

06 June 2018

## Power Root Bhd Sowing the Seeds of Growth

We came away from a recent plant visit feeling reassured of its medium-term outlook. Away from 4Q18's kitchen-sinking triggered losses, strategic initiatives such as revamping internal processes and rationalising product portfolio should bolster local performance. Exports growth is expected to remain healthy but we are conservative on the prospective impact from the above on near-term performance. Hence, we maintain our MARKET PERFORM call and TP of RM1.50.

**Flushing out one-offs.** In FY18, the group underwent a sizeable kitchen sinking exercise. This includes impairing RM2.3m from its leased land in UAE with the relocation of a prospective plant construction to Bahrain where operating costs are more favourable in addition to support from local authorities. Inventories of up to RM2.8m were impaired owing to buy-backs from unsold stock by MENA distributors due to overly aggressive sales expectations. A net adjustment to FY18 receivables of RM1.1m includes rationalising client portfolios, which are unprofitable to the group. We also account for bonus provisions of up to RM4.0m arising from a one-time compensation scheme in FY18.

**Domestically,** tighter sales procedures were established with hopes to ensure margins are kept at sustainable levels. While this may undermine top-line prospects in the short-term, new product developments in attempt to penetrate new markets (i.e. tea offerings, "Kopi O") could translate positively with the right marketing strategy. Self-audits on operating procedures identified areas for improvement would be progressively rectified. This could include minimising overtime expenses and production wastages as well as streamlining procurement and stock management. An extension of the group's warehouse to be completed by 2HCY18 could facilitate better inventory controls. Investments towards an automated batching line could prepare the group ahead of an increase in minimum wage.

**Export-wise,** management remains optimistic with its sales potential as its brands are able to sustain growth in spite of a perceived contraction in market size. Better volumes may be slightly offset by a stronger Ringgit environment. In FY18, exports accounted for 49% of total revenue. At this moment, plans to commence the construction of the MENA plant in Bahrain may not be hastened as producing domestically still remains cost efficient in the near-term.

**Post-visit,** we feel reassured of management's efforts to support its bottom-line. Zeroisation of GST in June 2018 and reintroduction of SST in September 2018 may distort local sales trends as distributors withhold orders to purchase stock at levels most beneficial to them. Nonetheless, we believe this would normalise during the rest of the year. Better costs are also expected to be reflected as hedged commodities (particularly coffee) could see a c.15% improvement against the prior year. FY19 could be seen as the gestation year to incorporate the abovementioned points in anticipation for a significantly well-rooted FY20. As we believe these have been fairly accounted for in our assumptions, we leave our estimates unchanged for now.

**Reiterate MARKET PERFORM and TP of RM1.50.** Our TP is derived from an unchanged 15.0x FY19E PER which is currently in line with the stock's -1SD over its 3-year mean. At present, dividend yields for FY18E/FY19E of 6.5%/7.2% could appear attractive to yield seeking investors. In addition, the proposed bonus issue and free warrants issuance is expected to improve liquidity and market participation in the near future.

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

## MARKET PERFORM ↔

cum-Price/ex-Price: RM1.53/RM1.09

cum-TP/ex-TP: RM1.50/RM1.07 ↔

Expected Capital Gain: -RM0.03 -2.0%  
Expected Divd. Yield: RM0.10 +6.5%  
Expected Total Return: RM0.07 +4.5%

KLCI Index 1,755.14

### Stock Information

Bloomberg Ticker	PWRT MK Equity
Bursa Code	7237
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	323.6
Market Cap (RM m)	495.2
Par value per share (RM)	0.20
52-week range (H)	2.56
52-week range (L)	1.15
Free Float	44%
Beta	0.9
3-mth avg daily vol:	910,602

### Major Shareholders

Dato' How Say Swee	20.3%
Dato' Wong Fuei Boon	18.9%
Dato' Low Chee Yen	17.1%

### Summary Earnings Table

FY Mar (RM m)	2018A	2019E	2020E
Turnover	424.6	449.2	491.9
EBIT	10.1	39.5	51.4
PBT	10.6	38.8	49.8
<b>Net Profit</b>	<b>10.1</b>	<b>35.1</b>	<b>45.0</b>
<b>Core PATAMI</b>	<b>23.8</b>	<b>32.9</b>	<b>42.2</b>
Consensus (NP)	-	38.6	46.8
Earnings Revision	-	0.0%	0.0%
Core EPS (sen)	7.4	10.2	13.1
Core EPS growth (%)	-36.2%	38.2%	28.4%
NDPS (sen)	9.5	10.0	11.0
NTA per Share (RM)	0.65	0.65	0.67
Price to NTA (x)	2.4	2.4	2.3
PER (x)	20.8	15.1	11.7
Debt-to-Equity ratio (x)	(0.1)	0.3	0.3
Return on Asset (%)	2.7%	9.5%	11.9%
Return on Equity (%)	4.1%	15.7%	19.8%
Net Div. Yield (%)	6.2%	6.5%	7.2%

