

20 January 2020

Power Root Bhd Looking into 3QFY20

We reaffirm our positive stance post-meeting, premised on the belief that the group's prospect remains sturdy on: (i) greater operational efficiency, (ii) better cost environment, and (iii) innovative offerings to propel growth, amidst new challenges in UAE and Saudi in the form of sugar taxes. We expect 3QFY20 CNP to come in at c.RM12-13m, bringing 9MFY20 CNP to c.RM36-38m (versus our full-year forecast of RM51.4m). Reiterate OUTPERFORM at TP of RM2.75.

3QFY20 results preview. Earmarked to be released during the last week of February, we are expecting the group's 3QFY20 CNP to come in at c.RM12-13m (QoQ -7%/0%, YoY +86%/+101%), bringing 9MFY20 CNP to c.RM36-38m (YoY +71%/+81%) versus our full-year forecast of RM51.4m and consensus' RM48.6m. While the home ground remains anchored by steady demand for its core brands and a seasonal CNY boost from its "Ah Huat" products range, we believe the quarter will likely be largely driven by its export business, especially from the MENA region, which takes up c. 43% of the group's total sales. We attribute this to stronger sales from the non-GCC region, riding on the back of a wider outreach through its new distributorships. An interim dividend payout of 2.0 sen is expected, whereas our FY20E total payout of 9.0 sen translates to a dividend yield of c.4%.

Sugar tax in the UAE and Saudi. As of 1st of December 2019, the UAE Cabinet has levied a 50% excise tax on sugar sweetened beverages, be it in the form of a beverage of a concentrate, powder or extract or any product that may be converted into a beverage. This is anticipated to put some pressure on the group's export business in the region as the imposed taxes will be passed on to consumers. In relation to this, management represented that certain measures are already in place to counter the price hike and keep demand intact. We reckon possible solutions could be in the form of more sugar free products or cheaper-priced alternatives to mainstream products. Leveraging on its brand-stickiness there, we believe the group's strategies to potentially release new products could be fruitful to counteracting changes in consumer spending. We estimate sales in the UAE and Saudi to make up c.55% of the group's exports (or c.29% of total sales).

Key positives remain intact. Despite the disturbance in the Middle East, we are still fairly optimistic on the group's prospect. This is premised on our belief that the group is en route towards greater operational efficiency, which is further backed by a better cost environment driven by: (i) prudent A&P spending focusing on ROI, (ii) favourable locked-in raw material prices, and (iii) potentially lower taxes from overseas tax shelter. Furthermore, sturdy top-line performances are expected to be further boosted by the group's innovative offerings to penetrate new markets, for example the upcoming "Frenché Roast" range (to be launched within 4QFY20) is targeted at the growing 3-in-1 and Latte markets.

Post-meeting, we made no changes to our numbers.

Maintain OUTPERFORM with TP of RM2.75. Our TP is based on an unchanged FY21E PER of 20.0x (in-line with its 3-year mean). All-in, we continue to favour the name for its attractive growth trajectory, driven by its sturdy fundamentals and fresh strategies. A decent 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: RM2.30
Target Price: RM2.75 ↔

Expected Capital Gain: RM0.45 +19.6%
Expected Divd. Yield: RM0.09 +3.9%
Expected Total Return: RM0.54 +23.5%

KLCI Index 1,595.81

Stock Information

Bloomberg Ticker	PWRT MK Equity
Bursa Code	7237
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	409.1
Market Cap (RM m)	940.9
Par value per share (RM)	0.20
52-week range (H)	2.45
52-week range (L)	1.26
Free Float	51%
Beta	1.2
3-mth avg daily vol:	503,375

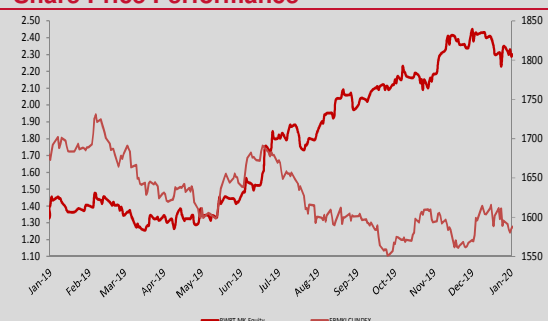
Major Shareholders

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)	-	48.6	55.0
Earnings Revision	-	-	-
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)	27.2	18.2	16.7
PBV (x)	4.1	3.7	3.4
Net Gearing (x)	(0.1)	(0.2)	(0.2)
Net Div. Yield (%)	3.5%	3.9%	4.6%

