

11 April 2018

Power Root Bhd Longer Term View

Following a meeting with the new group MD, we are positive on the stock's longer term outlook. Rationalisation of operational costs is in place but may only be reflective in the medium term. However, near-term boon from lower average commodity prices could ease production costs. Maintain **OUTPERFORM** but with a lower TP of RM1.65 (from RM2.00) as we revalue the stock at 15.0x FY19E PER following the recent de-rating of small cap stocks.

Looking to boost domestic numbers. Recall that in the 9M18 results, export sales registered at RM174.3m (+29% YoY) while local sales closed at RM169.7m (-2% YoY). While export numbers were boosted by stronger reception, particularly in the MENA region, domestic sales could have been dampened by greater local competition and weaker consumption habits. While management did not express any intention to revamp existing product formulations, adopting a strategic focus into new markets (i.e. "Kopi O") may present opportunities to grow domestic contributions. On the matter of domestic earnings, management mentioned resolving operational lapses, which may improve margins.

A hard look at hiccups. Against soft consumer sentiment, management's review of the existing domestic operating landscape also identified various room for improvements. This includes reducing production wastages, rationalising promotional expenditure and analysing non-performing sales arrangements. While the above is likely to bring better bottom-line contributions to the group, we believe they may only generate results in the medium-term following a period of implementation.

Production costs set to ease. In the last several quarters, we reckoned high average costs for key materials (i.e. coffee) led to the drag in profits. This was due to the unfavourable hedging positions during times when droughts instigated a surge in global coffee prices. We anticipate lower production costs to be factored in from FY19 onwards following the lapse of these positions coupled with better domestic currency.

Post-meeting, we are reassured by the direction painted by the new Group Managing Director. Growth strategies to expand the group's domestic position are timely as we believe export gains could be hampered with the recovery of the Ringgit. Further, reviews for operational improvements are at the right direction as margin expansion could translate to further allowances to enhance sales strategies. Nonetheless, we maintain our earnings assumptions for FY18 in anticipation of a weak 4Q18 following the lack of seasonality factors. We also leave our FY19E numbers unchanged as we have accounted for lower forex and commodity prices during the year. Further, new ventures may not significantly impact the group in the short-term due to their gestation phases.

Maintain OUTPERFORM with a lower TP of RM1.65 (from RM2.00, previously). Our new TP is derived from a lower 15.0x FY19E PER (from 18.0x, previously) as we adjust for the recent market-wide de-rating of small cap stocks. As of end-Dec 2017, the FBMSC index traded at c.16.0x Fwd. PER but declined towards c.12.0x as of end-Mar 2018. On the other hand, the FBMKLCI was only slightly dented from 16.9x to 16.6x Fwd. PER during the same periods. While the applied valuations are at par with the stock's -1SD over its 3-year average Fwd. PER, we believe there is still value in the stock as dividend yields are expected to remain solid at 6.9%/8.3% for FY18/FY19.

Risks to our call include: (i) lower-than-expected domestic and export sales, (ii) prolonged exposure to high commodity prices, and (iii) lower-than-expected dividend payments.

OUTPERFORM ↔

Price: RM1.44
Target Price: RM1.65 ↓

Expected Capital Gain: RM0.21 +14.6%
Expected Divd. Yield: RM0.10 +6.9%
Expected Total Return: RM0.31 +21.5%

KLCI Index 1,860.98

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)	465.9
Par value per share (RM)	0.20
52-week range (H)	2.73
52-week range (L)	1.15
Free Float	44%
Beta	0.6
3-mth avg daily vol:	617,916

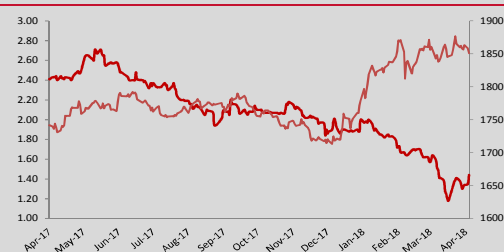
Major Shareholders

Dato' How Say Swee	20.3%
Dato' Wong Fuei Boon	18.9%
Dato' Low Chee Yen	17.1%

Summary Earnings Table

FY Mar (RM m)	2017A	2018E	2019E
Turnover	399.7	443.7	471.3
EBIT	53.9	23.9	41.5
PBT	54.8	24.8	41.9
Net Profit	47.2	23.1	36.6
Core PATAMI	36.4	28.7	35.2
Consensus (NP)	-	-	-
Earnings Revision	-	0.0%	0.0%
Core EPS (sen)	11.5	9.1	11.1
Core EPS growth (%)	-30.9%	-21.3%	22.7%
NDPS (sen)	11.5	10.0	12.0
NTA per Share (RM)	0.79	0.76	0.76
Price to NTA (x)	1.8	1.9	1.9
PER (x)	12.5	15.9	12.9
Debt-to-Equity ratio (x)	(0.2)	(0.2)	(0.1)
Return on Asset (%)	12.7%	6.3%	10.1%
Return on Equity (%)	17.8%	9.0%	14.6%
Net Div. Yield (%)	8.0%	6.9%	8.3%

