

13 September 2017

Power Root Bhd Strong Roots

Following a meeting with management, we came away feeling reassured on the group's medium-term outlook. While high raw material prices could further tighten FY18E margins, some easing could be expected in FY19E to keep margins afloat. Although construction of its Middle East plant has yet to commence, existing facilities are well-positioned to meet growing demand. Maintain **OUTPERFORM** with an unchanged TP of RM2.70, post trimmings made to FY18E assumptions.

Growth to be led by exports. Recall that in the recent 1Q18 results, it recorded sales of RM109.2m which grew by 4.9% YoY thanks to a 17% growth in export sales against a 5% decline in local sales. Improved export demand during the quarter was attributed to effective marketing efforts on its "Alicafe Signature French Roast" variant to tap into the favourable reception of the group's products in the MENA region. Going forward, management hopes that growth trend from the region will sustain while keeping promotional expenditures at lower manageable levels. However, they do not discount taking opportunistic approaches to marketing the products when appropriate. To recap, the MENA market attributes to c.78% of the total export market.

Pinched by commodity prices. With the group's primary raw materials being coffee and sugar, input costs had been affected by higher average prices, which were reflective of the unfavourable global price movements last year. Although global trends have eased, management does not expect the group to benefit from lower raw material costs owing to hedging practices, which could sustain higher purchase prices for an extended period. While this could dampen earnings, we are not overly concerned as hedging practices are typically short-term and a normalisation should be expected at least towards the end of FY18.

Updates on MENA plant. Management shared that while plans for the MENA plant are still underway, following progressive developments of tenders for contractors, there could be further delays as a strategic move by the group to protect margins as operating costs in running the new plant could undercut profits due to low level of production. In addition, idle shifts in import taxes there may not warrant an expedited construction plan. With regards to production capacity to meet both local and export demand, local production capabilities are expected to be able to sustain further demand growth in the medium-term with OEM contractors being an alternative to cope with the higher volumes.

Post-meeting, we are reassured with the group's strategies which continue to demonstrate sales growth and to expand market share. While the local scene may still appear uninspiring from poor sentiment, the group could benefit more by focusing on expanding its export sales given the significantly vast opportunities for newer and more vibrant consumer base. Although hiccups could persist in FY18 due to higher commodity prices, we believe the group's medium-term outlook in FY19 is relatively intact. Hence, we cut our earnings assumptions for FY18 by 4.2% to incorporate the higher average production costs expected for the year but leave FY19E numbers relatively unchanged on lower commodity prices translating into healthier margins.

Maintain OUTPERFORM and TP of RM2.70. Our TP is derived from an unchanged 17.0x FY19E EPS of 15.7 sen (+1 SD-level above the stocks 2-year average Fwd. PER). Despite trimming FY18E earnings, we believe the stock could be well positioned to benefit from a turnaround in consumer spending as it is still capable of registering growth on "pessimistic" sentiment levels. The stock still commands a strong potential dividend yield of 5.9%/6.3% in FY18E/FY19E as we leave our dividend estimates unchanged.

OUTPERFORM ↔

Price: RM2.05
Target Price: RM2.70 ↔

Expected Capital Gain: RM0.65 +31.7%
Expected Divd. Yield: RM0.12 +5.9%
Expected Total Return: RM0.77 +37.6%

KLCI Index 1,789.86

Stock Information

Bloomberg Ticker	PWRT MK Equity
Bursa Code	7237
Listing Market	Main Market
Shariah Compliant	Yes
Issued shares	323.1
Market Cap (RM m)	662.4
Par value per share (RM)	0.20
52-week range (H)	2.75
52-week range (L)	1.94
Free Float	42%
Beta	0.5
3-mth avg daily vol:	197,457

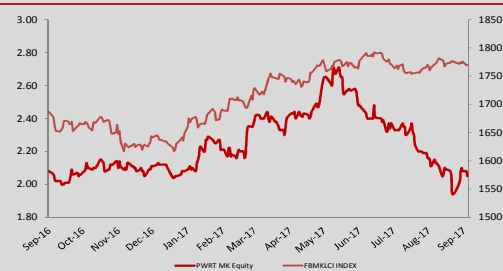
Major Shareholders

Chee Yen Low	20.0%
Say Swee How	19.5%
Fuei Boon Wong	18.8%

Summary Earnings Table

FY Mar (RM m)	2017A	2018E	2019E
Turnover	399.7	446.2	482.8
EBIT	53.9	50.3	60.8
PBT	54.8	51.1	61.2
Net Profit	47.2	47.5	53.5
PATAMI	43.5	44.2	49.8
Consensus (NP)	-	-	-
Earnings Revision	-	-4.2%	-0.1%
Core EPS (sen)	13.8	14.0	15.7
Core EPS growth (%)	-17.4%	1.5%	12.6%
NDPS (sen)	11.5	12.0	13.0
NTA per Share (RM)	0.79	0.81	0.84
Price to NTA (x)	2.6	2.5	2.4
PER (x)	14.9	14.7	13.0
Debt-to-Equity ratio (x)	(0.2)	(0.1)	(0.1)
Return on Asset (%)	12.7%	12.3%	13.4%
Return on Equity (%)	17.8%	17.4%	19.0%
Net Div. Yield (%)	5.6%	5.9%	6.3%

