

Power Root Bhd The Coffee Is Still Hot

We came away from PWROOT's first ever analysts' briefing feeling convincingly positive on the company. This is premised on: (i) continuous earnings recovery going forward, driven by on-going cost improvements and streamlining of distributorships, and (ii) fresh strategies to provide exciting growth prospects by tapping into new markets with more efficiently appointed distributors as well as new SKUs. Reiterate OP with unchanged TP of RM2.30.

1Q20 Results Recap. Recall that the group's 1Q20 earnings surged 36% YoY, which was largely driven by: (i) stronger domestic sales (+29%) led by new product launches as well as rationalised distributorships, and (ii) improved EBITDA margin (+2.1ppt) due to more prudent A&P spending.

Continuous earnings recovery. PWROOT is expected to see a year of earnings recovery as most of its rationalisation exercises are completed with streamlined operational processes set in place. Nonetheless, the group still aspires to continue driving cost-saving initiatives, which entail more disciplined A&P spending and newly installed operational system to enhance efficiencies. Coupled with its rationalised distributor portfolios, which are more efficient, we believe this bodes well for healthier margins moving forward with our projected net margin of c.11% in FY20 compared to c.5% net margin for FY18. More favourable hedged positions for its raw material (mainly coffee) should also help keep its production costs fairly stable.

It does not stop here. On top of the normalisation of earnings following the rationalisation exercises, we gathered that the group is tapping into the growth opportunities in emerging markets (currently exporting to >40 countries). This will be done by: (i) ramping up their presence in the non-GCC region by partnering with new, financially stronger distributors to allow more aggressive distribution, and (ii) re-entering China market with a stronger online strategy. We deem this to be a good direction for the group given the wider access to higher income consumers which could see a compounding brand awareness of the group internationally. Perhaps this is also timely, as the group's newly leaner operating methods could minimise/avoid hiccups and mismanagement of costs suffered in past episodes. Apart from that, the group has in their pipeline a new range of SKUs which are targeted at the untapped markets and could act as an avenue for the group to stay relevant to the evolving consumer palate.

Maintain OUTPERFORM with an unchanged TP of RM2.30. Our TP is based on an unchanged 20.0x FY21E PER, which is in-line with its 3-year mean. All-in, we still like the company for its earnings recovery story, solid balance sheet coupled with a decent dividend yield of c.5% (versus the large-cap F&B players' average of c.2%). Hence, we believe there is still upside with the aforementioned key positives remaining intact, in spite of the share price surging c.48% YTD.

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: RM1.95
Target Price: RM2.30 ↔

Expected Capital Gain: RM0.35 +17.9%
Expected Divd. Yield: RM0.09 +4.6%
Expected Total Return: RM0.44 +22.6%

KLCI Index 1,595.18

Stock Information

Bloomberg Ticker	PWRT MK Equity
Bursa Code	7237
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	396.1
Market Cap (RM m)	772.3
Par value per share (RM)	0.20
52-week range (H)	2.00
52-week range (L)	1.21
Free Float	46%
Beta	1.4
3-mth avg daily vol:	737,922

Major Shareholders

Dato' Wong Fuei Boon	19.9%
Dato' How Say Swee	19.8%
Dato' Low Chee Yen	14.1%

Summary Earnings Table

FY Mar (RM m)	2019A	2020E	2021E
Turnover	338.0	379.5	416.2
EBIT	36.6	51.5	60.4
PBT	37.1	52.4	61.6
Net Profit	28.1	41.9	48.7
Core PATAMI	33.0	41.8	48.4
Consensus (NP)	-	41.6	47.3
Earnings Revision	-	-	-
Core EPS (sen)	8.4	10.3	11.5
Core EPS growth (%)	35.8%	22.5%	12.4%
NDPS (sen)	8.0	9.0	10.5
BVPS (RM)	0.56	0.60	0.64
PER (x)	23.3	19.0	16.9
PBV (x)	3.5	3.3	3.1
Net Gearing (x)	(0.1)	(0.2)	(0.2)
Net Div. Yield (%)	4.1%	4.6%	5.4%

