CONSUMER

Maintain **POSITIVE**

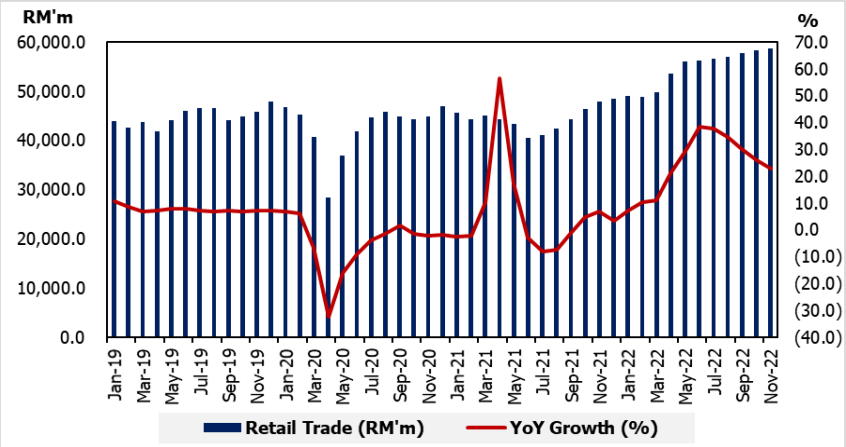
Sanguine outlook

KEY INVESTMENT HIGHLIGHTS

- **Positive growth in retail sales**
- **Falling raw material costs for food & beverage (F&B) producers**
- **Shrinking external demand for furniture**
- **Cost of chicken feed remains elevated in Dec 2022**
- **Strengthening of ringgit (MYR) in Dec 2022**
- **Reiterate POSITIVE on the consumer sector**
- **Top BUYs are QL Resources (BUY, TP: RM6.30), F&N (BUY, TP: RM29.70), and AEON (BUY, TP: RM1.81)**

Positive growth in retail sales. According to data released by Department of Statistics Malaysia (DOSM), retail sales for Nov 2022 expanded by +22.8%yoy to RM58.7b, following a double-digit increase of +26%yoy in Oct 2022. On a monthly basis, retail trade increased by +0.7%mom in Nov 2022 following +1.1%mom growth in Oct 2022. On cumulative basis, total retail trade increased by +24%yoy to RM601.6b in 11M2022. The growth in retail sales were mainly due to resilient labour market and robust consumer spending following reopening of economy. Labour market remained strong in Nov 2022, with unemployment rate staying at 3.6% and labour force participation rate increased slightly from 69.7% in Oct 2022 to 69.8% in Nov 2022. Meanwhile, inflation held steady at 4.0% in Nov 22. Looking ahead, we expect the upward momentum of retail sales to continue in CY23, aided by the stable job market and easing inflationary pressures. Furthermore, we believe that higher tourist arrival particularly from China will increase retail trade and that will benefit retailers such as **AEON Co (BUY, TP: RM1.81)**. In addition, we think that the potential cash assistance and incentives for low-income groups in the upcoming Budget 2023 will encourage consumer spending on necessities and support retail sales.

Chart 1: Malaysia Monthly Retail Trade (RM'm)



Sources: DOSM, MIDFR

COMPANY IN FOCUS

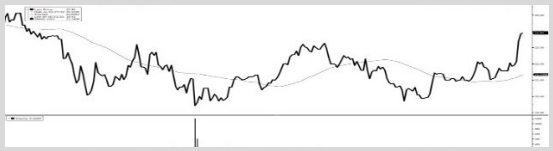
Fraser & Neave Holdings Berhad

Maintain **BUY** | Unchanged Target Price: RM29.70

Price @ 13th Jan 2023: RM23.90

- Consistent product innovation.
- Diversified portfolio.
- Attractive valuation, below the sectoral PE of 38x.

Share price chart



QL Resources Berhad

Maintain **BUY** | Unchanged Target price: RM6.30

Price @ 13th Jan 2023: RM5.95

- A more diverse revenue base.
- Stable demand for marine products.
- Benefit from stable demand for chicken and eggs, as well as ongoing government subsidies

Share price chart



Aeon Co. (M) Berhad

Maintain **BUY** | Unchanged Target price: RM1.81

Price @ 13th Jan 2023: RM1.36

- Offers a variety of in-house private brands and labels.
- Benefit from the return of Chinese tourists.
- Valuation is appealing, trading at 13x, which is well below the 5-year historical average of 18x.

