

23 November 2022

Power Root Bhd

Middle East Boost

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PWROOT's 1HFY23 results met expectations. Having seen a strong 1HFY23 on the back of the economy reopening, we expect the growth momentum to taper as consumers down-trade amidst inflationary pressure and slowing demand post World Cup 2022. We keep our forecasts, TP of RM2.35 but downgrade our call to MARKET PERFORM from OUTPERFORM as valuations have become rich after the strong run-up in share price recently.

Within expectations. 1HFY23 net profit came in at 60% each of our full-year forecast and the full-year consensus estimates. However, we consider the results within expectation as we expect some down-trading in consumer spending in 2HFY23 on higher inflation and post-World Cup 2022. A DPS of 3.0 sen was declared, bringing cumulative interim DPS to 5.5 sen, in line with our expectation of 10.0 sen for the full year.

Results' highlights. YoY, 1HFY23 revenue grew 55% underpinned by strong showing from the domestic market (+51%) and Middle East markets (+86%) as the global economy recovers from the pandemic. The robust volume in Middle East markets is largely attributed to returning foreign workers in the service industry, particularly from India and the Philippines to the Gulf markets. PWROOT is also seeing Middle Eastern consumers getting accustomed to the sugar tax. The export market contributed 42% to top-line, still below its pre-pandemic days of 49%-51%. Gross profit margin remained solid at 51% on better ASP and locked in inputs prices. Earnings before interest, tax & depreciation saw 4ppts uptick to 12% (vs. our estimation of 16%) on account of gain in forex and favorable product sales mix. A lower effective tax rate at 19% saw core net profit ending >100% to RM31m. QoQ, its revenue grew 15% on account of declining export markets ex-Middle East at 26%. EBITDA declined by 9% on higher operating expenses.

Resilient top line ahead. We expect solid topline coming from the domestic market boosted by further price increases ahead. Despite several price hikes, we note that its coffee prices are still lower than that of its competitors thanks to its diversified sourcing, notably Vietnam and India (apart from the usual Brazil and Colombia) which mitigates the effect of high prices globally. Costs are also well contained; thanks locked in inputs prices that extend well into March 2023.

Forecasts. Maintained.

We like PWROOT on account of: (i) the robust domestic and Middle East markets, (ii) its ability to pass on rising costs to consumers backed by resilient demand, and (iii) it being shielded from volatility in input costs via forward buying. However, we see slowing demand post World Cup 2022 and inflationary pressure.

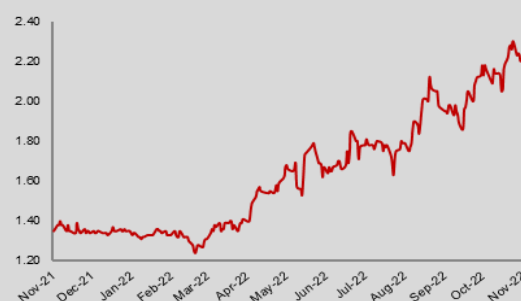
We keep our TP of RM2.35 based on unchanged 19x FY23F PER. At 19x, we value PWROOT at a discount to the average historical forward PER of 22x for the food and beverage sector, to reflect PWROOT's less extensive product range vs. its peers. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4). Downgrade our call to **MARKET PERFORM** from **OUTPERFORM** as valuations have become rich after the strong run-up in share price recently.

Risks to our call include: (i) consumer spending hurt by high inflation, (ii) the ringgit's weakness resulting in higher costs for imported inputs, and (iii) high food commodity prices.

MARKET PERFORM ↓

Price: RM2.27
Target Price: RM2.35 ↔

Share Price Performance



KLCI 1,441.29
YTD KLCI chg -8.1%
YTD stock price chg 72.0%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PWRT MK Equity
Market Cap (RM m)	954.5
Shares Outstanding	420.5
52-week range (H)	2.31
52-week range (L)	1.23
3-mth avg daily vol	972,674
Free Float	32%
Beta	0.6

Major Shareholders

CBG (L) Pte Ltd	18.4%
Farsathy Holdings Sdn Bhd	16.8%
Employees Provident Fund	9.8%

Summary Earnings Table

FY Mar (RM m)	2022A	2023F	2024F
Turnover	348	425	481
EBIT	29	63	72
PBT	32	63	73
Net Profit	26	51	59
Consensus	20	52	55
Earnings Revision	n.m.	0%	0%
EPS (sen)	6.3	12.3	14.1
EPS growth (%)	-6.9	96.3	14.5
NDPS (sen)	5.4	10.0	12.0
BVPS (RM)	0.67	0.71	0.74
Core PER (x)	36.3	18.5	16.1
Price/BV (x)	3.4	3.2	3.1
Net Gearing (x)	(0.3)	(0.4)	(0.4)
Net Div. Yield (%)	2.4	4.4	5.3

23 November 2022

Results Highlights

	2Q23	1Q23	QoQ Chg	2Q22	YoY Chg	6M23	6M22	YoY Chg
FYE Mar (RM m)								
Revenue	128.8	112.1	14.9%	80.8	59.3%	240.9	155.5	54.9%
Gross Profit	65.3	57.2	14.2%	41.8	56.4%	122.5	81.4	50.4%
EBITDA	14.3	15.7	-9.0%	8.0	80.1%	30.1	12.4	141.7%
EBIT	12.3	13.8	-11.0%	6.2	97.4%	26.1	8.9	192.8%
PBT	19.8	18.4	7.6%	6.9	185.4%	38.3	10.2	276.5%
Tax	(4.0)	(3.1)	29.0%	(1.3)	206.8%	(7.1)	(2.5)	187.1%
Net profit	15.8	15.3	3.2%	5.6	180.4%	31.2	7.7	305.3%
Core Net Profit	15.6	15.3	2.3%	5.6	179.1%	30.9	7.6	306.1%
EPS (sen)	3.8	3.7	2.6%	1.3	185.4%	7.4	1.8	314.1%
DPS (Sen)	3.0	2.5		1.2		5.5	1.7	
Margins								
Gross	51%	51%		52%		51%	52%	
EBITDA	11%	14%		10%		12%	8%	
EBIT	10%	12%		8%		11%	6%	
PBT	15%	16%		9%		16%	7%	
Net	12%	14%		7%		13%	5%	
Effective tax rate	20%	17%		19%		19%	24%	

