

26 February 2021

Power Root Bhd No Power Locally

9MFY21 earnings came in below expectations on account of weaker-than-expected domestic sales. TP lowered to RM1.80 on account of earnings downgrade to reflect our more cautious stance towards the group's near-term outlook, which may be impeded by uncertainties such as resurgence of Covid-19 cases and higher taxes in the Middle East. However, MARKET PERFORM rating is reiterated for its attractive dividend yields.

Below. 9MFY21 core net profit (CNP) of RM26m missed expectations at 60%/65% of our/street's respective full-year forecasts. The negative mismatch is likely due to weaker-than-expected domestic contribution impacted by the pandemic. It proposed to declare a 3rd interim dividend of 1.5 sen (YTD: 6.0 sen) which is deemed within expectation.

Results' highlights. YoY, 9MFY21, dipped 5% to RM244m dampened by weak sales from both the domestic (-13%) and export (-21%) markets due to the impact of the pandemic. On a positive note, costs were well contained as EBIT margin improved by 3ppt to 14% leading to higher earnings (+14%) of RM26m.

QoQ, revenue improvement was soft at +1% to RM81m dragged by a contraction from the domestic market (-10%) to RM40m with export sales heading the other way (+15%) to RM40m. On top of thinner EBIT margin (-4ppt) mitigated by lower ETR, earnings contracted 17% to RM7m.

Prevailing uncertainties. We maintain cautious over the group's near-term outlook, as the resurgence of Covid-19 cases locally and higher taxes in the Middle East are likely to exert further pressure on the group's profitability. That said, any weakness in profitability should be partially cushioned by: (i) relatively inelastic coffee demand, and (ii) controlled margins from the group's continuous business transformation plan to achieve greater cost efficiency by driving rationalisation exercises for its distributorships, sales force, and factory operations. We also gathered that the group has been strengthening their online presence by setting up flagship stores at high-traffic e-commerce sites, targeting to cater to the changing consumer shopping patterns.

Post-results, we cut our FY21E/FY22E earnings by 10% each, to account for weaker domestic contribution in 4QFY21.

Maintain MARKET PERFORM with lower TP of RM1.80 (from RM2.25), based on an adjusted FY22E 16x PER (from 18.0x PER) which is closely in-line with its 3-year mean. While we still like the group for its solid balance sheet and inspiring dividend yield of c.6%, we are nonetheless concerned over near-term uncertainties, which may impede the group's profitability.

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

MARKET PERFORM ↔

Price:	RM1.76	
Target Price:	RM1.80	↓
Expected Capital Gain:	RM0.04	+2.3%
Expected Divd. Yield:	RM0.10	+5.7%
Expected Total Return:	RM0.14	+8.0%

1,581.54

KLCI Index

Stock Information

Bloomberg Ticker	PWRT MK Equity
Bursa Code	7237
Listing Market	Main / ACE Market
Shariah Compliant	Yes
Shares Outstanding	422.6
Market Cap (RM m)	743.8
Par value per share (RM)	0.20
52-week range (H)	2.78
52-week range (L)	1.51
Free Float	56%
Beta	1.0
3-mth avg daily vol	625,432

Major Shareholders

Dato' How Say Swee	18.0%
Dato' Wong Fuei Boon	16.0%
Dato' Low Chee Yen	9.8%

Summary Earnings Table

FY Mar (RM m)	2020A	2021E	2022E
Turnover	386.1	313.7	356.2
EBIT	61.9	47.1	53.8
PBT	62.8	48.7	55.6
Net Profit	51.4	39.9	45.5
Core Net Profit	53.6	39.6	45.5
Consensus (NP)	0.0	41.2	52.0
Earnings Revision	-	-10%	-10%
Core EPS (sen)	13.1	9.7	11.1
Core EPS growth (%)	55.1%	-26.2%	14.9%
NDPS (sen)	12.5	10.0	12.0
Price to NTA (x)	0.62	0.65	0.66
PER (x)	13.4	18.2	15.8
PBV (x)	2.8	2.7	2.7
Net Gearing (x)	(0.3)	(0.3)	(0.3)
Net Div. Yield (%)	7.1%	5.7%	6.8%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-1.4%	-17.5%	48.4%
Relative (%)	-0.3%	-15.0%	42.3%

By Ahmad Ramzani Ramli
ahmadramzani@kenanga.com.my
+603-2172 2636

26 February 2021

Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YTD
FYE Mar (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Turnover	80.6	79.7	1.2%	101.4	-20.5%	244.2	258.4	-5.5%
EBIT	8.8	11.7	-24.9%	16.2	-45.9%	33.8	27.6	22.3%
PBT/(LBT)	8.2	11.7	-30.4%	16.5	-50.5%	33.5	27.9	19.9%
Taxation	-1.0	-3.3	69.4%	-3.1	68.0%	-7.1	-4.6	-53.9%
Net Profit	7.2	8.5	-15.4%	13.1	-45.2%	26.4	23.0	14.4%
Core Net Profit	7.2	8.6	-16.7%	11.8	-39.4%	26.6	23.3	14.1%
EPS (sen)	1.7	2.0	-17.1%	2.8	-39.7%	6.3	5.6	14.0%
DPS (sen)	1.5	2.0	-25.0%	3.5	-57.1%	6.0	5.1	17.6%
EBIT margin	10.9%	14.6%		16.0%		13.8%	10.7%	
PBT margin	10.1%	14.7%		16.3%		13.7%	10.8%	
Core Net margin	8.9%	10.8%		11.7%		10.9%	9.0%	
Effective tax rate	12.2%	27.8%		18.9%		21.2%	16.5%	