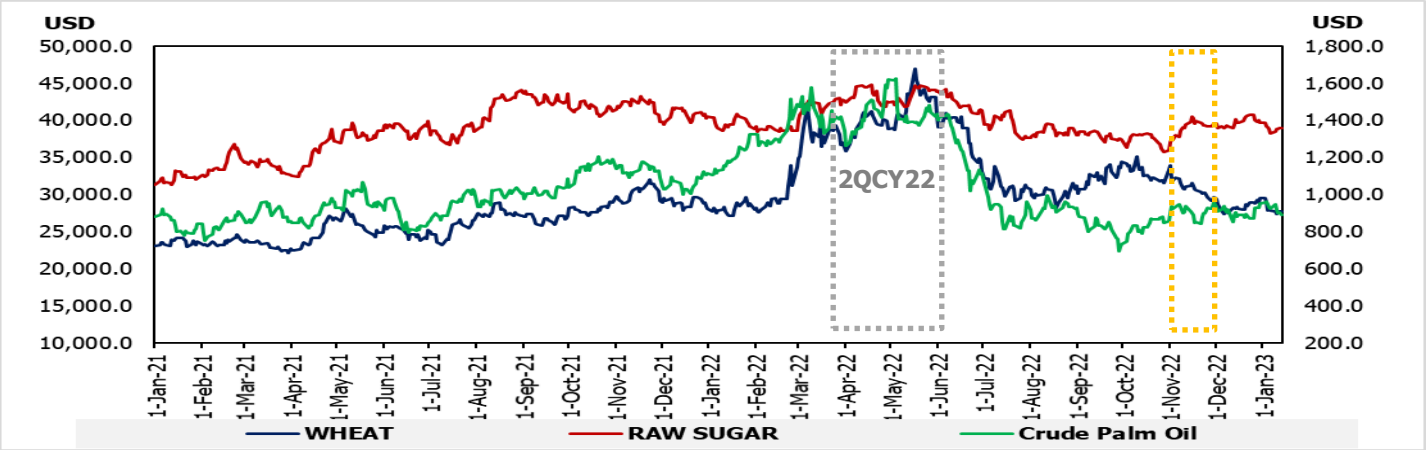
Share price chart



MIDF research
research@midf.com.my

Falling raw material costs for food producers. Raw material costs for food manufacturers decreased substantially from its peak in 2QCY22. Average price of crude palm oil ("CPO") fell -14.8%yoy to USD903/mt in Dec 2022. Similarly, average price of raw sugar dropped -2.5%yoy to USD39,745/mt and average price of wheat slipped -1.7%yoy to USD28,407/mt. The declines in the commodities prices could be attributed to improved production and weaker demand as a result economic uncertainty. Furthermore, aggressive interest rate hikes by developed countries weakened the surge in commodity prices as historically commodity prices fall when interest rates rise. On a monthly basis, wheat and CPO contracted by -8.1%mom and -0.5%mom respectively in Dec 2022. On the other hand, average raw sugar price rose from USD39,027/mt in Nov'22 to USD39,745/mt in Dec'22 but declined by -2.5% to USD38,978/mt as of 13-Jan-23. Moving forward, we anticipate decline in wheat and raw sugar prices due to increased production. Meanwhile, our in-house plantation analysts forecast that average CPO prices for CY23 will be RM3,500/t (equivalent to USD732.4/mt), owing to the price disparity between CPO and SBO prices. Hence, we expect the lower raw material costs to improve margin of local food producers such as **Nestle Malaysia (NEUTRAL, TP:RM137.80)**, and **Hup Seng Industries (BUY, TP:RM0.79)**.

