.1	10.2	-69.8%	10.3	-70.1%	3.1	10.3	-70.1%
Core PATAMI*	3.9	7.9	-50.5%	7.6	-48.3%	3.9	7.6	-48.3%
EPS (sen)	1.2	2.5	-52.8%	3.1	-63.1%	1.2	3.1	-63.1%
DPS (sen)	4.0	4.0		2.5		4.0	2.5	
Adj. EBITDA margin	5.3%	15.8%		15.6%		5.3%	15.6%	
EBIT margin	2.7%	14.6%		10.7%		2.7%	10.7%	
PBT margin	2.9%	14.9%		10.9%		2.9%	10.9%	
PATAMI margin	3.6%	11.1%		9.8%		2.8%	9.8%	
Effective tax rate	-2.3%	-25.2%		-9.8%		-2.3%	-9.8%	

Note:

* Adj. EBITDA and Core PATAMI are derived after adjusting for: (i) goodwill and inventories written off / (reversed); and (ii) foreign exchange losses / (gains) in the respective quarters

Source: Company, Kenanga Research

Revenue Segments

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Mar (RM'm)	FY18	FY17	Chg	FY17	Chg	FY18	FY17	Chg
Malaysia	58.0	45.2	28.3%	61.1	-5.1%	58.0	61.1	-5.1%
Overseas	51.2	46.7	9.6%	44.0	16.5%	51.2	44.0	16.5%
Total	109.2	92.0	18.8%	105.1	4.0%	109.2	105.1	4.0%

Source: Company, Kenanga Research



30 August 2017

Peer Comparison

NAME	Price	Mkt Cap	PER (x)			Est. Div. Yld.	Historical ROE	P/BV (x)	Net Profit (RMm)			1Y Fwd Growth (%)	2Y Fwd Growth (%)	Target Price (RM)	Rating
	(29-Aug-17) (RM)	(RMm)	Historical	1Y Fwd	2Y Fwd				Historical	1Y Fwd	2Y Fwd				
Consumer - Retail															
Aeon Co (M) Bhd	2.01	2,822.0	37.6	30.7	28.6	1.5%	4.2%	1.51	75.0	91.8	98.8	22.5%	7.6%	2.20	MP
Amway (Malaysia) Holdings Bhd	7.26	1,193.4	21.8	21.8	18.4	4.1%	23.4%	5.67	54.6	54.7	64.9	0.0%	18.6%	7.50	MP
Bison Consolidated Bhd	2.62	812.4	44.8	31.7	24.7	0.8%	17.4%	5.33	18.1	25.6	32.9	41.2%	28.6%	2.50	MP
Hai-O Enterprise Bhd	4.36	1,261.5	21.3	16.7	12.8	4.5%	21.9%	4.43	59.3	75.7	98.3	27.8%	29.9%	4.00	MP
Padini Holdings Bhd	3.91	2,572.4	13.6	11.5	10.7	3.2%	31.1%	4.65	189.6	224.6	239.9	18.5%	6.8%	4.60	OP
Parkson Holdings Bhd	0.52	549.6	(4.6)	11.7	8.4	0.0%	-4.9%	0.23	(179.2)	48.0	66.6	-126.8%	38.8%	0.88	OP
Consumer - F&B															
Dutch Lady Milk Industries Bhd	59.00	3,776.0	25.3	27.0	24.3	3.7%	102.5%	22.82	149.1	139.8	155.5	-6.2%	11.2%	54.15	MP
Nestle (M) Bhd	84.20	19,744.9	31.0	29.1	28.1	3.2%	86.4%	30.51	637.1	677.9	702.7	6.4%	3.7%	83.90	MP
Oldtown Bhd	2.67	1,236.8	19.4	16.0	15.3	4.1%	16.6%	3.17	60.8	73.6	77.4	21.1%	5.1%	3.15	OP
Power Root Bhd	2.05	663.52	14.9	14.0	13.0	5.9%	17.8%	2.58	43.5	46.2	50.0	6.1%	8.2%	2.70	OP
QL Resources Bhd	4.94	6,165.3	31.5	28.5	27.1	1.0%	11.4%	3.53	195.9	216.2	227.1	10.4%	5.0%	4.90	MP
Consumer - Sin															
British American Tobacco Bhd	44.18	12,614.7	18.7	20.1	18.8	4.8%	192.6%	20.57	675.1	626.2	670.9	-7.2%	7.1%	47.00	OP
Carlsberg Brewery Malaysia Bhd	14.92	4,589.7	22.3	19.0	17.2	5.0%	91.8%	14.21	205.0	233.7	257.8	14.0%	10.3%	15.30	MP
Heineken Malaysia Bhd	18.82	5,685.5	13.3	21.5	18.6	5.0%	82.7%	14.48	427.3	264.3	306.4	-38.1%	15.9%	19.30	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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