CONSUMER

Maintain **POSITIVE**

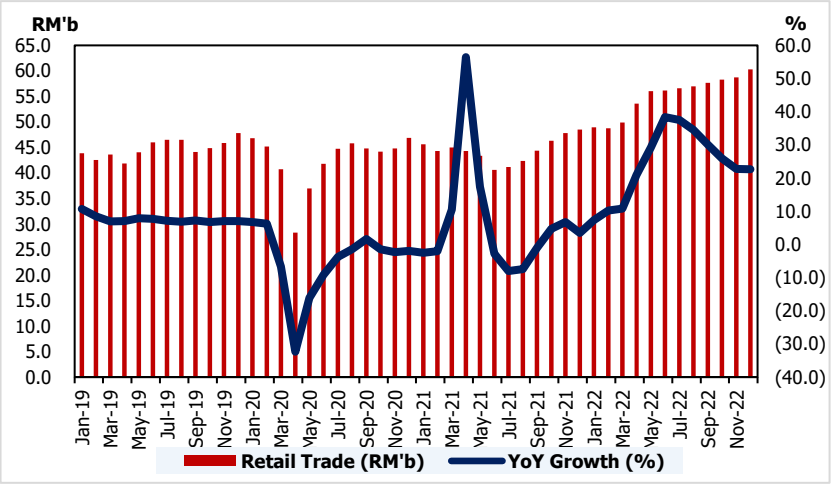
Falling costs of raw materials for F&B producers

KEY INVESTMENT HIGHLIGHTS

- **Robust retail sales in Dec 2022**
- **Improved consumer sentiment in 4Q2022**
- **Declining raw materials costs for food & beverage producers in Jan 2023**
- **Average price of chicken and eggs remained high in Dec 2022**
- **Higher feedstock prices for poultry players**
- **Stronger ringgit ("MYR") against USD rate in Jan 2023**
- **Maintain POSITIVE on consumer sector**
- **Top picks are QL Resources (BUY, TP: RM6.30), F&N (BUY, TP: RM33.50), and AEON (BUY, TP: RM1.81)**

Robust retail sales in Dec 2022. Based on Department of Statistics Malaysia (DOSM), retail sales remained strong in Dec 2022. The retail sales increased by +22.7%yoy to RM59.5b in Dec 2022 following a double-digit growth of +22.8%yoy in Nov 2022. On monthly basis, retail sales remained steady in Dec 2022 by growing +1.2%mom, primarily contributed by stronger sales in tobacco, F&B, and non-specialized retailers. Cumulatively, retail sales for CY22 increased by +23.9%yoy to RM661b, well-above pre-pandemic level of RM537.6b in CY19. Overall, retail trade continued to be strong in 2022 despite the OPR hike by 100bps in 2022 due to pent-up demand post reopening of economy.

Chart 1: Malaysia's Monthly Retail Trade (RM'b)



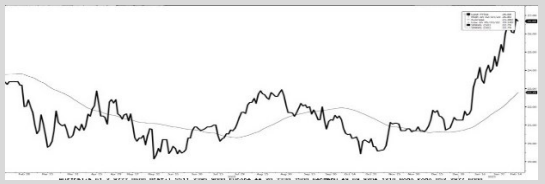
Sources: DOSM, MIDFR

COMPANY IN FOCUS

Fraser & Neave Holdings Berhad
Maintain **BUY** | Unchanged Target Price: RM33.50
Price @ 15th Feb 2023: RM26.70

- Return of international tourists benefit out-of-home beverage consumption.
- Additional revenue from the integration of

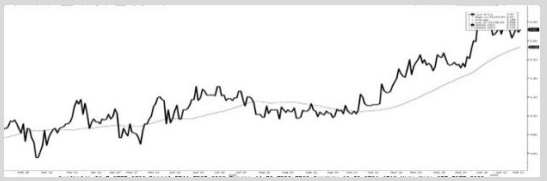
Share price chart



QL Resources Berhad
Maintain **BUY** | Unchanged Target price: RM6.30
Price @ 15th Feb 2023: RM5.91

- Stable demand for marine products.
- Benefit from high global demand for chicken & eggs.

