

29 May 2019

Power Root Bhd Inspiring FY19 Results

FY19 core PATAMI of RM33.0m was above estimates, while full-year dividend of 8.0 sen is deemed to be within expectation. We anticipate PWROOT to benefit from rationalisation exercises that are bearing fruit, better coffee commodity prices and possible sales growth, especially in export markets. Maintain OUTPERFORM with a higher TP of RM1.75 (from RM1.65).

FY19 closed strong. FY19 Core Net Profit of RM33.0m made up 107%/108% of our/consensus full-year forecast, beating expectations. Recall that in our Results Preview on PWROOT on 15 May 2019, we reckon that core earnings could potentially register between RM29.0m-RM33.0m following: (i) the group's rationalisation of its distributor and client profile, which may result in impairments/provisions; (ii) better commodities (mainly coffee) prices, and (iii) cost savings from various operational streamlining exercises. An interim dividend of 2.9 sen was declared, amounting to FY19 total dividend of 8.0 sen. We deem this to be within our 7.5 sen estimate on an anticipated c.95% payout.

YoY, 12M19 sales of RM338.0m (-14%) was weaker in both domestic and export markets owing to rationalisation exercises on the group's distribution network. However, core EBITDA expansion of 56% (margin recorded at 14.0%, +6.3ppt) stemmed from: (i) profitability recovered from the abovementioned rationalisation exercises, (ii) better average coffee input costs, and (iii) streamlined operating landscape. This translated to a FY19 core PATAMI of RM33.0m (+42%), adjusting for provisions and impairments, which could have resulted from the rationalisation exercise, alongside forex gains/losses.

QoQ, 4Q19 revenue declined slightly by 3% owing to a lower domestic sales mix. However, CNP of RM12.0m was an improvement of 85%, which we believe could be driven by the better operating landscape above and more favourable margins with the change in distributors.

A smoother blend. Having previously undergone a volatile phase in its operations (mainly bogged by unfavourable raw material prices and operational leakages), it could appear that PWROOT is on the right track to regain some lost market position. A newly rationalised distributor and client profile could enable the group to recalibrate and expand its exposure in trade channels whilst keeping margins in check. Additionally, production costs could ease on the back of better hedged commodity positions and a closer eye on operating methods. On exports, management aspires to ramp up its footprint in the MENA segment, possibly enabled by the group's presently leaner methods and new distributor relationships. Domestic and export sales account for 50:50 of the group's portfolio, which we believe could see a wider skew towards exports in the near future.

Post-results, we nudge our FY19E earnings by 3.3%, mainly on the back of a stronger export sales mix. Additionally, we introduce our FY21E numbers.

Maintain OUTPERFORM with a higher TP of RM1.75 (from RM1.65). Our TP is based on an unchanged 17.0x FY20E PER, at -1SD over its 3-year mean on a higher FY20E EPS. We believe our valuation is undemanding, being at a discount to the implied privatisation valuation of OLDTOWN at c.19x 1-year Fwd. PER, while the discount was previously premised on PWROOT's more volatile outlook. On top of a rebound from an unfavourable operating environment resulting in meaningful earnings growth potential, the stock also provides solid dividend yields of 6.7%/7.8% for FY20/FY21. Typically, large-cap F&B players on average provide dividend yield of c.2.0%.

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: RM1.34
Target Price: RM1.75 ↑

Expected Capital Gain: RM0.41 +30.6%
Expected Divd. Yield: RM0.09 +6.7%
Expected Total Return: RM0.50 +37.3%

KLCI Index 1,614.57

Stock Information

Bloomberg Ticker	PWRT MK Equity
Bursa Code	7237
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	395.9
Market Cap (RM m)	530.5
Par value per share (RM)	0.20
52-week range (H)	1.68
52-week range (L)	1.06
Free Float	49%
Beta	1.2
3-mth avg daily vol	292,993

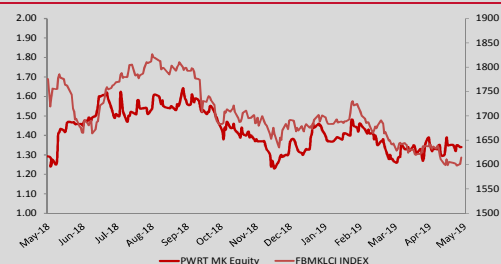
Major Shareholders

Dato' How Say Swee	19.8%
Dato' Wong Fuei Boon	18.4%
Dato' Low Chee Yen	12.7%

Summary Earnings Table

FY Mar (RM m)	2019A	2020E	2021E
Turnover	338.0	359.4	390.3
EBIT	36.6	51.3	59.7
PBT	37.1	52.3	61.1
Net Profit	28.1	41.8	48.8
Core PATAMI	33.0	41.7	48.6
Consensus (NP)	30.5	37.5	41.4
Earnings Revision	-	3.3%	-
Core EPS (sen)	8.4	10.2	11.6
Core EPS growth (%)	35.8%	22.2%	13.1%
NDPS (sen)	8.0	9.0	10.5
NTA per Share (RM)	0.56	0.60	0.64
Price to NTA (x)	2.4	2.2	2.1
PER (x)	16.0	13.1	11.6
Debt-to-Equity ratio (x)	(0.1)	(0.2)	(0.2)
Return on Asset (%)	8.1%	12.0%	12.9%
Return on Equity (%)	13.1%	18.0%	19.0%
Net Div. Yield (%)	6.0%	6.7%	7.8%

Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	-3.6%	-7.6%	7.9%
Relative (%)	-2.3%	-2.5%	14.0%

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Results Highlights

	4Q	3Q	QoQ	4Q*	YoY	12M	12M*	YTD
FYE Mar (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Turnover	79.6	81.9	-2.8%	71.5	11.3%	338.0	392.8	-13.9%
Core EBITDA [^]	17.4	9.4	85.8%	0.0	n.m.	47.3	30.3	56.4%
EBIT	8.9	8.5	5.2%	-10.4	185.7%	36.6	9.8	273.7%
PBT	9.2	8.2	11.5%	-10.5	187.6%	37.1	10.3	259.7%
Taxation	-4.3	-1.2	-271.2%	0.5	n.m.	-4.6	-1.1	-315.0%
Net Profit	4.8	7.0	-31.6%	-9.9	148.6%	28.1	9.7	189.1%
Core PATAMI	12.0	6.5	85.3%	-0.9	n.m.	33.0	23.2	42.2%
EPS (sen)	3.6	1.9	85.3%	0.1	n.m.	9.9	7.6	30.0%
DPS (sen)	2.9	1.7		0.5		8.0	9.5	
Adj. EBITDA margin	21.9%	11.5%		0.0%		14.0%	7.7%	
EBIT margin	11.2%	10.4%		-14.6%		10.8%	2.5%	
PBT margin	11.5%	10.0%		-14.6%		11.0%	2.6%	
Core PATAMI margin	15.0%	7.9%		-13.9%		9.8%	5.9%	
Effective tax rate	47.4%	14.2%		5.1%		12.4%	10.8%	

Note:

* Restated to reflect MFRS15 & 9 adoption

[^] Core EBITDA and PATAMI are derived after adjusting for: (i) write offs / (reversals); (ii) foreign exchange losses / (gains) in the respective quarters; and (iii) bonus provisions (in FY18).

Source: Company, Kenanga Research

Revenue Segments

	4Q	3Q	QoQ	4Q*	YoY	12M	12M*	YTD
FYE Mar (RM'm)	FY19	FY19	Chg	FY18	Chg	FY19	FY18	Chg
Domestic	39.4	43.7	-9.8%	46.0	-14.4%	164.9	215.6	-23.5%
Export	40.2	38.2	5.3%	34.6	16.2%	173.1	209.0	-17.1%
Total	79.6	81.9	-2.8%	80.6	-1.2%	338.0	424.6	-20.4%

Note:

