

28 February 2018

## Power Root Bhd 9M18 Disappointed

9M18 core PATAMI of RM25.5m (-13%) underperformed on higher production and marketing expenses. A 2.5 sen dividend declared is within estimates. We expect the group to soon be able to revise their unfavourable commodity hedging positions to meaningfully shift earnings. However, this may only be reaped in the medium term. We cut our FY18E/FY19E estimates by 14.7%/22.2% for lower margins. Maintain **OUTPERFORM** with a lower TP of RM2.00 (from RM2.45).

**9M18 below expectations.** 9M18 sales of RM344.0m are within our expectations but core PATAMI of RM25.5m made up 76% of full-year estimate. We deem this to be below in anticipation of a weaker 4Q18 quarter due to lack of seasonality. The negative deviation is due to higher-than-expected raw material prices. An interim 2.5 sen dividend was announced, as expected. YTD dividend payments amount to 9.0 sen.

**YoY**, 9M18 top-line of RM344.0m increased by 12% following a 29% rise in export demand, but was slightly offset by a 2% decline in domestic sales. Adjusted EBITDA plunged by 33% to RM31.6m due to unfavourable impact from high input prices (i.e. coffee, sugar, packaging) and greater numbers of staff employed. Operating expenses in 9M18 was also inflated by higher marketing spend in the export regions (i.e. Middle East). Supported slightly by lower effective taxes at 9.0% (-1.0ppt), 9M18 core PATAMI registered at RM25.5m (-13%). Adjustments were made to account for write offs, forex gains/(losses) and a reversal of bonus provision for staff estimated to be c.RM3.2m in 3Q18.

**QoQ**, 3Q18 sales of RM115.1m was weaker by 4%, likely due to the normalisation of demand from the export segment (-6%). Adjusted EBITDA stood at RM13.0m (+2%) possibly due to lower marketing expenses incurred during the quarter. Core PATAMI ended at RM11.3m (+11%) after the same adjustments above.

**Nearing the end of high cost pressures?** Despite encouraging traction from the export market (which now accounts for more than 50% of sales), the group's bottom-line fails to pick up a similar pace due to unfavourable hedging positions in their coffee costs. This prevented the group from benefitting from the recovery in global commodity prices. Nonetheless, we believe that the group's hedging positions are due to be revisited after a one-year lapse which may ultimately see a paradigm shift towards the group's cost trends. However, this may only occur in the medium term or within FY19 as existing inventories purchased at higher costs are required to be phased off.

**Post results**, while we maintain our FY18E/FY19E sales estimates, we cut our margins assumptions to account for greater production costs to reduce net earnings by 14.7%/22.2%. However, we maintain our dividend assumptions in lieu of the group's upbeat dividend trends.

**Maintain OUTPERFORM with a lower TP of RM2.00 (from RM2.45, previously).** Our new TP is derived from a revised FY19E EPS of 11.2 sen against a higher 18.0x PER as we relook the stock's 3-year average Fwd. PER. While earnings outlook may appear bleak for the stock, we believe that its saving grace arrives in the form of solid dividend yields which we expect to be at 6.0%/7.2% for FY18/FY19.

**Risks to our call include:** (i) lower-than-expected export sales, (ii) prolonged exposure to high commodity prices, and (iii) lower-than-expected dividend payments.

## OUTPERFORM ↔

**Price:** RM1.67  
**Target Price:** RM2.00 ↓

**Expected Capital Gain:** RM0.33 +19.8%  
**Expected Divd. Yield:** RM0.10 +6.0%  
**Expected Total Return:** RM0.43 +25.8%

**KLCI Index** 1,871.46

### Stock Information

Bloomberg Ticker	PWRT MK Equity
Bursa Code	7237
Listing Market	Main Market
Shariah Compliant	Yes
Issued shares	323.4
Market Cap (RM m)	540.2
Par value per share (RM)	0.20
52-week range (H)	2.73
52-week range (L)	1.63
Free Float	41%
Beta	0.7
3-mth avg daily vol	322,045

