

23 January 2019

Power Root Bhd Peeking Forward

Following a meeting with management, we came away feeling positive on the group's medium-term outlook. The group continues to rationalise its sales frontiers, both domestically and in the export markets, to secure margins, albeit possibly at lower revenues. Production costs are expected to remain stable, although current hedging positions should mitigate volatile movements in commodity prices. Maintain **OUTPERFORM** and TP of RM1.65.

Leaner local front. In the recent 1H19 results, the domestic market recorded sales of RM81.8m (-28% YoY) - the result of efforts to streamline its local distributorships with emphasis on margin protection. Still, we do not believe there was significant impact arising from new SST prices, blanketed by the new above which targets distribution to more brand loyal locations. In the near term, the group is implementing operational systems to allow for more effective product delivery, to improve cost efficiency. However, this could only translate favourably into FY20 onwards as the system is in the midst of being optimised for wider implementation. Additionally, leaner promotional spending strategies will progressively improve bottom-line performance. This, despite declining export sales (-18% YoY), translated to core net profit of RM14.8m (+6% YoY with CNP margin of 17.5%, +10.6ppt), adjusting for impairments and forex gains.

Tuning up exports. Export sales in 1H19 declined by 18% YoY to RM94.7m. Previously dampened by geo-political factors (with c.80% of exports being derived from the MENA region), different sales channels are being considered to enhance its coverage across the region. This may result in some swings in revenue in the immediate quarter, but we do not feel it may be of long term concern with the emphasis to reach more margin-steady arrangements. Demand for the group's products continues to be strong in that region, owing to the higher spending capability of its population. The group also aims to improve its presence in certain Asian markets, which could be a means to diversify regional exposures.

Cost environment could remain stable. Previously affected by unfavourable commodity prices stemming from unfavourable hedging, we continue to expect the group to operate in a more favourable cost environment in the near term. This is on the back of: (i) better hedged positions, and (ii) overall easing commodity trends. Furthermore, indicative trends for the group's key commodities (i.e. coffee, dairy, sugar) do not appear to demonstrate high volatility that could undermine input costs meaningfully upon the lapse of its hedging positions. Additionally, the group could be mostly unaffected by rises in minimum wages as they are operating with a labour force mostly paid above RM1,100/month.

Post-visit, we remain reassured by the group's medium-term prospects. Prioritising on profitability would ensure that the group continues to be sustainable in the longer term. While the group continues to put its MENA expansion plan on hold, barring any sudden shift in the business environment there, we are comforted that the group's cash pile (i.e. c.RM22.0m as at 1H19) could allow the group to address the need for further injection into expansionary efforts domestically or abroad. We maintain our FY19E/FY20E assumptions as we believe the abovementioned merits have been sufficiently accounted for.

Maintain OUTPERFORM and TP of RM1.65. Our TP is based on an unchanged 17.0x FY20E PER, at -1SD over its 3-year mean. We believe our valuation is undemanding, being at a discount from the implied privatisation valuation of OLDTOWN at c.19x 1-year Fwd. PER, while the discount was previously premised on PWROOT's more volatile outlook. On top of a rebound from an unfavourable operating environment resulting in meaningful earnings growth potential, the stock also provides solid dividend yields of 5.1%/6.2% for FY19/FY20. For comparison, large-cap F&B players on average provide dividend yields of c.2.0%.

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: RM1.46
Target Price: RM1.65 ↔

Expected Capital Gain: RM0.19 +13.0%
Expected Divd. Yield: RM0.08 +5.1%
Expected Total Return: RM0.27 +18.1%

KLCI Index 1,702.12

Stock Information

Bloomberg Ticker	PWRT MK Equity
Bursa Code	7237
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	395.3
Market Cap (RM m)	577.2
Par value per share (RM)	0.20
52-week range (H)	1.68
52-week range (L)	0.96
Free Float	48%
Beta	1.2
3-mth avg daily vol:	99,102

Major Shareholders

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

Summary Earnings Table

FY Mar (RM m)	2018A	2019E	2020E
Turnover	424.3	357.1	422.6
EBIT	9.8	36.2	49.8
PBT	10.3	36.5	50.5
Net Profit	9.7	33.0	43.0
Core PATAMI	23.5	30.9	40.3
Consensus (NP)	-	34.5	42.6
Earnings Revision	-	0.0%	0.0%
Core EPS (sen)	6.0	7.6	9.6
Core EPS growth (%)	-35.6%	27.4%	26.3%
NDPS (sen)	9.5	7.5	9.0
NTA per Share (RM)	0.53	0.56	0.60
Price to NTA (x)	2.8	2.6	2.4
PER (x)	24.5	19.2	15.2
Debt-to-Equity ratio (x)	(0.1)	(0.2)	(0.2)
Return on Asset (%)	2.5%	8.7%	10.8%
Return on Equity (%)	4.0%	14.1%	16.8%
Net Div. Yield (%)	6.5%	5.1%	6.2%

