

29 August 2018

Power Root Bhd 1Q19 Within

1Q19 core PATAMI of RM8.6m (+c.120%) and 1.7 sen dividend declared are within expectations. Going forward, we anticipate the group to benefit from better profitable client portfolios, easing production costs and leaner production methods. Export numbers are expected to remain healthy at the present forex level. Upgrade to OP with a higher TP of RM1.90 (from RM1.50) as we roll over to 18.0x FY20E PER.

1Q19 within. 1Q19 core net earnings of RM8.6m is within expectations, making up 26%/25% of our/consensus respective full-year estimates. A 1.7 sen dividend was declared. We also deem this to be within the expectation of our full-year 8.0 sen pay-out.

YoY, 1Q19 sales of RM89.2m fell by 13% mainly due to weaker domestic performance, which we believe could be the result of shedding unprofitable customer portfolios. Flattish export sales could be attributed to slowing marketing efforts in key regions. This could thus translate to the c.100% growth in core EBITDA numbers and margins, in addition to the shift in raw material prices to more favourable levels. Subsequently, core PATAMI recorded at RM8.6m (+c.120%).

QoQ, 1Q19 top-line improved by 11% as better export sales (+48%) supported the decline of domestic sales (-17%) from the above. Core PATAMI increased substantially from RM0.4m in 4Q18 to RM8.6m in 1Q19. This was due to the heavy kitchen-sinking incurred during the previous quarter in restructuring the group's operations.

Poised for a comeback. The group had previously been bogged by unprofitable customer portfolios and leakages in operating processes. Management had long addressed initiatives to mitigate these issues and we believe this for the most part was reflected in the healthy results. Commodity costs exposures are also expected to be more favourable in the near term following the previous year's hedging mistiming which prevented the group from benefiting from the easing coffee bean prices. As forex continues to linger above RM4.00/USD, we anticipate export growth performances to continue to remain stable. Progress towards securing higher volume growth in the coming periods could mitigate the expected appreciation of our local currency. **With regards to the new sales tax,** it appears that instant beverages and energy products sold domestically are marked for a 10% tax. However, we reserve making adjustments to price increases or potential shifts in demand, pending an update from management.

Post-results, we tweak our estimates by 2.2%/3.9% for FY19E/FY20E following some housekeeping adjustments with the released audited numbers.

Upgrade to OUTPERFORM with a higher TP of RM1.90 (from RM1.50, previously). Our higher TP is based on a rolled over valuation year to FY20E on an unchanged 18.0x PE, in-line with the stock's -1SD over its 3-year mean. Aside from its turnaround from an unfavourable operating environment, the stock also provides solid dividend yield of 5.2%/6.5% for FY19/FY20.

Risks to our call include: (i) lower-than-expected sales, (ii) higher-than-expected commodity and marketing costs, and (iii) lower-than-expected dividend payments.

OUTPERFORM ↑

Price: RM1.54
Target Price: RM1.90 ↑

Expected Capital Gain: RM0.36 +23.4%
Expected Divd. Yield: RM0.08 +5.2%
Expected Total Return: RM0.44 +28.6%

KLCI Index 1,826.90

Stock Information

Bloomberg Ticker	PWRT MK Equity
Bursa Code	7237
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	394.9
Market Cap (RM m)	608.2
Par value per share (RM)	0.20
52-week range (H)	1.89
52-week range (L)	0.96
Free Float	46%
Beta	0.9
3-mth avg daily vol	817,727

Major Shareholders

Say Swee How	20.3%
Fuei Boon Wong	18.8%
Chee Yen Low	15.2%

Summary Earnings Table

FY Dec (RM m)	2018A	2019E	2020E
Turnover	424.3	451.0	494.0
EBIT	9.8	39.6	51.7
PBT	10.3	39.7	51.9
Net Profit	9.7	35.9	46.8
Core PATAMI	23.5	33.6	43.9
Consensus (NP)	-	34.5	42.6
Earnings Revision	-	2.2%	3.9%
Core EPS (sen)	6.0	8.3	10.4
Core EPS growth (%)	-35.6%	38.6%	26.4%
NDPS (sen)	9.5	8.0	10.0
NTA per Share (RM)	0.53	0.57	0.60
Price to NTA (x)	2.9	2.7	2.6
PER (x)	25.8	18.6	14.7
Debt-to-Equity ratio (x)	(0.1)	(0.1)	(0.1)
Return on Asset (%)	2.5%	9.2%	11.2%
Return on Equity (%)	4.0%	15.3%	18.2%
Net Div. Yield (%)	6.2%	5.2%	6.5%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	2.7%	24.0%	-9.8%
Relative (%)	-0.5%	17.7%	-13.6%