Source: Company, Kenanga Research

Revenue Segments

	1Q23	4Q22	QoQ Chg	1Q22	YoY Chg	3M23	3M22	YoY Chg
Segmental Revenue								
Domestic	77.9	62.4	24.8%	49.0	58.9%	140.4	93.2	50.7%
Export-ME	41.4	36.9	12.3%	22.3	85.3%	78.3	42.0	86.5%
Export-Others	9.4	12.8	-26.3%	9.4	-0.3%	22.2	20.4	9.0%
Total	128.8	112.1	14.9%	80.8	59.3%	240.9	155.5	54.9%

Source: Company, Kenanga Research

23 November 2022

Peer Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)		ROE (%)		Net Div. (sen)		Net Div Yld (%)	
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.
CONSUMER																					
AEON CO. (M) BHD	OP	1.39	1.95	40.29%	1,951.6	Y	12/2022	10.0	10.2	64.4%	2.5%	13.9	13.6	1.1	8.1%	4.1	2.9%				
AMWAY (MALAYSIA) HOLDINGS BHD	OP	4.94	5.65	14.37%	812.1	Y	12/2022	42.5	37.5	89.4%	-11.7%	11.6	13.2	3.5	30.6%	35.0	7.1%				
DUTCH LADY MILK INDUSTRIES BHD	MP	31.20	32.60	4.49%	1,996.8	Y	12/2022	119.8	148.1	-69.1%	23.6%	26.0	21.1	4.7	18.9%	50.0	1.6%				
FRASER & NEAVE HOLDINGS BHD	OP	21.00	26.11	24.33%	7,702.3	Y	09/2023	118.6	129.1	13.5%	8.8%	17.7	16.3	2.4	14.1%	62.5	3.0%				
MR D.I.Y.	MP	1.95	2.00	2.56%	18,386.5	Y	12/2022	4.9	7.1	6.8%	44.6%	39.8	27.6	13.3	36.4%	2.6	1.3%				
MYNEWS HOLDINGS BHD	OP	0.575	0.700	21.74%	392.2	N	10/2022	(3.1)	3.2	-50.6%	-202.3%	N.A.	18.0	1.7	-9.0%	0.0	0.0%				
NESTLE (MALAYSIA) BHD	UP	130.40	115.65	-11.31%	30,578.8	Y	12/2022	270.1	295.2	11.1%	9.3%	48.3	44.2	57.1	113.2%	290.0	2.2%				
PADINI HOLDINGS BHD	OP	3.23	4.10	26.93%	2,125.0	Y	06/2023	22.6	28.6	-3.4%	26.4%	14.3	11.3	2.2	16.0%	10.0	3.1%				
POWER ROOT BHD	OP	2.27	2.35	3.52%	954.5	Y	03/2023	6.7	6.3	7.3%	-6.8%	33.8	36.3	3.0	17.0%	10.0	4.4%				
QL RESOURCES BHD	OP	5.41	6.00	10.91%	13,166.1	Y	03/2023	12.6	16.1	41.6%	27.1%	42.8	33.7	4.2	10.8%	6.0	1.1%				
Simple Average								60.5	68.1	11.1%	-7.8%	27.6	23.5	9.3	25.6%		2.7%				
TOBACCO PRODUCTS & BREWERIES																					
BRITISH AMERICAN TOBACCO (M) BHD	MP	10.68	11.40	6.74%	3,049.5	N	12/2022	94.9	97.5	-4.9%	2.8%	11.3	11.0	7.7	69.5%	90.0	8.4%				
CARLSBERG BREWERY MALAYSIA BHD	MP	21.78	23.05	5.83%	6,659.2	N	12/2022	105.2	114.6	56.0%	8.9%	20.7	19.0	31.1	147.9%	106.0	4.9%				
HEINEKEN MALAYSIA BHD	MP	23.02	25.80	12.08%	6,954.3	N	12/2022	129.7	129.3	59.5%	-0.3%	17.7	17.8	17.6	99.2%	129.7	5.6%				
Simple Average								109.9	113.8	36.9%	3.8%	16.6	15.9	18.8	105.5%		6.3%				

Source: Bloomberg, Kenanga Research

Stock ESG Ratings:

	Criterion	Rating		
GENERAL	Earnings Sustainability & Quality	★	★	★
	Corporate Social Responsibility	★	★	★
	Management/Workforce Diversity	★	★	★
	Accessibility & Transparency	★	★	★
	Corruption-Free Pledge	★	★	★
	Carbon-Neutral Initiatives	★	★	★
	OVERALL	★	★	★
SPECIFIC	Employee Training	★	★	★
	Energy Efficiency	★	★	★
	Food Safety & Quality	★	★	★
	Nutrition, Health & Wellness	★	★	★
	Occupational Health & Safety	★	★	★
	Biodegradable Packaging	★	★	★
	Renewable Energy	★	★	☆
	Supply Chain Auditing	★	★	★
	Waste Disposal/Pollution Control	★	★	★

☆ denotes half-star
 ★ -10% discount to TP
 ★★ -5% discount to TP
 ★★★ TP unchanged
 ★★★★ +5% premium to TP

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%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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