Share price chart



Aeon Co. (M) Berhad
Maintain **BUY** | Unchanged Target price: RM1.81
Price @ 15th Feb 2023: RM1.38

- Benefit from the out-of-home activities.
- Offers various in-house private brands, with high margin.

Share price chart

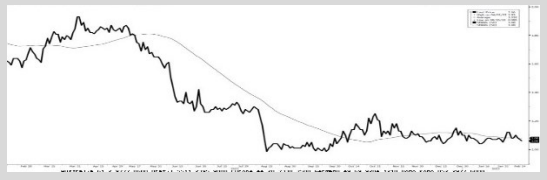


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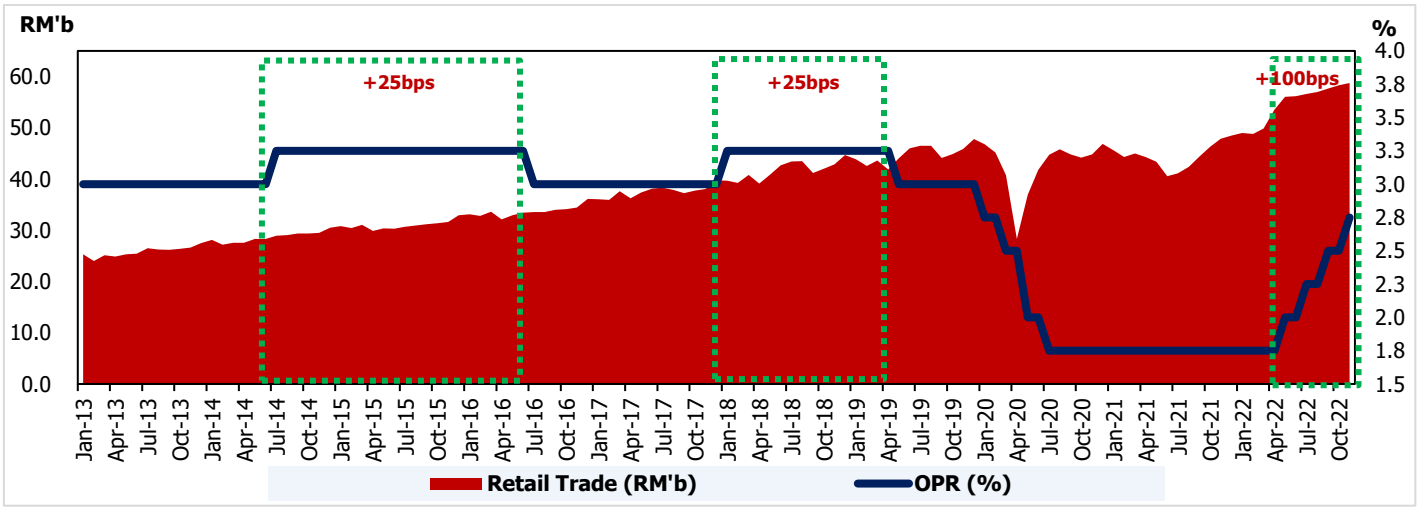
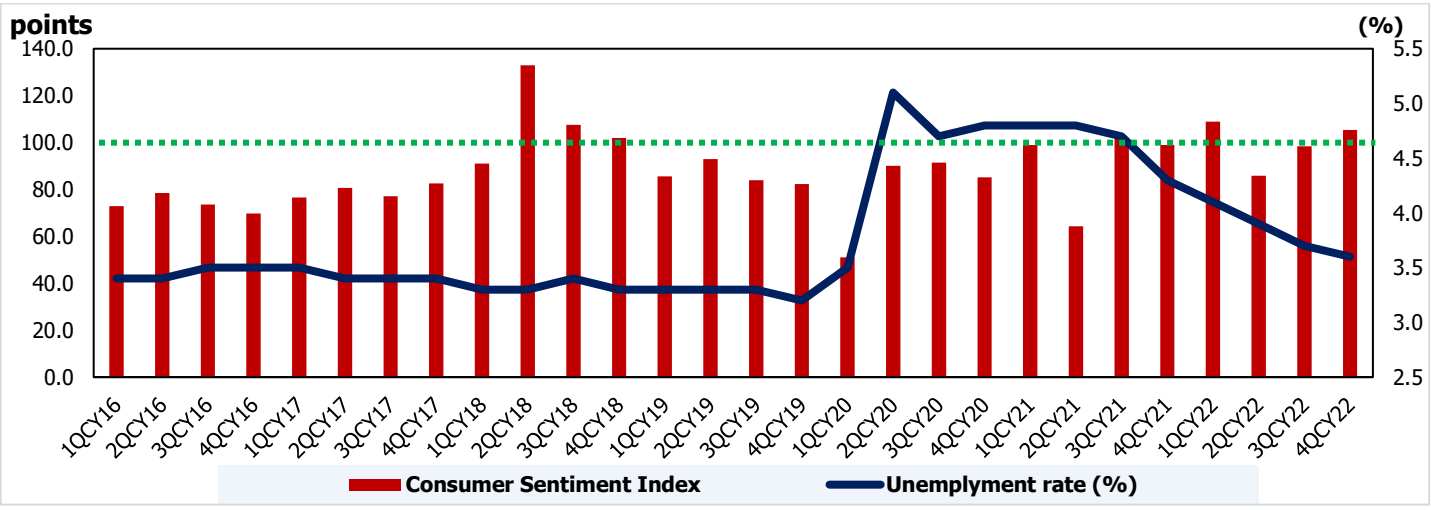
Chart 2: Malaysia's Monthly Retail Trade vs. OPR