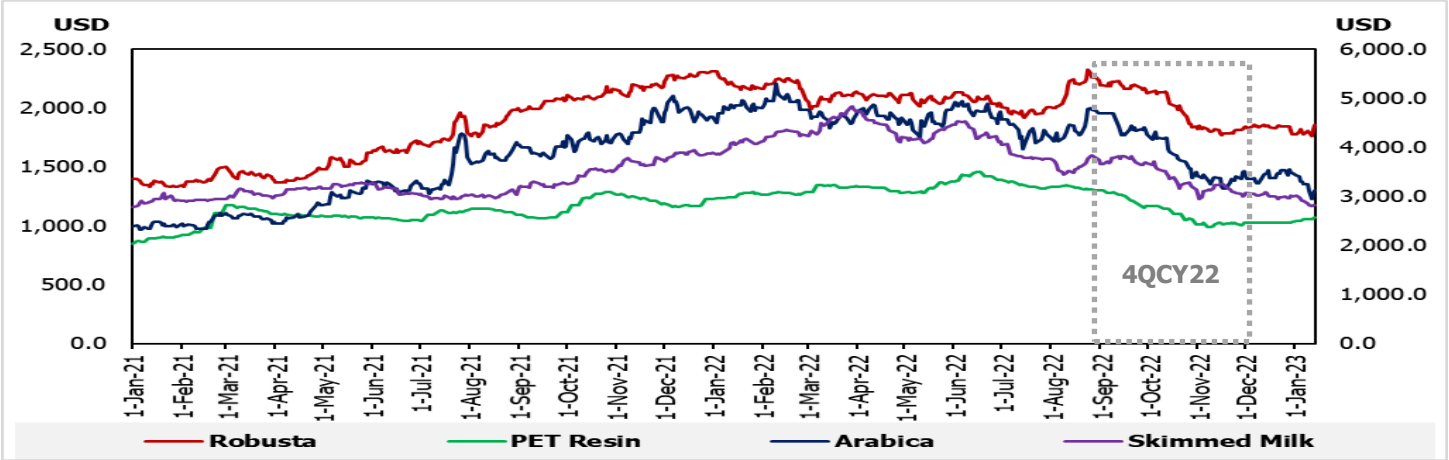
Chart 2: Price Trend of Raw Materials for Food Producers (USD/mt)



Sources: Bloomberg, MIDFR

Lower raw material costs for beverage producers. Raw material price for beverage producers has been declining since the beginning of 4QCY22. In Dec 2022, the average price of Arabica tumbled -27.7%yoy to USD3,423/mt, whereas the average price of Robusta slumped -19.2yoy to USD1,838/mt. Similarly, average price of skimmed milk dropped -21.7%yoy to USD3,012/mt. Meanwhile, average price of Polyethylene terephthalate ("PET") resin, the main cost for plastic packaging, decreased -13.2%yoy to USD1,026/mt in Dec 2022. On a monthly basis, prices of skimmed milk declined by -3.3%mom in Dec 2022. However, the average price of Arabica, Robusta, and Pet resin increased by +2.4%mom/+1.8%mom/+1.4%mom respectively in Dec 2022. Overall, we anticipate that lower raw material costs to improve margin of beverage producers such as **Fraser & Neave Holdings (BUY, TP:RM29.70), Nestle Malaysia (NEUTRAL, TP:RM137.80)** and **Spritzer (BUY, TP:RM2.64).**

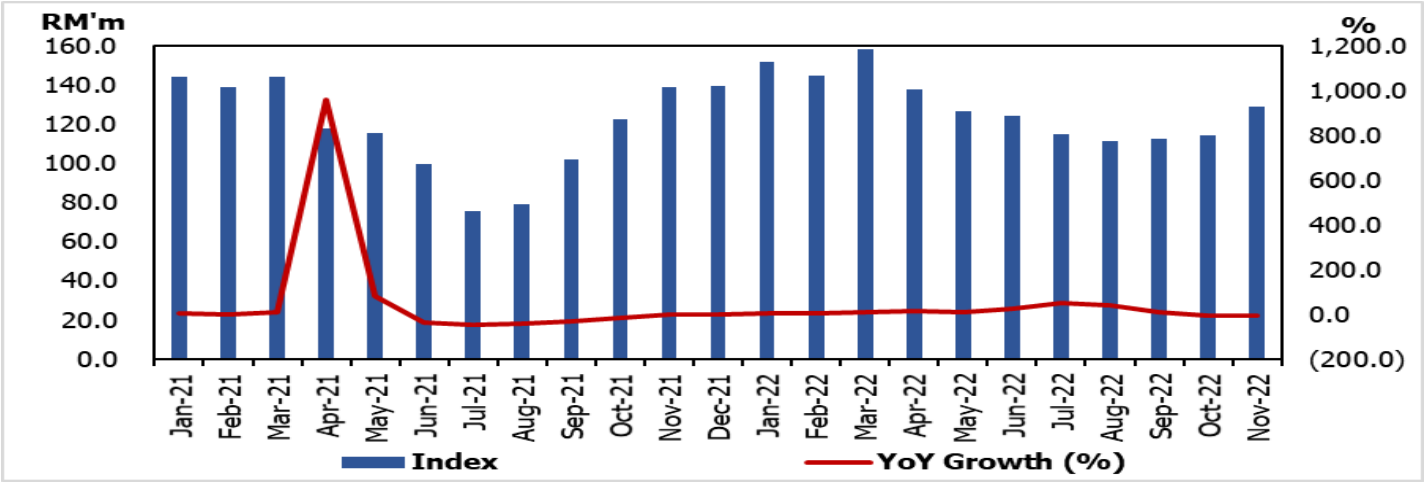
Chart 3: Price Trend of Raw Materials for Beverage Producers (USD/mt)