### Share Price Performance



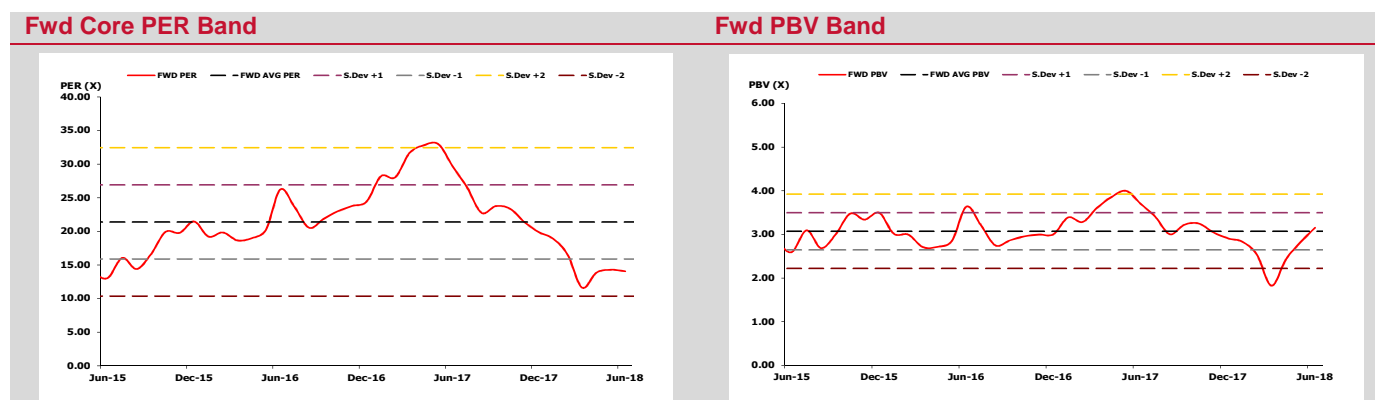
	1 mth	3 mths	12 mths
Absolute (%)	4.1%	-5.6%	-40.7%
Relative (%)	8.8%	-0.8%	-38.9%

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Income Statement						Financial Data & Ratios					
FY Mar (RM m)	2016A	2017A	2018A	2019E	2020E	FY Mar (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	367.5	399.7	424.6	449.2	491.9	<b>Growth (%)</b>					
Core EBITDA	58.0	53.2	30.9	46.3	59.0	Turnover	-4.1%	8.7%	6.2%	5.8%	9.5%
Operating Profit	43.4	53.9	10.1	39.5	51.4	EBITDA	-13.6%	21.0%	-72.7%	180.4%	27.6%
Depreciation	-6.4	-6.4	-6.4	-6.7	-7.6	Operating Profit	-15.5%	24.1%	-81.2%	290.8%	30.1%
Interest Inc/(Exp)	0.9	0.9	0.5	-0.7	-1.6	PBT	-14.2%	23.4%	-80.6%	264.5%	28.4%
Profit Before Tax	44.4	54.8	10.6	38.8	49.8	Core PATAMI	11.2%	-29.4%	-34.7%	38.2%	28.4%
Taxation	0.8	-7.5	-0.6	-3.7	-4.8	<b>Profitability (%)</b>					
Net Profit	45.2	47.2	10.1	35.1	45.0	EBITDA Margin*	15.8%	13.3%	7.3%	10.3%	12.0%
Core PATAMI	51.6	36.4	23.8	32.9	42.2	Operating Margin	11.8%	13.5%	2.4%	8.8%	10.5%
						PBT Margin	12.1%	13.7%	2.5%	8.6%	10.1%
						Core Net Margin	14.0%	9.1%	5.6%	7.3%	8.6%
						Effective Tax Rate	-1.9%	13.8%	5.4%	9.6%	9.6%
						ROA	13.5%	12.7%	2.7%	9.5%	11.9%
						ROE	18.6%	17.8%	4.1%	15.7%	19.8%
						* Adjusted for write-offs and impairments					
						<b>DuPont Analysis</b>					
						Net Margin (%)	14.0%	9.1%	5.6%	7.3%	8.6%
						Assets Turnover (x)	1.1	1.1	1.2	1.3	1.3
						Leverage Factor (x)	1.4	1.4	1.7	1.6	1.7
						ROE (%)	18.6%	17.8%	4.1%	15.7%	19.8%
						<b>Leverage</b>					
						Debt/Asset (x)	0.0	0.0	0.1	0.1	0.1
						Debt/Equity (x)	0.0	0.0	0.2	0.2	0.1
						Net (Cash)/Debt	(60.5)	(56.2)	(19.4)	72.4	75.2
						Net Debt/Equity (x)	(0.3)	(0.2)	(0.1)	0.3	0.3
						<b>Valuations</b>					
						Core EPS (sen)	16.7	11.5	7.4	10.2	13.1
						NDPS (sen)	11.0	11.5	9.5	10.0	11.0
						BV/sh (RM)	0.8	0.8	0.6	0.6	0.7
						PER (x)	9.2	13.3	20.8	15.1	11.7
						Div. Yield (%)	7.2%	7.5%	6.2%	6.5%	7.2%
						PBV (x)	2.0	1.9	2.4	2.4	2.3
						EV/EBITDA (x)	14.6	13.1	28.8	14.0	13.2