Sources: DOSM, BNM, MIDFR

Improved consumer sentiment in 4QCY22. According to Malaysian Institute of Economic Research (MIER), Consumer Sentiment Index for 4QCY22 surpassed the optimistic level to 105.3 as opposed to 98.4 in 3QCY22. The positive sentiment was supported by better job and income prospects as well as softening inflationary pressure. Moving forward, we anticipate consumer sentiment to remain positive in 2023, supported by a stable labour market and easing inflationary pressure. Hence, we expect retail sales to stay strong going forward. In addition, the higher tourist arrivals especially from China are anticipated to prosper retail trade in Malaysia. The better retail sales outlook will help retailers of general products like **Aeon Co (BUY, TP: RM1.81).** Besides, beverage producers such as **Fraser & Neave Holdings (BUY, TP: RM33.50)** and **Spritzer (BUY, TP: RM2.64)** are expected to benefit from the increased consumption of beverages outside the home. Moreover, the potential cash aid and incentives to low-income groups in the forthcoming Budget 2023 could also raise disposable income and boost consumer spending on essential items.

Chart 3: Malaysia's Consumer Sentiment Index vs. Unemployment rate



Sources: MIER, DOSM, MIDFR

Food & Beverage (F&B) producers

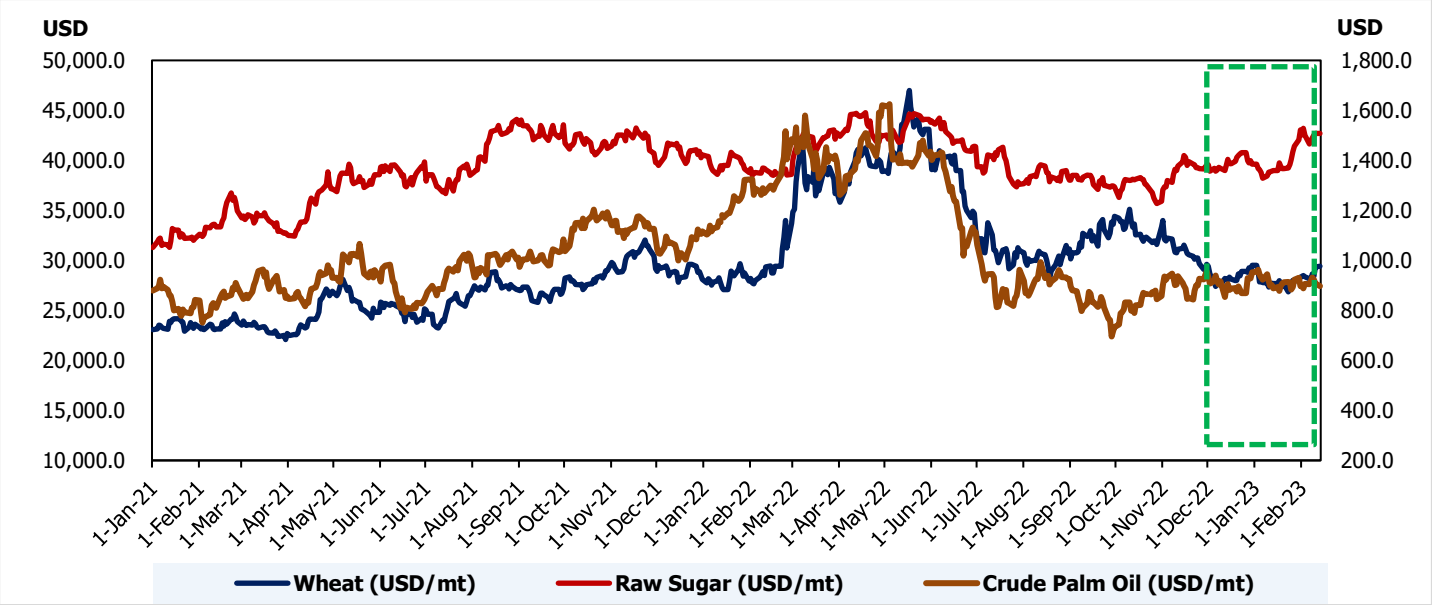
Declining raw materials costs for food producers in Jan 2023. Prices of key raw materials for food producers namely CPO, wheat and sugar declined in Jan-23 on yearly basis. On yearly basis, average price of CPO decreased significantly by -23.6%yoy, followed by wheat (-1.2%yoy) and raw sugar (-0.20%yoy). On monthly basis, movement of prices for key raw materials was mixed in Jan 2023. The average price of wheat takes the lead to drop by -2.0%mom to USD27.8k/mt, while the average price of raw sugar is lower by -0.3%mom to USD39.6k/mt. On the other hand, the average price for CPO increased marginally +1.2%mom to USD913.8/mt in Jan-23. Overall, we see that the declining raw materials cost benefits food producers namely **Hup Seng Industries (BUY, TP: RM0.85)** and **Nestle Malaysia (NEUTRAL, TP: RM137.80).**

Table 1: Malaysia Monthly Wheat, Raw sugar, and CPO statistics for Jan 2023

Data	Monthly data				
	Jan-23	Dec-22	Jan-22	YoY (%)	MoM (%)
Wheat (USD/mt)	27,843.0	28,407.1	28,168.0	(1.2)	(2.0)
Raw Sugar (USD/mt)	39,623.1	39,745.3	39,690.6	(0.2)	(0.3)
Crude Palm Oil (USD/mt)	913.8	903.0	1,196.1	(23.6)	1.2