Sources: Bloomberg, MIDFR

Shrinking external demand for furniture. Based on DOSM, Industrial Production Index ("IPI") for manufacturing furniture at the Division level, reported a second consecutive contraction in Nov 2022 at -7.3%yoy after falling by -6.7% in Oct 2022. The contraction implies that furniture manufacturers continued to cut production due to weaker external demand for furniture caused by concerns about a global economic slowdown. The lower order for furniture was also due to the normalization of demand for furniture post reopening of economy as demand for durable goods were exceptionally strong during Covid-19 pandemic. In short, declining external demand for furniture is consistent with our forecast that export-oriented furniture companies like **Rhong Khen International (NEUTRAL, TP: RM1.23)** will see a negative sales growth of -12.8% in CY22 and -0.7% in CY23.

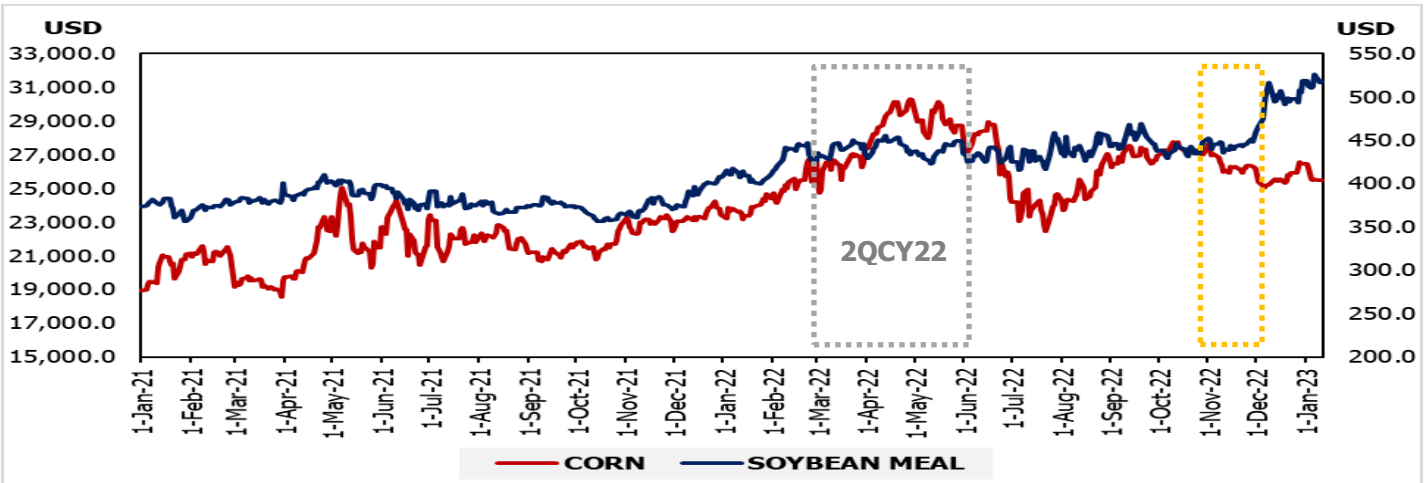
Chart 4: Manufacturing Indices at Division level: Manufacture of furniture (2015=100)



