

29 November 2022

# Power Root Bhd

## Raises Profit Guidance

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Despite price hikes, PWROOT is seeing resilient demand from both the domestic and export markets. The price hikes so far have not dented demand with sales looking stable. It is pushing to grow sales via competitive pricing and focusing on smaller export markets. We raise our FY23-24F earnings forecasts by 6-2%, lift our TP by 6% to RM2.50 (from RM2.35) and upgrade our call to **OUTPERFORM** from **MARKET PERFORM**.

We came away from a recent engagement with PWROOT feeling reassured of its prospects ahead. Here are the key takeaways:

1. PWROOT raised its guidance for FY23F earnings to RM55m to RM60m (from RM52m to RM60m). It is equally upbeat on its FY24F prospects backed by: (i) a robust recovery in the Non-Gulf Cooperation Countries (NGCC) markets, (ii) an effective 10% increase in overall selling prices cumulated from a series of recent price hikes as well as an impending one in January 2023, and (iii) the softening cost of inputs, particularly, coffee beans.
2. It is raising prices for specific products in Malaysia again in January 2023, following price hikes in April 2022. It has the headroom given that its competitors have been raising prices. As far as PWROOT is concerned, its price hikes so far have not dented demand as its new prices are still highly competitive in the market. It normally prices its selling prices at least at 10% lower than comparable competing products.
3. It guided for stable sales in November 2022, following a soft October in the aftermath of inventory front-loading by dealers in September. Currently, dealers are only holding one month's stocks on hopes that prices will ease. PWROOT expects their stock levels to normalise to 1.2-1.5 months by January 2023 which will boost PWROOT's sales in coming months.
4. Its sales in NGCC have now returned to 75% of pre-Covid levels. One of its major markets, Egypt, has not been recovering due to weakness in their domestic currency. To mitigate this, PWROOT are focusing on other smaller markets. The company expects a major recovery in the NGCC markets in FY24, while other export markets, and mostly in Asia are showing stability with the exception of China due to lockdowns.
5. PWROOT are looking to invest in a new RM35m Ready-To-Drink (RTD) plant, as its current RTD plant is already running around the clock on a 6-day week translating to 95% utilisation.

We raise our FY23F earnings by 6% to reflect: (i) robust demand growth from both the local and export markets (28% from 21% previously for domestic and 31% from 24% previously for the export market), (ii) exports recovering up to 88% of pre-pandemic level for FY23 (from 84% previously). We also hike FY24F earnings by 2% on similar enhanced demand growth expectation. No change to our conservative EBITDA margins at 16% for both FY23 and FY24 on account of still volatile raw materials prices and inflationary pressures.

**OUTPERFORM** ↑

Price: **RM2.25**  
Target Price: **RM2.50** ↑

### Share Price Performance



KLCI 1,486.54  
YTD KLCI chg -5.2%  
YTD stock price chg 71.3%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PWRT MK Equity
Market Cap (RM m)	950.3
Shares Outstanding	420.5
52-week range (H)	2.32
52-week range (L)	1.23
3-mth avg daily vol	982,087
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	450	489
EBIT	29	67	73
PBT	32	67	74
<b>Net Profit</b>	<b>26</b>	<b>55</b>	<b>60</b>
Consensus	N.m	53	56
Earnings Revision	N.m	6%	2%
Core EPS (sen)	6.3	13.1	14.3
Core EPS growth (%)	-6.9%	108.8%	9.4%
NDPS (sen)	5.4	10.0	12.0
BVPS (RM)	0.67	0.72	0.75
PER (x)	36.1	17.3	15.8
PBV (x)	3.4	3.2	3.0
Net Gearing (x)	(0.3)	(0.4)	(0.4)
Net Div. Yield (%)	2.4%	4.4%	5.3%



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We upgrade our call to **OUTPERFORM** from **MARKET PERFORM** premised on: (i) resilient demand coming from the domestic market, (ii) strong recovery in the export markets, (iii) its ability to pass on rising costs to consumers backed by resilient demand, (iv) competitive pricing, and (iv) it being shielded from volatility in input costs via forward buying.

Correspondingly, we raise our TP by 6% to RM2.50 (from RM2.35) based on 19x FY23F PER. At 19x PER, 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).

**Risks to our call include:** (i) sustained high inflation hurting consumer spending, (ii) a further weakening in the ringgit resulting in higher costs for imported inputs, and (iii) rising food commodity prices.

