

18 July 2019

## Power Root Bhd

### Drink It Hot

Post-meeting, we feel reassured on the improved outlook with the overhang of distributors issue close to being cleared. Reiterate our OP call and upgrade TP to RM2.30 (from previously RM1.75) as we continue to like the company for its healthy growth trajectory, underpinned by: (i) rationalised distributor profiles, (ii) improved operational efficiencies, and (iii) new product launches. Decent dividend yield of c.5% and solid balance sheet also act as the cherry on top.

**Reaping the fruits.** Recap that albeit with lower sales (-14%), the group managed to chalk up a commendable core PATAMI growth (+42%) in FY19 thanks to the group's efforts to rationalise its distribution network. That said, PWROOT is poised to see better growth trajectory for both its local and exports market going forward, banking on its (i) streamlined distributors profile, (ii) implementation of new operational system to enhance cost efficiencies, and (iii) introduction of new products to tap on the evolving consumers' palate. Furthermore, this is expected to be buoyed by more favourable hedged positions for raw materials (mainly coffee) which would keep its processing margins fairly stable.

**Expanding footprints.** On the export front, the group still aspires to ramp up their presence in the MENA region which we believe is spurred by the robust market acceptance in these markets, particularly for their signature product - Ali Café. In addition, we believe with a larger market base in overseas region, which can now be more efficiently tapped into with leaner management methods and new distributorships, will continue to provide exciting growth potential for the group. With its volumes now solely supported by its manufacturing plant in Johor, we do not discount the possibility for the group expanding its manufacturing processes to the MENA region.

**New broom sweeps clean.** Moving forward, PWROOT is poised to start anew with its fresh strategies to drive growth through new product launches and expansion of brand presence overseas as majority of the rationalisation exercises are completed with its streamlined operational processes settling in place. All-in, this is expected to improve the company's margins (with our projected net margin of c.11% in FY20 compared to c.5% net margin in FY18). The improved outlook is backed by the company's rosy growth trajectory, which can only be further strengthened by its solid balance sheet and decent dividend yield of c.5%.

**Reiterate OUTPERFORM with higher TP of RM2.30 (from previously RM1.75).** Our revised TP is based on a higher PER of 20x (from previously 17x) which is in-line with its 3-year mean, as investor confidence could reemerge on the group's improved outlook with the overhang of its distributors issue close to being cleared. We also roll over our valuation base year to FY21E. On top of a rebound from an unfavorable operating environment resulting in meaningful earnings growth potential, the stock also provides solid dividend yields of c.5% when compared to the large-cap F&B players' average dividend yield of c.2%. Hence, we believe there is still upside with the aforementioned key positives remaining intact, in spite of the share price surging c.37% YTD.

**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: **RM1.81**  
Target Price: **RM2.30** ↑

Expected Capital Gain: **RM0.49 +27.1%**  
Expected Divd. Yield: **RM0.09 +5.0%**  
Expected Total Return: **RM0.58 +32.0%**

KLCI Index **1,657.53**

### 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)	716.5
Par value per share (RM)	0.20
52-week range (H)	1.87
52-week range (L)	1.21
Free Float	48%
Beta	1.3
3-mth avg daily vol:	593,823

