29 August 2023

Consumer Non-cyclical | Beverages

# Power Root (PWRT MK)

## Buy (Maintained)

## Slow But Steady; Stay BUY

| | |
|---|---|
| Target Price (Return): | MYR2.39 (+12%) |
| Price (Market Cap): | MYR2.14 (USD213m) |
| ESG score: | 2.6 (out of 4) |
| Avg Daily Turnover (MYR/USD) | 0.76m/0.16m |

- **Maintain BUY, with new TP of MYR2.39 from MYR2.46, 12% upside and c.5% FY24F (Mar) yield.** 1QFY24 earnings slightly missed our expectations as growth momentum was slower-than-expected. Despite earnings growth no longer being the key value proposition of the stock, we continue to like Power Root as we expect it to sustain the high earnings base supported by quality product offering, entrenched brand equity and efficiency gain. In addition, generous dividend payout is expected to remain thanks to healthy cash flow generation and sturdy balance sheet.
- **1QFY24 results were below expectations.** Net profit accounted for 23-24% of our and consensus forecasts. We gather that the sales growth momentum has shown signs of slowing down. As such, we take the opportunity to trim FY24F-26F earnings by 3-4%. Correspondingly, our DCF-derived TP drops to MYR2.39 (inclusive of an 8% ESG discount) which implies 19x FY24F P/E, at a sizeable discount to the large-cap consumer peers.
- **Results review.** YoY, 1QFY24 revenue was flat at MYR112m, with the slight uptick in export sales (+2%) more than offset the softness in domestic sales (-1%). That said, we take comfort from the fact that 1QFY23 is an elevated base which represented a 50% YoY jump boosted by economic reopening. On the other hand, relatively stable raw material costs and prudent cost control expanded EBITDA margin by 0.5 ppt to 18.6% and drove 1QFY24 EBITDA higher by 3%. Meanwhile, 1QFY24 revenue was also flattish QoQ similarly supported by robust export sales. That said, net profit fell 13% QOQ on higher marketing spend and higher effective tax rate of 17% from 14% in 4QFY23. DPS of 2.5 sen (based on a higher share base after accounting for warrants conversion) was declared for 1QFY24 (1QFY23: 3 sen).
- **Outlook.** The subdued growth momentum could persist into 2QFY24F as the company observed soft consumer sentiment which we think was likely dented by inflationary pressures and uninspiring income outlook. As such, we believe PWRT will invest in marketing engagement in order to spur spending, whilst at the same time, continue to enhance its operational efficiency to mitigate the challenges. Meanwhile, we understand that the sharp rise in sugar prices, if it persists, may lead to material cost spikes but prices of other key ingredients have stayed relatively stable. Our FY24F earnings will now imply a pedestrian growth of 4% but we highlight this is on the back of a 45% 2-year earnings CAGR having managed to recover strongly from the pandemic.
- **Risks to our recommendation** include a sharp rise in input costs and intense competition.

| Forecasts and Valuation | Mar-22 | Mar-23 | Mar-24F | Mar-25F | Mar-26F |
|---|---|---|---|---|---|
| Total turnover (MYRm) | 348 | 456 | 478 | 506 | 534 |
| Recurring net profit (MYRm) | 26 | 59 | 62 | 67 | 70 |
| Recurring net profit growth (%) | (6.5) | 126.3 | 4.4 | 7.8 | 5.6 |
| Recurring P/E (x) | 39.58 | 17.49 | 16.76 | 15.55 | 14.73 |
| P/B (x) | 3.9 | 3.6 | 2.6 | 2.5 | 2.5 |
| P/CF (x) | 47.27 | 28.54 | 16.44 | 15.61 | 14.68 |
| Dividend Yield (%) | 2.5 | 5.5 | 5.1 | 5.8 | 6.1 |
| EV/EBITDA (x) | 24.82 | 12.32 | 10.33 | 9.74 | 9.23 |
| Return on average equity (%) | 9.9 | 21.3 | 17.9 | 16.5 | 17.1 |
| Net debt to equity (%) | net cash | net cash | net cash | net cash | net cash |