Sources: DOSM, MIDFR

Cost of chicken feed remains elevated in Dec 2022. Price of corn dropped significantly since its peak in Apr 2022, while price of soybean meal has been continuing to rise. Note that primary raw materials for chicken feed are corn and soybean meal. Average corn price increased +9.8%yoy to USD25,653/mt in Dec 2022 while average soybean meal price surged +26.9%yoy to USD497/mt in Dec 2022. On monthly basis, prices of corn and soybean meal both move in opposite directions. In particular, average corn price fell by -2.9%mom in Dec 2022, while average price of soybean meal increased by +11.6%mom in Dec 2022. Overall, we expect feedstock price for poultry players to remain steady in the near-term. According to the National Action Council on Cost of Living (NACCOL), the price control policy and chicken subsidies will be maintained until the targeted mechanism's policy is implemented. The current retail chicken price ceiling is RM9.40/kg, and the retail price for chicken eggs ranges from RM0.41 to RM0.45 per egg depending on grade. Hence, given that the cost of chicken feed is expected to remain high in the near term, the continuous government subsidy of RM0.08/kg for chicken and RM0.08/egg could provide some margin support to poultry players such as **Leong Hup International (BUY, TP:RM0.80)** and **QL Resources (BUY, TP:RM6.30)**.

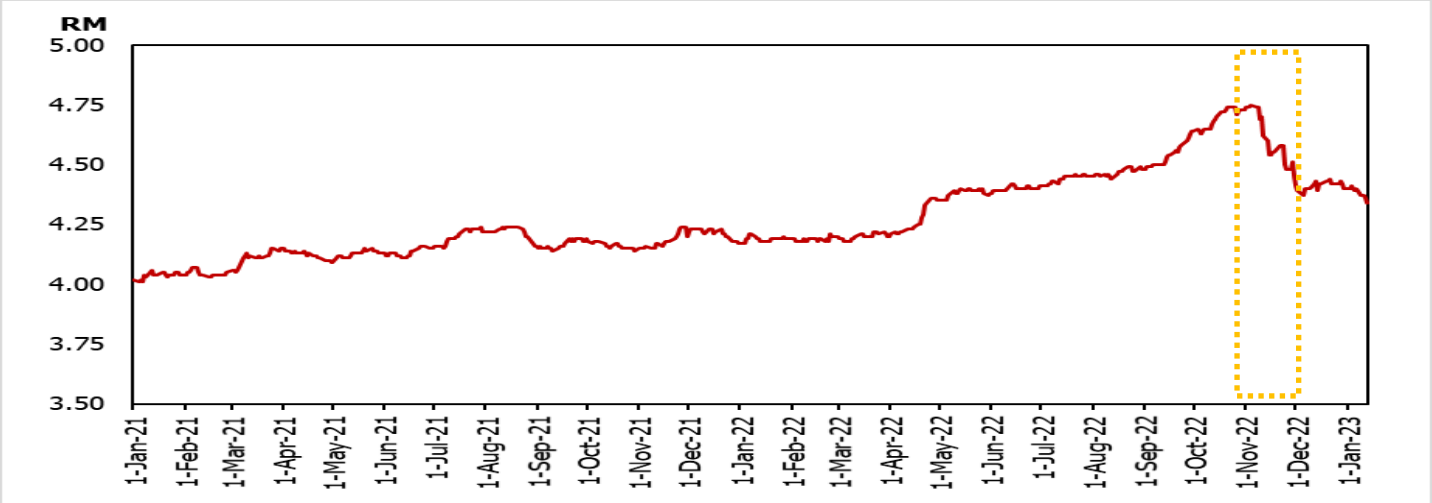
Chart 5: Price Trend of Raw Materials for Poultry Players (USD/mt)



Sources: Bloomberg, MIDFR

Strengthening of ringgit ("MYR") in Dec 2022. Ringgit was weaker at RM4.40/USD in Dec 2022 against RM4.20/USD in Dec 2021 due to aggressive interest rate hikes by US. On a monthly basis, the ringgit strengthened in Dec 2022, from RM4.60/USD in Nov 2022 to RM4.40/USD in Dec 2022. Meanwhile, our in-house economist forecasts a stronger ringgit in CY23, with an average of RM4.30/USD. The strengthening of ringgit will benefit F&B companies and poultry producers as most commodities are purchased in USD and thus the stronger ringgit will reduce input costs. On the flip side, stronger ringgit is a negative for export-oriented companies that sell their products in USD, such as **Asia File (NEUTRAL, TP: RM1.77)** and **Rhong Khen International (NEUTRAL, TP: RM1.23)**, which will see lower sales as the ringgit strengthens.

