

15 May 2019

## Power Root Bhd FY19 Results' Preview

We anticipate FY19 earnings to come within our/consensus expectations, at c.RM29.0-RM33.0m (+23-40%). Post-meeting, we take comfort that key positives are still intact; such as (i) consolidation of local and export distributors could trigger lower YoY sales but better profitability, (ii) better comparative raw material exposure, and (iii) streamlined operational processes should bring better efficiency. Reiterate **OUTPERFORM** call and TP of RM1.65.

**FY19 expectations.** In the upcoming 4Q19 results, we anticipate core profits to amount at RM7m-RM12m, from RM6.5m in 3Q19. Earnings expansion could be translated from the materialisation of: (i) the group's rationalisation of its distributor and client profile, but could bring about impairments/provisions; (ii) better commodities (mainly coffee) prices; and (iii) cost savings from various operational streamlining exercises. Note that 4Q18 core results registered at RM0.4m, as the period was bogged by poor sales environment and highly suppressed margins.

On a full-year FY19 basis, this would translate to core net earnings to range between RM29.0m-RM33.0m (+23-40% YoY). This is within our/consensus full-year estimates of RM30.9m/RM30.5m (+32% YoY), respectively. However, we anticipate sales could come off at RM357.1m (-16%) owing to the above. With a 5.1 sen dividend paid YTD, we anticipate a lumpier 4Q19 payment to arrive close to our FY19E's 7.5 sen expectation, slightly below a 100% payout.

**Sales mix still helmed by exports.** During the last 9M19, exports made up 51% of total sales, mainly comprising the MENA region (est. 80%). We anticipate exports to see better growth trajectory given the larger market base, backed by a change in distributor who could bring group products to newer markets. Meanwhile, local sales may continue to be hindered by the abovementioned rationalisation in client portfolio. Still, in the near term, it is possible that new channels and renegotiation of existing channels from here could stimulate a recovery in domestic volume growth. While impairments could come from these new arrangements, we do not anticipate them to deviate too far from our current assumptions. New product ranges to be introduced in the medium term could also play a part in driving sales. Overall, we believe that this could lead to FY20E registering sales of RM422.6m (+18% YoY).

**Entering a more favourable cost environment.** The group is currently poised to enjoy a favourable hedging on coffee commodity prices, compared to when it previously hedged at peak levels in FY18. We anticipate improvements could be about 20%. Furthermore, the group is not expected to see adverse impact from rising milk commodity prices due to its utilisation of non-dairy palm oil creamers. Operationally, the group have introduced internal systems to optimise operating expenses and minimising wastages. While some processes may require a longer time span to execute effectively (mainly on data-intensive systems), this could bring about meaningful improvements in the long run. In terms of capacity, management appears confident that it is able to cope with any rise in production output in the near-term, with minor capex spent on upgrading and extending existing lines. The group could still resort to adding more shifts if necessary. Given the abovementioned boons, we do not think it is excessive for the group to generate core profits of RM40.3m (+30% YoY) in FY20E, also being a rebound from lower based earnings.

**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, also on our unchanged FY19E/FY20E earnings assumptions. We believe our valuation is undemanding, being at a discount to the implied privatisation valuation of OLDTOWN at 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 5.6%/6.7% for FY19/FY20. For comparison, large-cap F&B players on average provide dividend yield of c.2.0%.

## OUTPERFORM ↔

Price: **RM1.34**  
Target Price: **RM1.65** ↔

Expected Capital Gain: **RM0.31 +23.1%**  
Expected Divd. Yield: **RM0.08 +5.6%**  
Expected Total Return: **RM0.39 +28.7%**

KLCI Index **1,599.19**

### Stock Information

Bloomberg Ticker	PWRT MK Equity
Bursa Code	7237
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	395.9
Market Cap (RM m)	530.5
Par value per share (RM)	0.20
52-week range (H)	1.68
52-week range (L)	1.06
Free Float	46%
Beta	1.2
3-mth avg daily vol:	231,833

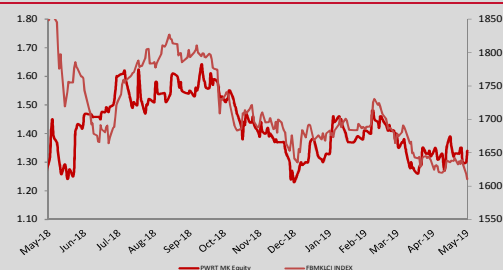
### Major Shareholders

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	36.6	50.6
<b>Net Profit</b>	<b>9.7</b>	<b>33.0</b>	<b>43.1</b>
<b>Core PATAMI</b>	<b>23.5</b>	<b>30.9</b>	<b>40.3</b>
Consensus (NP)	-	30.5	37.5
Earnings Revision	-	0.0%	0.0%
Core EPS (sen)	6.0	7.6	9.6
Core EPS growth (%)	-35.6%	27.5%	26.3%
NDPS (sen)	9.5	7.5	9.0
NTA per Share (RM)	0.53	0.56	0.60
Price to NTA (x)	2.5	2.4	2.2
PER (x)	22.5	17.6	13.9
Debt-to-Equity ratio (x)	(0.1)	(0.2)	(0.2)
Return on Asset (%)	2.5%	8.7%	10.7%
Return on Equity (%)	4.0%	14.1%	16.8%
Net Div. Yield (%)	7.1%	5.6%	6.7%

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	0.0%	-5.0%	3.1%
Relative (%)	2.0%	0.3%	16.6%

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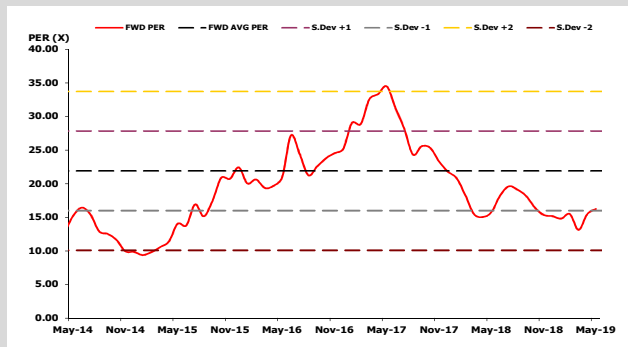
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**Risks to our call include:** (i) lower-than-expected sales, (ii) higher-than-expected commodity and marketing costs, and (iii) lower-than-expected dividend payments.

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	<b>Growth (%)</b>					
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	<b>Profitability (%)</b>					
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					
						<b>DuPont Analysis</b>					
						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%
						<b>Leverage</b>					
						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)
						<b>Valuations</b>					
						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)	10.2	14.5	22.5	17.6	14.0
						Div. Yield (%)	6.5%	6.9%	7.1%	5.6%	6.7%
						PBV (x)	2.2	2.1	2.5	2.4	2.2
						EV/EBITDA (x)	18.2	16.1	35.5	22.2	20.1

