

24 May 2024

Power Root

No Coffee Break to Stay in the Game

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PWROOT's FY24 results missed our forecast (due to its inability to pass on higher input cost) but met market expectations. Its FY24 net profit fell 29% on lower sales from the domestic and Middle Eastern markets coupled with high input cost. We cut our FY25F net profit forecast by 14%, reduce our TP by 10% to RM1.40 (from RM1.55) and maintain our UNDERPERFORM call.

PWROOT's FY24 net profit missed our forecast by 6% but met market expectations. The variance against our forecast came largely from its inability to pass on higher input cost. It declared a DPS of 1.3 sen, bringing the full-year DPS to 7.1 sen, which fell short of our forecast of 7.8 sen.

YoY, its FY24 top line dipped by 9% primarily due to weaker sales in both domestic (-9%) and Middle Eastern markets (-15%), partially cushioned by a 9% increase in other international markets. Its net profit declined by a steeper 29% mainly due to its inability to pass on elevated input cost and higher advertising and promotion spending, partially mitigated by a lower effective tax rate.

QoQ, its 4QFY24 revenue improved by 23% primarily due to an increase in the contribution from Middle Eastern markets (53%), likely driven by the product price hike and improved sales following a revamp of its distribution structure in the MENA region. The domestic market also saw a 6% increase, mainly driven by festive sales and potential spill-over positive effects from the boycott related to the Middle East conflict on certain international brands. Correspondingly, its net profit improved by 26%.

Outlook. On the domestic front, we remain cautious on the group's near-term outlook due to subdued consumer spending amid sustained elevated inflation and consumer anxiety over impending fuel subsidy rationalisation. On a brighter note, the 13% salary increase for civil servants effective Dec 2024 should at least partially restore consumer spending power. The ongoing geopolitical instabilities have created challenges in the global retail landscape, particularly impacting demand and causing supply disruptions in Middle Eastern markets. Fluctuations in commodity prices and foreign exchange rates will continue to exert pressure on costs.

Forecasts. We cut our FY25F net profit forecast by 14% after lowering our margin assumptions and introduce our FY26F numbers.

Valuations. We only lower our TP by 10% to RM1.40 (from RM1.55) as we raise our FY25F target PER to 15x (from 13x) to reflect partial restoration of consumer spending power via the civil servant pay rise. This is still at a discount to the average historical forward PER of 22x for the food and beverage industry players to reflect PWROOT's less extensive product range vs. its peers.

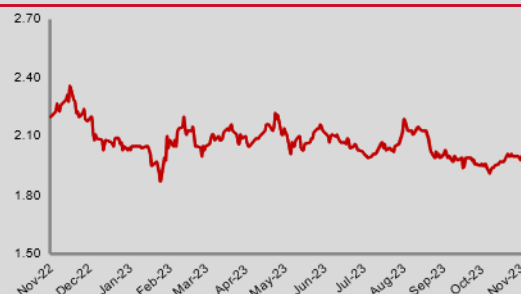
Investment case. We remain cautious on PWROOT due to: (i) the intensifying competition in premix coffee market locally, (ii) its seemingly eroding foothold in its key export market, i.e. the Middle East, and (iii) persistently high food commodity prices and its inability to pass them on. Maintained **UNDERPERFORM**.

Risks to our call include: (i) a significant recovery in sales in the domestic and Middle Eastern markets; (ii) lower food commodities prices; and (iii) reduced competition as weak players exit the premix coffee market.

UNDERPERFORM ↔

Price: RM1.77
Target Price: RM1.40 ↓

Share Price Performance



KLCI	1,629.18
YTD KLCI chg	12.0%
YTD stock price chg	1.7%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PWRT MK EQUITY
Market Cap (RM m)	814.9
Shares Outstanding	460.4
52-week range (H)	2.19
52-week range (L)	1.52
3-mth avg daily vol	314,112
Free Float	33%
Beta	0.6

Major Shareholders

How Say Swee	18.0%
Wong Fuei Boon	16.2%
Wong Tak Keong	9.9%

Summary Earnings Table

FY Mar (RM m)	2024A	2025F	2026F
Turnover	419	423	453
EBIT	47	52	56
PBT	48	53	57
Net Profit	42	43	46
Consensus	-	51	58
Earnings Revision	-	-14%	NEW
EPS (sen)	8.9	9.1	9.8
EPS growth (%)	-35	3	7
NDPS (sen)	7.1	7.2	7.6
BVPS (RM)	0.7	0.8	0.8
PER (x)	19.9	19.4	18.1
Price/BV (x)	2.4	2.3	2.3
Net Gearing (x)	0.2	0.1	0.1
Net Div. Yield (%)	4.0%	4.1%	4.3%

