

Power Root Bhd

Top Line Defies Price Hikes

By Ahmad Ramzani Ramli | ahmadramzani@kenanga.com.my

PWROOT's FY23 results beat expectations. It reported strong sales across all regions, i.e. Malaysia, Middle East, South East Asia and China, despite steep price hikes, indicating its ability to pass on higher cost to consumers. We keep our forecasts, TP of RM2.70 and OUTPERFORM call.

FY23 net profit beat our forecast and the consensus estimate by 8% and 6%, respectively. The variance against our forecast came largely from stronger-than-expected top line performance, especially from the Middle-East market. For the quarter it declared a DPS of 3.5 sen (2.0 sen for the quarter and special DPS of 1.5 sen), bringing full year DPS of 11.25 sen above our expectation of DPS of 10 sen.

Results' highlights. YoY, FY23 top line surged 31%, underpinned by strong demand across the board, i.e. Malaysia (+31%), Middle East (+46%) and South East Asia and China (+9%). In terms of contribution, domestic market contributed 58% while the rest was at 42% (below its pandemic days of 48%-54%). The price hikes in (which ended in Jan 23) contributed to a 20% rise in total sales. Its gross profit margin eased slightly on elevated sugar prices while its coffee bean prices are locked until Dec 2023. EBITDA nearly doubled on favourable forex rates and product sales mix.

QoQ, revenue grew by 6% boosted by the Middle East markets which grew by 38% on account of cheaper SKUs, by 20%-25% than the market leaders especially in the GCC countries.

Resilient top line ahead. We continue to project a solid top line in the coming quarters. Although PWROOT's products are 10% cheaper than its main competitor, we believe it is unlikely it will risk another price hikes in the domestic market given the flattish growth here. The Middle East market most likely will be the driver of growth ahead given the still cheaper pricing. PWROOT's growth drivers for FY24 will be product diversification and products lines expansion. One of the key growth areas would be RTD products with better margins. Its new RTD products plant is expected to be completed by CY24/25. In the pipeline are eight SKUs for Malaysia and five for the GCC countries. However, for Malaysia, it looks like only three will come on-stream in FY24.

Forecasts. We maintain our FY24F forecast and introduce our FY25F numbers.

Consequently, we maintain our TP of RM2.70 based on an unchanged 19x FY24 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. peers. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us (see Page 4).

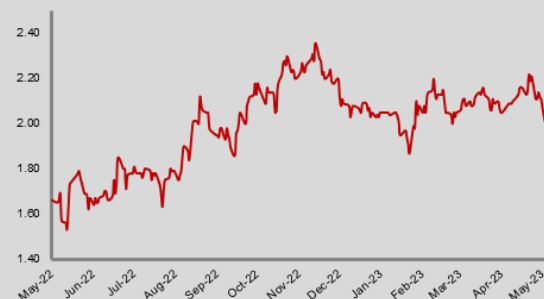
We like PWROOT for: (i) the resilient domestic demand despite price hikes, (ii) the strong recovery in the export markets plus its expansion into new markets in Asia, (iii) its ability to pass on rising costs to consumers backed by resilient demand, (iv) its competitive pricing, and (v) it being shielded from input costs volatility via forward buying. Reiterate **OUTPERFORM**.

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

OUTPERFORM ↔

Price: RM2.05
Target Price: RM2.70 ↔

Share Price Performance



KLCI 1,402.48
YTD KLCI chg -6.2%
YTD stock price chg -1.3%

Stock Information

Shariah Compliant Yes
Bloomberg Ticker PWRT MK Equity
Market Cap (RM m) 882.6
Shares Outstanding 430.6
52-week range (H) 2.36
52-week range (L) 1.40
3-mth avg daily vol 581,407
Free Float 33%
Beta 0.6

Major Shareholders

CBG (L) Pte Ltd 18.0%
Farsathy Holdings Sdn Bhd 16.5%
Employees Provident Fund 10.4%

Summary Earnings Table

FY Mar (RM m)	2023A	2024F	2025F
Turnover	456	489	517
EBIT	71	73	77
PBT	71	74	78
Net Profit	59	60	64
Consensus	N.m	62	N.m
Earnings Revision		0%	
EPS (sen)	14.2	14.3	15.2
EPS growth (%)	126.5%	0.8%	6.2%
NDPS (sen)	11.3	12.0	13.0
BVPS (RM)	0.7	0.7	0.8
Core PER (x)	14.5	14.3	13.5
Price/BV (x)	2.9	2.7	2.6
Net Gearing (x)	(0.4)	(0.4)	(0.4)
Net Div. Yield (%)	5.5%	5.9%	6.3%