Share Price Performance



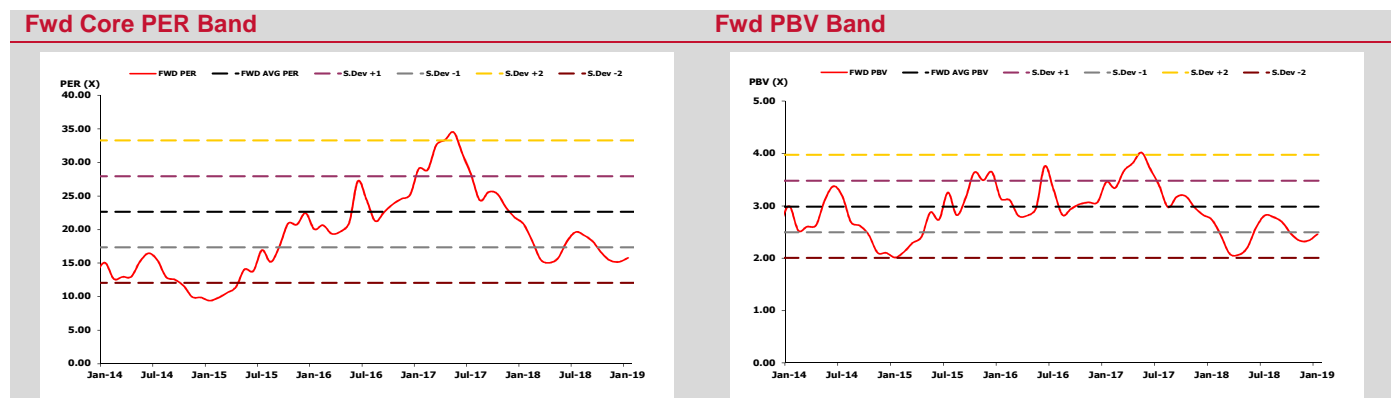
	1 mth	3 mths	12 mths
Absolute (%)	13.2%	-2.7%	-5.3%
Relative (%)	11.3%	-2.9%	2.1%

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23 January 2019

Income Statement						Financial Data & Ratios					
FY Mar (RM m)	2016A	2017A	2018A	2019E	2020E	FY Mar (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	367.5	399.3	424.3	357.1	422.6	Growth (%)					
Core EBITDA	58.0	53.2	30.5	42.9	57.1	Turnover	-4.1%	8.6%	6.3%	-15.8%	18.3%
Operating Profit	43.4	53.9	9.8	36.2	49.8	EBITDA	-13.6%	21.0%	-73.2%	165.0%	33.1%
Depreciation	-6.4	-6.4	-6.4	-6.7	-7.2	Operating Profit	-15.5%	24.1%	-81.8%	269.4%	37.9%
Interest Inc/(Exp)	0.9	0.9	0.5	0.4	0.7	PBT	-14.2%	23.4%	-81.2%	254.4%	38.3%
Profit Before Tax	44.4	54.8	10.3	36.5	50.5	Core PATAMI	11.2%	-29.4%	-35.6%	31.6%	30.4%
Taxation	0.8	-7.5	-0.6	-3.5	-7.5	Profitability (%)					
Net Profit	45.2	47.2	9.7	33.0	43.0	EBITDA Margin*	15.8%	13.3%	7.2%	12.0%	13.5%
Core PATAMI	51.6	36.4	23.5	30.9	40.3	Operating Margin	11.8%	13.5%	2.3%	10.1%	11.8%
						PBT Margin	12.1%	13.7%	2.4%	10.2%	12.0%
						Core Net Margin	14.0%	9.1%	5.5%	8.7%	9.5%
						Effective Tax Rate	-1.9%	13.8%	5.6%	9.7%	14.8%
						ROA	13.5%	12.7%	2.5%	8.7%	10.8%
						ROE	18.6%	17.8%	4.0%	14.1%	16.8%
						* Adjusted for write-offs and impairments					
						DuPont Analysis					
						Net Margin (%)	14.0%	9.1%	5.5%	8.7%	9.5%
						Assets Turnover (x)	1.1	1.1	1.2	1.0	1.1
						Leverage Factor (x)	1.4	1.4	1.7	1.5	1.6
						ROE (%)	18.6%	17.8%	4.0%	14.1%	16.8%
						Leverage					
						Debt/Asset (x)	0.0	0.0	0.1	0.1	0.1
						Debt/Equity (x)	0.0	0.0	0.2	0.1	0.1
						Net (Cash)/Debt	(60.5)	(56.2)	(19.4)	(49.6)	(52.1)
						Net Debt/Equity (x)	(0.3)	(0.2)	(0.1)	(0.2)	(0.2)
						Valuations					
						Core EPS (sen)	13.1	9.3	6.0	7.6	9.6
						NDPS (sen)	8.6	9.2	9.5	7.5	9.0
						BV/sh (RM)	0.6	0.6	0.5	0.6	0.6
						PER (x)	11.1	15.8	24.5	19.2	15.2
						Div. Yield (%)	5.9%	6.3%	6.5%	5.1%	6.2%
						PBV (x)	2.4	2.3	2.8	2.6	2.4
						EV/EBITDA (x)	18.2	16.1	35.5	22.2	20.1

