

28 August 2019

## Power Root Bhd Better Year Ahead

1Q20 CNP of RM11.7m (+36% YoY) came in broadly within expectations. Declared dividend of 2.0 sen is also within expectations. Post-results, we reiterate our OP call with unchanged TP of RM2.30 as we continue to like the company for its rosy growth trajectory, premised on: (i) rationalised distributorships, (ii) operational enhancements, and (iii) better hedged commodity prices. Decent dividend yield of c.5% and solid balance sheet also act as the cherry on top.

**Broadly within.** 1Q20 CNP of RM11.7m is deemed broadly within expectations, making up 28%/29% of our/consensus estimates. While we expect stronger results in the coming quarters, the positive stretch for this quarter came mainly from its low tax rates of 8.1%, which we deem to be unsustainable owing to the lapse of tax incentives. The declared dividend of 2.0 sen is deemed to be within expectations, against our full-year estimate of 9.0 sen.

**Reaping the fruits.** PWROOT started the year on a strong footing by registering a 1Q20 CNP growth of 36% YoY. This was driven by better overall performance as: (i) domestic sales improved (+29%) from its recalibrated distributorships; (ii) better comparative production costs thanks to more favourable hedged coffee prices; (iii) streamlined operating landscape, which could have minimised leakages; and (iv) lower ETR incurred (8.1%, -6.2ppts) during the quarter.

**QoQ,** 1Q20 CNP declined slightly by 2.2% owing to higher opex which contracted core EBITDA margin by 6.9ppts. We suspect this to be due to higher expenses in tandem with the new distributors.

**The coffee is still hot.** Moving forward, PWROOT is poised to see better growth trajectories for its local and exports markets, banking on its: (i) better distribution outreach, (ii) implementation of new operational system to enhance cost efficiencies, and (iii) introduction of new products to tap broader range of consumers' palate. Furthermore, this is expected to be buoyed by more favourable hedged positions for raw materials (mainly coffee) which would keep its production costs fairly stable. All-in, this is expected to expand margins, with our projected net margin of c.11% in FY20 compared to c.5% net margin in FY18. The aforesaid positives are further strengthened by its solid net cash position and dividend yield of c.5%.

**Maintain OUTPERFORM** with an unchanged TP of RM2.30. Our TP is based on an unchanged 20.0x FY21E PER, which is in-line with its 3-year mean. Investors' interest could be rejuvenated with the group's improved outlook, distinguishing from past hiccups with its distributors and rueful commodity hedges. On top of a meaningful rebound in earnings growth potential, the stock also provides solid dividend yields of c.5% when compared to the large-cap F&B players' average 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.48% 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: RM1.96  
Target Price: RM2.30 ↔

Expected Capital Gain: RM0.34 +17.3%  
Expected Divd. Yield: RM0.09 +4.6%  
Expected Total Return: RM0.43 +21.9%

KLCI Index 1,590.84

### Stock Information

Bloomberg Ticker	PWRT MK Equity
Bursa Code	7237
Listing Market	Main Market
Shariah Compliant	Yes
Shares Outstanding	396.1
Market Cap (RM m)	776.3
Par value per share (RM)	0.20
52-week range (H)	1.98
52-week range (L)	1.21
Free Float	46%
Beta	1.4
3-mth avg daily vol	735,336

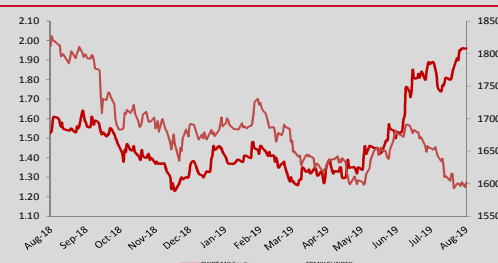
### Major Shareholders

Dato' Wong Fuei Boon	19.9%
Dato' How Say Swee	19.8%
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 Net Profit</b>	<b>33.0</b>	<b>41.8</b>	<b>48.4</b>
Consensus (NP)	30.5	40.0	45.8
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
Price to NTA (x)	0.56	0.60	0.64
PER (x)	23.4	19.1	17.0
PBV (x)	3.5	3.3	3.1
Net Gearing (x)	(0.1)	(0.2)	(0.2)
Net Div. Yield (%)	4.1%	4.6%	5.4%

### Share Price Performance



	1 mth	3 mths	12 mths
Absolute (%)	3.7%	46.3%	28.1%
Relative (%)	6.9%	46.9%	40.3%

Nikki Thang

[nikkithang@kenanga.com.my](mailto:nikkithang@kenanga.com.my)

+603-2172 2636

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## Results Highlights

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YTD
FYE Mar (RM'm)	FY20	FY19	Chg	FY19	Chg	FY20	FY19	Chg
<b>Turnover</b>	<b>94.2</b>	<b>79.6</b>	<b>18.4%</b>	<b>89.2</b>	<b>5.6%</b>	<b>94.2</b>	<b>89.2</b>	<b>5.6%</b>
Core EBITDA <sup>^</sup>	14.1	17.4	-19.1%	11.4	23.6%	14.1	11.4	23.6%
EBIT	13.3	8.9	48.9%	10.8	22.6%	13.3	10.8	22.6%
PBT	13.4	9.2	46.3%	10.8	24.0%	13.4	10.8	24.0%
Taxation	-1.1	-4.3	74.9%	-1.5	29.6%	-1.1	-1.5	29.6%
<b>Net Profit</b>	<b>12.3</b>	<b>4.8</b>	<b>155.5%</b>	<b>9.3</b>	<b>32.9%</b>	<b>12.3</b>	<b>9.3</b>	<b>32.9%</b>
<b>Core Net Profit<sup>^</sup></b>	<b>11.7</b>	<b>12.0</b>	<b>-2.2%</b>	<b>8.6</b>	<b>36.3%</b>	<b>11.7</b>	<b>8.6</b>	<b>36.3%</b>
EPS (sen)	3.5	3.6	-2.2%	2.6	36.3%	3.5	2.6	36.3%
DPS (sen)	2.0	2.9		1.7		2.0	1.7	
Adj. EBITDA margin	15.0%	21.9%		12.8%		15.0%	12.8%	
EBIT margin	14.1%	11.2%		12.1%		14.1%	12.1%	
PBT margin	14.2%	11.5%		12.1%		14.2%	12.1%	
Core PATAMI margin	12.4%	15.0%		9.6%		12.4%	9.6%	
Effective tax rate	8.1%	47.4%		14.3%		8.1%	14.3%	

Note:

<sup>^</sup> Core EBITDA and PATAMI are derived after adjusting for: (i) write offs / (reversals) and (ii) foreign exchange losses / (gains) in the respective quarters

Source: Company, Kenanga Research

## Revenue Segments

	1Q	4Q	QoQ	1Q	YoY	3M	3M	YTD
FYE Mar (RM'm)	FY20	FY19	Chg	FY19	Chg	FY20	FY19	Chg
Domestic	49.1	39.4	24.7%	38.2	28.5%	49.1	38.2	28.5%
Export	45.2	40.2	12.2%	51.1	-11.5%	45.2	51.1	-11.5%
<b>Total</b>	<b>94.2</b>	<b>79.6</b>	<b>18.4%</b>	<b>89.2</b>	<b>5.6%</b>	<b>94.2</b>	<b>89.2</b>	<b>5.6%</b>