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Results Highlights

	4Q23	3Q23	QoQ Chg	4Q22	YoY Chg	FY23	FY22	YoY Chg
FYE Mar (RM m)								
Revenue	112.8	106.7	5.7%	96.9	16.4%	455.8	347.9	31.0%
Gross Profit	56.9	55.8	1.9%	53.8	5.7%	235.1	185.7	26.6%
EBITDA	21.1	13.5	55.5%	15.1	39.9%	64.7	36.5	77.4%
EBIT	18.5	11.4	62.1%	13.3	38.6%	56.0	29.5	90.0%
PBT	20.4	12.3	65.7%	14.2	44.0%	71.1	32.0	122.1%
Tax	(2.9)	(1.2)	137.0%	(1.6)	80.4%	(11.2)	(5.7)	97.2%
Net profit	17.5	11.3	54.7%	12.6	38.7%	60.0	26.3	127.8%
Core Net Profit	17.2	11.3	52.4%	12.6	36.8%	59.4	26.2	126.5%
EPS (sen)	4.1	2.7	50.9%	3.0	35.0%	14.1	6.2	127.3%
DPS (Sen)	3.5	2.3		2.5		11.3	5.4	

Margins

Gross	50%	52%		56%		52%	53%	
EBITDA	19%	13%		16%		14%	10%	
EBIT	16%	11%		14%		12%	8%	
PBT	18%	12%		15%		16%	9%	
Net	16%	11%		13%		13%	8%	
Effective tax rate	14%	10%		11%		16%	18%	

Source: Company, Kenanga Research

Revenue Segments

	4Q23	3Q23	QoQ Chg	4Q22	YoY Chg	FY23	FY22	YoY Chg
Segmental Revenue								
Domestic	63.6	63.2	0.6%	52.1	22.2%	267.2	204.1	30.9%
Export-ME	38.1	27.6	38.0%	33.6	13.4%	143.9	98.8	45.7%
Export-Others	11.1	15.8	-30.0%	11.2	-1.2%	49.1	45.0	9.2%
Total	112.8	106.7	5.7%	96.9	16.4%	460.3	347.9	32.3%

Source: Company, 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																	
7-ELEVEN MALAYSIA HOLDINGS BHD	OP	2.04	2.38	16.67%	2,264.5	N	12/2023	6.7	8.5	11.5%	26.3%	30.4	24.0	16.4	57.0%	2.7	1.3%
AEON CO. (M) BHD	OP	1.35	1.80	33.33%	1,895.4	Y	12/2023	9.1	10.0	15.2%	9.4%	14.8	13.5	1.1	7.3%	4.0	3.0%
DUTCH LADY MILK INDUSTRIES BHD	MP	26.00	26.99	3.81%	1,664.0	Y	12/2023	116.6	122.7	-16.4%	5.2%	22.3	21.2	3.5	16.3%	60.0	2.3%
FRASER & NEAVE HOLDINGS BHD	OP	25.98	28.44	9.47%	9,528.9	Y	09/2023	118.6	129.1	13.5%	8.8%	21.9	20.1	3.0	14.1%	62.5	2.4%
MR D.I.Y. GROUP (M) BHD	MP	1.62	1.67	3.09%	15,282.0	Y	12/2023	6.3	6.4	24.8%	2.7%	25.8	25.2	9.2	38.1%	4.0	2.5%
MYNEWS HOLDINGS BHD	UP	0.465	0.410	-11.83%	317.2	N	10/2023	1.0	2.2	-135.8%	127.7%	48.8	21.4	1.4	2.8%	0.0	0.0%
NESTLE (MALAYSIA) BHD	UP	134.50	121.18	-9.90%	31,540.3	Y	12/2023	303.0	305.1	14.6%	0.7%	44.4	44.1	44.8	106.9%	270.0	2.0%
PADINI HOLDINGS BHD	OP	3.79	6.00	58.31%	2,493.5	Y	06/2023	35.8	39.7	53.0%	10.8%	10.6	9.5	2.6	25.3%	10.0	2.6%
POWER ROOT BHD	OP	2.05	2.70	31.71%	882.6	Y	03/2024	14.3	15.2	0.8%	6.0%	14.3	13.5	2.5	18.1%	12.0	5.9%
QL RESOURCES BHD	OP	5.63	6.66	18.29%	13,701.5	Y	03/2023	14.3	17.7	60.3%	23.5%	39.3	31.8	4.4	12.1%	6.0	1.1%
SECTOR AGGREGATE					79,569.9					23.5%	8.0%	29.9	27.6	6.3	21.1%		2.3%
TOBACCO PRODUCTS & BREWERIES																	
BRITISH AMERICAN TOBACCO (M) BHD	MP	10.86	12.00	10.50%	3,100.9	N	12/2023	102.1	103.5	11.0%	1.4%	10.6	10.5	7.8	75.4%	99.0	9.1%
CARLSBERG BREWERY MALAYSIA BHD	MP	21.32	23.50	10.23%	6,518.5	N	12/2023	113.7	122.8	13.0%	8.0%	18.7	17.4	33.0	203.3%	100.0	4.7%
HEINEKEN MALAYSIA BHD	MP	26.74	28.60	6.96%	8,078.1	N	12/2023	144.2	150.4	5.5%	4.3%	18.5	17.8	20.7	111.1%	144.2	5.4%
Sector Aggregate					17,697.5					9.3%	4.7%	16.4	15.7	20.5	129.9%		6.4%

Source: Bloomberg, Kenanga Research

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Stock ESG Ratings:

	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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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