Sources: Bloomberg, MIDFR

Chart 4: Price Trend of Raw Materials for Food Producers



Sources: Bloomberg, MIDFR

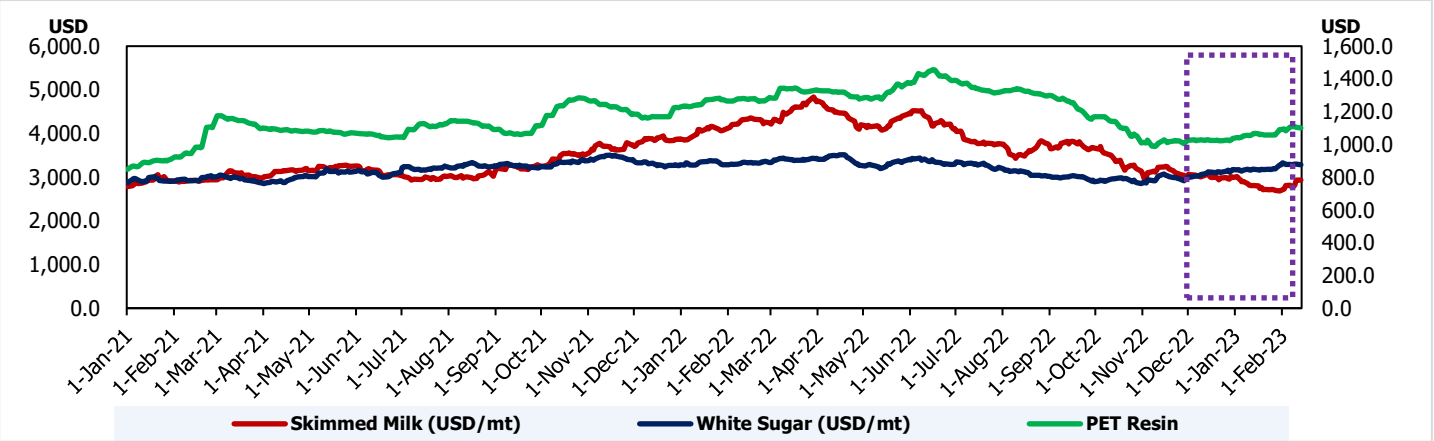
Lower raw materials costs for beverage manufacturers in Jan-23. On yearly basis, prices of key raw materials for beverage producers namely white sugar, skimmed milk, and Polyethylene terephthalate (PET resin) which is the main raw material of plastic packaging were generally lower in Jan-23. Skimmed milk fell the most, falling -30.7%yoy to USD2.8k/mt. This was followed by PET resin (-15.8%yoy) and white sugar(-4.3%yoy). Nevertheless, raw material costs for beverage producers showed upticks on monthly basis in Jan-23. The price of white sugar increased by +3%mom due to higher energy cost to convert raw sugar to white sugar. Similarly, average price of PET resin increased by +7.2%mom due to rising Brent crude oil prices. Skimmed milk prices, on the other hand, have continued to fall (-7.2%mom) due to lower milk demand. Overall, the declines in the raw material costs are expected to lower the production cost of beverage producers such as **Fraser & Neave Holdings (BUY, TP: RM33.50)** and **Spritzer (BUY, TP: RM2.64).**

Table 2: Malaysia Monthly White sugar, skimmed milk, and PET resin statistics for Jan 2023

