

24 November 2021

Power Root Bhd

Strong Domestic, Weaker Exports

1HFY22 results fell short of both our and consensus expectations on account of weak exports and higher operating costs. On a positive note, there was broad recovery quarter-on-quarter for top-line and margins. As the threat of the pandemic seemed to be receding, we see an improving top-line underpinned by the domestic market but weighed down by still unfavourable inputs and opex. TP is raised to RM1.35 as we raised our valuation base to FY23E PER of 18x. Upgrade to MARKET PERFORM.

Below expectations. 1HFY22 PATAMI of RM8m missed expectations at 29%/33% of both our/consensus estimates as the export market continued to be weak coupled with higher opex spending. A second interim DPS of 1.2 sen was declared, firming total DPS declared so far to 1.7 sen (below expectation).

Weak exports. YoY, top-line fell 5% to RM155m underpinned by weak exports (-27%) as sales to Middle East fell 36% to RM42m. On a positive note, domestic demand saw double-digit growth (19%) to RM93m. Gross profit margin saw further erosion (down 2ppt to 52%) on account of rising sugar prices but mitigated by stable coffee and creamer prices (hedged well into June 2022). EBIT fell 63% to RM9m with margin cramped by 9ppt to 6% on account of higher spending on advertising and promotion (A&P) both in the local and overseas markets. Weak top-line coupled with surging costs saw PATAMI slumping 60% to RM8m.

On a QoQ basis, there was broad improvement as both the local and export markets saw double-digit improvement in revenue at +11% and +14%, to RM49m and 23m, respectively. Overall top-line saw an 8% improvement to RM81m. While GP margin saw a 1ppt erosion, prudent management saw EBIT margins gaining 4ppt to 8% on account on lower A&P spending. A lower ETR of 19% saw PATAMI ending at RM6m (+>100%).

Outlook. We believe FY22E top-line will reach our initial estimate of RM330-340m, premised the easing of restriction in the domestic market. Margins continue to be challenging given the volatile sugar prices and higher operating costs coming from higher A&P as the group strives to improve demand via new and old SKUs. We are cautiously optimistic regarding easing of sugar prices by end of CY2021 on cooling demand, better weather and favourable ringgit but maintain a conservative view of margins to remain at these levels at least for FY22. We view that additional costs (i.e sugar tax) might not be passed on to consumers as the group will try to maintain its pre-pandemic volumes. Export market will be weighed down by the weaker demand from the Middle East markets – due to a combination such as: (i) lower purchasing power, (ii) sugar tax, and (iii) unfavorable forex, and it is unlikely to reach its pre-pandemic levels in the immediate terms. Margins for the MENA market is still a challenge given the sugar tax with PWROOT unlikely to pass it to consumers for fear of driving down demand – but the any margins erosion is expected to be offset by offering alternative solutions such as more sugar-free products or cheaper-priced alternatives to mainstream products which would probably come on-stream in the immediate term.

Post results, we tweaked our FY22E/FY23E earnings by -32%/-30% to RM18m/31M on account of challenging margins due to higher opex costs and elevated inputs.

MARKET PERFORM. TP is raised to RM1.35 (from RM1.15) based on FY23E PER of 18x (previously on FY22E PER of 18.5x) in line with its 5-year mean at -0.5SD to account for its weak export markets. While capital returns are unexciting, we view that its strong net cash position (1HFY22: RM94m) will translate to a higher dividend payout ahead. Upgrade to MARKET PERFORM.

Risks to our call include: (i) lower-than-expected sales, and (ii) unfavourable Ringgit.

MARKETPERFORM ↑

Price: RM1.38
Target Price: RM1.35 ↑

Expected Capital Loss: RM0.03 -2.2%
Expected Divd. Yield: RM0.07 +4.8%
Expected Total Gain: RM0.04 +2.6%

KLCI Index 1,590.16

Stock Information

Bloomberg Ticker	PWRT MK Equity
Bursa Code	7237
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	422.0
Market Cap (RM m)	582.4
Par value per share (RM)	#N/A N/A
52-week range (H)	2.20
52-week range (L)	1.29
Free Float	58%
Beta	1.0
3-mth avg daily vol	541,773

Major Shareholders

Dato' How Say Swee	18.0%
Dato' Wong Fuei Boon	16.1%
Dato' Low Chee Yen	8.1%

Summary Earnings Table

FY Mar (RM m)	2021A	2022E	2023E
Turnover	309	337	362
EBIT	32	22	37
PBT	35	23	38
Net Profit	28	18	31
Core Net Profit	28	18	31
Consensus (NP)		23	40
Earnings Revision		-32%	-30%
Core EPS (sen)	6.7	4.2	7.4
Core EPS growth (%)	-50.2	-36.2	73.9
NDPS (sen)	6.5	3.9	6.7
Price to NTA (x)	0.63	0.66	0.69
PER (x)	20.9	32.8	18.8
PBV (x)	2.2	2.1	2.0
Net Gearing (x)	(0.3)	(0.3)	(0.4)
Net Div. Yield (%)	4.7	2.8	4.8

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-100.0%	-100.0%	-100.0%
Relative (%)	0.0%	0.0%	0.0%

