

27 February 2019

Power Root Bhd 9M19 Broadly Within

9M19 core PATAMI of RM21.0m (-5%) and 1.7 sen dividend deemed as broadly within expectations. A stronger 4Q19 set of results is expected from a recovery in export sales. Other prospects for the group include healthier client profiles, lower production costs and leaner production methods. Maintain OUTPERFORM and TP of RM1.65.

9M19 within expectation. 9M19 core net earnings of RM21.0m is deemed broadly within our/consensus estimates, making up 68%/64% of respective full-year forecasts. We anticipate a stronger 4Q19 to be driven by better operating margins and export sales. A 1.7 sen interim dividend was declared, for YTD dividend of 3.4 sen. We also deem this to be within our anticipated full-year payout of 7.5 sen (implying a c.98% payout).

YoY, 9M19 turnover of RM258.4m fell by 20% following weaker sales from both domestic and export markets. This could be due to the rationalisation of the group's distribution network which may have limited orders and outreach. In spite of the lower top-line, PBT grew by 35% with margin of 10.8% (+4.4ppt) thanks to improvements in input costs (namely coffee and dairy products) and streamlined operating landscape. 9M19 core PATAMI registered at RM21.0m (-5%), following higher effective taxes and adjustments to one-off items (i.e. forex gains/losses).

QoQ, 3Q19 sales decreased by 6% mainly due to a shortfall in export sales (-12%) from the change in distributorship. Domestic sales during the quarter were flattish. Thanks to the same better operating environment mentioned above and lower effective taxes, 3Q19 core PATAMI improved to RM6.5m (+4%).

Inspiring a finer brew. 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. We also take comfort with the present commodity price trends which appear more stable as compared to previous years. Management is hopeful to achieve its desired distribution base soon, whereas previously, sales through certain networks led to a drag in profitability. In relation to the plans to expand production facilities in the MENA region, the group continues to be mindful on the trade policies within the region to a point where it would be more economically viable to produce products there as opposed to importing from Malaysia.

Post-results, we leave our FY19E/FY20E earnings unchanged.

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 to the implied privatisation valuation of OLD TOWN 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 5.2%/6.3% 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: RM1.42
Target Price: RM1.65 ↔

Expected Capital Gain: RM0.23 +16.2%
Expected Divd. Yield: RM0.08 +5.3%
Expected Total Return: RM0.31 +21.5%

KLCI Index 1,719.00

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)	561.4
Par value per share (RM)	0.20
52-week range (H)	1.68
52-week range (L)	0.96
Free Float	46%
Beta	1.2
3-mth avg daily vol	138,432

Major Shareholders

Dato' How Say Swee	20.3%
Dato' Wong Fuei Boon	18.8%
Dato' Low Chee Yen	15.2%

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)	-	33.0	40.0
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)	2.7	2.5	2.4
PER (x)	23.8	18.7	14.8
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 (%)	6.7%	5.3%	6.3%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	1.4%	2.9%	0.2%
Relative (%)	0.2%	1.9%	7.8%

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Results Highlights

	3Q	2Q	QoQ	3Q*	YoY	9M	9M*	YTD
FYE Mar (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	81.9	87.3	-6.2%	107.4	-23.8%	258.4	321.2	-19.6%
Adj. EBITDA [^]	9.4	9.6	-2.5%	9.8	-3.8%	29.9	28.2	5.8%
EBIT	8.5	8.8	-3.6%	6.6	29.4%	27.6	20.2	36.8%
PBT	8.2	8.9	-8.0%	6.7	22.3%	27.9	20.8	34.5%
Taxation	-1.2	-1.9	38.5%	-0.1	-758.8%	-4.6	-1.1	-315.0%
Net Profit	7.0	7.0	0.3%	6.6	7.1%	23.3	19.6	18.7%
Core PATAMI	6.5	6.2	3.6%	8.1	-20.3%	21.0	22.1	-4.9%
EPS (sen)	1.9	1.9	3.6%	3.4	-42.7%	6.4	7.5	-15.6%
DPS (sen)	1.7	1.7		2.5		5.1	9.0	
Adj. EBITDA margin	11.5%	11.0%		9.1%		11.6%	8.8%	
EBIT margin	10.4%	10.1%		6.1%		10.7%	6.3%	
PBT margin	10.0%	10.2%		6.2%		10.8%	6.5%	
PATAMI margin	7.9%	7.1%		6.1%		8.1%	6.9%	
Effective tax rate	14.2%	21.3%		2.0%		16.5%	5.4%	

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

	3Q	2Q	QoQ	3Q*	YoY	9M	9M*	YTD
FYE Mar (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Domestic	43.7	43.7	0.0%	55.6	-21.5%	125.5	169.7	-26.0%
Export	38.2	43.6	-12.4%	59.5	-35.8%	132.9	174.3	-23.8%
Total	81.9	87.3	-6.2%	115.1	-28.9%	258.4	344.0	-24.9%