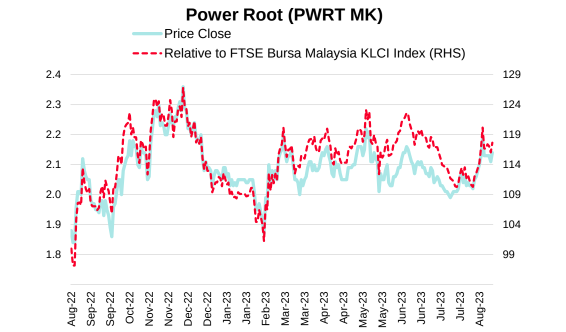
*Source: Company data, RHB*

**Analyst**

Soong Wei Siang
+603 9280 8865
soong.wei.siang@rhbgroup.com

**Share Performance (%)**

| | YTD | 1m | 3m | 6m | 12m |
|---|---|---|---|---|---|
| Absolute | 2.9 | 5.9 | 2.9 | (2.7) | 12.6 |
| Relative | 6.3 | 6.3 | 0.0 | (2.0) | 16.4 |
| 52-wk Price low/high (MYR) | | | | | 1.84 – 2.36 |




*Source: Bloomberg*

**Overall ESG Score: 2.6 (out of 4)**

**E: MODERATE**
Power Root has not identified any key initiatives in delivering sustainable reductions in greenhouse gas (GHG) emissions and the use of natural resources. It also does not disclose any information in regards to how it manages the waste produced.

**S: GOOD**
Good policy to enhance the awareness of health and safety amongst its stakeholders and putting in place a framework that ensure a safe and conducive working environment for its people. In addition, Power Root also practices good standards in ensuring the safety and quality of food products.

**G: EXCELLENT**
Power Root has applied and adopted the majority of the best practices of the Malaysian Code on Corporate Governance with independent directors comprising of 50% of the Board.

**Note:**
Small cap stocks are defined as companies with a market capitalisation of less than USD0.5bn.

# Financial Exhibits

**Asia**
Malaysia
Consumer Non-cyclical
**Power Root**
PWRT MK
Buy

**Valuation basis**

Discounted Cash Flow

**Key drivers**

i. Successful new product launches;
ii. Favourable raw material costs.

**Key risks**

i. Intense competition;
ii. Sharp rise in input costs.

**Company Profile**

Power Root manufactures and distributes beverage products in Malaysia. It also exports products, primarily to the Middle East. The company offers products under the Alicafe, Per'l, Ah Huat White Coffee, Alitea, Oligo, Per'l Café, Ah Huat Coco, and Power Root Extra brands.

| Financial summary (MYR) | Mar-22 | Mar-23 | Mar-24F | Mar-25F | Mar-26F |
|---|---|---|---|---|---|
| Recurring EPS | 0.05 | 0.12 | 0.13 | 0.14 | 0.15 |
| DPS | 0.05 | 0.12 | 0.11 | 0.12 | 0.13 |
| BVPS | 0.55 | 0.60 | 0.83 | 0.84 | 0.86 |
| Return on average equity (%) | 9.9 | 21.3 | 17.9 | 16.5 | 17.1 |

| Valuation metrics | Mar-22 | Mar-23 | Mar-24F | Mar-25F | Mar-26F |
|---|---|---|---|---|---|
| Recurring P/E (x) | 39.58 | 17.49 | 16.76 | 15.55 | 14.73 |
| P/B (x) | 3.9 | 3.6 | 2.6 | 2.5 | 2.5 |
| FCF Yield (%) | 1.6 | 1.4 | 5.1 | 5.4 | 5.8 |
| Dividend Yield (%) | 2.5 | 5.5 | 5.1 | 5.8 | 6.1 |
| EV/EBITDA (x) | 24.82 | 12.32 | 10.33 | 9.74 | 9.23 |
| EV/EBIT (x) | 30.35 | 13.84 | 11.55 | 10.88 | 10.30 |

| Income statement (MYRm) | Mar-22 | Mar-23 | Mar-24F | Mar-25F | Mar-26F |
|---|---|---|---|---|---|
| Total turnover | 348 | 456 | 478 | 506 | 534 |
| Gross profit | 142 | 197 | 207 | 219 | 231 |
| EBITDA | 38 | 80 | 85 | 90 | 95 |
| Depreciation and amortisation | (7) | (9) | (9) | (9) | (10) |
| Operating profit | 31 | 71 | 76 | 81 | 85 |
| Net interest | 1 | 0 | 2 | 3 | 3 |
| Pre-tax profit | 32 | 71 | 77 | 83 | 88 |
| Taxation | (6) | (11) | (15) | (17) | (18) |
| Reported net profit | 26 | 59 | 62 | 67 | 70 |
| Recurring net profit | 26 | 59 | 62 | 67 | 70 |