Share Price Performance



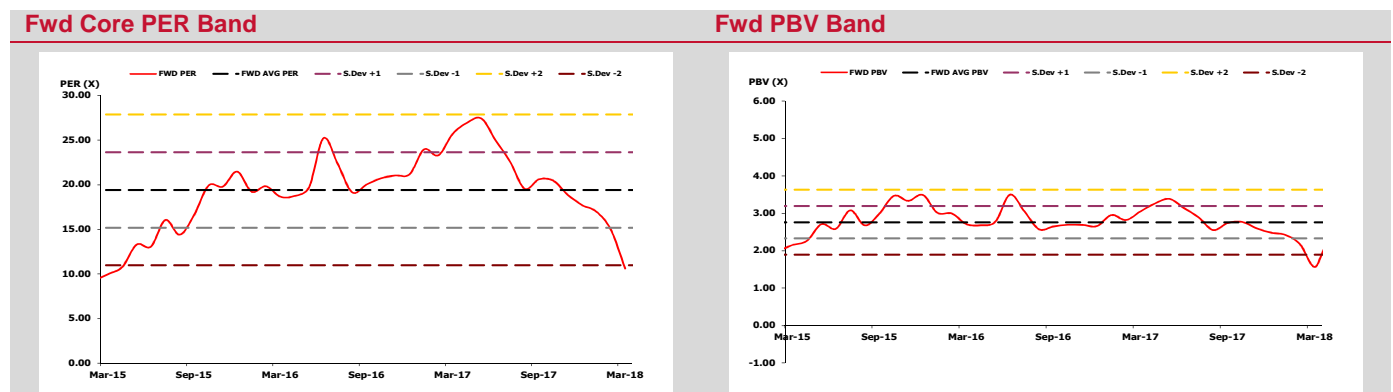
	1 mth	3 mths	12 mths
Absolute (%)	-9.4%	-26.9%	-40.7%
Relative (%)	-9.4%	-29.3%	-47.9%

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Income Statement						Financial Data & Ratios					
FY Mar (RM m)	2015A	2016A	2017A	2018E	2019E	FY Mar (RM m)	2015A	2016A	2017A	2018E	2019E
Revenue	383.2	367.5	399.7	443.7	471.3	Growth (%)					
Core EBITDA	60.7	58.0	53.2	37.6	49.5	Turnover	24.9%	-4.1%	8.7%	11.0%	6.2%
Operating Profit	51.4	43.4	53.9	23.9	41.5	EBITDA	3.9%	-13.6%	21.0%	-48.5%	59.3%
Depreciation	-6.3	-6.4	-6.4	-7.1	-8.0	Operating Profit	2.6%	-15.5%	24.1%	-55.6%	73.2%
Interest Inc/(Exp)	0.6	0.9	0.9	0.9	0.4	PBT	3.5%	-14.2%	23.4%	-54.7%	68.7%
Profit Before Tax	51.7	44.4	54.8	24.8	41.9	Core PATAMI	14.0%	11.2%	-29.4%	-21.3%	22.7%
Taxation	-5.4	0.8	-7.5	-1.7	-5.2	Profitability (%)					
Net Profit	46.3	45.2	47.2	23.1	36.6	EBITDA Margin*	15.8%	15.8%	13.3%	8.5%	10.5%
Core PATAMI	46.4	51.6	36.4	28.7	35.2	Operating Margin	13.4%	11.8%	13.5%	5.4%	8.8%
						PBT Margin	13.5%	12.1%	13.7%	5.6%	8.9%
						Core Net Margin	12.1%	14.0%	9.1%	6.5%	7.5%
						Effective Tax Rate	10.5%	-1.9%	13.8%	7.0%	12.5%
						ROA	13.7%	13.5%	12.7%	6.3%	10.1%
						ROE	19.2%	18.6%	17.8%	9.0%	14.6%
						* Adjusted for write-offs and impairments					
						DuPont Analysis					
						Net Margin (%)	12.1%	14.0%	9.1%	6.5%	7.5%
						Assets Turnover (x)	1.2	1.1	1.1	1.3	1.3
						Leverage Factor (x)	1.4	1.4	1.4	1.4	1.5
						ROE (%)	19.2%	18.6%	17.8%	9.0%	14.6%
						Leverage					
						Debt/Asset (x)	0.0	0.0	0.0	0.0	0.0
						Debt/Equity (x)	0.1	0.0	0.0	0.0	0.1
						Net (Cash)/Debt	(54.2)	(60.5)	(56.2)	(42.6)	(13.4)
						Net Debt/Equity (x)	(0.2)	(0.3)	(0.2)	(0.2)	(0.1)
						Valuations					
						Core EPS (sen)	15.0	16.7	11.5	9.1	11.1
						NDPS (sen)	10.0	11.0	11.5	10.0	12.0
						BV/sh (RM)	0.7	0.8	0.8	0.8	0.8
						PER (x)	9.6	8.6	12.5	15.9	12.9
						Div. Yield (%)	6.9%	7.6%	8.0%	6.9%	8.3%
						PBV (x)	1.9	1.9	1.8	1.9	1.9
						EV/EBITDA (x)	9.9	14.6	13.1	18.8	13.4

