

29 November 2017

Power Root Bhd

1H18 Below Expectation

1H18 core PATAMI of RM14.1m (-20%) is below estimates, due to higher production costs (likely stemming from prolonged, unfavourable hedging policies) and marketing expenses. The 2.5 sen dividend announced is within expectations. We believe the group's hedging positions will be revisited in FY19 to more optimal levels for better margins. Post results, we cut our FY18E/FY19E earnings assumptions by 23.9%/9.2%. Maintain OUTPERFORM with a lower TP of RM2.45.

1H18 below expectations. 1H18 top-line of RM228.9m is within our expectation while the core PATAMI of RM14.1m is below, accounting for 32% of full-year estimates. The negative deviation was due to higher-than-expected raw material prices. An interim 2.5 sen dividend was announced, within our estimate.

YoY, 1H18 sales of RM228.9m grew by 12%, led by a 35% increase in export sales, which was softened by a 5% decrease in domestic sales. However, adjusted EBITDA declined to RM18.6m (-48%) from lower margin at 8.1% (-9.3ppt) due to high commodity price exposures (i.e. coffee and sugar). Further, higher marketing expenses were incurred during the year on more aggressive media participation in the Middle East. Thanks to lower effective taxes at 6.9% (-1.7ppt), 1H18 core PATAMI recorded at RM14.1m (-20%).

QoQ, 2Q18 revenue grew by 10% to RM119.7m, similarly on the back of stronger exports (+24%) against a slightly weaker local demand (-3%). Operating profit expanded c.200%, mainly spurred in part by the heavier marketing costs incurred in the Middle East during 1Q18. This translated to a stronger core PATAMI of RM10.2m (+c.160%) after an effective tax rate of 8.3% during the quarter (+6.0ppt).

Cost pressures undermining perky sales outlook. The group continues to enjoy encouraging demand in the MENA region, likely backed by the group's new "Alicafe Signature French Roast" variant. The latest export numbers accounted for around 50% of group revenue as domestic sales still proved uninspiring due to soft consumer spending. However, high commodity costs clouded recent earnings despite an overall improvement in global commodity trends. We believe this to be the continuing result of prolonged hedging positions at the beginning of the year, locked at unfavourable levels. To illustrate, average Arabica beans prices, which trailed at c.USD145/mt during the Dec 2016-Jan 2017 period, recently recorded at c.USD125/mt during Sep 2017-Oct 2017 (source: Bloomberg). Nonetheless, we are still hopeful on a shift in the costing landscape of the group in FY19 when its hedging positions incline towards greener levels.

Post results, while we maintain our FY18E/FY19E sales estimates, we tone down our margins assumptions to account for greater production costs. This lowers our FY18E/FY19E net earnings estimates by 23.9%/9.2%. In lieu of the weaker earnings, we also tweak our dividend assumptions to 10.0sen/12.0sen from 12.0sen/13.0sen.

Maintain OUTPERFORM with a lower TP of RM2.45 (from RM2.70, previously). Our new TP is derived from a revised 14.3 sen FY19E EPS against an unchanged 17.0x PER (3-year average Fwd. PER). Although we have trimmed our TP, we believe the stock's fundamental potential is still intact given that sales numbers have been performing as expected. The stock still commands a strong potential yield of 5.0%/6.0% in FY18E/FY19E, post-dividend adjustments.

OUTPERFORM ↔

Price: RM2.01
Target Price: RM2.45 ↓

Expected Capital Gain: RM0.44 +21.9%
Expected Divd. Yield: RM0.10 +5.0%
Expected Total Return: RM0.54 +26.9%

KLCI Index 1,714.42

Stock Information

Bloomberg Ticker	PWRT MK Equity
Bursa Code	7237
Listing Market	Main Market
Shariah Compliant	Yes
Issued shares	323.4
Market Cap (RM m)	650.0
Par value per share (RM)	0.20
52-week range (H)	2.73
52-week range (L)	1.93
Free Float	41%
Beta	0.7
3-mth avg daily vol	309,241

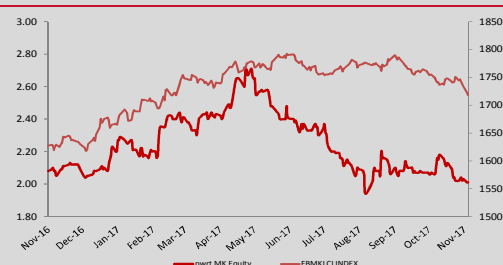
Major Shareholders

Chee Yen Low	20.0%
Say Swee How	19.7%
Fuei Boon Wong	18.9%

Summary Earnings Table

FY Mar (RM m)	2017A	2018E	2019E
Turnover	399.7	446.2	482.8
EBIT	53.9	36.9	53.5
PBT	54.8	37.7	53.8
Net Profit	47.2	35.0	47.1
PATAMI	43.5	33.6	45.2
Consensus (NP)	-	-	-
Earnings Revision	-	-23.9%	-9.2%
Core EPS (sen)	13.8	10.6	14.3
Core EPS growth (%)	-17.4%	-22.8%	34.4%
NDPS (sen)	11.5	10.0	12.0
NTA per Share (RM)	0.79	0.80	0.82
Price to NTA (x)	2.5	2.5	2.4
PER (x)	14.6	18.9	14.1
Debt-to-Equity ratio (x)	(0.2)	(0.1)	(0.0)
Return on Asset (%)	12.7%	9.4%	12.3%
Return on Equity (%)	17.8%	13.3%	17.6%
Net Div. Yield (%)	5.7%	5.0%	6.0%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-2.4%	-2.0%	-4.3%
Relative (%)	-0.5%	0.7%	-9.7%

