

Power Root Bhd FY20 Going Strong

We came back from an analysts' briefing (with c.70 attendees) feeling reassured on the group's upbeat outlook. Apart from new SKUs and fresh marketing initiatives to propel growth, we opine the group will benefit from: (i) controlled raw material costs, (ii) prudent A&P spending which emphasises on ROI, and (iii) continuous distribution streamlining. **Maintain OUTPERFORM with higher TP of RM2.75 as we lower our tax rate assumptions on better guidance.**

Venturing into 3-in-1 coffee and latte markets. Moving into 2HFY20, management has identified three key initiatives to propel growth. Firstly, the group is tapping into the mainstream 3-in-1 coffee and latte markets through the introduction of a new range called "Frenche Roast". Four new SKUS will be offered under the range which is earmarked to be launched in 4QFY20. While this sub-sector tends to yield lower margins when compared the group's core functional coffee product, we opine that this would aid in firming up the group's portfolio as a beverage player by tapping into a previously untapped target audience. Besides that, upcoming festive sales look to be backed by new CNY promos for the Ah Huat's range through an upgraded version of the popular Ah Huat's lucky tumbler and Angpao. Lastly, the group is also rebranding its core Oligo brand with the inclusion of a new mascot, packaging and marketing initiatives, which aims to retain and attract younger target customers.

Regional push. Exports account for c.51% of the group's total sales, with the MENA region being the main market. Recap that the stronger export sales seen in 1HFY20 (+7.3%) is largely led by robust growth in the MENA region, especially from Qatar and Saudi Arabia. While Gulf Cooperation Council (GCC) regions typically offer higher margins, the group is looking to venture into the non-GCC region moving forward, which should be supported by potential investment in a ready factory with an estimated capex of RM30.0m (inclusive of land, machineries and working capital). Meanwhile, China remains an e-commerce market and a longer-term strategy for the group with key products being Ah Huat range and Ali Café.

Managing costs. With the anticipation of new products in tandem with fresh marketing initiatives ahead of CNY, the group reassured that they will remain prudent on its A&P spending by emphasising on ROI, with a guidance of A&P taking up 14-18% of top-line in FY20. We also take comfort in the controlled raw material costs as the group managed to lock in favourable coffee bean prices until March 2021, and is currently in the midst of locking in creamer prices (currently already c.40% requirement already locked in). All-in, coupled with continuous operational streamlining and a guided lower tax rate of c.12-14% on tax incentives (versus FY19 of 24%), we believe that the group is poised for margin expansion moving forward.

Maintain OUTPERFORM with a higher TP of RM2.75 (from RM2.60) on a FY20E/FY21E earnings upgrade of 4%/6% as we pencilled in lower tax assumptions. Our TP is based on an unchanged FY21E PER of 20.0x, (in-line with its 3-year mean).

All-in, we continue to like the company for its earnings recovery story and attractive growth trajectory driven by fresh strategies. A decent dividend yield of c.4% could also offer some degree of defence against the current market uncertainties.

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: RM2.42
Target Price: RM2.75 ↑

Expected Capital Gain: RM0.33 +13.6%
Expected Divd. Yield: RM0.09 +3.7%
Expected Total Return: RM0.42 +17.4%

KLCI Index 1,587.18

Stock Information

Bloomberg Ticker	PWRT MK Equity
Bursa Code	7237
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	404.6
Market Cap (RM m)	979.1
Par value per share (RM)	0.20
52-week range (H)	2.45
52-week range (L)	1.21
Free Float	51%
Beta	1.3
3-mth avg daily vol:	687,151

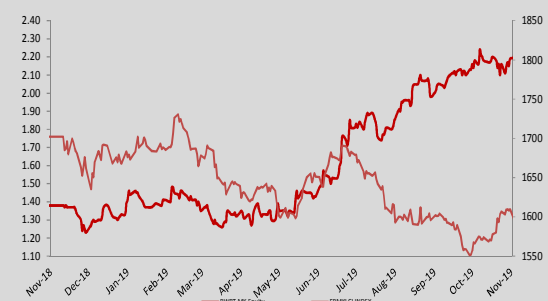
Major Shareholders

Dato' How Say Swee	19.5%
Dato' Wong Fuei Boon	19.5%
Dato' Low Chee Yen	10.2%

Summary Earnings Table

FY Mar (RM m)	2019A	2020E	2021E
Turnover	338.0	383.1	423.4
EBIT	36.6	58.9	67.5
PBT	37.1	60.0	69.0
Net Profit	28.1	51.6	58.0
Core PATAMI	33.4	51.4	57.7
Consensus (NP)	-	48.0	54.1
Earnings Revision	-	4%	6%
Core EPS (sen)	8.5	12.6	13.7
Core EPS growth (%)	37.4	49.1	8.8
NDPS (sen)	8.0	9.0	10.5
BVPS (RM)	0.56	0.62	0.68
PER (x)	28.6	19.2	17.6
PBV (x)	4.4	3.9	3.5
Net Gearing (x)	(0.1)	(0.2)	(0.2)
Net Div. Yield (%)	3.3	3.7	4.3

Share Price Performance

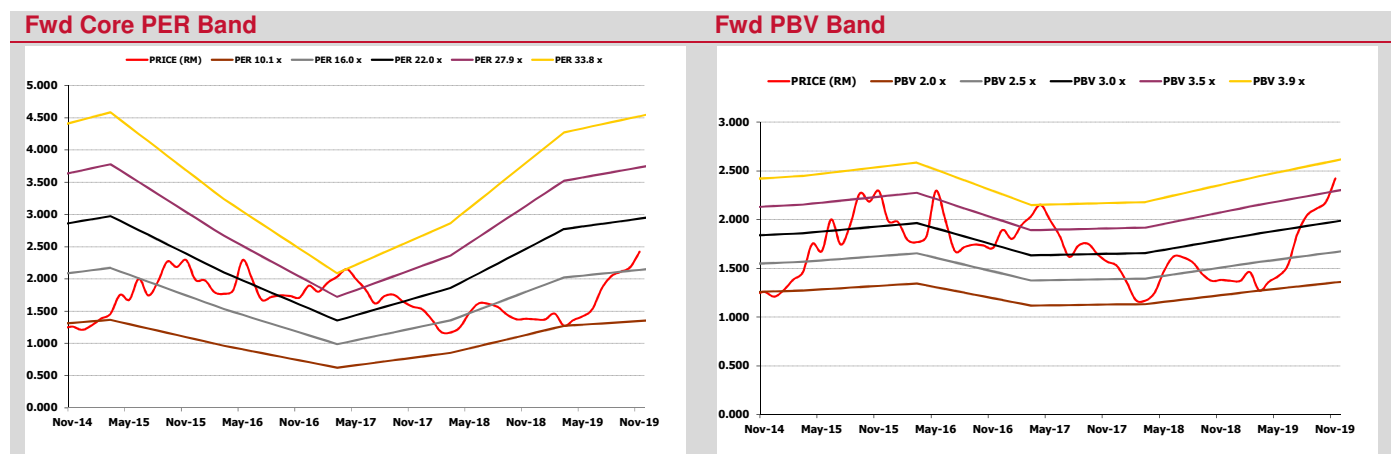


	1 mth	3 mths	12 mths
Absolute (%)	11.5%	23.5%	76.6%
Relative (%)	10.9%	23.7%	82.4%

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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	383.1	423.4	Growth					
Core EBITDA	53.2	30.5	47.7	65.1	74.1	Turnover	8.6%	6.3%	-20.3%	13.3%	10.5%
Operating Profit	53.9	9.8	36.6	58.9	67.5	EBITDA	21.0%	-73.2%	161.8%	53.8%	13.8%
Depreciation	-6.4	-6.4	-5.8	-6.2	-6.6	Operating Profit	24.1%	-81.8%	273.7%	61.2%	14.5%
Interest Inc/(Exp)	0.9	0.5	0.5	1.1	1.5	PBT	23.4%	-81.2%	259.6%	61.9%	15.0%
Profit Before Tax	54.8	10.3	37.1	60.0	69.0	Core PATAMI	-29.4%	-35.6%	42.1%	54.0%	12.3%
Taxation	-7.5	-0.6	-9.0	-8.4	-11.0	Profitability					
Net Profit	47.2	9.7	28.1	51.6	58.0	EBITDA Margin*	13.3%	7.2%	14.1%	17.0%	17.5%
Core PATAMI	36.4	23.5	33.4	51.4	57.7	Operating Margin	13.5%	2.3%	10.8%	15.4%	15.9%
						PBT Margin	13.7%	2.4%	11.0%	15.7%	16.3%
						Core Net Margin	9.1%	5.5%	9.9%	13.4%	13.6%
						Effective Tax Rate	13.8%	5.6%	24.1%	14.0%	16.0%
						ROA	12.7%	2.5%	8.1%	14.5%	14.5%
						ROE	17.8%	4.0%	13.1%	21.7%	21.3%
						* Adjusted for write-offs and impairments					
						DuPont Analysis					
						Net Margin (%)	9.1%	5.5%	9.9%	13.4%	13.6%
						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%	15.6%	21.7%	21.3%
						Leverage					
						Debt/Asset (x)	0.0	0.1	0.1	0.0	0.0
						Debt/Equity (x)	0.0	0.2	0.1	0.1	0.1
						Net (Cash)/Debt	(56.2)	(19.4)	(38.2)	(65.0)	(81.9)
						Net Debt/Equity (x)	(0.2)	(0.1)	(0.2)	(0.3)	(0.3)
						Valuations					
						Core EPS (sen)	9.6	6.2	8.5	12.6	13.7
						NDPS (sen)	9.5	9.5	8.0	9.0	10.5
						BV/sh (RM)	0.7	0.5	0.6	0.6	0.7
						PER (x)	25.3	39.3	28.6	19.2	17.6
						Div. Yield (%)	3.9%	3.9%	3.3%	3.7%	4.3%
						PBV (x)	3.7	4.4	4.4	3.9	3.5
						EV/EBITDA (x)	15.7	34.4	12.7	12.5	12.5