Source: Company, Kenanga Research

Revenue Segments

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YTD
FYE Mar (RM m)	FY21	FY21	Chg	FY20	Chg	FY21	FY20	Chg
Domestic	40.4	44.8	-9.7%	43.6	-7.3%	118.5	136.3	-13.1%
Export	40.2	34.9	15.1%	57.7	-30.4%	125.7	159.4	-21.1%
Total	80.6	79.7		101.4		244.2	295.7	

Source: Company, Kenanga Research

26 February 2021

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 (%) 1-Yr. Fwd.	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	1.28	1,445.4	N	12/2020	7.7%	3.4%	15.9%	0.5%	29.2	25.2	25.1	15.5	11.2	33.9%	2.3%	1.40	MP		
AEON CO. (M) BHD	1.20	1,684.8	Y	12/2021	3.7%	4.8%	88.6%	15.0%	40.7	21.6	18.8	1.0	1.0	4.6%	1.3%	1.30	OP		
AMWAY (MALAYSIA) HOLDINGS BHD	5.67	932.1	Y	12/2021	0.7%	0.7%	16.4%	7.9%	19.9	17.1	15.8	4.2	4.0	23.8%	4.9%	5.45	MP		
DUTCH LADY MILK INDUSTRIES BHD	34.98	2,238.7	Y	12/2021	5.0%	1.0%	8.9%	0.4%	30.5	28.0	27.9	13.4	11.9	45.0%	2.6%	34.55	MP		
FRASER & NEAVE HOLDINGS BHD	29.98	10,996.0	Y	09/2021	5.0%	2.1%	3.9%	1.5%	27.2	26.2	25.8	4.1	3.8	15.0%	2.1%	32.55	MP		
MYNEWS HOLDINGS BHD	0.670	457.0	N	10/2021	10.2%	24.5%	97.8%	15.9%	N.A.	25.1	21.7	1.6	1.5	6.1%	1.5%	0.480	UP		
NESTLE (MALAYSIA) BHD	136.00	31,892.0	Y	12/2021	1.1%	2.2%	14.4%	2.4%	57.7	50.4	49.3	57.2	56.2	112.4%	1.9%	138.60	MP		
PADINI HOLDINGS BHD	2.91	1,914.5	Y	06/2021	8.9%	11.0%	58.1%	17.0%	25.5	16.1	13.8	2.5	2.3	14.9%	2.6%	2.90	MP		
POWER ROOT BHD	1.76	743.8	Y	03/2021	-18.8%	13.5%	-26.1%	14.9%	13.4	18.2	15.8	2.8	2.6	15.3%	5.7%	1.80	MP		
QL RESOURCES BHD	6.09	14,821.0	Y	03/2021	13.2%	7.4%	13.6%	9.1%	61.9	54.5	50.0	7.1	6.7	12.6%	0.9%	6.60	MP		
Simple Average					3.7%	7.1%	29.2%	8.5%	34.0	28.2	26.4	10.9	10.1	28.4%	2.6%				
SIN																			
BRITISH AMERICAN TOBACCO (M) BHD	13.12	3,746.2	N	12/2021	-8.0%	-2.4%	-3.5%	4.9%	14.4	14.9	14.2	8.6	8.5	57.4%	6.6%	11.45	UP		
CARLSBERG BREWERY MALAYSIA BHD	23.96	7,325.7	N	12/2021	19.9%	5.3%	52.8%	9.1%	41.7	27.3	25.0	37.5	27.5	120.1%	2.7%	25.65	OP		
HEINEKEN MALAYSIA BHD	25.50	7,703.5	N	12/2021	16.1%	6.1%	54.1%	14.0%	43.9	28.5	25.0	19.5	19.6	68.7%	3.5%	22.35	MP		

Source: Bloomberg, Kenanga Research

26 February 2021

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.**

This report has been prepared by Kenanga Investment Bank Berhad pursuant to the Mid and Small Cap Research Scheme ("MidS") administered by Bursa Malaysia Berhad. This report has been produced independent of any influence from Bursa Malaysia Berhad or the subject company. Bursa Malaysia Berhad and its group of companies disclaim any and all liability, howsoever arising, out of or in relation to the administration of MidS and/or this report.

This document has been prepared for general circulation based on information obtained from sources believed to be reliable but we do not make any representations as to its accuracy or completeness. Any recommendation contained in this document does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may read this document. This document is for the information of addressees only and is not to be taken in substitution for the exercise of judgement by addressees. Kenanga Investment Bank Berhad accepts no liability whatsoever for any direct or consequential loss arising from any use of this document or any solicitations of an offer to buy or sell any securities. Kenanga Investment Bank Berhad and its associates, their directors, and/or employees may have positions in, and may effect transactions in securities mentioned herein from time to time in the open market or otherwise, and may receive brokerage fees or act as principal or agent in dealings with respect to these companies.

Published and printed by:

KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my

This report is accessible at www.bursamids.com too.