

28 February 2020

Power Root Bhd

Solid 9MFY20; Reiterate BUY

9MFY20 CNP of RM39.0m (+67% YoY) and a declared dividend of 3.5 sen (YTD: 8.5 sen) came in within expectations. Despite possible weakness in coming quarter, we continue to like the group for its attractive earnings trajectory which is backed by sturdy fundamentals and more favourable cost environment. A decent yield of c.4% could also offer defence amidst current market uncertainty. Reiterate OUTPERFORM with TP of RM2.75.

Within expectations. 9MFY20 core net profit of RM39.0m (arrived at after stripping off reversal of impairment loss on trade receivables and ESOS expenses) came in within expectations at 76% and 80% of our and consensus' respective full-year estimates. A declared dividend of 3.5 sen (YTD: 8.5 sen) is deemed to be within our estimate of 9.0 sen.

Results' Review. YoY. The group posted a solid 67% growth in its 9MFY20 CNP. This is riding on the back of higher EBIT margin (+4.7 ppt), likely boosted by (i) greater operational cost savings, coupled with (ii) better comparative production costs due to more favourable locked-in coffee bean prices. Notably, revenue also rose 14% to RM295.7m, backed by robust sales from both local (+9%) and export (+20%) markets. For the individual quarter of 3QFY20, revenue and CNP grew by 24% and 65%, respectively, similarly due to the foresaid reasons.

QoQ. 3QFY20 CNP slipped 17% to RM11.8m after accounting for the aforementioned one-off items. This is largely owed to a higher effective tax rate of 18.9% (+2.4ppt). Revenue, on the other hand, was rather flattish (+1%) as lacklustre domestic performance was mitigated by growth in exports (+2%).

Possible QoQ weakness. Moving into 4QFY20, the group may experience some weakness in its top-line, due to the coronavirus outbreak and the sugar tax hike in the Middle East (effective 1st Dec 2019). Nonetheless, this should be cushioned by greater operational efficiency as well as more favourable cost environment, on the back of: (i) prudent A&P spending focusing on ROI, (ii) favourable locked-in raw material prices, and (iii) potentially lower taxes from overseas tax shelter. Notably, management is also actively addressing the sugar tax hike in Middle East, possibly through the form of more affordably priced alternatives to mainstream products. That said, we are reaffirmed that the group is en route towards a stronger FY.

Post-results, we made no changes to our earnings forecasts.

Maintain OUTPERFORM with a TP of RM2.75. Our TP is premised on an unchanged 20.0x FY21E PER, which is closely in-line with its 3-year mean. All-in, we continue to like the name for its attractive growth trajectory, stemming from its sturdy fundamentals and fresh strategies. A decent yield of c.4% could also offer some degree of defence against market uncertainty.

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

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 **1,505.59**

Stock Information

Bloomberg Ticker	PWRT MK Equity
Bursa Code	7237
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	409.3
Market Cap (RM m)	941.3
Par value per share (RM)	0.20
52-week range (H)	2.45
52-week range (L)	1.26
Free Float	52%
Beta	1.3
3-mth avg daily vol	348,439

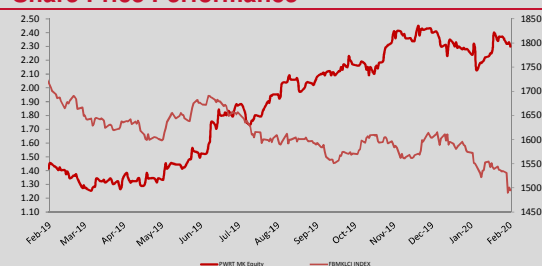
Major Shareholders

Dato' Wong Fuei Boon	19.2%
Dato' How Say Swee	18.5%
Dato' Low Chee Yen	10.1%

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 Net Profit	33.4	51.4	57.7
Consensus (NP)	-	48.6	55.0
Earnings Revision	-	0%	0%
Core EPS (sen)	8.5	12.6	13.7
Core EPS growth (%)	37.4	49.0	8.8
NDPS (sen)	8.0	10.0	10.5
Price to NTA (x)	0.56	0.61	0.67
PER (x)	27.2	18.2	16.8
PBV (x)	4.1	3.8	3.4
Net Gearing (x)	(0.1)	(0.2)	(0.2)
Net Div. Yield (%)	3.5	4.3	4.6

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	2.7%	-4.6%	58.2%
Relative (%)	5.6%	0.6%	70.3%

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Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YTD
FYE Mar (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Turnover	101.4	100.1	1.3%	81.9	23.8%	295.7	258.4	14.4%
EBIT	16.2	16.1	0.5%	8.5	90.6%	45.6	27.6	64.8%
PBT	16.5	16.2	1.7%	8.2	101.0%	46.1	27.9	65.1%
Taxation	-3.1	-2.7	-16.7%	-1.2	-167.0%	-6.9	-4.6	-49.1%
Net Profit	13.1	13.4	-2.4%	7.0	87.5%	38.7	23.0	67.9%
Core Net Profit ^	11.8	14.3	-17.3%	7.2	65.0%	39.0	23.3	67.2%
EPS (sen)	2.8	3.4	-17.3%	1.7	65.0%	9.3	5.6	67.2%
DPS (sen)	3.5	3.0		1.7		8.5	5.1	
EBIT margin	16.0%	16.1%		10.4%		15.4%	10.7%	
PBT margin	16.3%	16.2%		10.0%		15.6%	10.8%	
Core PATAMI margin	11.7%	14.3%		8.8%		13.2%	9.0%	
Effective tax rate	18.9%	16.5%		14.2%		14.9%	16.5%	

