

28 November 2018

Power Root Bhd

1H19 Broadly Within Expectations

1H19 core PATAMI of RM14.8m (+6%) and 1.7 sen dividend declared are deemed broadly within expectations. Going forward, we anticipate the group to benefit from more lucrative client portfolios, easing production costs and leaner production methods. We believe the introduced sugar tax may not be detrimental to the group as only a small portion of its portfolio is affected. Maintain OP and TP of RM1.90.

1H19 within expectation. 1H19 core net earnings of RM14.8m is deemed broadly within our/consensus estimates, making up 44%/43% of respective full-year forecasts. We anticipate a stronger 2H19, backed by continuous rationalisation on the local front and stabilising export environment. A 1.7 sen interim dividend was declared, for YTD dividend of 3.4 sen. We also deem this to be within our expectation of full-year payout of 8.0 sen.

YoY, 1H19 sales of RM176.5m declined by 18% mainly due to weaker domestic performance, which we believe could be due to the rationalisation of the group's distribution network. Export turnover also declined as market slowed on unfavourable economic developments. Nonetheless, PBT expanded by 40% with better margins of 11.2% (+5.6ppt) thanks to more favourable input costs and operating efficiency from the recent rationalisation exercise. Dragged by higher effective taxes and certain adjustments to forex gains, 1H19 core PATAMI closed at RM14.8m (+6%).

QoQ, 2Q19 revenue declined slightly by 2%, as better local sales (+14%) was negated by declining export results (-15%) from the above. Similarly, 2Q19 core PATAMI saw a 27% decline to RM6.2m from higher tax exposure.

Setting the stage. Following the rationalisation exercise, we believe the group is poised to experience stronger results backed by: (i) better hedged positions, and (ii) overall easing commodity trends. Further, recall that the group is in the midst of implementing further structural improvements to optimise operating expenses and minimising wastages. **In relation to sugar tax,** we believe the group will not be significantly impacted by its implementation given that canned beverages are expected to account for 30% of its local sales portfolio (or 15% of total group sales). While it is likely that the group would pass down the tax to consumers, we do not believe the hike would be detrimental to overall demand, given the small quantum of the increase (i.e. 10.0 sen for a 250ml format can).

Post-results, we leave our FY19 estimates unchanged, although we tweaked our FY20E earnings slightly by 0.3% following some housekeeping adjustments.

Maintain OUTPERFORM and TP of RM1.90. Our TP is based on an unchanged 18.0x FY20E PER, in-line with the stock's -1SD over its 3-year mean. Aside from its turnaround from an unfavourable operating environment, the stock also provides solid dividend yields of 5.8%/7.3% for FY19/FY20.

Risks to our call include: (i) lower-than-expected sales, (ii) higher-than-expected commodity and marketing costs, and (iii) lower-than-expected dividend payments.

OUTPERFORM ↔

Price: **RM1.37**
Target Price: **RM1.90** ↔

Expected Capital Gain: **RM0.53 +38.7%**
Expected Divd. Yield: **RM0.08 +5.8%**
Expected Total Return: **RM0.61 +44.5%**

KLCI Index **1,684.97**

Stock Information

Bloomberg Ticker	PWRT MK Equity
Bursa Code	7237
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	395.5
Market Cap (RM m)	541.9
Par value per share (RM)	0.20
52-week range (H)	1.70
52-week range (L)	0.96
Free Float	48%
Beta	1.0
3-mth avg daily vol	393,422