Share Price Performance



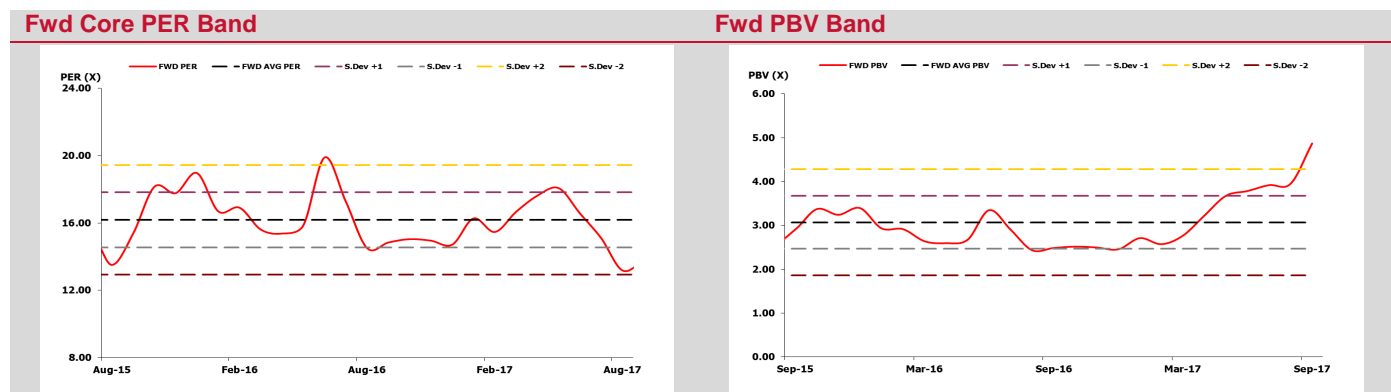
	1 mth	3 mths	12 mths
Absolute (%)	-8.6%	-19.0%	-3.4%
Relative (%)	-9.7%	-19.3%	-9.5%

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Income Statement						Financial Data & Ratios					
FY Mar (RM m)	2015A	2016A	2017A	2018E	2019E	FY Mar (RM m)	2015A	2016A	2017A	2018E	2019E
Revenue	383.2	367.5	399.7	446.2	482.8	Growth (%)					
Core EBITDA	60.7	58.0	60.3	58.0	70.0	Turnover	24.9%	-4.1%	8.7%	11.7%	8.2%
Operating Profit	51.4	43.4	53.9	50.3	60.8	EBITDA	3.9%	-13.6%	21.0%	-3.8%	20.7%
Depreciation	-6.3	-6.4	-6.4	-7.7	-9.2	Operating Profit	2.6%	-15.5%	24.1%	-6.7%	20.8%
Interest Inc/(Exp)	0.6	0.9	0.9	0.8	0.4	PBT	3.5%	-14.2%	23.4%	-6.7%	19.7%
Profit Before Tax	51.7	44.4	54.8	51.1	61.2	Core PATAMI	14.0%	11.2%	-15.6%	1.5%	12.6%
Taxation	-5.4	0.8	-7.5	-3.6	-7.6	Profitability (%)					
Net Profit	46.3	45.2	47.2	47.5	53.5	EBITDA Margin*	15.8%	15.8%	15.1%	13.0%	14.5%
Core PATAMI	46.4	51.6	43.5	44.2	49.8	Operating Margin	13.4%	11.8%	13.5%	11.3%	12.6%
						PBT Margin	13.5%	12.1%	13.7%	11.4%	12.7%
						Core Net Margin	12.1%	14.0%	10.9%	9.9%	10.3%
						Effective Tax Rate	10.5%	-1.9%	13.8%	7.0%	12.5%
						ROA	13.7%	13.5%	12.7%	12.3%	13.4%
						ROE	19.2%	18.6%	17.8%	17.4%	19.0%
						* Adjusted for write-offs and impairments					
						DuPont Analysis					
						Net Margin (%)	12.1%	14.0%	10.9%	9.9%	10.3%
						Assets Turnover (x)	1.2	1.1	1.1	1.2	1.3
						Leverage Factor (x)	1.4	1.4	1.4	1.4	1.4
						ROE (%)	19.2%	18.6%	17.8%	17.4%	19.0%
						Leverage					
						Debt/Asset (x)	0.0	0.0	0.0	0.0	0.0
						Debt/Equity (x)	0.1	0.0	0.0	0.0	0.0
						Net (Cash)/Debt	(54.2)	(60.5)	(56.2)	(36.3)	(17.5)
						Net Debt/Equity (x)	(0.2)	(0.3)	(0.2)	(0.1)	(0.1)
						Valuations					
						Core EPS (sen)	15.0	16.7	13.8	14.0	15.7
						NDPS (sen)	10.0	11.0	11.5	12.0	13.0
						BV/sh (RM)	0.7	0.8	0.8	0.8	0.8
						PER (x)	13.7	12.3	14.9	14.7	13.0
						Div. Yield (%)	4.9%	5.4%	5.6%	5.9%	6.3%
						PBV (x)	2.7	2.7	2.6	2.5	2.4
						EV/EBITDA (x)	9.9	14.6	13.1	13.6	11.8

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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Peer Comparison

NAME	Price (12-Sep-17) (RM)	Mkt Cap (RMm)	PER (x)			Est. Div. Yld.	Historical ROE	P/BV (x)	Net Profit (RMm)			1Y Fwd Growth (%)	2Y Fwd Growth (%)	Target Price (RM)	Rating
			Historical	1Y Fwd	2Y Fwd				Historical	1Y Fwd	2Y Fwd				
Consumer - Retail															
Aeon Co (M) Bhd	2.08	2,920.3	39.0	31.8	29.6	1.4%	4.2%	1.57	75.0	91.8	98.8	22.5%	7.6%	2.20	MP
Amway (Malaysia) Holdings Bhd	7.45	1,224.7	22.4	22.4	18.9	4.0%	23.4%	5.82	54.6	54.7	64.9	0.0%	18.6%	7.50	MP
Bison Consolidated Bhd	2.50	775.2	42.8	30.3	23.5	0.8%	17.4%	5.09	18.1	25.6	32.9	41.2%	28.6%	2.50	MP
Hai-O Enterprise Bhd	4.70	1,359.9	23.0	18.0	13.8	4.2%	21.9%	4.78	59.3	75.7	98.3	27.8%	29.9%	4.00	MP
Padini Holdings Bhd	4.54	2,986.9	15.8	13.3	12.4	2.8%	31.1%	5.40	189.6	224.6	239.9	18.5%	6.8%	4.60	OP
Parkson Holdings Bhd	0.54	576.3	(4.8)	12.3	8.9	0.0%	-4.9%	0.24	(179.2)	48.0	66.6	-126.8%	38.8%	0.88	OP
Consumer - F&B															
Dutch Lady Milk Industries Bhd	59.30	3,795.2	25.5	27.1	24.4	3.7%	102.5%	22.93	149.1	139.8	155.5	-6.2%	11.2%	54.15	MP
Fraser & Neave Holdings Bhd	24.80	9,090.2	24.5	26.5	23.4	2.1%	17.5%	4.57	370.5	354.4	388.7	-4.3%	9.7%	24.95	MP
Nestle (M) Bhd	85.48	20,045.1	31.5	29.6	28.5	3.2%	86.4%	30.97	637.1	677.9	702.7	6.4%	3.7%	83.90	MP
Oldtown Bhd	2.72	1,260.0	19.8	16.3	15.5	4.0%	16.6%	3.23	60.8	73.6	77.4	21.1%	5.1%	3.15	OP
Power Root Bhd	2.05	662.44	14.9	14.7	13.0	5.9%	15.0%	2.58	43.5	44.2	49.8	1.5%	12.6%	2.70	OP
QL Resources Bhd	3.97	6,441.1	32.9	29.8	28.4	1.0%	11.4%	3.68	195.9	216.2	227.1	10.3%	5.1%	3.78	MP
Consumer - Sin															
British American Tobacco Bhd	44.00	12,563.3	18.6	20.1	18.7	4.9%	192.6%	20.48	675.1	626.2	670.9	-7.2%	7.1%	47.00	OP
Carlsberg Brewery Malaysia Bhd	15.06	4,632.8	22.5	19.2	17.4	5.0%	91.8%	14.34	205.0	233.7	257.8	14.0%	10.3%	15.30	MP
Heineken Malaysia Bhd	19.50	5,890.9	13.8	22.3	19.2	4.9%	82.7%	15.01	427.3	264.3	306.4	-38.1%	15.9%	19.30	OP

Source: Bloomberg, Kenanga Research

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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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Published and printed by:

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