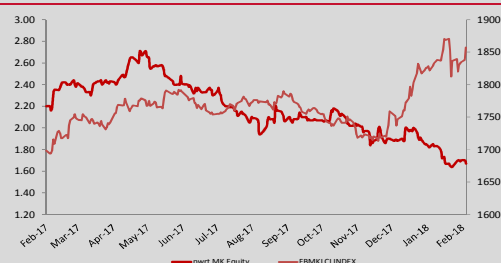
### Major Shareholders

Say Swee How	19.7%
Fuei Boon Wong	19.5%
Chee Yen Low	19.4%

### Summary Earnings Table

FY Mar (RM m)	2017A	2018E	2019E
Turnover	399.7	443.7	471.3
EBIT	53.9	23.9	41.5
PBT	54.8	24.8	41.9
<b>Net Profit</b>	<b>47.2</b>	<b>23.1</b>	<b>36.6</b>
<b>PATAMI</b>	<b>36.4</b>	<b>28.7</b>	<b>35.2</b>
Consensus (NP)	-	-	-
Earnings Revision	-	-14.7%	-22.2%
Core EPS (sen)	11.5	9.1	11.1
Core EPS growth (%)	-30.9%	-21.3%	22.7%
NDPS (sen)	11.5	10.0	12.0
NTA per Share (RM)	0.79	0.76	0.76
Price to NTA (x)	2.1	2.2	2.2
PER (x)	14.5	18.4	15.0
Debt-to-Equity ratio (x)	(0.2)	(0.2)	(0.1)
Return on Asset (%)	12.7%	6.3%	10.1%
Return on Equity (%)	17.8%	9.0%	14.6%
Net Div. Yield (%)	6.9%	6.0%	7.2%

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-9.7%	-16.9%	-22.7%
Relative (%)	-9.8%	-26.1%	-33.2%

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## Results Highlights

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Mar (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Turnover	115.1	119.7	-3.8%	103.3	11.4%	344.0	307.7	11.8%
Adj. EBITDA*	13.0	12.8	1.7%	11.6	12.2%	31.6	47.1	-32.9%
EBIT	6.6	10.7	-38.5%	15.2	-56.9%	20.2	40.6	-50.2%
PBT/(LBT)	6.7	10.9	-38.4%	15.4	-56.4%	20.8	41.1	-49.5%
Taxation	-0.9	-0.9	0.0%	-1.9	51.9%	-1.9	-4.1	54.2%
<b>Net Profit</b>	<b>5.8</b>	<b>10.0</b>	<b>-41.8%</b>	<b>13.5</b>	<b>-57.0%</b>	<b>18.9</b>	<b>37.0</b>	<b>-49.0%</b>
<b>Core PATAMI</b>	<b>11.3</b>	<b>10.2</b>	<b>11.4%</b>	<b>11.6</b>	<b>-2.0%</b>	<b>25.5</b>	<b>29.3</b>	<b>-13.0%</b>
EPS (sen)	3.4	3.0	12.0%	3.8	-10.8%	7.5	10.9	-30.9%
DPS (sen)	2.5	2.5		2.5		9.0	7.5	
Adj. EBITDA margin	11.3%	10.7%		11.2%		9.2%	15.3%	
EBIT margin	5.7%	8.9%		14.7%		5.9%	13.2%	
PBT margin	5.8%	9.1%		14.9%		6.0%	13.4%	
PATAMI margin	9.9%	8.3%		13.1%		5.5%	12.0%	
Effective tax rate	13.4%	8.3%		12.2%		9.0%	10.0%	

Note:

\* Adj. EBITDA and Core PATAMI are derived after adjusting for: (i) goodwill and inventories written off / (reversed); (ii) foreign exchange losses / (gains) in the respective quarters ; and (iii) reversal of bonus provision estimated at RM3.2m.