Data	Monthly data				
	Jan-23	Dec-22	Jan-22	YoY (%)	MoM (%)
White Sugar (USD/mt)	848.8	824.1	886.8	(4.3)	3.0
Skimmed Milk (USD/mt)	2,796.2	3,011.8	4,035.4	(30.7)	(7.2)
PET Resin	1,058.5	1,026.1	1,256.7	(15.8)	3.2

Sources: Bloomberg, MIDFR

Chart 5: Price Trend of Raw Materials for Beverage Producers



Sources: Bloomberg, MIDFR

Livestock

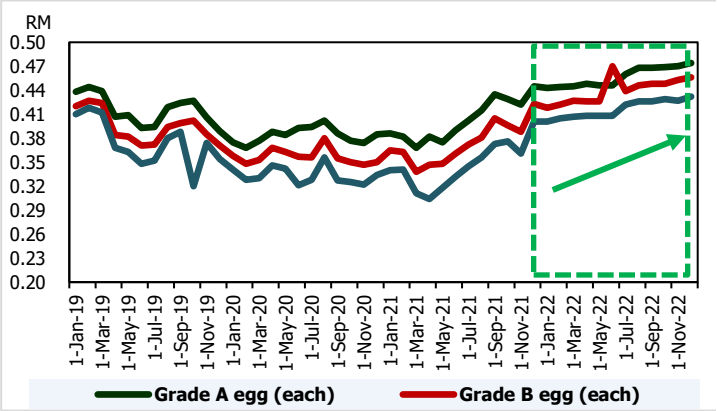
Average price of chicken and eggs remained high in Dec-22. According to DOSM, prices of chicken and eggs remained high in Dec 2022. In particular, the hen's egg for Grades A to C increased by +6.5%yoy, 7.8%yoy and +7.7%. Meanwhile, monthly increases in egg prices for Grades A to C ranged between 0.7%mom-1.2%mom. The elevated egg price was due to increased demand and shortage of chicken egg in Malaysia as a result of higher chicken feed price which pressured small-scale farmers to slaughter their egg layers before reaching maturity. On the other hand, average price of chicken was higher by +8.1%yoy in Dec-22 due to higher production costs. Nevertheless, the average price of chicken in Malaysia fell by -0.5%mom to RM10.31/kg in Dec-22, primarily due to the normalization of chicken supply in Malaysia.