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

28 November 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.			
F&B AND RETAIL																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.42	1,633.3	N	12/2019	12.4%	4.9%	13.6%	5.5%	34.1	30.0	28.5	23.6	22.9	77.5%	2.8%	1.35	MP
AEON CO (M) BHD	1.59	2,232.4	Y	12/2019	5.5%	5.4%	-18.2%	9.6%	17.9	21.9	20.0	1.1	1.1	5.0%	2.5%	1.70	OP
AMWAY MALAYSIA HOLDINGS BHD	5.80	953.4	Y	12/2019	2.2%	2.0%	5.5%	6.3%	17.5	16.6	15.6	4.1	3.9	23.8%	4.7%	5.90	MP
DUTCH LADY MILK INDUSTRIES BHD	57.08	3,653.1	Y	12/2019	-3.0%	2.0%	-17.4%	10.0%	29.4	35.7	32.4	34.6	34.1	97.9%	2.8%	54.60	UP
FRASER & NEAVE HOLDINGS BHD	34.66	12,712.5	Y	09/2020	2.7%	2.4%	2.5%	5.7%	30.3	29.6	28.0	5.0	4.7	16.5%	1.9%	35.15	MP
HAI-O ENTERPRISE BHD	2.17	630.0	N	04/2020	1.7%	2.3%	0.1%	1.8%	13.3	13.3	13.0	2.0	2.0	15.1%	6.0%	1.95	UP
MYNEWS HOLDINGS BHD	1.25	852.7	N	10/2019	27.3%	14.2%	21.0%	20.7%	32.2	26.6	22.0	2.8	2.7	10.2%	0.8%	1.55	OP
NESTLE (MALAYSIA) BHD	144.70	33,932.2	Y	12/2019	2.5%	3.8%	3.5%	7.2%	52.2	50.5	47.1	51.9	51.1	104.6%	2.0%	128.00	UP
PADINI HOLDINGS BHD	3.48	2,289.5	Y	06/2020	0.5%	4.7%	12.8%	5.3%	14.6	13.0	12.3	3.4	3.0	24.5%	3.3%	4.00	OP
PARKSON HOLDINGS BHD	0.25	266.8	Y	06/2020	0.4%	0.5%	749.5%	16.0%	N.A.	32.1	27.7	0.1	0.1	0.3%	0.0%	0.27	MP
POWER ROOT BHD	2.42	979.1	Y	03/2020	13.3%	10.5%	54.0%	12.3%	28.6	19.2	17.6	4.4	3.9	21.8%	3.7%	2.75	OP
QL RESOURCES BHD	7.35	11,924.9	Y	03/2020	10.9%	4.5%	13.0%	4.2%	55.0	48.7	46.7	5.9	5.5	12.1%	0.7%	6.30	UP
SPRITZER BHD	2.19	459.8	Y	12/2019	8.0%	1.2%	27.6%	6.4%	19.0	14.9	14.0	1.2	1.1	7.7%	1.8%	2.50	OP
Simple Average					6.5%	4.5%	66.7%	8.5%	28.7	27.1	25.0	10.8	10.5	32.1%	2.5%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	16.58	4,734.1	N	12/2019	-18.2%	-3.4%	-28.9%	-2.0%	10.1	14.2	14.5	11.2	11.0	78.1%	6.8%	18.30	MP
CARLSBERG BREWERY MALAYSIA BHD	27.70	8,521.1	N	12/2019	16.0%	7.3%	13.6%	9.0%	31.1	29.1	27.7	47.1	46.2	175.6%	3.6%	30.00	OP
HEINEKEN MALAYSIA BHD	26.20	7,915.0	N	12/2019	6.1%	5.0%	2.8%	5.1%	28.0	27.2	25.9	21.3	21.1	77.9%	3.6%	24.25	MP
Simple Average					1.3%	3.0%	-4.2%	4.0%	23.1	23.5	22.7	26.6	26.1	110.5%	4.7%		

Source: Bloomberg, Kenanga Research

28 November 2019

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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