

05 September 2018

## Power Root Bhd

### Fairer Skies

Following a meeting with management, we came away feeling positive on the group's medium-term outlook. Amidst the rationalisation of sales portfolios and tighter A&P spend, the group appear poised to benefit from higher profitability domestically, albeit on lower sales. Sales taxes are expected to be passed down to consumers. On the other hand, flattish exports could be seen as a positive given the shrinking MENA market. Maintain OUTPERFORM and TP of RM1.90.

**Lower domestic sales but higher returns.** Recall that in the recent 1Q19 results, local sales registered lower at RM38.2m (-34% YoY). While this could have been due to front loading in 4Q18 ahead of a price hike in April 2018, it could also be attributed to the implementation of tighter sales procedures. The latter was intended to ensure the protection of margins, which translated into lower sales order fulfilment for certain distributors. During this period, operating expenses were also lower from cut backs on marketing activities and tighter promotional spending, which is also part of the group's restructuring exercise. The abovementioned, concurrent with flattish export sales, led to a core net earnings of RM8.6m (+c.120% YoY, adjusting for impairments and forex gains).

**Exports in the rough.** The RM51.1m export sales in 1Q19 results accounted for c.55% of group sales during the period. We view this favourably as it is likely supported by higher volume transactions, given lower average forex rates (est. 1Q18: RM4.33/USD, 1Q19: RM3.95/USD, source: Bloomberg). Additionally, management had previously described a decline in the MENA market size due to poorer spending on mid-year seasonality and geo-political factors. Hence, we laud the flattish sales as it indicated that the group was able to expand its market share despite adverse conditions.

**Going forward,** while the group is trimming marketing spend, it will continue to implement selective strategies to gain traction on its key products (i.e. product repackaging, introducing new variants) which could bolster local demand. However, with the implementation of SST, management described that it would be passing down the new tax burden to consumers, which may undermine the group's sales momentum. The indicative taxes are 5% for coffee and 10% for energy drinks.

Nonetheless, results could be supported by better margins regained from comparatively lighter production costs as compared to FY18 on the back of: (i) better hedged positions, and (ii) overall easing commodity trends. Further, recall that the group is in the midst of implementing further structural improvements to optimise operating expenses and minimising wastages.

**Post-visit,** we remain reassured by the group's medium-term prospects as poorer top-line could be compensated by a significantly more profitable environment. While the group was previously bogged down by several missteps, we believe the recent results demonstrated that the group is on track to regain its fundamental roots to sustain against challenging local and foreign headwinds. We maintain our FY19E/FY20E assumptions as we believe the abovementioned merits have been sufficiently accounted for.

**Maintain OUTPERFORM and TP of RM1.90.** Our TP is based on an unchanged 18.0x FY20E PER, 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 yields of 5.0%/6.3% 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: RM1.58  
Target Price: RM1.90 ↔

Expected Capital Gain: RM0.32 +20.3%  
Expected Divd. Yield: RM0.08 +5.0%  
Expected Total Return: RM0.40 +25.3%

KLCI Index 1,812.76

### 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)	624.0
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:	685,971

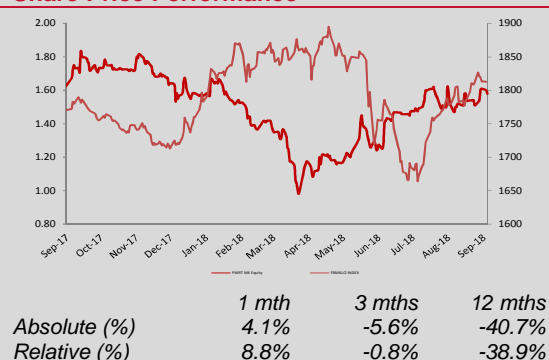
### Major Shareholders

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

### Summary Earnings Table

FY Mar (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
<b>Net Profit</b>	<b>9.7</b>	<b>35.9</b>	<b>46.8</b>
<b>Core PATAMI</b>	<b>23.5</b>	<b>33.6</b>	<b>43.9</b>
Consensus (NP)	-	34.8	43.5
Earnings Revision	-	0.0%	0.0%
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)	3.0	2.8	2.7
PER (x)	26.8	19.4	15.3
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 (%)	5.9%	5.0%	6.3%

### Share Price Performance



Clement Chua

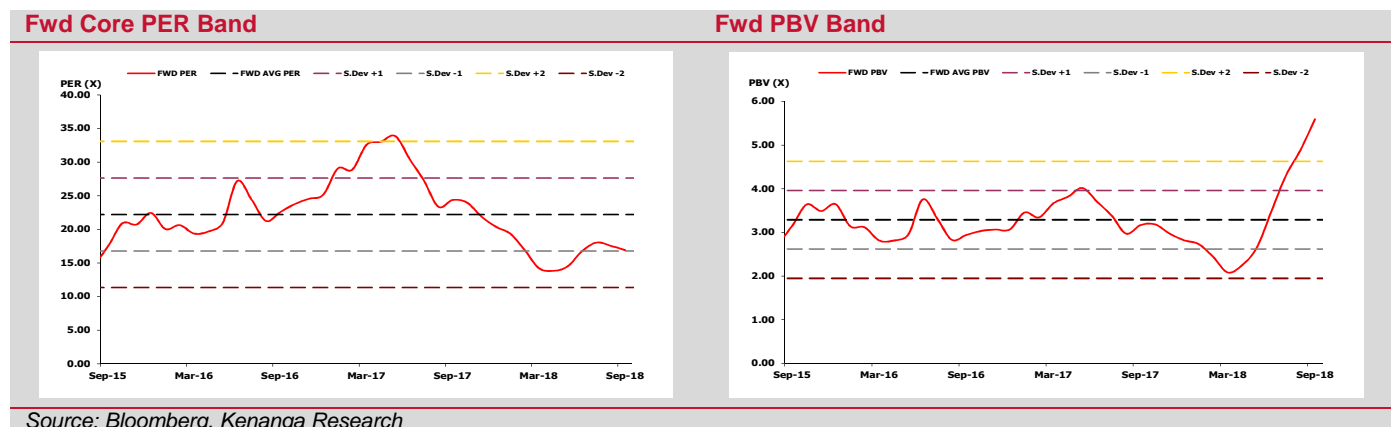
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Income Statement						Financial Data & Ratios					
FY Mar (RM m)	2016A	2017A	2018A	2019E	2020E	FY Mar (RM m)	2016A	2017A	2018A	2019E	2020E
Revenue	367.5	399.3	424.3	451.0	494.0	<b>Growth (%)</b>					
Core EBITDA	58.0	53.2	30.5	46.3	59.3	Turnover	-4.1%	8.6%	6.3%	6.3%	9.5%
Operating Profit	43.4	53.9	9.8	39.6	51.7	EBITDA	-13.6%	21.0%	-73.2%	186.2%	28.1%
Depreciation	-6.4	-6.4	-6.4	-6.7	-7.6	Operating Profit	-15.5%	24.1%	-81.8%	304.3%	30.6%
Interest Inc/(Exp)	0.9	0.9	0.5	0.2	0.2	PBT	-14.2%	23.4%	-81.2%	285.5%	30.5%
Profit Before Tax	44.4	54.8	10.3	39.7	51.9	Core PATAMI	11.2%	-29.4%	-35.6%	43.2%	30.5%
Taxation	0.8	-7.5	-0.6	-3.9	-5.0	<b>Profitability (%)</b>					
Net Profit	45.2	47.2	9.7	35.9	46.8	EBITDA Margin*	15.8%	13.3%	7.2%	10.3%	12.0%
Core PATAMI	51.6	36.4	23.5	33.6	43.9	Operating Margin	11.8%	13.5%	2.3%	8.8%	10.5%
						PBT Margin	12.1%	13.7%	2.4%	8.8%	10.5%
						Core Net Margin	14.0%	9.1%	5.5%	7.5%	8.9%
						Effective Tax Rate	-1.9%	13.8%	5.6%	9.7%	9.7%
						ROA	13.5%	12.7%	2.5%	9.2%	11.2%
						ROE	18.6%	17.8%	4.0%	15.3%	18.2%
						* Adjusted for write-offs and impairments					
						<b>DuPont Analysis</b>					
						Net Margin (%)	14.0%	9.1%	5.5%	7.5%	8.9%
						Assets Turnover (x)	1.1	1.1	1.2	1.2	1.2
						Leverage Factor (x)	1.4	1.4	1.7	1.6	1.6
						ROE (%)	18.6%	17.8%	4.0%	15.3%	18.2%
						<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	0.1	0.1
						Net (Cash)/Debt	(60.5)	(56.2)	(19.4)	(26.6)	(19.4)
						Net Debt/Equity (x)	(0.3)	(0.2)	(0.1)	(0.1)	(0.1)
						<b>Valuations</b>					
						Core EPS (sen)	13.1	9.3	6.0	8.3	10.4
						NDPS (sen)	8.6	9.2	9.5	8.0	10.0
						BV/sh (RM)	0.6	0.6	0.5	0.6	0.6
						PER (x)	12.1	17.1	26.5	19.1	15.1
						Div. Yield (%)	5.5%	5.8%	6.0%	5.1%	6.3%
						PBV (x)	2.6	2.5	3.0	2.8	2.6
						EV/EBITDA (x)	18.2	16.1	35.5	21.0	19.8