Table 3: Malaysia Monthly Hen's egg and chicken Statistics

Data (RM)	Monthly data					vs. Pre-pandemic (2019)		
	Dec-22	Nov-22	Dec-21	YoY (%)	MoM (%)	Dec-22	Dec-19	chg (%)
Hen's Egg Grade A (each)	0.47	0.47	0.45	6.5	0.9	0.47	0.39	21.9
Hen's Egg Grade B (each)	0.46	0.45	0.42	7.8	0.7	0.46	0.37	22.9
Hen's Egg Grade C (each)	0.43	0.43	0.40	7.7	1.2	0.43	0.35	22.0
Chicken (per kg)	10.31	10.36	9.54	8.1	(0.5)	10.31	8.03	28.4

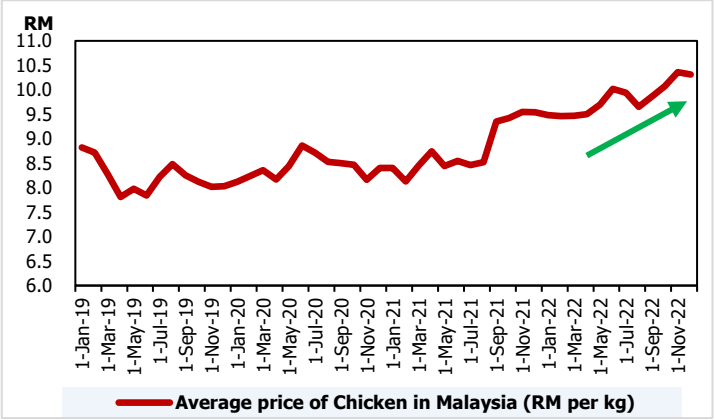
Sources: MIDFR

Chart 6: Malaysia Monthly Performance of Eggs



Sources: Bloomberg, MIDFR

Chart 7: Malaysia Average price of Chicken



Sources: Bloomberg, MIDFR

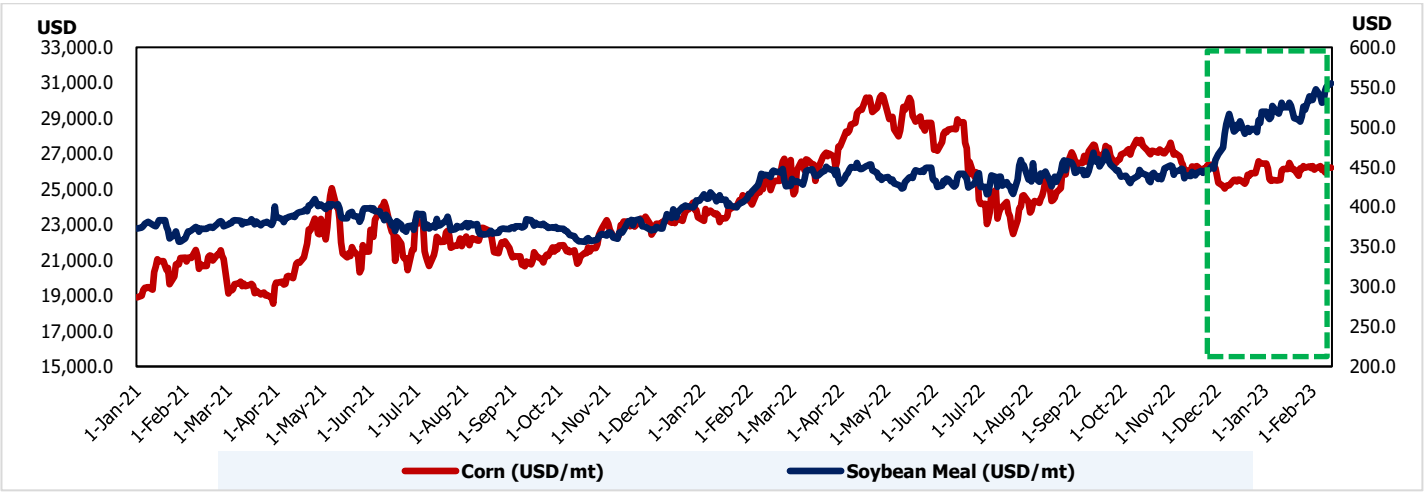
Higher feedstock prices for poultry players. Prices of animal feed for poultry players namely soybean meal and corn increased in Jan-23. The average price of soybean meal increased by +27.7%yoy in Jan-23, while the corn prices rose +9.2%yoy to USD26k/mt. On monthly basis, soybean meal and corn prices were higher in Jan-23, at +4.9%mom and +1.4%mom respectively. We anticipate that the higher feedstock prices to pressure on poultry players' margins. Meanwhile, the continued implementation of ceiling prices for retail chicken eggs and chicken will erode margin of the poultry producer. On a positive note, the government's subsidy for chicken and eggs may provide some relief to poultry producers. Overall, we expect higher feedstock prices to be manageable for major poultry players such as **Leong Hup International (BUY, TP: RM0.80)** and **QL Resources (BUY, TP: RM6.30)** due to ongoing government subsidies for chicken and eggs and their economies of scale in production. In addition, Leong Hup's vertically integrated business model of self-sufficiency in animal feeds may provide a cushion against the downside risk of rising prices.