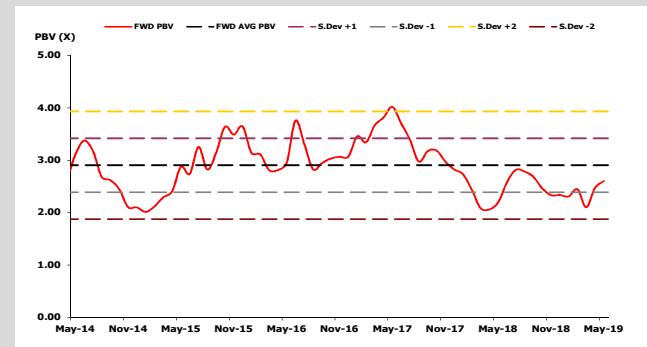
Source: Kenanga Research

Fwd Core PER Band



Source: Bloomberg, Kenanga Research

Fwd PBV Band



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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.		
<b>F&amp;B AND RETAIL</b>																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.48	1,702.3	N	12/2018	12.4%	4.9%	13.6%	5.5%	35.6	31.3	29.7	24.6	23.9	77.5%	2.7%	1.30	UP
AEON CO (M) BHD	1.42	1,993.7	Y	12/2018	6.5%	3.1%	17.3%	9.2%	18.8	16.0	14.7	1.0	1.0	5.3%	2.8%	2.00	OP
AMWAY MALAYSIA HOLDINGS BHD	6.00	986.3	Y	12/2018	2.2%	2.0%	5.5%	6.3%	18.1	17.2	16.1	4.2	4.0	23.8%	4.6%	6.80	OP
DUTCH LADY MILK INDUSTRIES BHD	64.00	4,096.0	Y	12/2018	1.0%	2.0%	-2.2%	7.0%	33.0	28.3	27.5	38.8	36.8	115.2%	3.0%	62.90	MP
FRASER & NEAVE HOLDINGS BHD	33.86	12,419.1	Y	09/2019	5.9%	7.0%	9.4%	2.9%	31.3	28.6	27.8	5.4	5.0	18.0%	1.9%	36.60	MP
HAI-O ENTERPRISE BHD	2.46	714.3	N	04/2019	-20.3%	2.3%	-30.7%	2.1%	12.0	8.5	7.0	2.5	2.3	15.2%	4.1%	2.10	UP
MYNEWS HOLDINGS BHD	1.40	955.0	N	10/2018	27.3%	14.2%	21.0%	20.7%	36.0	29.8	24.7	3.4	3.2	11.1%	0.7%	1.25	UP
NESTLE (MALAYSIA) BHD	145.00	34,002.5	Y	12/2019	2.3%	3.8%	12.8%	4.3%	52.4	46.4	44.5	52.0	50.3	114.7%	2.2%	137.00	MP
PADINI HOLDINGS BHD	3.70	2,434.3	Y	06/2019	10.5%	5.1%	1.2%	10.8%	13.7	13.5	12.2	3.7	3.2	25.6%	3.1%	4.25	OP
PARKSON HOLDINGS BHD	0.250	266.8	Y	06/2019	4.3%	0.2%	185.3%	13.6%	N.A.	16.5	14.5	0.1	0.1	0.5%	0.0%	0.250	MP
POWER ROOT BHD	1.34	530.5	Y	03/2019	-15.8%	18.3%	31.6%	30.4%	22.5	16.2	12.8	2.5	2.4	15.1%	5.6%	1.65	OP
QL RESOURCES BHD	6.70	10,870.3	Y	03/2019	8.1%	12.2%	11.0%	7.3%	52.7	47.5	44.3	5.7	5.3	12.2%	0.7%	6.05	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
<b>Simple Average</b>					<b>3.7%</b>	<b>6.2%</b>	<b>21.5%</b>	<b>10.2%</b>	<b>28.7</b>	<b>24.5</b>	<b>22.5</b>	<b>11.2</b>	<b>10.7</b>	<b>33.9%</b>	<b>2.6%</b>		
<b>SIN</b>																	
BRITISH AMERICAN TOBACCO (M) BHD	33.70	9,622.4	N	12/2019	1.5%	4.0%	-0.5%	3.4%	20.5	20.6	20.0	22.8	21.6	107.6%	4.6%	32.65	MP
CARLSBERG BREWERY MALAYSIA BHD	25.30	7,782.8	N	12/2019	9.7%	4.1%	6.4%	4.7%	28.4	26.7	25.5	45.7	50.5	173.3%	4.0%	21.80	UP
HEINEKEN MALAYSIA BHD	23.66	7,147.6	N	12/2019	6.0%	5.0%	1.8%	5.8%	26.5	26.2	25.4	19.8	19.8	77.4%	4.0%	21.90	MP
<b>Simple Average</b>					<b>5.7%</b>	<b>4.4%</b>	<b>2.6%</b>	<b>4.7%</b>	<b>25.1</b>	<b>24.5</b>	<b>23.6</b>	<b>29.5</b>	<b>30.6</b>	<b>119.4%</b>	<b>4.2%</b>		
<b>CONSENSUS ESTIMATES</b>																	
BERJAYA FOOD BHD	1.73	620.0	N	06/2019	8.2%	9.8%	2328.0%	14.4%	527.7	21.7	19.0	1.7	1.6	7.3%	2.8%	2.08	BUY
BONIA CORPORATION BHD	0.270	215.6	Y	06/2019	-6.8%	3.1%	-46.3%	50.8%	10.9	20.3	13.4	0.6	0.5	2.5%	2.2%	0.220	SELL
COCOALAND BHD	1.88	430.1	Y	12/2019	6.7%	5.2%	0.9%	7.5%	13.9	13.8	12.8	1.8	1.7	12.4%	4.7%	2.16	NEUTRAL
KAWAN FOOD BHD	1.50	539.3	Y	12/2019	16.7%	20.3%	50.8%	23.4%	23.0	15.3	12.4	1.7	1.5	10.4%	2.5%	2.16	BUY
MAGNI-TECH INDUSTRIES BHD	4.47	727.1	Y	04/2019	13.0%	7.0%	16.0%	11.3%	8.0	6.9	6.2	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%

**\*\* The Expected Total Return might contain rounding discrepancy**

**\*\*\*Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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