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Results Highlights

	4Q24	3Q24	QoQ Chg	4Q23	YoY Chg	FY24	FY23	YoY Chg
FYE Mar (RM m)								
Revenue	114.3	92.9	23.0%	112.8	1.3%	419.3	460.3	-8.9%
Gross Profit	57.5	48.5	18.7%	57.1	0.7%	215.0	244.5	-12.1%
EBIT	11.8	4.8	144.7%	19.6	-39.6%	47.1	70.1	-32.9%
Interest Exp.	0.0	0.4	-99.7%	0.1	-98.9%	1.0	0.2	464.8%
PBT	11.8	5.2	126.0%	19.7	-39.9%	48.0	70.3	-31.6%
Tax	(2.6)	1.9	-236.2%	(2.9)	-7.9%	(5.7)	(11.0)	-47.9%
Net profit	8.9	7.0	27.4%	16.4	-45.6%	41.6	58.6	-29.0%
EPS (sen)	1.9	1.5	25.8%	3.7	-48.9%	9.1	13.4	-32.4%
DPS (Sen)	1.3	1.3	0.0%	3.5	-62.9%	7.1	11.8	-39.6%
Margins								
Gross Profit	50.4%	52.2%		50.7%		51.3%	53.1%	
EBIT	10.3%	5.2%		17.4%		11.2%	15.2%	
PBT	10.3%	5.6%		17.4%		11.5%	15.3%	
Net Profit	7.8%	7.5%		14.5%		9.9%	12.7%	
Effective tax rate	-22.3%	37.0%		-14.6%		-11.9%	-15.7%	

Source: Company, Kenanga Research

Revenue Segments

	4Q24	3Q24	QoQ Chg	4Q23	YoY Chg	FY24	FY23	YoY Chg
Segmental Revenue								
Malaysia	63.8	60.0	6.2%	63.6	0.3%	243.6	267.2	-8.9%
Overseas	50.5	32.9	53.6%	49.2	2.7%	175.7	193.1	-9.0%
ME	37.6	17.5	114.1%	38.1	-1.4%	122.4	143.9	-15.0%
-Others	12.9	15.3	-15.6%	11.1	16.5%	53.3	49.1	8.5%
Total	114.3	92.9	23.0%	112.8	1.3%	419.3	460.3	-8.9%

Source: Company, Kenanga Research

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Peer Comparison

Name	Rating	Last Price at 23-May (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	MP	1.43	1.21	-15.4%	2,007.7	Y	12/2024	8.7	8.9	6.9%	2.1%	16.4	16.0	1.0	6.5%	4.0	2.8%
DUTCH LADY MILK INDUSTRIES BHD	UP	33.00	27.65	-16.2%	2,112.0	Y	12/2024	123.1	126.3	9.4%	2.5%	26.8	26.1	4.4	17.1%	50.0	1.5%
FRASER & NEAVE HOLDINGS BHD	OP	32.98	38.25	16.0%	12,096.4	Y	09/2024	167.6	176.4	26.9%	5.3%	19.7	18.7	3.3	17.7%	85.0	2.6%
MR D.I.Y. GROUP (M) BHD	OP	1.85	1.97	6.5%	17,481.3	Y	12/2024	7.0	7.9	18.2%	12.6%	26.4	23.4	8.7	35.4%	4.0	2.2%
NESTLE (MALAYSIA) BHD	UP	128.00	115.00	-10.2%	30,016.0	Y	12/2024	292.3	306.0	3.8%	4.7%	43.8	41.8	45.7	102.9%	300.0	2.3%
PADINI HOLDINGS BHD	UP	3.78	3.20	-15.3%	2,486.9	Y	06/2024	23.0	26.7	-31.9%	15.7%	16.4	14.2	2.2	14.0%	10.0	2.6%
POWER ROOT BHD	UP	1.77	1.40	-20.9%	815.2	Y	03/2025	9.1	9.8	2.6%	7.3%	19.4	18.1	2.3	12.2%	7.0	4.0%
QL RESOURCES BHD	MP	6.48	6.25	-3.5%	15,770.1	Y	03/2024	17.8	19.5	25.2%	9.2%	36.4	33.3	5.4	17.0%	9.0	1.4%
KAREX BHD	OP	0.860	1.10	27.9%	906.0	Y	06/2024	2.4	4.4	137.1%	85.1%	36.4	19.6	1.8	5.1%	1.0	1.2%
SECTOR AGGREGATE					83,691.5					12.1%	8.5%	29.7	27.4	6.2	20.7%		2.3%

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	★	★	★
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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