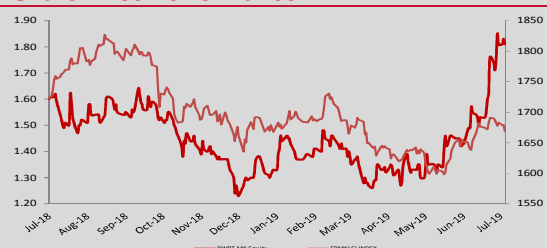
### Major Shareholders

Dato' How Say Swee	19.8%
Dato' Wong Fuei Boon	18.4%
Dato' Low Chee Yen	14.1%

### Summary Earnings Table

FY Mar (RM m)	2019A	2020E	2021E
Turnover	338.0	379.5	416.2
EBIT	36.6	51.5	60.4
PBT	37.1	52.4	61.6
<b>Net Profit</b>	<b>28.1</b>	<b>41.9</b>	<b>48.7</b>
<b>Core PATAMI</b>	<b>33.0</b>	<b>41.8</b>	<b>48.4</b>
Consensus (NP)	-	39.1	44.7
Earnings Revision	-	-	-
Core EPS (sen)	8.4	10.3	11.5
Core EPS growth (%)	35.8%	22.5%	12.4%
NDPS (sen)	8.0	9.0	10.5
BVPS (RM)	0.56	0.60	0.64
PER (x)	21.6	17.6	15.7
PBV (x)	3.3	3.0	2.8
Net Gearing (x)	(0.1)	(0.2)	(0.2)
Net Div. Yield (%)	4.4%	5.0%	5.8%

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	21.5%	38.2%	12.4%
Relative (%)	21.2%	35.8%	17.9%

Nikki Thang

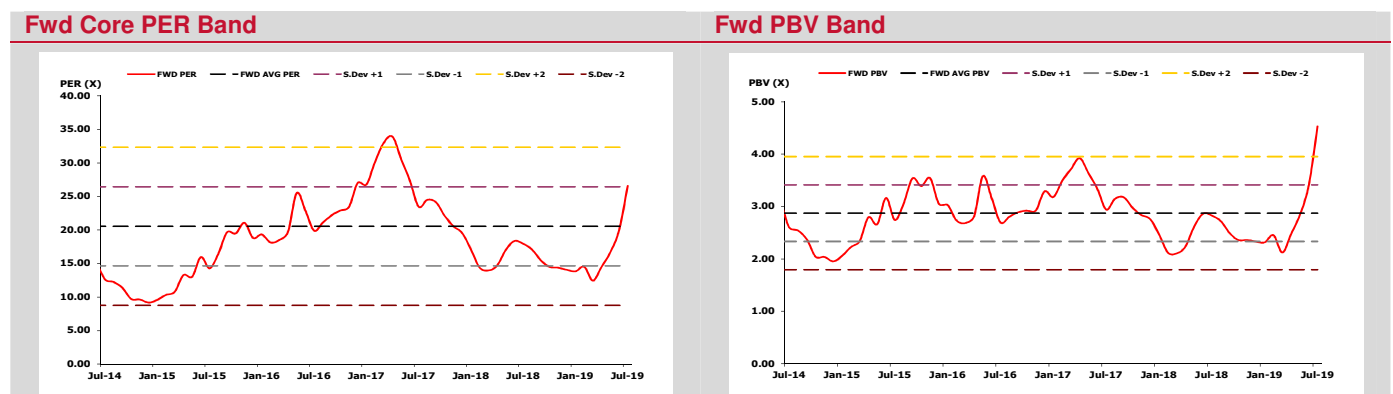
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18 July 2019