Share Price Performance

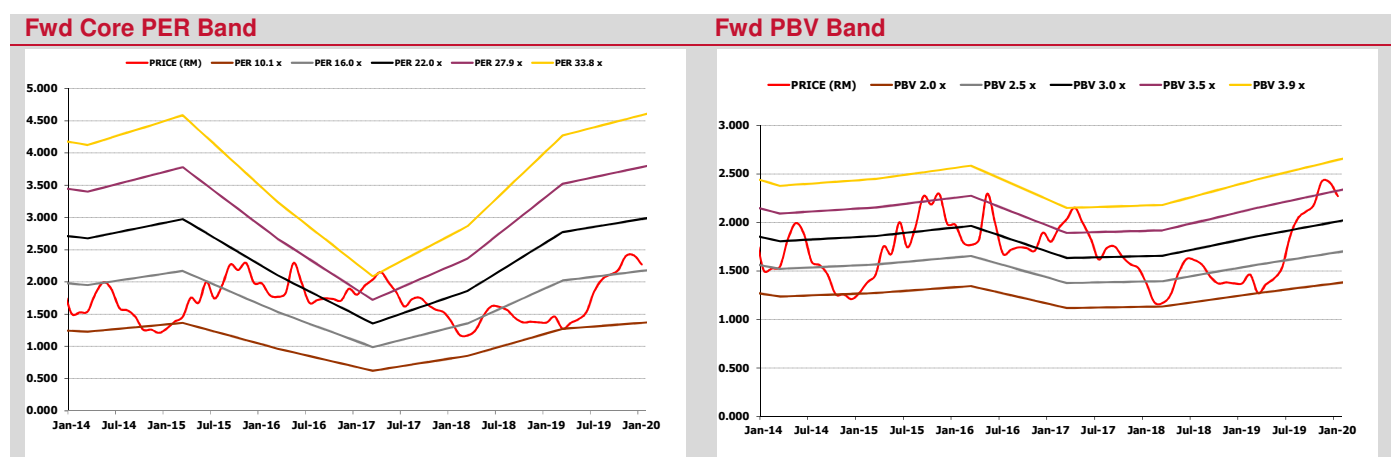


	1 mth	3 mths	12 mths
Absolute (%)	-3.4%	7.9%	58.2%
Relative (%)	-4.6%	6.6%	63.4%

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Income Statement						Financial Data & Ratios					
FY Mar (RM m)	2017A	2018A	2019A	2020E	2021E	FY Mar (%)	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)	24.1	37.3	27.2	18.2	16.7
						Div. Yield (%)	4.1%	4.1%	3.5%	3.9%	4.6%
						PBV (x)	3.5	4.2	4.1	3.7	3.4
						EV/EBITDA (x)	15.7	34.4	12.7	12.5	12.5

Source: 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.			
F&B AND RETAIL																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.40	1,610.3	N	12/2019	12.4%	4.9%	13.6%	5.5%	33.6	29.6	28.1	23.3	22.6	77.5%	2.9%	1.35	MP
AEON CO (M) BHD	1.38	1,937.5	Y	12/2019	5.5%	5.4%	-26.5%	16.4%	15.6	21.2	18.2	1.0	0.9	4.5%	2.9%	1.60	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	45.10	2,886.4	Y	12/2019	-3.0%	2.0%	-17.4%	10.0%	23.3	28.2	25.6	27.4	27.0	97.9%	3.5%	49.30	MP
FRASER & NEAVE HOLDINGS BHD	33.32	12,221.1	Y	09/2020	2.7%	2.4%	2.5%	5.7%	29.2	28.4	26.9	4.8	4.5	16.5%	2.0%	35.15	MP
HAI-O ENTERPRISE BHD	2.03	589.4	N	04/2020	1.7%	2.3%	-25.0%	8.7%	12.4	16.6	15.3	1.9	1.9	11.4%	4.9%	1.50	UP
MYNEWS HOLDINGS BHD	0.93	634.4	N	10/2020	24.2%	17.0%	11.3%	20.8%	23.7	21.3	17.6	2.1	2.0	9.5%	1.1%	1.10	MP
NESTLE (MALAYSIA) BHD	145.60	34,143.2	Y	12/2019	2.5%	3.8%	3.5%	7.2%	52.6	50.8	47.4	52.2	51.4	104.6%	2.0%	128.00	UP
PADINI HOLDINGS BHD	3.42	2,250.1	Y	06/2020	0.5%	4.7%	12.8%	5.3%	14.4	12.8	12.1	3.4	2.9	24.5%	3.4%	4.00	OP
PARKSON HOLDINGS BHD	0.22	229.4	Y	06/2020	0.4%	0.5%	749.5%	16.0%	N.A.	27.6	23.8	0.1	0.1	0.3%	0.0%	0.22	MP
POWER ROOT BHD	2.30	940.9	Y	03/2020	13.3%	10.5%	54.0%	12.3%	27.2	18.2	16.7	4.1	3.7	21.8%	3.9%	2.75	OP
QL RESOURCES BHD	8.15	13,222.9	Y	03/2020	10.9%	4.5%	13.0%	4.2%	61.0	54.0	51.8	6.5	6.1	12.1%	0.7%	6.60	UP
SPRITZER BHD	2.22	466.1	Y	12/2019	8.0%	1.2%	27.6%	6.4%	19.2	15.1	14.2	1.2	1.1	7.7%	1.8%	2.50	OP
Simple Average					6.3%	4.7%	63.4%	9.6%	27.5	26.2	24.1	10.2	9.8	31.7%	2.6%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	13.70	3,911.8	N	12/2019	-18.2%	-3.4%	-28.9%	-2.0%	8.3	11.7	12.0	9.3	9.1	78.1%	8.2%	16.00	OP
CARLSBERG BREWERY MALAYSIA BHD	30.20	9,233.6	N	12/2019	16.0%	7.3%	13.6%	9.0%	33.9	31.7	30.2	51.4	50.4	175.6%	3.3%	30.00	OP
HEINEKEN MALAYSIA BHD	27.26	8,235.2	N	12/2019	22.4%	4.0%	21.3%	5.1%	29.1	28.3	27.0	22.2	19.3	85.9%	3.5%	28.60	OP
Simple Average					6.7%	2.7%	2.0%	4.0%	23.8	23.9	23.1	27.6	26.2	113.2%	5.0%		

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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