Source: Company, Kenanga Research

## Revenue Segments

	3Q	2Q	QoQ	3Q	YoY	9M	9M	YoY
FYE Mar (RM'm)	FY18	FY18	Chg	FY17	Chg	FY18	FY17	Chg
Domestic	55.6	56.0	-0.8%	53.4	4.1%	169.7	173.0	-1.9%
Export	59.5	63.6	-6.4%	49.9	19.2%	174.3	134.7	29.4%
<b>Total</b>	<b>115.1</b>	<b>119.7</b>	<b>-3.8%</b>	<b>103.3</b>	<b>11.4%</b>	<b>344.0</b>	<b>307.7</b>	<b>11.8%</b>

Source: Company, Kenanga Research

28 February 2018

## Peer Comparison

NAME	Price (27-Feb-18) (RM)	Mkt Cap (RMm)	Hist.	PER (x)		Est. Div. Yld.	Historical ROE	P/BV (x)	Net Profit (RMm)			1Y Fwd Growth (%)	2Y Fwd Growth (%)	Target Price (RM)	Rating
				1Y Fwd	2Y Fwd				Hist.	1Y Fwd	2Y Fwd				
<b>Consumer - Retail</b>															
7-Eleven Malaysia Holdings Bhd	1.53	1,698.9	36.2	40.2	31.4	2.0%	66.4%	0.54	52.2	47.0	60.0	-10.0%	27.7%	1.70	OP
Aeon Co (M) Bhd	1.49	2,092.0	27.9	26.1	24.3	2.0%	4.5%	1.12	75.0	80.2	86.2	7.0%	7.5%	1.80	MP
Amway (Malaysia) Holdings Bhd	7.54	1,239.5	23.5	19.1	17.2	4.6%	24.3%	5.89	52.6	64.9	72.0	23.3%	10.9%	8.30	OP
Hai-O Enterprise Bhd	5.13	1,495.0	25.0	17.7	14.6	4.2%	26.1%	5.21	59.4	83.8	101.6	41.0%	21.3%	5.60	MP
MyNews Holdings Bhd	1.65	1,125.6	46.8	31.1	27.3	0.8%	12.2%	4.71	24.0	36.2	41.3	50.7%	14.0%	1.45	MP
Padini Holdings Bhd	5.13	3,375.1	18.7	17.3	14.6	2.5%	30.5%	6.11	180.6	195.4	231.7	8.2%	18.6%	5.10	MP
Parkson Holdings Bhd	0.490	522.9	(4.4)	14.8	9.8	0.0%	-4.2%	0.22	(179.2)	35.8	54.6	-120.0%	52.5%	0.860	OP
<b>Consumer - F&amp;B</b>															
Dutch Lady Milk Industries Bhd	69.90	4,473.6	37.0	35.4	29.7	3.1%	76.6%	43.01	120.8	126.3	150.5	4.5%	19.2%	61.15	UP
Fraser & Neave Holdings Bhd	30.66	11,238.2	28.2	27.1	24.8	2.3%	13.9%	5.27	398.6	415.4	453.8	4.2%	9.2%	29.10	MP
Nestle (M) Bhd	122.10	28,632.5	44.3	40.0	34.2	2.4%	100.3%	44.74	645.8	716.7	837.6	11.0%	16.9%	114.30	MP
Oldtown Bhd	3.16	1,463.8	23.0	19.0	18.1	3.5%	17.0%	3.75	60.8	73.6	77.4	21.1%	5.1%	3.18	Accept Offer
Power Root Bhd	1.67	540.2	14.5	18.4	15.0	6.0%	14.3%	2.10	36.4	28.7	35.2	-21.3%	22.7%	2.00	OP
QL Resources Bhd	4.93	7,998.6	40.8	37.0	35.2	0.8%	12.0%	4.58	195.9	216.2	227.1	10.3%	5.1%	4.05	UP
Spritzer Bhd	2.40	503.9	18.4	15.8	14.8	2.5%	9.5%	1.16	23.8	31.8	33.9	33.9%	6.5%	2.40	MP
<b>Consumer - Sin</b>															
British American Tobacco Bhd	28.00	7,994.8	15.3	14.9	14.0	6.4%	99.0%	20.92	522.4	536.9	570.4	2.8%	6.2%	33.85	MP
Carlsberg Brewery Malaysia Bhd	18.38	5,654.1	25.4	22.3	19.8	4.5%	71.3%	18.79	221.2	251.7	284.1	13.8%	12.9%	17.65	OP
Heineken Malaysia Bhd	21.10	6,374.3	23.6	20.0	18.1	5.0%	71.7%	17.68	270.1	319.0	352.1	18.1%	10.4%	23.30	OP

Source: Bloomberg, Kenanga Research

28 February 2018

**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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