Income Statement						Financial Data & Ratios					
FY Mar (RM m)	2017A	2018A	2019A	2020E	2021E	FY Mar (RM m)	2017A	2018A	2019A	2020E	2021E
Revenue	399.3	424.3	338.0	379.5	416.2	<b>Growth</b>					
Core EBITDA	53.2	30.5	47.3	57.7	67.0	Turnover	8.6%	6.3%	-20.3%	12.3%	9.7%
Operating Profit	53.9	9.8	36.6	51.5	60.4	EBITDA	21.0%	-73.2%	161.8%	36.3%	16.2%
Depreciation	-6.4	-6.4	-5.8	-6.2	-6.6	Operating Profit	24.1%	-81.8%	273.7%	40.9%	17.2%
Interest Inc/(Exp)	0.9	0.5	0.5	0.9	1.2	PBT	23.4%	-81.2%	259.6%	41.4%	17.5%
Profit Before Tax	54.8	10.3	37.1	52.4	61.6	Core PATAMI	-29.4%	-35.6%	40.5%	26.6%	16.0%
Taxation	-7.5	-0.6	-8.9	-10.5	-12.9	<b>Profitability</b>					
Net Profit	47.2	9.7	28.1	41.9	48.7	EBITDA Margin*	13.3%	7.2%	14.0%	15.2%	16.1%
Core PATAMI	36.4	23.5	33.0	41.8	48.4	Operating Margin	13.5%	2.3%	10.8%	13.6%	14.5%
						PBT Margin	13.7%	2.4%	11.0%	13.8%	14.8%
						Core Net Margin	9.1%	5.5%	9.8%	11.0%	11.6%
						Effective Tax Rate	13.8%	5.6%	24.1%	20.0%	21.0%
						ROA	12.7%	2.5%	8.1%	12.0%	12.7%
						ROE	17.8%	4.0%	13.1%	18.0%	18.9%
						* Adjusted for write-offs and impairments					
						<b>DuPont Analysis</b>					
						Net Margin (%)	9.1%	5.5%	9.8%	11.0%	11.6%
						Assets Turnover (x)	1.1	1.2	1.0	1.0	1.0
						Leverage Factor (x)	1.4	1.7	1.5	1.5	1.5
						ROE (%)	17.8%	4.0%	15.4%	18.0%	18.9%
						<b>Leverage</b>					
						Debt/Asset (x)	0.0	0.1	0.1	0.1	0.0
						Debt/Equity (x)	0.0	0.2	0.1	0.1	0.1
						Net (Cash)/Debt	(56.2)	(19.4)	(38.2)	(56.5)	(64.9)
						Net Debt/Equity (x)	(0.2)	(0.1)	(0.2)	(0.2)	(0.2)
						<b>Valuations</b>					
						Core EPS (sen)	9.6	6.2	8.4	10.3	11.5
						NDPS (sen)	9.5	9.5	8.0	9.0	10.5
						BV/sh (RM)	0.7	0.5	0.6	0.6	0.6
						PER (x)	18.9	29.4	21.6	17.6	15.7
						Div. Yield (%)	5.3%	5.2%	4.4%	5.0%	5.8%
						PBV (x)	2.7	3.3	3.3	3.0	2.8
						EV/EBITDA (x)	15.7	34.4	12.7	12.3	12.0