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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Peer Comparison

NAME	Price (10-Apr-18) (RM)	Mkt Cap (RMm)	Hist.	PER (x)		Est. Div. Yld.	Historical ROE	P/BV (x)	Net Profit (RMm)			1Y Fwd Growth (%)	2Y Fwd Growth (%)	Target Price (RM)	Rating
				1Y Fwd	2Y Fwd				Hist.	1Y Fwd	2Y Fwd				
Consumer - Retail															
7-Eleven Malaysia Holdings Bhd	1.50	1,665.6	36.9	30.8	27.8	2.6%	91.7%	25.00	50.1	60.0	66.4	19.8%	10.7%	1.70	OP
Aeon Co (M) Bhd	1.80	2,527.2	24.1	21.2	18.6	2.2%	5.0%	1.29	106.1	119.1	135.9	12.2%	14.1%	2.00	OP
Amway (Malaysia) Holdings Bhd	7.51	1,234.5	23.5	19.0	17.2	4.5%	24.8%	5.78	52.6	64.9	72.0	23.3%	10.9%	8.30	OP
Hai-O Enterprise Bhd	4.84	1,408.8	23.6	16.7	13.8	4.5%	27.1%	4.92	59.4	83.8	101.6	41.0%	21.3%	6.00	OP
MyNews Holdings Bhd	1.55	1,057.3	44.0	37.7	32.3	0.7%	12.2%	4.43	24.0	28.0	32.7	16.6%	16.7%	1.25	UP
Padini Holdings Bhd	4.65	3,059.3	16.9	16.8	14.4	2.5%	27.7%	5.54	180.6	182.4	212.1	1.0%	16.3%	4.65	MP
Parkson Holdings Bhd	0.410	437.6	(3.7)	12.4	8.2	0.0%	-7.7%	0.18	(179.2)	35.8	54.6	-120.0%	52.5%	0.860	OP
Consumer - F&B															
Dutch Lady Milk Industries Bhd	67.00	4,288.0	35.5	34.0	28.5	3.3%	87.4%	41.23	120.8	126.3	150.5	4.5%	19.2%	61.15	MP
Fraser & Neave Holdings Bhd	32.86	12,044.6	30.2	29.0	26.5	2.1%	13.9%	5.65	398.6	415.4	453.8	4.2%	9.2%	29.10	UP
Nestle (M) Bhd	150.10	35,198.5	54.5	49.1	42.0	1.9%	100.3%	55.00	645.8	716.7	837.6	11.0%	16.9%	114.30	UP
Power Root Bhd	1.44	465.9	10.5	17.4	12.9	6.9%	11.7%	1.81	43.5	26.2	35.2	-39.9%	34.7%	1.65	OP
QL Resources Bhd	5.05	8,193.3	41.8	37.9	36.1	0.8%	11.8%	4.69	195.9	216.2	227.1	10.3%	5.1%	4.05	UP
Spritzer Bhd	2.30	482.9	17.6	15.1	14.2	2.6%	8.0%	1.11	23.8	31.8	33.9	33.9%	6.5%	2.50	MP
Consumer - Sin															
British American Tobacco Bhd	23.32	6,658.6	12.7	12.4	11.7	7.6%	99.0%	17.43	522.4	536.9	570.4	2.8%	6.2%	33.85	OP
Carlsberg Brewery Malaysia Bhd	18.84	5,795.6	26.0	22.9	20.3	4.4%	71.3%	19.26	221.2	251.7	284.1	13.8%	12.9%	17.65	MP
Heineken Malaysia Bhd	20.80	6,283.6	23.3	19.7	17.8	5.0%	71.7%	17.43	270.1	319.0	352.1	18.1%	10.4%	23.30	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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