Income Statement						Financial Data & Ratios					
FY Mar (RM m)	2020A	2021A	2022A	2023F	2024F	FY Mar	2020A	2021A	2022A	2023E	2024E
Revenue	386.1	309.2	347.9	449.7	488.8	<b>Growth</b>					
Core EBITDA	49.7	39.0	36.5	74.0	80.5	Turnover	14.2%	-19.9%	12.5%	29.3%	8.7%
Operating Profit	50.6	32.4	29.5	66.8	73.0	EBITDA	34.0%	-30.8%	-7.1%	103.1%	8.7%
Depreciation	(6.1)	(6.8)	(7.0)	(7.2)	(7.4)	EBIT	38.5%	-36.0%	-9.2%	126.8%	9.3%
Interest Inc/(Exp)	0.9	0.5	0.5	0.7	0.8	PBT	68.9%	-44.2%	-8.4%	110.9%	9.4%
Profit Before Tax	62.6	34.9	32.0	67.5	73.8	Core PATAMI	60.7%	-47.6%	-6.8%	108.8%	9.4%
Taxation	(10.9)	(6.6)	(5.7)	(12.8)	(14.0)	<b>Profitability</b>					
Net Profit	51.7	28.4	26.3	54.7	59.8	EBITDA Margin	12.9%	12.6%	10.5%	16.5%	16.5%
Core PATAMI	53.6	28.1	26.2	54.7	59.9	Operating Margin	13.1%	10.5%	8.5%	14.9%	14.9%
						PBT Margin	16.2%	11.3%	9.2%	15.0%	15.1%
						Core Net Margin	13.3%	9.2%	7.5%	12.2%	12.2%
						Effective Tax Rate	17.4%	18.8%	17.7%	19.0%	19.0%
						ROA	14.5%	7.6%	6.8%	12.7%	12.5%
						<b>DuPont Analysis</b>					
						Net Margin	13.3%	9.2%	7.5%	12.2%	12.2%
						Assets Turnover (x)	1.0	0.8	0.9	1.0	1.0
						Leverage Factor (x)	1.5	1.4	1.4	1.5	1.4
						ROE (%)	22.7%	10.8%	9.5%	18.0%	18.1%
						<b>Leverage</b>					
						Debt/Asset (x)	0.0	0.0	0.0	0.0	0.0
						Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
						Net Debt	(101.6)	(85.4)	(89.5)	(112.9)	(127.7)
						Net Debt/Equity (x)	(0.4)	(0.3)	(0.3)	(0.4)	(0.4)
						<b>Valuations</b>					
						Core EPS (sen)	13.4	6.7	6.3	13.1	14.3
						NDPS (sen)	12.5	6.5	5.4	10.0	12.0
						BV/share (RM)	0.6	0.6	0.7	0.7	0.8
						PER (x)	16.9	33.6	36.1	17.3	15.8
						Div. Yield %	5.5%	2.9%	2.4%	4.4%	5.3%
						PBV (x)	3.6	3.6	3.4	3.2	3.0
						EV/EBITDA (x)	15.2	20.5	22.3	16.7	16.8
Balance Sheet											
FY Mar (RM m)	2020A	2021A	2022A	2023E	2024E						
Fixed Assets	79.7	117.5	117.9	116.4	114.6						
Intangible Assets	0.0	0.0	0.0	0.0	0.0						
Other Fixed Assets	4.6	13.4	13.4	13.4	13.4						
Inventories	64.9	64.1	66.2	84.8	95.5						
Receivables	114.8	79.8	105.0	128.5	137.8						
Other Current Assets	2.6	6.3	6.3	6.3	6.3						
Cash	110.1	86.1	90.3	113.6	128.4						
<b>Total Assets</b>	<b>376.6</b>	<b>367.2</b>	<b>399.1</b>	<b>462.9</b>	<b>496.1</b>						
Payables	100.0	76.2	84.7	118.2	126.3						
ST Borrowings	7.8	0.5	0.5	0.5	0.5						
Other ST Liability	14.3	6.3	6.3	6.3	6.3						
LT Borrowings	0.7	0.2	0.2	0.2	0.2						
Other LT Liability	0.0	0.0	0.0	0.0	0.0						
<b>Net Assets</b>	<b>253.7</b>	<b>265.4</b>	<b>288.5</b>	<b>319.0</b>	<b>344.1</b>						
Shareholders' Equity	253.3	265.2	288.3	318.8	343.9						
Minority Interests	0.5	0.2	0.2	0.2	0.2						
<b>Total Equity</b>	<b>253.7</b>	<b>265.4</b>	<b>288.5</b>	<b>319.0</b>	<b>344.1</b>						
Cashflow Statement											
FY Mar (RM m)	2020A	2021A	2022A	2023E	2024E						
Operating CF	89.1	46.6	12.1	52.6	54.5						
Investing CF	(6.8)	(34.7)	(5.4)	(5.7)	(5.7)						
Financing CF	(27.8)	(37.1)	(2.6)	(23.6)	(33.9)						
Change In Cash	54.5	(25.2)	4.1	23.3	14.9						
Free CF	82.9	20.3	4.7	46.9	48.8						