Major Shareholders

Say Swee How	19.9%
Fuei Boon Wong	18.4%
Chee Yen Low	13.9%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	424.3	420.1	456.0
EBIT	9.8	39.5	51.7
PBT	10.3	39.7	52.0
Net Profit	9.7	35.9	47.0
Core PATAMI	23.5	33.6	44.0
Consensus (NP)	-	35.9	44.2
Earnings Revision	-	0.0%	0.3%
Core EPS (sen)	6.0	8.3	10.5
Core EPS growth (%)	-35.6%	38.6%	26.8%
NDPS (sen)	9.5	8.0	10.0
NTA per Share (RM)	0.53	0.57	0.60
Price to NTA (x)	2.6	2.4	2.3
PER (x)	23.0	16.6	13.1
Debt-to-Equity ratio (x)	(0.1)	(0.1)	(0.1)
Return on Asset (%)	2.5%	9.3%	11.4%
Return on Equity (%)	4.0%	15.3%	18.3%
Net Div. Yield (%)	6.9%	5.8%	7.3%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-6.2%	-11.0%	-18.2%
Relative (%)	-6.3%	-4.0%	-16.2%

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Results Highlights

	2Q	1Q	QoQ	2Q*	YoY	6M	6M*	YoY
FYE Mar (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	87.3	89.2	-2.2%	111.4	-21.7%	176.5	213.9	-17.5%
Adj. EBITDA [^]	8.1	11.4	-29.0%	11.1	-26.8%	19.5	16.8	15.9%
EBIT	8.8	10.8	-18.8%	10.7	-17.5%	19.6	13.6	43.9%
PBT	8.9	10.8	-17.5%	10.9	-18.1%	19.7	14.1	40.4%
Taxation	-1.9	-1.5	-23.1%	-0.9	-110.9%	-3.4	-1.0	-253.1%
Net Profit	7.0	9.3	-24.2%	10.0	-29.7%	16.3	13.1	24.5%
Core PATAMI	6.2	8.6	-27.4%	10.1	-38.3%	14.8	14.0	5.5%
EPS (sen)	1.9	2.6	-27.4%	3.0	-38.0%	4.4	4.2	6.3%
DPS (sen)	1.7	1.7		2.5		3.4	6.5	
Adj. EBITDA margin	9.3%	12.8%		9.9%		11.1%	7.9%	
EBIT margin	10.1%	12.1%		9.6%		11.1%	6.4%	
PBT margin	10.2%	12.1%		9.8%		11.2%	6.6%	
PATAMI margin	7.1%	9.6%		9.0%		8.4%	6.6%	
Effective tax rate	21.3%	14.3%		8.3%		17.5%	6.9%	

Note:

* Restated to reflect MFRS15 & 9 adoption

[^] Adj. EBITDA and Core PATAMI are derived after adjusting for: (i) write offs / (reversals); 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)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Domestic	43.7	38.2	14.3%	56.0	-22.1%	81.8	114.1	-28.2%
Export	43.6	51.1	-14.5%	63.6	-31.4%	94.7	114.8	-17.5%
Total	87.3	89.2	-2.2%	119.7	-27.0%	176.5	228.9	-22.9%

Note:

* Unadjusted for MFRS 15 & 9 adoption

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
F&B AND RETAIL																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.29	1,456.3	N	12/2018	8.2%	5.2%	3.2%	13.0%	31.7	30.8	27.2	21.5	18.5	64.6%	2.3%	1.55	MP
AEON CO (M) BHD	1.86	2,611.4	Y	12/2018	6.6%	4.1%	13.4%	14.1%	24.9	21.9	19.2	1.3	1.3	6.0%	2.2%	2.60	OP
AMWAY MALAYSIA HOLDINGS BHD	6.78	1,114.5	Y	12/2018	0.0%	3.0%	-20.6%	37.4%	21.2	26.7	19.4	5.2	5.0	19.1%	2.9%	6.80	MP
DUTCH LADY MILK INDUSTRIES BHD	63.50	4,064.0	Y	12/2018	-2.0%	2.9%	-0.4%	18.0%	32.6	28.4	25.0	39.1	38.3	131.6%	3.5%	64.10	MP
FRASER & NEAVE HOLDINGS BHD	33.38	12,235.2	Y	09/2019	4.2%	4.1%	2.7%	4.0%	30.9	30.1	28.9	5.3	5.0	17.0%	2.0%	33.30	MP
HAI-O ENTERPRISE BHD	3.01	874.3	N	04/2019	4.8%	4.5%	21.3%	4.0%	14.3	10.4	8.6	3.1	2.8	25.0%	7.2%	5.15	OP
MYNEWS HOLDINGS BHD	1.50	1,023.2	N	10/2018	14.8%	2.9%	16.7%	16.8%	42.6	36.5	31.3	4.2	3.9	11.1%	0.7%	1.25	UP
NESTLE (MALAYSIA) BHD	144.50	33,885.3	Y	12/2018	3.5%	1.1%	11.4%	13.7%	52.5	47.1	41.4	53.0	49.9	109.1%	2.0%	146.50	MP
PADINI HOLDINGS BHD	5.47	3,598.8	Y	06/2019	19.1%	5.4%	14.2%	13.3%	20.2	17.7	15.6	6.5	5.5	33.7%	2.1%	5.60	UP
PARKSON HOLDINGS BHD	0.285	304.2	Y	06/2019	4.3%	0.2%	185.3%	13.6%	N.A.	18.8	16.5	0.1	0.1	0.5%	0.0%	0.370	OP
POWER ROOT BHD	1.37	541.9	Y	03/2019	-1.0%	8.6%	43.2%	30.9%	23.0	16.6	13.1	2.6	2.4	16.4%	5.8%	1.90	OP
QL RESOURCES BHD	6.90	11,194.8	Y	03/2019	10.3%	10.0%	5.4%	6.6%	54.3	51.5	48.3	5.9	5.5	11.6%	0.7%	5.70	UP
SPRITZER BHD	2.18	457.7	Y	12/2018	10.4%	4.0%	14.7%	10.9%	16.7	16.8	15.1	1.1	1.2	7.1%	2.8%	2.30	MP
Simple Average					6.4%	4.3%	23.9%	15.1%	30.4	27.2	23.8	11.4	10.7	34.8%	2.6%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	36.60	10,450.4	N	12/2018	-1.5%	0.3%	-12.2%	0.6%	20.0	22.8	22.6	27.3	25.8	116.6%	4.2%	29.10	UP
CARLSBERG BREWERY MALAYSIA BHD	19.00	5,844.8	N	12/2018	0.0%	8.5%	-22.6%	12.4%	26.3	23.4	21.1	18.7	18.6	74.1%	4.3%	17.10	UP
HEINEKEN MALAYSIA BHD	19.20	5,800.3	N	12/2018	5.0%	6.1%	1.2%	3.0%	21.5	21.2	20.6	16.1	16.0	75.6%	4.7%	18.60	MP
Simple Average					1.2%	5.0%	-11.2%	5.3%	22.6	22.5	21.5	20.7	20.1	88.8%	4.4%		
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.38	500.8	N	04/2019	10.0%	8.6%	2056.9%	18.2%	426.2	19.8	16.7	1.3	1.2	6.4%	3.0%	1.77	BUY
BONIA CORPORATION BHD	0.270	217.5	Y	06/2019	10.6%	3.6%	50.5%	6.2%	11.0	7.3	6.9	0.5	0.5	6.4%	4.8%	0.388	NEUTRAL
COCOALAND BHD	2.05	469.0	Y	12/2018	3.1%	5.1%	-4.4%	10.4%	14.0	14.6	13.3	2.0	1.7	13.7%	6.0%	2.54	BUY
LAY HONG BHD	0.370	244.3	Y	03/2019	-1.5%	9.3%	-58.3%	161.4%	6.7	16.0	6.1	0.8	0.7	4.1%	1.4%	0.810	BUY
KAWAN FOOD BHD	1.91	686.7	Y	12/2018	8.5%	17.4%	-13.3%	43.1%	23.6	27.2	19.0	2.2	1.8	7.9%	2.4%	2.45	NEUTRAL
MAGNI-TECH INDUSTRIES BHD	4.49	730.7	Y	04/2019	13.0%	7.0%	16.0%	11.3%	8.0	6.9	6.2	1.5	N.A.	21.0%	N.A.	6.45	BUY

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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