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	1.45	1,636.9	N	12/2018	12.4%	4.9%	13.6%	5.5%	34.9	30.7	29.1	24.1	23.4	77.5%	2.8%	1.30	UP
AEON CO (M) BHD	1.58	2,218.3	Y	12/2018	6.6%	4.1%	13.4%	14.1%	21.1	18.6	16.3	1.1	1.1	6.0%	2.5%	2.00	OP
AMWAY MALAYSIA HOLDINGS BHD	6.09	1,001.1	Y	12/2018	2.2%	2.0%	5.5%	6.3%	18.4	17.4	16.4	4.3	4.0	23.8%	4.5%	6.80	OP
DUTCH LADY MILK INDUSTRIES BHD	63.20	4,044.8	Y	12/2018	-2.0%	2.9%	-0.4%	18.0%	32.5	28.3	24.8	38.9	38.1	131.6%	3.5%	64.10	MP
FRASER & NEAVE HOLDINGS BHD	35.88	13,160.0	Y	09/2019	3.9%	3.6%	4.2%	3.6%	33.2	32.3	31.1	5.7	5.3	17.2%	1.8%	33.85	MP
HAI-O ENTERPRISE BHD	2.84	824.6	N	04/2019	-13.1%	2.3%	-24.1%	2.1%	13.8	9.8	8.1	2.9	2.7	16.6%	7.6%	2.20	UP
MYNEWS HOLDINGS BHD	1.36	927.7	N	10/2018	27.3%	14.2%	21.0%	20.7%	35.0	28.9	24.0	3.3	3.1	11.1%	0.7%	1.25	UP
NESTLE (MALAYSIA) BHD	149.00	34,940.5	Y	12/2019	-0.2%	5.1%	25.9%	1.1%	53.8	42.3	42.3	53.4	50.7	125.7%	2.3%	146.50	MP
PADINI HOLDINGS BHD	3.46	2,276.4	Y	06/2019	10.5%	5.1%	1.2%	10.8%	12.8	12.6	11.4	3.5	3.0	25.6%	3.3%	4.05	OP
PARKSON HOLDINGS BHD	0.235	250.8	Y	06/2019	4.3%	0.2%	185.3%	13.6%	N.A.	15.5	13.6	0.1	0.1	0.5%	0.0%	0.250	MP
POWER ROOT BHD	1.42	561.4	Y	03/2019	-15.8%	18.3%	31.6%	30.4%	23.8	17.2	13.6	2.7	2.5	15.1%	5.6%	1.65	OP
QL RESOURCES BHD	6.95	11,275.9	Y	03/2019	7.2%	11.1%	3.1%	8.7%	54.7	51.9	48.7	6.0	5.5	11.4%	0.6%	5.70	UP
SPRITZER BHD	2.18	457.7	Y	12/2019	4.0%	5.0%	3.1%	12.6%	18.9	18.3	16.3	1.2	1.1	6.3%	1.8%	1.90	UP
Simple Average					3.6%	6.1%	21.8%	11.4%	29.4	24.9	22.7	11.3	10.8	36.0%	2.9%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	34.70	9,907.9	N	12/2019	1.5%	4.0%	-0.5%	3.4%	21.1	21.3	20.5	23.5	22.3	107.6%	4.5%	32.65	UP
CARLSBERG BREWERY MALAYSIA BHD	24.30	7,475.2	N	12/2019	9.7%	4.1%	6.4%	4.7%	27.3	25.6	24.5	43.9	48.5	173.3%	4.1%	18.00	UP
HEINEKEN MALAYSIA BHD	22.72	6,863.7	N	12/2019	6.0%	5.0%	1.8%	5.8%	25.4	25.1	24.4	19.0	19.0	77.4%	4.2%	21.90	MP
Simple Average					5.7%	4.4%	2.6%	4.7%	24.6	24.0	23.1	28.8	29.9	119.4%	4.3%		
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.44	522.6	N	04/2019	10.7%	9.7%	2117.6%	16.4%	444.8	20.1	17.2	1.4	1.3	6.6%	3.0%	1.86	BUY
BONIA CORPORATION BHD	0.255	205.4	Y	06/2019	-6.5%	3.2%	-49.8%	61.8%	10.4	20.7	12.8	0.5	0.4	2.2%	2.4%	0.225	SELL
COCOALAND BHD	2.12	485.1	Y	12/2018	4.6%	2.4%	-7.0%	9.2%	14.5	15.6	14.3	2.0	1.8	11.9%	5.3%	2.45	BUY
LAY HONG BHD	0.410	270.7	Y	03/2019	8.2%	11.7%	-29.1%	46.2%	7.4	10.4	7.1	0.8	0.8	N.A.	1.2%	N.A.	BUY
KAWAN FOOD BHD	1.65	593.2	Y	12/2018	8.5%	17.4%	-13.3%	43.1%	20.4	23.5	16.4	1.9	1.6	7.9%	2.7%	3.02	NEUTRAL
MAGNI-TECH INDUSTRIES BHD	4.56	741.7	Y	04/2019	13.0%	7.0%	16.0%	11.3%	8.1	7.0	6.3	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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