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Results Highlights

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Mar (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Turnover	119.7	109.2	9.5%	99.3	20.5%	228.9	204.4	12.0%
Adj. EBITDA*	12.8	4.0	217.6%	19.1	-33.1%	18.6	35.5	-47.7%
EBIT	10.7	2.9	267.4%	14.1	-24.3%	13.6	25.4	-46.2%
PBT/(LBT)	10.9	3.2	244.3%	14.2	-23.6%	14.1	25.7	-45.3%
Taxation	-0.9	-0.1	-1117.6%	-1.1	17.9%	-1.0	-2.2	56.1%
Net Profit	10.0	3.1	223.4%	13.1	-24.0%	13.1	23.5	-44.3%
Core PATAMI	10.2	3.9	159.1%	10.1	1.0%	14.1	17.7	-20.2%
EPS (sen)	3.0	1.2	159.1%	4.0	-24.5%	4.2	7.1	-41.6%
DPS (sen)	2.5	4.0		2.5		6.5	5.0	
Adj. EBITDA margin	10.7%	3.7%		19.3%		8.1%	17.4%	
EBIT margin	8.9%	2.7%		14.2%		6.0%	12.4%	
PBT margin	9.1%	2.9%		14.3%		6.1%	12.6%	
PATAMI margin	8.5%	2.8%		13.2%		5.7%	11.5%	
Effective tax rate	8.3%	2.3%		7.7%		6.9%	8.6%	

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

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Mar (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Malaysia	56.0	58.0	-3.4%	58.5	-4.2%	114.1	119.6	-4.6%
Overseas	63.6	51.2	24.2%	40.8	55.8%	114.8	84.8	35.4%
Total	119.7	109.2	9.5%	99.3	20.5%	228.9	204.4	12.0%

Source: Company, Kenanga Research

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Peer Comparison

NAME	Price (28-Nov-17) (RM)	Mkt Cap (RMm)	PER (x)			Est. Div. Yld.	Historical ROE	P/BV (x)	Net Profit (RMm)			1Y Fwd Growth (%)	2Y Fwd Growth (%)	Target Price (RM)	Rating
			Historical	1Y Fwd	2Y Fwd				Historical	1Y Fwd	2Y Fwd				
Consumer - Retail															
7-Eleven Malaysia Holdings Bhd	1.53	1,698.9	42.8	47.5	37.2	2.0%	72.0%	0.54	52.2	47.0	60.0	-10.0%	27.7%	1.70	OP
Aeon Co (M) Bhd	1.81	2,541.2	33.9	31.7	29.5	1.7%	4.5%	1.36	75.0	80.2	86.2	7.0%	7.5%	2.00	MP
Amway (Malaysia) Holdings Bhd	7.15	1,175.4	21.5	21.5	18.1	4.2%	24.3%	5.59	54.6	54.7	64.9	0.0%	18.6%	7.50	MP
Bison Consolidated Bhd	2.60	886.8	44.5	31.5	22.3	0.8%	17.4%	5.29	18.1	25.6	36.2	41.2%	41.5%	2.80	OP
Hai-O Enterprise Bhd	5.23	1,520.8	25.5	18.1	14.9	4.1%	23.6%	5.31	59.4	83.8	101.6	41.0%	21.3%	4.40	MP
Padini Holdings Bhd	5.14	3,381.7	17.8	15.1	14.1	2.4%	30.8%	6.12	189.6	224.6	239.9	18.5%	6.8%	4.80	OP
Parkson Holdings Bhd	0.570	608.3	(5.1)	13.0	9.3	0.0%	-4.2%	0.25	(179.2)	48.0	66.6	-126.8%	38.8%	0.880	OP
Consumer - F&B															
Dutch Lady Milk Industries Bhd	59.40	3,801.6	25.5	29.9	26.1	4.7%	102.5%	22.97	149.1	127.2	145.9	-14.7%	14.7%	57.00	MP
Fraser & Neave Holdings Bhd	25.56	9,368.8	25.3	27.3	24.1	2.0%	15.7%	4.71	370.5	354.4	388.7	-4.3%	9.7%	24.95	MP
Nestle (M) Bhd	93.16	21,846.0	34.3	36.4	32.2	2.9%	81.7%	33.75	637.1	600.3	679.3	-5.8%	13.2%	86.90	MP
Oldtown Bhd	2.50	1,158.1	18.2	15.0	14.3	4.4%	16.6%	2.97	60.8	73.6	77.4	21.1%	5.1%	3.15	OP
Power Root Bhd	2.01	650.03	14.6	18.9	14.1	5.0%	15.0%	2.53	43.5	33.6	45.2	-22.8%	34.4%	2.45	OP
QL Resources Bhd	4.00	6,489.8	33.1	30.0	28.6	1.0%	12.0%	3.71	195.9	216.2	227.1	10.3%	5.1%	3.78	MP
Spritzer Bhd	2.31	485.0	10.3	18.3	15.5	2.2%	9.5%	1.46	41.0	23.0	31.3	-43.8%	35.9%	2.20	MP
Consumer - Sin															
British American Tobacco Bhd	36.86	10,524.6	15.6	18.5	16.4	5.4%	156.1%	17.16	675.1	567.7	642.3	-15.9%	13.1%	45.00	OP
Carlsberg Brewery Malaysia Bhd	15.00	4,614.3	22.4	19.1	17.3	5.0%	91.8%	14.29	205.0	233.7	257.8	14.0%	10.3%	15.30	MP
Heineken Malaysia Bhd	17.40	5,256.5	12.3	19.9	17.2	5.5%	101.3%	13.39	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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