Source: Kenanga Research



Source: Bloomberg, 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.		
<b>F&amp;B AND RETAIL</b>																	
7-ELEVEN MALAYSIA HOLDINGS BHD	1.40	1,580.4	N	12/2018	8.2%	5.2%	3.2%	13.0%	34.5	33.4	29.6	23.3	20.1	64.6%	2.1%	1.55	MP
AEON CO (M) BHD	1.92	2,695.7	Y	12/2018	6.6%	4.1%	13.4%	14.1%	25.7	22.6	19.8	1.4	1.3	6.0%	2.1%	2.60	OP
AMWAY MALAYSIA HOLDINGS BHD	7.15	1,175.4	Y	12/2018	0.0%	3.0%	-25.9%	41.3%	22.3	30.1	21.3	5.5	5.3	17.9%	2.8%	6.50	UP
DUTCH LADY MILK INDUSTRIES BHD	66.34	4,245.8	Y	12/2018	3.0%	4.0%	14.7%	13.9%	34.1	29.7	26.1	40.8	40.0	136.0%	3.3%	71.20	MP
FRASER & NEAVE HOLDINGS BHD	38.00	13,928.6	Y	09/2018	1.1%	5.4%	-7.4%	14.1%	34.9	37.7	33.1	6.5	6.2	16.0%	1.6%	32.15	UP
HAI-O ENTERPRISE BHD	4.34	1,261.6	N	04/2019	20.9%	5.5%	35.8%	5.0%	20.7	15.0	12.4	4.4	4.1	30.0%	5.0%	6.00	OP
MYNEWS HOLDINGS BHD	1.51	1,030.1	N	10/2018	41.8%	16.7%	16.7%	16.8%	42.9	36.8	31.5	4.3	4.0	11.3%	0.7%	1.25	UP
NESTLE (MALAYSIA) BHD	147.40	34,565.3	Y	12/2018	3.5%	3.3%	11.4%	16.8%	53.5	48.0	41.1	54.0	50.9	109.1%	2.0%	132.55	UP
PADINI HOLDINGS BHD	5.87	3,861.9	Y	06/2018	19.1%	5.4%	14.2%	13.3%	21.7	19.0	16.7	7.0	5.9	33.7%	2.0%	5.60	UP
PARKSON HOLDINGS BHD	0.44	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%	0.81	OP
POWER ROOT BHD	1.58	624.0	Y	3/2019	6.3%	9.5%	43.0%	30.7%	26.5	19.1	15.1	3.0	2.8	16.4%	5.1%	1.90	OP
QL RESOURCES BHD	6.00	9,734.6	Y	3/2019	10.3%	10.0%	5.4%	6.6%	47.2	44.8	42.0	5.1	4.8	11.6%	0.8%	4.70	UP
SPRITZER BHD	2.33	489.2	Y	12/2018	7.0%	2.4%	31.5%	5.4%	17.9	15.6	14.8	1.1	1.2	8.1%	2.6%	2.50	MP
<b>Simple Average</b>					<b>10.0%</b>	<b>5.9%</b>	<b>15.5%</b>	<b>14.6%</b>	<b>31.8</b>	<b>28.0</b>	<b>24.3</b>	<b>12.1</b>	<b>11.3</b>	<b>35.6%</b>	<b>2.3%</b>		
<b>SIN</b>																	
BRITISH AMERICAN TOBACCO (M) BHD	33.20	9,479.6	N	12/2018	0.0%	-2.0%	21.5%	-16.0%	18.1	21.6	22.0	24.8	22.3	121.9%	4.2%	27.10	UP
CARLSBERG BREWERY MALAYSIA BHD	20.30	6,244.7	N	12/2018	0.0%	8.5%	-22.6%	12.4%	28.1	25.0	22.6	20.0	19.9	74.1%	4.0%	17.10	UP
HEINEKEN MALAYSIA BHD	21.36	6,452.8	N	12/2018	0.0%	5.0%	-12.3%	10.6%	23.9	21.6	21.0	17.9	17.8	74.6%	4.6%	20.40	MP
<b>Simple Average</b>					<b>10.1%</b>	<b>6.0%</b>	<b>17.1%</b>	<b>9.6%</b>	<b>23.4</b>	<b>22.7</b>	<b>21.9</b>	<b>20.9</b>	<b>20.0</b>	<b>44.0%</b>	<b>4.3%</b>		
<b>CONSENSUS ESTIMATES</b>																	
BERJAYA FOOD BHD	1.40	526.6	N	04/2019	10.2%	9.1%	2281.8%	17.4%	448.2	18.8	16.0	1.4	1.3	7.4%	3.0%	1.77	BUY
BONIA CORPORATION BHD	0.41	326.3	Y	06/2019	25.3%	3.7%	50.5%	9.4%	16.5	11.0	10.0	0.7	0.7	7.0%	2.5%	0.53	NEUTRAL
COCOALAND BHD	2.22	507.9	Y	12/2018	6.2%	5.9%	13.9%	8.0%	15.2	13.3	12.3	2.2	1.9	14.6%	5.0%	2.69	BUY
LAY HONG BHD	0.61	400.6	Y	03/2019	2.6%	0.9%	0.4%	13.8%	10.9	10.9	9.6	1.2	1.2	8.9%	1.6%	0.81	BUY
KAWAN FOOD BHD	2.25	808.9	Y	12/2018	14.1%	16.8%	3.6%	40.1%	27.8	26.8	19.1	2.7	2.1	9.4%	2.0%	2.68	NEUTRAL
MAGNI-TECH INDUSTRIES BHD	4.79	779.5	Y	04/2019	13.0%	8.8%	24.8%	3.5%	8.5	6.8	6.6	1.7	1.4	25.1%	4.8%	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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