Table 4: Malaysia Monthly Soybean meal and corn statistics for Jan 2023

Data	Monthly data				
	Jan-23	Dec-22	Jan-22	YoY (%)	MoM (%)
Soybean Meal (USD/mt)	520.8	496.6	407.9	27.7	4.9
Corn (USD/mt)	26,000.1	25,652.9	23,807.5	9.2	1.4

Sources: Bloomberg, MIDFR

Chart 8: Price Trend of Raw Materials for Poultry Players

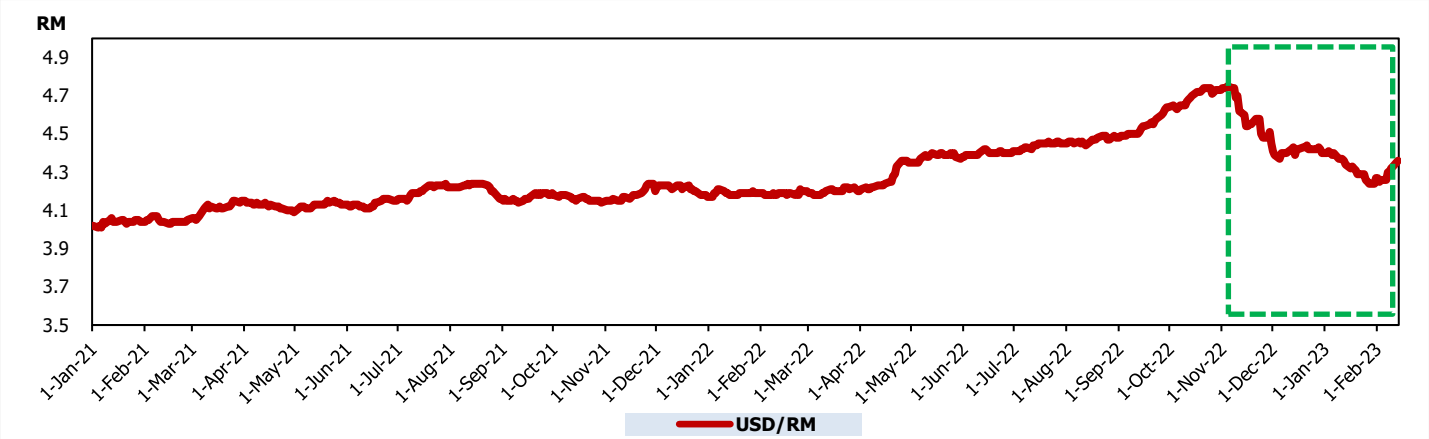


Sources: Bloomberg, MIDFR

Strict biosecurity controls reduce the risk of avian flu on livestock. The globally spread avian flu has reached new corners of the globe and becomes endemic for the first time in some wild birds that transmit the virus to poultry. We gather that avian influenza is highly contagious among birds and can sicken or kill domesticated poultry. This can harm productivity and animal death, which will have a negative impact on the sales and profitability of the poultry players. However, we do not expect the avian flu to pose substantial threat to **Leong Hup International (BUY, TP: RM0.80)** and **QL Resources (BUY, TP: RM6.30)** as it has implemented stringent biosecurity measures to reduce the threat of the flu at their livestock farms. Besides, Leong Hup's close-house farming could further mitigate the risk of the avian flu. Note that 99.2% of Leong Hup's flocks were managed in a closed-house method as of FY21.

Stronger ringgit ("MYR") against USD rate in Jan 2023. MYR depreciated on yearly basis in Jan-23, recording a higher average of RM4.33/USD in Jan-23 as compared to RM4.19/USD in Jan-22. On a monthly basis, the MYR strengthened by -1.9%qoq to RM4.33. Looking forward, our internal economist anticipates a stronger MYR in 2023, with an average of RM4.20/USD. The stronger ringgit will benefit most of the F&B and poultry producers as commodities and raw materials were bought in USD. However, we anticipate the stronger ringgit to be negative for companies that rely heavily on exports due to decreased sales contribution. This includes **Asia File (NEUTRAL, TP: RM1.77)** and **Rhong Khen International (NEUTRAL, TP: RM1.23).**