Share Price Performance



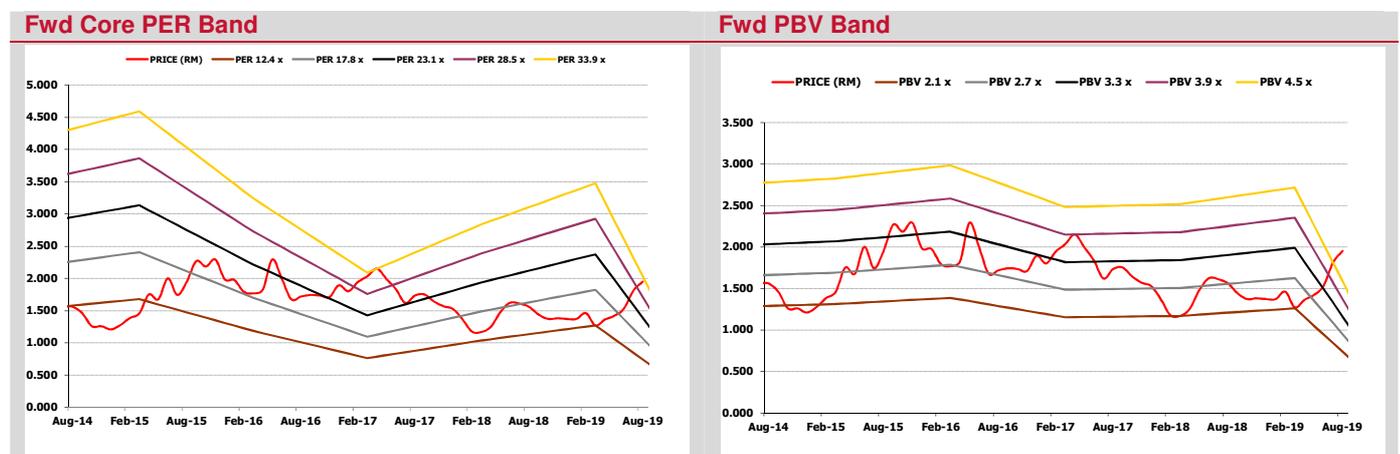
	1 mth	3 mths	12 mths
Absolute (%)	21.5%	38.2%	12.4%
Relative (%)	21.2%	35.8%	17.9%

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Income Statement						Financial Data & Ratios					
FY Mar (RM m)	2017A	2018A	2019A	2020E	2021E	FY Mar (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	399.3	424.3	338.0	379.5	416.2	Growth					
Core EBITDA	53.2	30.5	47.3	57.7	67.0	Turnover	8.6%	6.3%	-20.3%	12.3%	9.7%
Operating Profit	53.9	9.8	36.6	51.5	60.4	EBITDA	21.0%	-73.2%	161.8%	36.3%	16.2%
Depreciation	-6.4	-6.4	-5.8	-6.2	-6.6	Operating Profit	24.1%	-81.8%	273.7%	40.9%	17.2%
Interest Inc/(Exp)	0.9	0.5	0.5	0.9	1.2	PBT	23.4%	-81.2%	259.6%	41.4%	17.5%
Profit Before Tax	54.8	10.3	37.1	52.4	61.6	Core PATAMI	-29.4%	-35.6%	40.5%	26.6%	16.0%
Taxation	-7.5	-0.6	-8.9	-10.5	-12.9	Profitability					
Net Profit	47.2	9.7	28.1	41.9	48.7	EBITDA Margin*	13.3%	7.2%	14.0%	15.2%	16.1%
Core PATAMI	36.4	23.5	33.0	41.8	48.4	Operating Margin	13.5%	2.3%	10.8%	13.6%	14.5%
						PBT Margin	13.7%	2.4%	11.0%	13.8%	14.8%
						Core Net Margin	9.1%	5.5%	9.8%	11.0%	11.6%
						Effective Tax Rate	13.8%	5.6%	24.1%	20.0%	21.0%
						ROA	12.7%	2.5%	8.1%	12.0%	12.7%
						ROE	17.8%	4.0%	13.1%	18.0%	18.9%
						* Adjusted for write-offs and impairments					
						DuPont Analysis					
						Net Margin (%)	9.1%	5.5%	9.8%	11.0%	11.6%
						Assets Turnover (x)	1.1	1.2	1.0	1.0	1.0
						Leverage Factor (x)	1.4	1.7	1.5	1.5	1.5
						ROE (%)	17.8%	4.0%	15.4%	18.0%	18.9%
						Leverage					
						Debt/Asset (x)	0.0	0.1	0.1	0.1	0.0
						Debt/Equity (x)	0.0	0.2	0.1	0.1	0.1
						Net (Cash)/Debt	(56.2)	(19.4)	(38.2)	(56.5)	(64.9)
						Net Debt/Equity (x)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)
						Valuations					
						Core EPS (sen)	9.6	6.2	8.4	10.3	11.5
						NDPS (sen)	9.5	9.5	8.0	9.0	10.5
						BV/sh (RM)	0.7	0.5	0.6	0.6	0.6
						PER (x)	20.4	31.6	23.3	19.0	16.9
						Div. Yield (%)	4.9%	4.9%	4.1%	4.6%	5.4%
						PBV (x)	3.0	3.6	3.5	3.3	3.1
						EV/EBITDA (x)	15.7	34.4	12.7	12.3	12.0