Source: Kenanga Research

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## 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.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
CONSUMER																	
AEON CO. (M) BHD	OP	1.38	1.95	41.30%	1,937.5	Y	12/2022	8.9	10.2	46.4%	15.1%	15.5	13.5	1.1	7.2%	4.1	3.0%
AMWAY (MALAYSIA) HOLDINGS BHD	OP	5.00	5.65	13.00%	821.9	Y	12/2022	42.5	37.5	89.4%	-11.7%	11.8	13.3	3.5	30.6%	35.0	7.0%
DUTCH LADY MILK INDUSTRIES BHD	MP	31.10	32.60	4.82%	1,990.4	Y	12/2022	119.8	148.1	-69.1%	23.6%	26.0	21.0	4.7	18.9%	50.0	1.6%
FRASER & NEAVE HOLDINGS BHD	OP	21.10	26.11	23.74%	7,739.0	Y	09/2023	118.6	129.1	13.5%	8.8%	17.8	16.3	2.4	14.1%	62.5	3.0%
MR D.I.Y.	MP	2.00	2.00	0.00%	18,858.7	Y	12/2022	4.9	7.1	6.8%	44.6%	40.9	28.3	13.6	36.4%	2.6	1.3%
MYNEWS HOLDINGS BHD	OP	0.605	0.700	15.70%	412.7	N	10/2022	(3.1)	3.2	-50.6%	-202.3%	N.A.	18.9	1.8	-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	3.35	4.10	22.39%	2,204.0	Y	06/2023	22.6	28.6	-3.4%	26.4%	14.8	11.7	2.3	16.0%	10.0	3.0%
POWER ROOT BHD	OP	2.26	2.50	10.62%	950.3	Y	03/2023	13.1	14.3	108.8%	9.5%	17.3	15.8	3.0	18.0%	10.0	4.4%
QL RESOURCES BHD	OP	5.44	6.00	10.29%	13,239.1	Y	03/2023	12.6	16.1	41.6%	27.1%	43.0	33.9	4.3	10.8%	6.0	1.1%
Simple Average								61.0	68.9	19.5%	-5.0%	26.1	21.7	9.4	25.6%		2.7%
TOBACCO PRODUCTS & BREWERIES																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	10.86	11.45	5.43%	3,100.9	N	12/2022	94.9	97.5	-4.9%	2.8%	11.4	11.1	7.8	69.5%	90.0	8.3%
CARLSBERG BREWERY MALAYSIA BHD	MP	22.50	23.05	2.44%	6,879.3	N	12/2022	105.2	114.6	56.0%	8.9%	21.4	19.6	32.2	147.9%	106.0	4.7%
HEINEKEN MALAYSIA BHD	MP	24.62	25.80	4.79%	7,437.7	N	12/2022	129.7	129.3	59.5%	-0.3%	19.0	19.0	18.8	99.2%	129.7	5.3%
Simple Average								109.9	113.8	36.9%	3.8%	17.3	16.6	19.6	105.5%		6.1%

Source: Bloomberg, Kenanga Research

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**Stock ESG Rating:**

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Corporate Social Responsibility	★	★	★		
	Management/Workforce Diversity	★	★	★		
	Accessibility & Transparency	★	★	★		
	Corruption-Free Pledge	★	★	★		
	Carbon-Neutral Initiatives	★	★	★		
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	★	★	★		
OVERALL		★	★	★		

☆ 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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