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

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## Peer Comparison

NAME	Price (5-Jun18) (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	1.50	1,693.3	36.9	35.7	31.7	2.0%	91.6%	25.00	50.1	51.7	58.4	3.2%	12.9%	1.55	MP
Aeon Co (M) Bhd	2.40	3,369.6	32.1	28.3	24.8	1.7%	5.2%	1.71	106.1	119.1	135.9	12.2%	14.1%	2.60	OP
Amway (Malaysia) Holdings Bhd	7.76	1,275.6	24.2	23.6	19.1	3.6%	26.2%	5.97	52.6	54.1	66.7	2.8%	23.2%	8.50	MP
Hai-O Enterprise Bhd	5.02	1,460.5	24.5	17.3	14.3	4.3%	27.1%	5.10	59.4	83.8	101.6	41.0%	21.3%	6.00	OP
MyNews Holdings Bhd	1.60	1,091.4	45.4	38.9	33.4	0.7%	12.2%	4.57	24.0	28.0	32.7	16.6%	16.7%	1.25	UP
Padini Holdings Bhd	5.58	3,671.1	20.3	20.1	17.3	2.1%	27.6%	6.64	180.6	182.5	212.3	1.1%	16.3%	5.25	MP
Parkson Holdings Bhd	0.605	645.7	(5.4)	18.3	12.1	0.0%	-5.3%	0.27	(179.2)	35.8	54.6	-120.0%	52.5%	0.860	OP
<b>Consumer - F&amp;B</b>															
Dutch Lady Milk Industries Bhd	67.50	4,320.0	34.7	30.2	26.5	3.3%	71.5%	41.53	124.6	142.9	162.8	14.7%	13.9%	66.15	MP
Fraser & Neave Holdings Bhd	36.64	13,430.1	33.7	36.4	31.9	1.6%	13.2%	6.30	398.6	369.1	421.0	-7.4%	14.1%	27.00	UP
Nestle (M) Bhd	146.70	34,401.2	53.3	48.0	41.1	2.0%	75.0%	53.76	645.8	716.7	837.6	11.0%	16.9%	114.30	UP
Power Root Bhd	1.53	495.2	20.8	15.1	11.7	6.5%	4.1%	2.37	23.8	32.9	42.2	38.2%	28.4%	1.50	MP
QL Resources Bhd	5.75	9,329.0	45.2	42.9	40.3	0.8%	11.6%	5.17	206.2	217.3	231.6	5.4%	6.6%	3.90	UP
Spritzer Bhd	2.35	493.4	18.0	15.7	14.9	2.6%	8.0%	1.14	23.8	31.3	33.0	31.9%	5.4%	2.50	MP
<b>Consumer - Sin</b>															
British American Tobacco Bhd	34.70	9,907.9	19.0	19.7	17.8	4.8%	128.5%	25.93	522.4	502.8	557.9	-3.7%	11.0%	31.70	MP
Carlsberg Brewery Malaysia Bhd	20.26	6,232.4	28.0	24.1	21.1	4.2%	61.6%	20.72	221.2	257.0	293.8	16.2%	14.3%	18.25	MP
Heineken Malaysia Bhd	24.00	7,250.4	26.8	22.7	20.6	4.4%	63.4%	20.11	270.1	319.0	352.1	18.1%	10.4%	23.30	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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