Chart 6: Price Trend of USD/MYR



Sources: Bloomberg, MIDFR

Maintain POSITIVE on consumer sector. We are upbeat about the sector due to: (1) stable labour market that supports domestic consumption, (2) positive domestic spending due to various cash assistance and incentives to low-income groups, price control for certain products, and fuel and electricity subsidies, (3) higher tourist arrival that will support retail sales, and (4) better margins of food & beverage producer due to lower global commodity prices and a stronger MYR. Hence, we are maintaining our **POSITIVE** stance on consumer sector. We continue to favour consumer staple-related companies as our top picks for the sector due to resilient demand for essential items despite multiple headwinds. Our top picks are **QL Resources (BUY, TP: RM6.30), F&N (BUY, TP: RM29.70), and AEON (BUY, TP: RM1.81)**. We favour QL Resources as it will benefit from the rising demand for marine products as well as the global shortage of chicken eggs. We also like F&N as the group can continue to profit from out-of-home activities, and we are optimistic about the group's plans to venture into an integrated dairy farm. We like AEON because we believe that the general merchandise store (GMS) and supermarket will continue to see steady sales ahead supported by the positive domestic demand, especially for essential items.

Table 1: Peer comparison table

Stock	FYE	Rec.	SP @ 13/1	TP	Mkt. Cap (RM'm)	Core EPS (sen)		PER (x)		Div. Yield (%)		Gearing
						CY22	CY23	CY22	CY23	CY22	CY23	
Consumer Staples:												
Fraser & Neave Holdings	SEPT	BUY	RM23.90	RM29.70	8,758.5	106.5	118.7	22.4	20.1	2.6	2.8	Net Cash
Nestle Malaysia	DEC	NEUTRAL	RM135.00	RM137.80	31,657.5	296.4	314.5	45.5	42.9	2.2	2.3	74.3
Leong Hup International	DEC	BUY	RM0.50	RM0.80	1,825.0	4.5	4.8	11.1	10.4	2.6	1.8	99.8
QL Resources	MAR	BUY	RM5.95	RM6.30	14,455.3	10.2	14.1	58.5	42.2	0.8	0.8	36.2
Spritzer	DEC	BUY	RM2.22	RM2.64	478.6	15.2	17.0	14.6	13.1	2.5	2.3	Net Cash
Hup Seng Industries	DEC	BUY	RM0.69	RM0.79	548.1	2.7	4.1	25.6	16.8	2.9	3.8	Net Cash
Simple mean						**72.6**	**78.9**	**29.6**	**24.3**	**2.2**	**2.3**	
Weighted Avg.						**181.6**	**194.4**	**43.7**	**37.8**	**1.9**	**2.0**	
Consumer discretionary:												
Aeon Co M	DEC	BUY	RM1.36	RM1.81	1,841.2	9.5	10.8	14.3	12.6	4.0	4.5	147.1
Padini Holdings	JUN	NEUTRAL	RM3.53	RM3.50	2,290.2	23.8	24.6	14.9	14.3	3.1	3.4	Net Cash
Asia File Corp	MAR	NEUTRAL	RM1.72	RM1.77	339.0	21.3	22.1	8.1	7.8	1.2	1.3	Net Cash
Panasonic Manufacturing Malaysia	MAR	NEUTRAL	RM22.90	RM17.60	1,391.1	80.5	110.5	28.5	20.7	3.5	4.8	Net Cash
Rhong Khen International	JUN	NEUTRAL	RM1.41	RM1.23	271.9	17.2	17.4	8.2	8.1	2.1	3.7	Net Cash
Simple mean						**30.4**	**37.1**	**14.8**	**12.7**	**2.8**	**3.5**	
Weighted Avg.						**31.9**	**39.5**	**17.1**	**14.6**	**3.3**	**3.9**	

Source: MIDF Research, Bloomberg

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MIDF AMANAH INVESTMENT BANK: GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology