

06 June 2024

# Power Root

## A Leap of Faith Over Flagship Products

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PWROOT will prioritise margin over volume over the immediate term. It is raising prices, narrowing the discount of its products to competitors'. We believe this could lead to a loss in sales volumes. It is optimising its advertising and promotion (A&P) spending, focusing on high-margin flagship products. We maintain our forecasts, TP of RM1.40, and an UNDERPERFORM call.

We came away from PWROOT's post-results briefing feeling mixed about its prospects. The key takeaways are as follows:

- PWROOT is prioritising margin over volume over the immediate term. It is raising prices, which means the discount of its products to those of competitors will narrow. It believes its flagship products, i.e. *Alicafe* and *Ah Huat*, which it claims are the market leaders in their respective categories, will enjoy brand stickiness with consumers. However, we believe this could lead to a loss in sale volumes. Prior to this, it priced its products at about a 10% discount to those of its competitors.
- PWROOT is also optimising A&P spending (which currently makes up about 11% to 14% of total operating expenses). It will spend more on its flagship products, i.e. *Alicafe* and *Ah Huat*, which command better margins, at the expense of less popular products like *Oligo* and *French Roast*. Recall, in FY24, the group recorded a lower EBIT margin (11.2% vs. 15.2%) due mainly to a thinner GP margin (51.3% vs. 53.1%, attributed to higher input costs) and increased A&P expenses.
- The Middle Eastern market will remain challenging due to the hefty sugar taxes in UAE, KSA and OMAN, resulting in a 50% hike in the selling prices of *Alicafe* products. This has halved their sales volumes. On a brighter note, its expansion to the African region is on track, starting with Egypt.
- The co-investment initiative with Thailand's Sappe Public Company Ltd (Sappe) went live in Feb 2024 with the introduction of *Frenche Roast Indulgence* and *Frenche Roast Signature Blend* premix coffee (17g each, aligning with local market standards) in Lotus's Makro, targeting three key provinces: Khon Kaen, Rayong, and Phitsanulok. Additionally, the group launched its online e-shops on both Shopee and Lazada in Mar 2024.

**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 consumers' anxiety over the 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 the Middle Eastern market. Not helping either, are increased fluctuations in commodity prices and forex making, translating to volatility in margins.

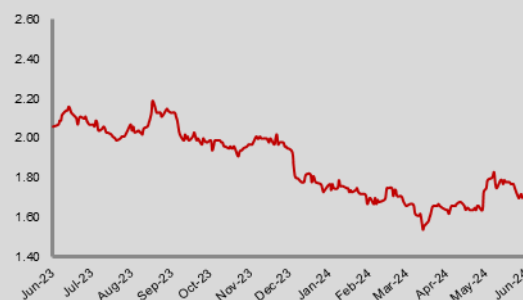
**Forecasts.** Maintained.

**Valuations.** We also maintain our TP at RM1.40, based on an unchanged FY25F target PER of 15x, 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.

# UNDERPERFORM ↔

Price: RM1.71  
Target Price: RM1.40 ↔

### Share Price Performance



KLCI 1,608.53  
YTD KLCI chg 10.6%  
YTD stock price chg -1.7%

### Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	PWRT MK EQUITY
Market Cap (RM m)	786.2
Shares Outstanding	459.8
52-week range (H)	2.19
52-week range (L)	1.52
3-mth avg daily vol	321,302
Free Float	33%
Beta	0.7

### 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
<b>Net Profit</b>	42	43	46
Consensus	-	49	54
Earnings Revision	-	-	-
Core EPS (sen)	8.9	9.1	9.8
Core EPS growth (%)	-35	3	7
NDPS (sen)	7.1	7.2	7.6
BVPS (RM)	0.7	0.8	0.8
PER (x)	19.3	18.8	17.5
PBV (x)	2.3	2.3	2.2
Net Gearing (x)	0.2	0.1	0.1
Net Div. Yield (%)	4.2	4.2	4.4



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## Peer Comparison

Name	Rating	Last Price at 5-Jun (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.
<b>CONSUMER</b>																	
AEON CO. (M) BHD	MP	1.41	1.21	-14.2%	1,979.6	Y	12/2024	8.7	8.9	6.9%	2.1%	16.1	15.8	1.0	6.5%	4.0	2.8%
FRASER & NEAVE HOLDINGS BHD	OP	32.28	38.25	18.5%	11,839.6	Y	09/2024	167.6	176.4	26.9%	5.3%	19.3	18.3	3.2	17.7%	85.0	2.6%
MR D.I.Y. GROUP (M) BHD	OP	1.80	1.97	9.4%	17,011.6	Y	12/2024	7.0	7.9	18.2%	12.6%	25.7	22.8	8.5	35.4%	4.0	2.2%
NESTLE (MALAYSIA) BHD	UP	124.00	115.00	-7.3%	29,078.0	Y	12/2024	292.3	306.0	3.8%	4.7%	42.4	40.5	44.3	102.9%	300.0	2.4%
PADINI HOLDINGS BHD	MP	3.80	3.63	-4.5%	2,500.1	Y	06/2024	23.5	26.9	-30.4%	14.2%	16.1	14.1	2.2	14.3%	12.0	3.2%
POWER ROOT BHD	UP	1.71	1.40	-18.1%	786.2	Y	03/2025	9.1	9.8	2.6%	7.3%	18.8	17.5	2.3	12.2%	7.0	4.1%
QL RESOURCES BHD	MP	6.40	6.25	-2.3%	15,575.4	Y	03/2025	19.5	20.8	8.7%	6.2%	32.7	30.8	4.8	16.4%	9.0	1.4%
KAREX BHD	OP	0.820	1.10	34.1%	863.8	Y	06/2024	2.4	4.4	137.1%	85.1%	34.7	18.7	1.8	5.1%	1.0	1.2%
<b>SECTOR AGGREGATE</b>					<b>79,634.3</b>					<b>9.9%</b>	<b>8.1%</b>	<b>28.6</b>	<b>26.4</b>	<b>5.9</b>	<b>20.7%</b>		<b>2.5%</b>

Source: Bloomberg, Kenanga Research

**Stock ESG Rating:**

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