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.			
<b>F&amp;B AND RETAIL</b>																		
7-ELEVEN MALAYSIA HOLDINGS BHD	1.48	1,733.8	N	12/2019	12.4%	4.9%	13.6%	5.5%	35.6	31.3	29.7	24.6	23.9	77.5%	2.7%	1.35	UP	
AEON CO (M) BHD	1.65	2,316.6	Y	12/2019	5.5%	5.4%	-18.2%	9.6%	18.6	22.7	20.7	1.1	1.1	5.0%	2.4%	1.70	MP	
AMWAY MALAYSIA HOLDINGS BHD	6.08	999.5	Y	12/2019	2.2%	2.0%	5.5%	6.3%	18.3	17.4	16.4	4.3	4.0	23.8%	4.5%	5.90	MP	
DUTCH LADY MILK INDUSTRIES BHD	63.90	4,089.6	Y	12/2019	-3.0%	2.0%	-17.4%	10.0%	33.0	39.9	36.3	38.8	38.2	97.9%	2.5%	54.60	UP	
FRASER & NEAVE HOLDINGS BHD	35.78	13,123.3	Y	09/2019	5.9%	7.0%	9.4%	2.9%	33.1	30.2	29.4	5.7	5.2	18.0%	1.8%	36.60	MP	
HAI-O ENTERPRISE BHD	2.23	647.5	N	04/2020	1.7%	2.3%	0.1%	1.8%	13.7	13.7	13.4	2.0	2.1	15.1%	5.8%	1.95	UP	
MYNEWS HOLDINGS BHD	1.40	955.0	N	10/2019	27.3%	14.2%	21.0%	20.7%	36.0	29.8	24.7	3.1	3.0	10.2%	0.7%	1.55	OP	
NESTLE (MALAYSIA) BHD	148.60	34,846.7	Y	12/2019	2.5%	3.8%	3.5%	7.2%	53.7	51.9	48.4	53.3	52.5	104.6%	2.0%	128.00	UP	
PADINI HOLDINGS BHD	3.38	2,223.7	Y	06/2020	6.2%	-1.6%	21.8%	12.7%	14.2	11.7	10.3	3.4	2.9	26.8%	3.4%	3.75	OP	
PARKSON HOLDINGS BHD	0.22	234.8	Y	06/2019	1.2%	0.2%	-50.4%	718.1%	N.A.	N.A.	28.4	0.1	0.1	-1.7%	0.0%	0.24	UP	
POWER ROOT BHD	1.96	776.3	Y	03/2020	12.3%	9.7%	26.6%	16.0%	23.4	19.1	17.0	3.5	3.3	18.1%	4.6%	2.30	OP	
QL RESOURCES BHD	6.92	11,227.3	Y	03/2020	10.9%	4.5%	13.0%	4.2%	51.8	45.8	44.0	5.6	5.2	12.1%	0.8%	6.05	UP	
SPRITZER BHD	2.30	482.9	Y	12/2019	5.1%	1.2%	14.6%	13.0%	19.9	17.4	15.4	1.2	1.2	7.0%	1.7%	2.40	MP	
<b>Simple Average</b>					<b>6.9%</b>	<b>4.3%</b>	<b>3.3%</b>	<b>63.7%</b>	<b>29.3</b>	<b>27.6</b>	<b>25.7</b>	<b>11.3</b>	<b>11.0</b>	<b>31.9%</b>	<b>2.5%</b>			
<b>SIN</b>																		
BRITISH AMERICAN TOBACCO (M) BHD	20.06	5,727.7	N	12/2019	-12.8%	0.6%	-22.3%	0.7%	12.2	13.8	13.6	13.6	13.0	84.5%	6.0%	24.40	UP	
CARLSBERG BREWERY MALAYSIA BHD	25.92	7,973.5	N	12/2019	11.4%	4.6%	6.9%	4.8%	29.1	27.2	26.0	46.9	51.2	186.7%	3.9%	25.95	OP	
HEINEKEN MALAYSIA BHD	24.76	7,479.9	N	12/2019	6.1%	5.0%	2.8%	5.1%	26.5	25.7	24.5	20.2	20.0	77.9%	3.8%	23.25	MP	
<b>Simple Average</b>					<b>1.6%</b>	<b>3.4%</b>	<b>-4.2%</b>	<b>3.5%</b>	<b>22.6</b>	<b>22.3</b>	<b>21.3</b>	<b>26.9</b>	<b>28.1</b>	<b>116.4%</b>	<b>4.6%</b>			
<b>CONSENSUS ESTIMATES</b>																		
BERJAYA FOOD BHD	1.55	555.9	N	06/2019	9.8%	8.4%	14.3%	9.1%	21.1	18.5	16.9	1.5	1.5	7.5%	3.0%	1.94	BUY	
BONIA CORPORATION BHD	0.26	205.2	Y	06/2019	3.4%	3.1%	-29.7%	18.2%	10.4	14.8	12.5	0.6	0.6	3.2%	2.7%	0.30	SELL	
COCOALAND BHD	1.87	427.9	Y	12/2019	5.7%	7.1%	2.9%	7.0%	13.8	13.4	12.6	1.7	1.7	13.1%	4.1%	2.29	NEUTRAL	
KAWAN FOOD BHD	1.21	435.0	Y	12/2019	10.5%	14.5%	-41.0%	61.1%	19.1	32.3	20.0	1.4	1.3	4.1%	2.1%	1.14	SELL	
MAGNI-TECH INDUSTRIES BHD	5.19	844.2	Y	04/2020	18.8%	4.5%	13.0%	5.2%	8.2	7.3	6.9	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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**KENANGA INVESTMENT BANK BERHAD (15678-H)**

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia  
Telephone: (603) 2172 0880 Website: [www.kenanga.com.my](http://www.kenanga.com.my) E-mail: [research@kenanga.com.my](mailto:research@kenanga.com.my)

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