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

23 January 2019

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	1.43	1,614.3	N	12/2018	8.2%	5.2%	3.2%	13.0%	35.2	34.1	30.2	23.8	20.5	64.6%	2.1%	1.30	MP
AEON CO (M) BHD	1.49	2,092.0	Y	12/2018	6.6%	4.1%	13.4%	14.1%	19.9	17.6	15.4	1.1	1.0	6.0%	2.7%	2.00	OP
AMWAY MALAYSIA HOLDINGS BHD	5.80	953.4	Y	12/2018	0.0%	3.0%	-20.6%	37.4%	18.1	22.8	16.6	4.5	4.3	19.1%	3.4%	6.80	MP
DUTCH LADY MILK INDUSTRIES BHD	60.92	3,898.9	Y	12/2018	-2.0%	2.9%	-0.4%	18.0%	31.3	27.3	24.0	37.5	36.8	131.6%	3.6%	64.10	MP
FRASER & NEAVE HOLDINGS BHD	34.16	12,529.2	Y	09/2019	4.2%	4.1%	2.7%	4.0%	31.6	30.8	29.6	5.4	5.1	17.0%	1.9%	33.30	MP
HAI-O ENTERPRISE BHD	2.75	798.5	N	04/2019	-13.1%	2.3%	-24.1%	2.1%	13.1	9.5	7.9	2.8	2.6	16.6%	7.9%	2.20	Up
MYNEWS HOLDINGS BHD	1.38	941.4	N	10/2018	27.3%	14.2%	21.0%	20.7%	35.5	29.4	24.3	3.4	3.1	11.1%	0.7%	1.25	UP
NESTLE (MALAYSIA) BHD	147.90	34,682.6	Y	12/2018	3.5%	1.1%	11.4%	13.7%	53.7	48.2	42.4	54.2	51.1	109.1%	2.0%	146.50	MP
PADINI HOLDINGS BHD	3.74	2,460.6	Y	06/2019	10.5%	5.1%	1.2%	10.8%	13.8	13.6	12.3	3.8	3.2	25.6%	3.1%	4.05	OP
PARKSON HOLDINGS BHD	0.27	282.8	Y	06/2019	4.3%	0.2%	185.3%	13.6%	N.A.	17.5	15.4	0.1	0.1	0.5%	0.0%	0.25	MP
POWER ROOT BHD	1.46	577.2	Y	03/2019	-15.8%	18.3%	31.6%	30.4%	24.5	17.7	14.0	2.8	2.6	15.1%	5.5%	1.65	OP
QL RESOURCES BHD	6.90	11,194.8	Y	03/2019	7.2%	11.1%	3.1%	8.7%	54.3	51.5	48.3	5.9	5.5	11.4%	0.7%	5.70	UP
SPRITZER BHD	2.13	447.2	Y	12/2018	10.4%	4.0%	14.7%	10.9%	16.3	16.4	14.8	1.0	1.1	7.1%	2.8%	2.30	MP
Simple Average					3.9%	5.8%	18.7%	15.2%	28.9	25.9	22.7	11.2	10.5	33.4%	2.8%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	37.50	10,707.4	N	12/2018	-1.5%	0.3%	-12.2%	0.6%	20.5	23.3	23.2	28.0	26.4	116.6%	4.1%	29.10	UP
CARLSBERG BREWERY MALAYSIA BHD	20.20	6,213.9	N	12/2018	9.9%	7.7%	17.2%	9.8%	27.9	23.8	21.7	19.9	20.0	87.2%	4.3%	17.70	UP
HEINEKEN MALAYSIA BHD	20.80	6,283.6	N	12/2018	5.0%	6.1%	1.2%	3.0%	23.3	23.0	22.3	17.4	17.4	75.6%	4.3%	18.60	MP
Simple Average					4.5%	4.7%	2.1%	4.5%	23.9	23.4	22.4	21.8	21.2	93.1%	4.2%		
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.30	471.8	N	04/2019	10.1%	8.6%	2111.6%	16.4%	401.5	18.2	15.6	1.3	1.2	6.6%	3.3%	1.84	BUY
BONIA CORPORATION BHD	0.26	209.5	Y	06/2019	-6.5%	3.2%	-49.8%	61.8%	10.6	21.1	13.0	0.5	0.4	3.3%	2.3%	0.22	SELL
COCOALAND BHD	1.98	453.0	Y	12/2018	4.6%	2.4%	-7.0%	9.2%	13.5	14.5	13.3	1.9	1.7	13.4%	5.7%	2.45	BUY
LAY HONG BHD	0.42	277.3	Y	03/2019	-1.5%	9.3%	-43.7%	93.7%	7.6	13.4	6.9	0.9	0.8	4.1%	1.2%	0.49	BUY
KAWAN FOOD BHD	1.84	661.5	Y	12/2018	8.5%	17.4%	-13.3%	43.1%	22.7	26.2	18.3	2.1	1.7	7.9%	2.4%	2.45	NEUTRAL
MAGNI-TECH INDUSTRIES BHD	4.29	697.8	Y	04/2019	13.0%	7.0%	16.0%	11.3%	7.6	6.6	5.9	1.4	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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