Note:

^ Core PATAMI are derived after adjusting for: (i) reversal of impairment loss on trade receivable and (ii) ESOS expenses

Source: Company, Kenanga Research

Revenue Segments

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YTD
FYE Mar (RM m)	FY20	FY20	Chg	FY19	Chg	FY20	FY19	Chg
Domestic	43.6	43.6	0.0%	43.7	-0.1%	136.3	125.5	8.6%
Export	57.7	56.5	2.3%	38.2	51.1%	159.4	132.9	19.9%
Total	101.4	100.1		81.9		295.7	258.4	

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	1.38	1,587.3	N	12/2019	7.9%	4.8%	13.5%	3.1%	31.5	27.7	26.9	16.7	16.7	60.2%	3.6%	1.35	MP		
AEON CO (M) BHD	1.30	1,825.2	Y	12/2020	1.3%	1.3%	1.5%	2.3%	16.7	16.5	16.1	1.1	1.0	6.4%	3.1%	1.65	OP		
AMWAY MALAYSIA HOLDINGS BHD	5.50	904.1	Y	12/2019	-1.0%	2.0%	1.4%	3.7%	17.7	17.4	16.8	4.1	3.9	23.0%	5.0%	5.10	MP		
DUTCH LADY MILK INDUSTRIES BHD	43.84	2,805.8	Y	12/2020	1.7%	1.7%	2.5%	2.3%	26.6	26.0	25.4	19.4	15.4	66.2%	2.5%	43.85	MP		
FRASER & NEAVE HOLDINGS BHD	31.30	11,480.2	Y	09/2020	2.4%	3.0%	2.5%	6.0%	27.3	26.7	25.2	4.5	4.2	16.4%	2.1%	35.20	OP		
HAI-O ENTERPRISE BHD	1.95	566.1	N	04/2020	1.7%	2.3%	-24.9%	8.7%	11.9	15.9	14.6	1.8	1.8	11.4%	5.1%	1.50	UP		
MYNEWS HOLDINGS BHD	0.870	593.5	N	10/2020	24.3%	17.0%	11.2%	20.8%	22.1	19.9	16.5	2.0	1.8	9.5%	1.1%	1.10	MP		
NESTLE (MALAYSIA) BHD	142.00	33,299.0	Y	12/2020	4.1%	1.9%	6.6%	3.7%	51.1	47.9	46.2	49.7	48.6	102.5%	2.0%	124.50	UP		
PADINI HOLDINGS BHD	3.11	2,046.1	Y	06/2020	0.5%	4.8%	3.2%	5.6%	13.1	12.7	12.0	2.8	2.5	20.6%	3.7%	3.70	OP		
PARKSON HOLDINGS BHD	0.195	208.1	Y	06/2020	0.4%	0.5%	-16.7%	-140.6%	N.A.	N.A.	N.A.	0.1	0.1	-12.3%	0.0%	0.145	Ceased		
POWER ROOT BHD	2.30	941.3	Y	03/2020	13.3%	10.5%	53.9%	12.3%	27.1	18.2	16.8	4.1	3.7	21.8%	3.9%	2.75	OP		
QL RESOURCES BHD	8.30	13,466.2	Y	03/2020	10.9%	11.6%	13.1%	9.6%	62.1	55.0	50.1	6.7	6.2	12.1%	0.7%	8.30	MP		
SPRITZER BHD	2.17	455.6	Y	12/2020	1.4%	3.1%	3.2%	3.4%	14.6	14.2	13.7	1.1	1.1	7.6%	2.3%	2.45	OP		
Simple Average					5.3%	5.0%	5.4%	-4.5%	26.8	24.8	23.4	8.8	8.2	26.6%	2.7%				
SIN																			
BRITISH AMERICAN TOBACCO (M) BHD	14.52	4,145.9	N	12/2020	-11.0%	-3.0%	-5.6%	-4.3%	11.5	12.2	12.7	9.6	9.4	78.2%	7.9%	16.70	OP		
CARLSBERG BREWERY MALAYSIA BHD	33.58	10,267.0	N	12/2020	13.8%	9.2%	12.0%	9.5%	35.6	31.7	29.0	62.2	60.5	200.4%	3.1%	29.00	UP		
HEINEKEN MALAYSIA BHD	27.50	8,307.7	N	12/2020	13.0%	4.0%	16.1%	5.6%	26.5	22.9	21.7	23.2	21.4	97.3%	4.0%	28.90	MP		
Simple Average					5.3%	3.4%	7.5%	3.6%	24.5	22.3	21.1	31.7	30.4	125.3%	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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