| Cash flow (MYRm) | Mar-22 | Mar-23 | Mar-24F | Mar-25F | Mar-26F |
|---|---|---|---|---|---|
| Change in working capital | (8.9) | (35.1) | (6.3) | (6.9) | (6.8) |
| Cash flow from operations | 22.0 | 36.4 | 63.1 | 66.5 | 70.7 |
| Capex | (5.7) | (21.6) | (10.0) | (10.0) | (10.0) |
| Cash flow from investing activities | (7.3) | (10.0) | (10.0) | (15.0) | (10.0) |
| Dividends paid | (15.4) | (40.6) | (53.4) | (60.1) | (63.4) |
| Cash flow from financing activities | (8.1) | (24.9) | 29.4 | (57.3) | (65.6) |
| Cash at beginning of period | 85.1 | 92.6 | 76.5 | 159.1 | 158.2 |
| Net change in cash | 6.5 | 1.5 | 82.5 | (5.8) | (4.9) |
| Ending balance cash | 91.6 | 94.1 | 159.1 | 153.2 | 153.4 |

| Balance sheet (MYRm) | Mar-22 | Mar-23 | Mar-24F | Mar-25F | Mar-26F |
|---|---|---|---|---|---|
| Total cash and equivalents | 93 | 77 | 159 | 158 | 153 |
| Tangible fixed assets | 98 | 111 | 112 | 113 | 113 |
| Total investments | 13 | 13 | 13 | 13 | 13 |
| Total assets | 386 | 438 | 533 | 546 | 555 |
| Short-term debt | 3 | 15 | 10 | 10 | 5 |
| Total long-term debt | 17 | 16 | 0 | 0 | 0 |
| Total liabilities | 120 | 147 | 131 | 137 | 139 |
| Total equity | 267 | 291 | 402 | 409 | 416 |
| Total liabilities & equity | 386 | 438 | 533 | 546 | 555 |

| Key metrics | Mar-22 | Mar-23 | Mar-24F | Mar-25F | Mar-26F |
|---|---|---|---|---|---|
| Revenue growth (%) | 12.3 | 31.0 | 4.9 | 5.9 | 5.4 |
| Recurrent EPS growth (%) | (6.5) | 126.3 | 4.4 | 7.8 | 5.6 |
| Gross margin (%) | 40.8 | 43.3 | 43.2 | 43.3 | 43.3 |
| Operating EBITDA margin (%) | 11.0 | 17.5 | 17.7 | 17.8 | 17.8 |
| Net profit margin (%) | 7.5 | 13.0 | 13.0 | 13.2 | 13.2 |
| Dividend payout ratio (%) | 99.9 | 96.0 | 86.1 | 90.0 | 90.0 |
| Capex/sales (%) | 1.6 | 4.7 | 2.1 | 2.0 | 1.9 |
| Interest cover (x) | 109 | 79 | 92 | 202 | 284 |

*Source: Company data, RHB*

# Results At a Glance

### Figure 1: Results review

| FYE Mar (MYRm) | 1QFY23 | 4QFY23 | 1QFY24 | QoQ (%) | YoY (%) | Comments |
|---|---|---|---|---|---|---|
| **Revenue** | **112.1** | **112.8** | **112.4** | **(0.3)** | **0.3** | Moderate growth in export markets offset the softness in domestic sales |
| **EBITDA** | **20.3** | **23.0** | **21.0** | **(8.7)** | **3.1** | |
| *EBITDA Margin (%)* | *18.1* | *20.4* | 18.6 | (1.7) | 0.5 | |
| Depreciation | (1.9) | (2.6) | (2.4) | | | |
| **EBIT** | **18.4** | **20.4** | **18.6** | **(8.7)** | **0.9** | QoQ decline due to higher marketing spend |
| *EBIT Margin (%)* | *16.4* | *18.1* | *16.5* | (1.5) | 0.1 | |
| Finance costs | **0.0** | **0.1** | **0.1** | | | |
| **Pretax profit** | **18.4** | **20.4** | **18.7** | **(8.7)** | **1.2** | |
| *Pretax Margin (%)* | *16.5* | *18.1* | *16.6* | (1.5) | 0.2 | |
| *Tax Expense* | **(3.1)** | **(2.9)** | **(3.2)** | 11.1 | 2.3 | |
| *Effective tax rate (%)* | *16.9* | *14.0* | *17.0* | 3.0 | 0.2 | |
| **Net Profit** | **15.3** | **17.6** | **15.3** | **(13.1)** | **0.1** | At 23-24% of the forecasts |
| *Net Margin (%)* | *13.6* | *15.6* | *13.6* | (2.0) | (0.0) | |

*Source: Company data, RHB*

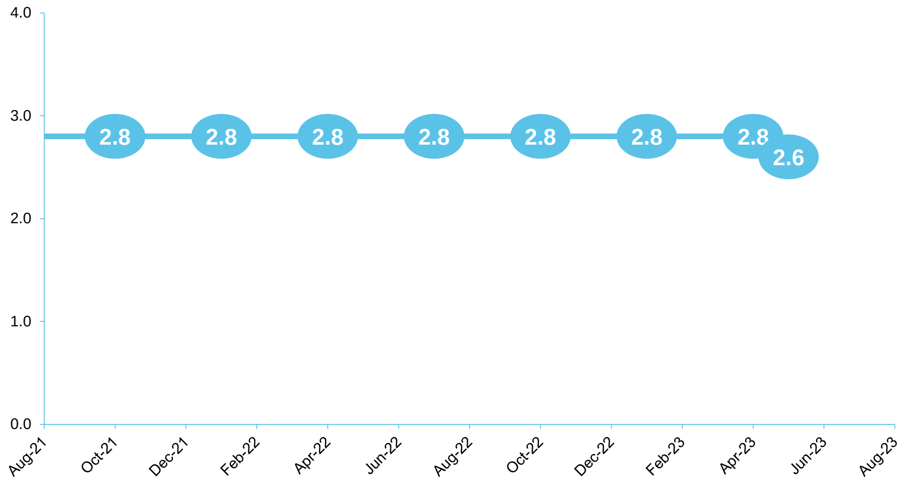
# Recommendation Chart


*Source: RHB, Bloomberg*

| Date | Recommendation | Target Price | Price |
|---|---|---|---|
| 2023-05-26 | Buy | 2.46 | 2.08 |
| 2023-02-22 | Buy | 2.60 | 2.05 |
| 2022-11-23 | Buy | 2.60 | 2.24 |
| 2022-10-17 | Buy | 2.60 | 2.13 |
| 2022-08-30 | Buy | 2.38 | 1.84 |
| 2022-05-31 | Buy | 2.00 | 1.53 |
| 2022-04-27 | Buy | 1.88 | 1.56 |
| 2022-02-28 | Neutral | 1.33 | 1.32 |
| 2021-11-24 | Neutral | 1.33 | 1.40 |
| 2021-08-30 | Neutral | 1.25 | 1.31 |
| 2021-05-30 | Neutral | 1.72 | 1.69 |
| 2021-01-14 | Buy | 2.38 | 1.87 |
| 2020-11-27 | Buy | 2.58 | 2.12 |
| 2020-09-06 | Buy | 2.71 | 2.21 |
| 2020-08-03 | Buy | 2.80 | 2.20 |

*Source: RHB, Bloomberg*

# ESG Rating History




*Source: RHB*

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| | |
|---|---|
| **Buy:** | Share price may exceed 10% over the next 12 months |
| **Trading Buy:** | Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain |
| **Neutral:** | Share price may fall within the range of +/- 10% over the next 12 months |
| **Take Profit:** | Target price has been attained. Look to accumulate at lower levels |
| **Sell:** | Share price may fall by more than 10% over the next 12 months |
| **Not Rated:** | Stock is not within regular research coverage |

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**KUALA LUMPUR**

**RHB Investment Bank Bhd**
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

**JAKARTA**

**PT RHB Sekuritas Indonesia**
Revenue Tower, 11th Floor, District 8 - SCBD
Jl. Jendral Sudirman Kav 52-53
Jakarta 12190
Indonesia
Tel : +6221 509 39 888
Fax : +6221 509 39 777

**BANGKOK**

**RHB Securities (Thailand) PCL**
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

**SINGAPORE**

**RHB Bank Berhad (Singapore branch)**
90 Cecil Street
#04-00 RHB Bank Building
Singapore 069531
Fax: +65 6509 0470