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Results Highlights								
Y/E : Mar (RM m)	2Q22	1Q22	QoQ Chg	2Q21	YoY Chg	6M22	6M21	YoY Chg
Revenue	80.8	74.7	8.2%	79.7	1.5%	155.5	163.6	-4.9%
Gross Profit	41.8	39.7	5.3%	41.1	1.5%	81.4	88.0	-7.5%
EBITDA	8.0	4.5	77.2%	12.7	-37.1%	12.4	27.4	-54.7%
EBIT	6.2	2.7	131.6%	11.0	-43.4%	8.9	24.2	-63.1%
PBT	6.9	3.2	116.0%	11.7	-40.8%	10.2	25.3	-59.8%
tax	(1.3)	(1.2)	11.5%	(3.3)	-59.9%	(2.5)	(6.1)	-59.3%
Net profit	5.6	2.0	176.0%	8.5	-33.4%	7.7	19.2	-60.0%
Core Net Profit	5.6	2.0	178.8%	8.5	-33.8%	7.6	19.2	-60.4%
EPS (sen)	1.3	0.5	177.2%	2.0	-34.8%	1.8	4.6	-61.4%
DPS (Sen)	1.2	0.5		2.0		1.7	4.5	
Margins								
Gross	52%	53%		52%		52%	54%	
EBITDA	10%	6%		16%		8%	17%	
EBIT	8%	4%		14%		6%	15%	
PBT	9%	4%		15%		7%	15%	
Net	7%	3%		11%		5%	12%	
Effective tax rate	19%	36%		28%		24%	24%	

Source: Company, Kenanga Research

Revenue Segments								
	2Q22	1Q22	QoQ Chg	2Q21	YoY Chg	6M22	6M21	YoY Chg
Segmental Revenue								
Domestic	49.0	44.1	11.1%	44.8	9.5%	93.2	78.0	19.4%
Export-ME	22.3	19.6	13.9%	27.1	-17.5%	42.0	65.3	-35.8%
Export-Others	9.4	10.9	-13.5%	7.8	21.3%	20.4	20.2	0.7%
Total	80.8	74.7	8.2%	79.7	1.5%	155.5	163.6	-4.9%

Source: Company, Kenanga Research

24 November 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	1.52	1,712.0	N	12/2021	7.2%	34.2%	-25.6%	49.8%	25.2	33.8	22.6	10.8	13.9	35.9%	3.3%	1.60	MP		
AEON CO. (M) BHD	1.42	1,993.7	Y	12/2021	1.1%	6.9%	68.1%	48.4%	48.2	28.6	19.3	1.2	1.2	4.1%	2.0%	1.80	OP		
AMWAY (MALAYSIA) HOLDINGS BHD	5.53	909.1	Y	12/2021	28.1%	-10.0%	19.0%	0.9%	19.4	16.3	16.1	4.1	4.1	25.0%	6.3%	6.05	OP		
DUTCH LADY MILK INDUSTRIES BHD	33.10	2,118.4	Y	12/2021	5.0%	1.0%	9.0%	0.5%	28.9	26.5	26.3	12.7	10.2	42.7%	1.8%	40.20	OP		
FRASER & NEAVE HOLDINGS BHD	24.50	8,986.1	Y	09/2022	4.8%	6.4%	0.3%	16.9%	22.7	22.7	19.4	3.2	3.0	13.7%	2.6%	32.45	OP		
MR D.I.Y.	3.56	22,354.2	Y	12/2021	27.4%	37.6%	33.9%	56.6%	66.3	49.5	31.7	25.5	19.2	44.2%	0.8%	4.10	OP		
MYNEWS HOLDINGS BHD	0.905	617.3	N	10/2021	-15.7%	54.7%	-10.2%	-283%	N.A.	N.A.	38.3	2.1	2.2	-3.1%	0.0%	0.900	MP		
NESTLE (MALAYSIA) BHD	133.70	31,352.7	Y	12/2021	1.9%	2.2%	18.2%	-10.0%	56.7	48.0	53.3	56.3	48.4	108.5%	1.8%	138.90	MP		
PADINI HOLDINGS BHD	2.84	1,868.5	Y	06/2022	23.3%	32.2%	75.4%	48.3%	34.6	19.7	13.3	2.3	2.2	11.6%	3.2%	3.20	MP		
POWER ROOT BHD	1.38	582.4	Y	03/2022	8.9%	7.4%	-36.2%	74.0%	20.8	32.5	18.7	2.2	2.0	6.4%	2.8%	1.35	MP		
QL RESOURCES BHD	4.70	11,438.2	Y	03/2022	12.3%	16.9%	-8.0%	21.5%	36.7	39.9	32.9	4.5	4.3	11.4%	0.7%	6.00	MP		
Simple Average					9.5%	17.2%	13.1%	2.2%	35.9	31.8	26.5	11.3	10.1	27.3%	2.3%				
SIN																			
BRITISH AMERICAN TOBACCO (M) BHD	13.92	3,974.6	N	12/2021	5.4%	1.6%	6.4%	2.2%	15.2	14.3	14.0	9.1	8.8	62.5%	6.5%	16.70	OP		
CARLSBERG BREWERY MALAYSIA BHD	20.58	6,292.3	N	12/2021	-1.6%	19.9%	18.4%	32.9%	35.8	30.3	22.8	32.3	25.0	96.1%	2.4%	23.10	MP		
HEINEKEN MALAYSIA BHD	21.98	6,640.1	N	12/2021	3.0%	17.2%	32.8%	15.9%	37.9	28.5	24.6	16.8	16.6	58.6%	3.4%	23.60	MP		
Simple Average					2.3%	12.9%	19.2%	17.0%	29.6	24.4	20.5	19.4	16.8	72.4%	4.1%				

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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