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Results Highlights

	1Q	4Q*	QoQ	1Q*	YoY	3M	3M*	YoY
FYE Mar (RM'm)	FY19	FY18	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	89.2	73.2	21.9%	102.4	-12.9%	89.2	102.4	-12.9%
Adj. EBITDA [^]	11.4	1.3	791.4%	5.8	97.6%	11.4	5.8	97.6%
EBIT	10.8	-10.1	207.5%	3.0	264.3%	10.8	3.0	264.3%
PBT/(LBT)	10.8	-10.1	206.8%	3.2	241.7%	10.8	3.2	241.7%
Taxation	-1.5	0.5	-390.0%	-0.1	n.m.	-1.5	-0.1	n.m.
Net Profit/(Loss)	9.3	-9.6	196.6%	3.1	199.9%	9.3	3.1	199.9%
Core PATAMI/(LATAMI)	8.6	0.4	2316.6%	3.9	118.4%	8.6	3.9	118.4%
EPS (sen)	2.6	0.1	2236.4%	1.2	121.1%	2.6	1.2	121.1%
DPS (sen)	0.5	0.5		4.0		0.5	4.0	
Adj. EBITDA margin	12.8%	1.8%		5.6%		12.8%	5.6%	
EBIT margin	12.1%	-13.8%		2.9%		12.1%	2.9%	
PBT margin	12.1%	-13.8%		3.1%		12.1%	3.1%	
PATAMI margin	9.6%	0.5%		3.0%		9.6%	3.8%	
Effective tax rate	14.3%	5.3%		2.3%		14.3%	2.3%	

Note:

* Restated to reflect MFRS15 & 9 adoption

[^] Adj. EBITDA and Core PATAMI are derived after adjusting for: (i) write offs / (reversals); (ii) foreign exchange losses / (gains) in the respective quarters; and (iii) reversal of bonus provisions.

Source: Company, Kenanga Research

Revenue Segments

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YoY
FYE Mar (RM'm)	FY19	FY18	Chg	FY18	Chg	FY19	FY18	Chg
Domestic	38.2	46.0	-16.9%	58.0	-34.2%	38.2	58.0	-34.2%
Export	51.1	34.6	47.5%	51.2	-0.3%	51.1	51.2	-0.3%
Total	89.2	80.6	10.8%	109.2	-18.3%	89.2	109.2	-18.3%

Source: Company, Kenanga Research

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Peer Comparison

Name	Last Price (RM)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Revenue Growth		Core Earnings Growth		PER (x) - Core Earnings			PBV (x)		ROE (%)	Net Div Yld (%)	Target Price (RM)	Rating
					1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	2-Yr. Fwd.	Hist.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.		
F&B AND RETAIL																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.47	1,659.5	N	12/2018	8.2%	5.2%	3.2%	13.0%	36.2	35.1	31.0	24.5	21.1	64.6%	2.3%	1.55	MP
AEON CO (M) BHD	2.10	2,948.4	Y	12/2018	6.6%	4.1%	13.4%	14.1%	28.1	24.8	21.7	1.5	1.5	6.0%	1.9%	2.60	OP
AMWAY MALAYSIA HOLDINGS BHD	7.18	1,180.3	Y	12/2018	0.0%	3.0%	-25.9%	41.2%	22.4	30.3	21.4	5.5	5.3	17.9%	2.8%	6.50	UP
DUTCH LADY MILK INDUSTRIES BHD	66.78	4,273.9	Y	12/2018	3.0%	4.0%	14.7%	13.9%	34.3	29.9	26.3	41.1	40.3	136.0%	3.3%	71.20	MP
FRASER & NEAVE HOLDINGS BHD	38.10	13,965.2	Y	09/2018	1.1%	5.4%	-7.4%	14.1%	35.0	37.8	33.2	6.6	6.2	16.0%	1.6%	32.15	UP
HAI-O ENTERPRISE BHD	4.36	1,267.5	N	04/2019	20.9%	5.5%	35.8%	5.0%	20.8	15.0	12.5	4.4	4.1	30.0%	5.0%	6.00	OP
MYNEWS HOLDINGS BHD	1.50	1,023.2	N	10/2018	41.8%	16.7%	16.7%	16.8%	42.6	36.5	31.3	4.2	4.0	11.3%	0.7%	1.25	UP
NESTLE (MALAYSIA) BHD	147.20	34,518.4	Y	12/2018	3.5%	3.3%	11.4%	16.8%	53.5	48.0	41.1	53.9	50.8	109.1%	2.0%	132.55	UP
PADINI HOLDINGS BHD	6.08	4,000.1	Y	06/2018	19.1%	5.4%	14.2%	13.3%	22.4	19.6	17.3	7.2	6.1	33.7%	1.9%	4.95	UP
PARKSON HOLDINGS BHD	0.435	464.2	Y	06/2018	2.0%	2.0%	45.4%	-1.0%	N.A.	12.0	12.1	0.2	0.2	1.7%	0.0%	0.810	OP
POWER ROOT BHD	1.54	608.2	Y	3/2019	6.3%	9.5%	43.2%	30.5%	25.8	18.6	14.7	2.9	2.7	16.4%	5.2%	1.90	OP
QL RESOURCES BHD	6.15	9,978.0	Y	3/2019	10.3%	10.0%	5.4%	6.6%	48.4	45.9	43.1	5.3	4.9	11.6%	0.7%	4.70	UP
SPRITZER BHD	2.33	489.2	Y	12/2018	7.0%	2.4%	31.9%	5.4%	17.9	15.6	14.8	1.1	1.2	8.1%	2.6%	2.50	MP
Simple Average					10.0%	5.9%	15.5%	14.6%	32.3	28.4	24.7	12.2	11.4	35.6%	2.3%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	35.70	10,193.4	N	12/2018	-2.0%	5.5%	-16.0%	-2.0%	19.5	23.2	23.7	26.7	23.9	108.6%	3.9%	27.10	UP
CARLSBERG BREWERY MALAYSIA BHD	20.22	6,220.1	N	12/2018	8.5%	7.9%	12.4%	10.6%	28.0	24.9	22.5	19.9	19.8	83.9%	4.1%	17.10	UP
HEINEKEN MALAYSIA BHD	22.08	6,670.3	N	12/2018	5.0%	6.1%	10.6%	3.0%	24.7	22.3	21.7	18.5	18.4	82.6%	4.4%	20.40	MP
Simple Average					11.0%	6.7%	18.9%	10.0%	24.1	23.5	22.6	21.7	20.7	44.4%	4.1%		
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.42	534.2	N	04/2019	9.5%	9.3%	2344.0%	17.3%	454.6	18.6	15.9	1.4	1.3	7.4%	3.0%	1.73	NEUTRAL
BONIA CORPORATION BHD	0.430	346.4	Y	06/2018	-11.6%	1.7%	-16.0%	14.5%	10.9	13.0	11.3	0.8	0.7	6.3%	2.1%	0.540	NEUTRAL
COCOALAND BHD	2.29	524.0	Y	12/2018	6.2%	5.9%	13.9%	10.7%	15.6	13.7	12.4	2.3	1.9	15.2%	4.8%	2.81	BUY
LAY HONG BHD	0.530	348.1	Y	03/2019	2.6%	0.9%	0.4%	13.8%	9.5	9.5	8.3	1.1	1.1	8.9%	1.9%	0.813	BUY
KAWAN FOOD BHD	2.20	790.9	Y	12/2018	14.1%	16.8%	3.6%	40.1%	27.2	26.2	18.7	2.6	2.1	9.4%	2.0%	2.68	NEUTRAL
MAGNI-TECH INDUSTRIES BHD	4.90	797.4	Y	04/2019	13.0%	8.8%	24.8%	3.5%	8.7	7.0	6.8	1.7	1.4	25.1%	4.7%	6.40	BUY

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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