Source: Kenanga Research



Source: Bloomberg, 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	1.46	1,710.4	N	12/2019	12.4%	4.9%	13.6%	5.5%	35.1	30.9	29.3	24.3	23.6	77.5%	2.7%	1.35	UP
AEON CO (M) BHD	1.46	2,049.8	Y	12/2019	5.5%	5.4%	-18.2%	9.6%	16.5	20.1	18.4	1.0	1.0	5.0%	2.7%	1.70	MP
AMWAY MALAYSIA HOLDINGS BHD	6.01	988.0	Y	12/2019	2.2%	2.0%	5.5%	6.3%	18.1	17.2	16.2	4.2	4.0	23.8%	4.6%	5.90	MP
DUTCH LADY MILK INDUSTRIES BHD	62.96	4,029.4	Y	12/2019	-3.0%	2.0%	-17.4%	10.0%	32.5	39.3	35.8	38.2	37.6	97.9%	2.5%	54.60	UP
FRASER & NEAVE HOLDINGS BHD	34.62	12,697.9	Y	09/2019	5.9%	7.0%	9.4%	2.9%	32.0	29.2	28.4	5.5	5.1	18.0%	1.9%	36.60	MP
HAI-O ENTERPRISE BHD	2.33	676.6	N	04/2020	1.7%	2.3%	0.1%	1.8%	14.3	14.3	14.0	2.1	2.2	15.1%	5.6%	1.95	UP
MYNEWS HOLDINGS BHD	1.41	961.8	N	10/2019	27.3%	14.2%	21.0%	20.7%	36.3	30.0	24.8	3.1	3.0	10.2%	0.7%	1.55	OP
NESTLE (MALAYSIA) BHD	147.00	34,471.5	Y	12/2019	2.5%	3.8%	3.5%	7.2%	53.1	51.3	47.9	52.7	51.9	104.6%	2.0%	128.00	UP
PADINI HOLDINGS BHD	3.65	2,401.4	Y	06/2020	6.2%	-1.6%	21.8%	12.7%	15.3	12.6	11.2	3.7	3.1	26.8%	3.2%	3.75	OP
PARKSON HOLDINGS BHD	0.22	234.8	Y	06/2019	1.2%	0.2%	-50.4%	718.1%	N.A.	N.A.	28.4	0.1	0.1	-1.7%	0.0%	0.24	UP
POWER ROOT BHD	1.95	772.3	Y	03/2020	12.3%	9.7%	26.6%	16.0%	23.3	19.0	16.9	3.5	3.2	18.1%	4.6%	2.30	OP
QL RESOURCES BHD	6.91	11,211.0	Y	03/2020	10.9%	4.5%	13.0%	4.2%	51.7	45.8	43.9	5.6	5.2	12.1%	0.8%	6.30	UP
SPRITZER BHD	2.40	503.9	Y	12/2019	5.1%	1.2%	14.6%	13.0%	20.8	18.2	16.1	1.3	1.2	7.0%	1.7%	2.40	MP
Simple Average					6.9%	4.3%	3.3%	63.7%	29.1	27.3	25.5	11.2	10.9	31.9%	2.5%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	19.50	5,567.8	N	12/2019	-12.8%	0.6%	-22.3%	0.7%	11.9	13.4	13.2	13.2	12.7	84.5%	6.2%	24.40	UP
CARLSBERG BREWERY MALAYSIA BHD	25.70	7,905.9	N	12/2019	11.4%	4.6%	6.9%	4.8%	28.8	27.0	25.7	46.5	50.8	186.7%	3.9%	25.95	OP
HEINEKEN MALAYSIA BHD	24.44	7,383.3	N	12/2019	6.1%	5.0%	2.8%	5.1%	26.1	25.4	24.2	19.9	19.7	77.9%	3.9%	23.25	MP
Simple Average					1.6%	3.4%	-4.2%	3.5%	22.3	21.9	21.0	26.5	27.7	116.4%	4.7%		
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.56	559.5	N	06/2019	9.8%	8.4%	14.3%	9.3%	21.3	18.6	17.0	1.5	1.5	7.5%	2.9%	1.94	BUY
BONIA CORPORATION BHD	0.27	209.2	Y	06/2020	1.5%	2.8%	-8.8%	5.7%	11.6	12.7	12.0	0.6	0.6	3.9%	3.0%	0.28	SELL
COCOALAND BHD	1.87	427.9	Y	12/2019	5.7%	7.1%	6.2%	9.8%	13.8	13.0	11.9	1.7	1.7	13.4%	4.1%	2.36	NEUTRAL
KAWAN FOOD	1.21	435.0	Y	12/2019	10.5%	14.5%	-41.0%	61.1%	19.1	32.3	20.0	1.4	1.3	4.1%	2.1%	1.14	SELL
MAGNI-TECH INDUSTRIES BHD	5.31	863.7	Y	04/2020	18.8%	4.5%	13.0%	5.2%	8.4	7.4	7.1	1.6	N.A.	20.3%	N.A.	6.60	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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