* Unadjusted for MFRS 15 & 9 adoption

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	1.49	1,745.5	N	12/2019	12.4%	4.9%	13.6%	5.5%	35.8	31.5	29.9	24.8	24.0	77.5%	2.7%	1.30	UP
AEON CO (M) BHD	1.49	2,092.0	Y	12/2019	6.5%	3.1%	17.3%	9.2%	19.7	16.8	15.4	1.1	1.0	5.3%	2.7%	2.00	OP
AMWAY MALAYSIA HOLDINGS BHD	5.94	976.5	Y	12/2019	2.2%	2.0%	5.5%	6.3%	17.9	17.0	16.0	4.2	3.9	23.8%	4.6%	6.80	OP
DUTCH LADY MILK INDUSTRIES BHD	63.50	4,064.0	Y	12/2019	1.0%	2.0%	-2.2%	7.0%	32.8	28.0	27.3	38.5	38.6	115.2%	3.0%	62.90	MP
FRASER & NEAVE HOLDINGS BHD	34.18	12,536.5	Y	09/2019	5.9%	7.0%	9.4%	2.9%	31.6	28.8	28.0	5.4	5.0	18.0%	1.9%	36.60	MP
HAI-O ENTERPRISE BHD	2.36	685.3	N	04/2019	-20.3%	2.3%	-30.7%	2.1%	11.5	8.1	6.7	2.1	2.0	15.2%	4.2%	2.10	UP
MYNEWS HOLDINGS BHD	1.37	934.6	N	10/2019	27.3%	14.2%	21.0%	20.7%	35.3	29.1	24.1	3.4	3.1	11.1%	0.7%	1.25	UP
NESTLE (MALAYSIA) BHD	147.00	34,471.5	Y	12/2019	2.3%	3.8%	12.8%	4.3%	53.1	47.1	45.1	52.7	52.7	114.7%	2.2%	137.00	MP
PADINI HOLDINGS BHD	3.99	2,625.1	Y	06/2019	2.0%	2.4%	-13.2%	21.8%	14.7	17.0	13.9	4.0	3.6	22.3%	2.9%	4.00	MP
PARKSON HOLDINGS BHD	0.240	256.1	Y	06/2019	4.3%	0.2%	185.3%	13.6%	N.A.	15.8	13.9	0.1	0.1	0.5%	0.0%	0.250	MP
POWER ROOT BHD	1.34	530.5	Y	03/2020	6.3%	8.6%	26.3%	16.8%	16.0	13.1	11.6	2.4	2.2	18.0%	6.7%	1.75	OP
QL RESOURCES BHD	7.09	11,503.1	Y	03/2019	8.1%	12.2%	11.0%	7.3%	55.8	50.3	46.9	6.1	5.6	12.2%	0.7%	6.05	UP
SPRITZER BHD	2.28	478.7	Y	12/2019	4.0%	5.0%	3.1%	12.6%	19.8	19.2	17.0	1.2	1.2	6.3%	1.8%	1.90	UP
Simple Average					4.8%	5.2%	19.9%	10.0%	28.7	24.8	22.8	11.2	11.0	33.9%	2.6%		
SIN																	
BRITISH AMERICAN TOBACCO (M) BHD	33.44	9,548.1	N	12/2019	-6.1%	2.7%	-11.5%	1.8%	20.4	23.0	22.6	22.6	21.6	96.0%	4.1%	29.55	UP
CARLSBERG BREWERY MALAYSIA BHD	24.38	7,499.8	N	12/2019	11.4%	4.6%	6.9%	4.8%	27.4	25.6	24.4	41.5	45.1	173.9%	4.1%	23.00	MP
HEINEKEN MALAYSIA BHD	23.78	7,183.9	N	12/2019	6.1%	5.0%	2.8%	5.1%	25.4	24.7	23.5	19.4	19.2	77.9%	4.0%	23.25	MP
Simple Average					3.8%	4.1%	-0.6%	3.9%	24.4	24.4	23.5	27.8	28.6	115.9%	4.1%		
CONSENSUS ESTIMATES																	
BERJAYA FOOD BHD	1.71	613.0	N	06/2019	8.2%	9.9%	2368.1%	15.4%	521.7	21.1	18.3	1.6	1.6	7.3%	2.8%	2.08	BUY
BONIA CORPORATION BHD	0.265	211.2	Y	06/2019	-6.8%	3.1%	-46.3%	50.8%	10.7	19.9	13.2	0.6	0.5	2.5%	2.3%	0.220	SELL
COCOALAND BHD	1.90	434.7	Y	12/2019	7.0%	5.2%	1.1%	7.6%	14.1	13.9	12.9	1.8	1.6	12.0%	4.1%	2.12	NEUTRAL
KAWAN FOOD BHD	1.36	488.9	Y	12/2019	16.7%	20.3%	54.9%	23.4%	21.4	13.8	11.2	1.5	1.4	10.4%	2.8%	2.16	BUY
MAGNI-TECH INDUSTRIES BHD	4.60	748.2	Y	04/2019	13.0%	7.0%	16.0%	11.3%	8.2	7.1	6.3	1.4	N.A.	21.0%	N.A.	6.45	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%

**** The Expected Total Return might contain rounding discrepancy**

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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