Source: Kenanga Research



Source: Bloomberg, Kenanga Research

18 July 2019

## 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	1.47	1,722.1	N	12/2019	12.4%	4.9%	13.6%	5.5%	35.3	31.1	29.5	24.5	23.7	77.5%	2.7%	1.35	UP
AEON CO (M) BHD	1.74	2,443.0	Y	12/2019	3.1%	3.0%	9.2%	3.6%	19.6	18.0	17.4	1.2	1.2	6.6%	2.3%	2.10	OP
AMWAY MALAYSIA HOLDINGS BHD	6.20	1,019.2	Y	12/2019	2.2%	2.0%	5.5%	6.3%	18.7	17.7	16.7	4.3	4.1	23.8%	4.4%	5.90	MP
DUTCH LADY MILK INDUSTRIES BHD	64.00	4,096.0	Y	12/2019	1.0%	2.0%	-2.2%	7.0%	33.0	33.8	31.6	38.8	38.9	115.2%	3.0%	62.90	MP
FRASER & NEAVE HOLDINGS BHD	34.50	12,653.9	Y	09/2019	5.9%	7.0%	9.4%	2.9%	31.9	29.1	28.3	5.5	5.1	18.0%	1.9%	36.60	MP
HAI-O ENTERPRISE BHD	2.35	682.4	N	04/2020	1.7%	2.3%	0.1%	1.8%	14.4	14.4	14.1	2.1	2.2	15.1%	5.5%	1.95	UP
MYNEWS HOLDINGS BHD	1.43	975.5	N	10/2019	27.3%	14.2%	21.0%	20.7%	36.8	30.4	25.2	3.1	3.1	10.2%	0.7%	1.55	OP
NESTLE (MALAYSIA) BHD	148.00	34,706.0	Y	12/2019	2.3%	3.8%	12.8%	4.3%	53.4	47.4	45.4	53.0	53.1	114.7%	2.2%	137.00	MP
PADINI HOLDINGS BHD	3.60	2,368.5	Y	06/2019	2.0%	2.4%	-13.2%	21.8%	13.3	15.3	12.6	3.6	3.2	22.3%	3.2%	3.75	MP
PARKSON HOLDINGS BHD	0.26	277.5	Y	06/2019	1.2%	0.2%	-50.4%	718.1%	N.A.	N.A.	33.5	0.1	0.1	-1.7%	0.0%	0.24	UP
POWER ROOT BHD	1.81	716.5	Y	03/2020	12.3%	9.7%	26.6%	16.0%	21.6	17.6	15.7	3.3	3.0	18.1%	5.0%	2.30	OP
QL RESOURCES BHD	6.76	10,967.7	Y	03/2020	10.9%	4.5%	13.0%	4.2%	50.6	44.8	43.0	5.4	5.0	12.1%	0.8%	6.05	UP
SPRITZER BHD	2.28	478.7	Y	12/2019	5.1%	1.2%	14.6%	13.0%	19.8	17.2	15.3	1.2	1.2	7.0%	1.8%	2.40	MP
<b>Simple Average</b>					<b>6.7%</b>	<b>4.4%</b>	<b>4.6%</b>	<b>63.5%</b>	<b>29.0</b>	<b>26.4</b>	<b>25.2</b>	<b>11.3</b>	<b>11.1</b>	<b>33.8%</b>	<b>2.6%</b>		
<b>SIN</b>																	
BRITISH AMERICAN TOBACCO (M) BHD	30.00	8,565.9	N	12/2019	-6.1%	2.7%	-11.5%	1.8%	18.3	20.7	20.3	20.3	19.4	96.0%	4.6%	29.55	MP
CARLSBERG BREWERY MALAYSIA BHD	24.60	7,567.5	N	12/2019	11.4%	4.6%	6.9%	4.8%	27.6	25.8	24.6	44.5	48.6	186.7%	4.1%	23.95	MP
HEINEKEN MALAYSIA BHD	23.00	6,948.3	N	12/2019	6.1%	5.0%	2.8%	5.1%	24.6	23.9	22.8	18.7	18.5	77.9%	4.1%	23.25	MP
<b>Simple Average</b>					<b>3.8%</b>	<b>4.1%</b>	<b>-0.6%</b>	<b>3.9%</b>	<b>23.5</b>	<b>23.5</b>	<b>22.6</b>	<b>27.8</b>	<b>28.8</b>	<b>120.2%</b>	<b>4.3%</b>		
<b>CONSENSUS ESTIMATES</b>																	
BERJAYA FOOD BHD	1.60	573.8	N	06/2019	10.1%	8.8%	22.4%	11.1%	21.8	17.8	16.0	1.5	1.5	7.8%	3.3%	2.06	BUY
BONIA CORPORATION BHD	0.32	248.8	Y	06/2019	3.4%	3.1%	-29.7%	18.2%	12.6	17.9	15.1	0.7	0.7	3.2%	2.2%	0.30	SELL
COCOALAND BHD	1.96	448.4	Y	12/2019	7.0%	5.2%	1.1%	7.6%	14.5	14.3	13.3	1.8	1.6	11.8%	3.1%	2.12	NEUTRAL
KAWAN FOOD	1.43	514.1	Y	12/2019	16.5%	19.9%	11.7%	27.0%	22.5	20.2	15.9	1.6	1.5	5.2%	2.7%	0.98	SELL
MAGNI-TECH INDUSTRIES BHD	5.35	870.2	Y	04/2020	18.8%	4.5%	13.0%	5.2%	8.5	7.5	7.1	1.6	N.A.	20.3%	N.A.	6.60	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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