Chart 9: Price Trend of USD/MYR



Sources: Bloomberg, MIDFR

Maintain POSITIVE on consumer sector. We are positive about the sector due to: (1) a stable labour market that supports domestic consumption, (2) increased tourist arrival which supports retail sales, and (3) better margins for F&B producers supported by the recent decline in commodity prices and a stronger MYR. Hence, we maintain 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 Buys** are **QL Resources (BUY, TP: RM6.30), F&N (BUY, TP: RM33.50),** and **AEON (BUY, TP: RM1.81).** We like QL Resources as it will benefit from the rising demand for marine and livestock products. We also like F&N as the group is expected to benefit from higher out-of-home activities. We are also optimistic on F&N's plans to venture into an integrated dairy farm. As for AEON, we believe that general merchandise stores (GMS) and supermarkets will continue to see solid sales in the near term, supported by strong domestic demand and an increase in visitor numbers.

Table 5: Peer comparison table

Stocks	Rec.	Price @	TP	Mkt. Cap (RM'm)	Core EPS (sen)		PER (x)		Div. Yield (%)	
		15/2/23			CY22	CY23	CY22	CY23	CY22	CY23
Consumer Staples:										
Fraser & Neave Holdings	BUY	RM26.70	RM33.50	9,811.6	107.9	125.4	24.7	21.3	2.2	2.3
Leong Hup International	BUY	RM0.47	RM0.80	1,715.5	4.5	4.8	10.4	9.8	2.8	1.8
QL Resources	BUY	RM5.91	RM6.30	14,383.2	10.2	14.1	58.1	41.9	0.8	0.8
Spritzer	BUY	RM2.21	RM2.64	470.5	15.2	17.0	14.5	13.0	2.5	2.3
Hup Seng Industries	BUY	RM0.78	RM0.85	624.0	3.3	4.5	23.9	17.2	2.6	3.3
Nestle Malaysia	NEUTRAL	RM137.00	RM137.80	32,126.5	296.4	314.5	46.2	43.6	2.1	2.3
Weighted Avg.					**181.7**	**195.4**	**44.0**	**38.0**	**1.8**	**1.9**
Consumer discretionary:										
Aeon Co M	BUY	RM1.38	RM1.81	1,937.5	9.5	10.8	14.5	12.8	3.9	4.4
Padini Holdings	NEUTRAL	RM3.70	RM3.50	2,434.2	23.8	24.6	15.6	15.0	2.9	3.2
Asia File Corp	NEUTRAL	RM1.76	RM1.77	342.8	21.3	22.1	8.3	8.0	1.2	1.2
Rhong Khen International	NEUTRAL	RM1.38	RM1.23	268.1	17.2	17.4	8.0	8.0	2.1	3.8
Weighted Avg.					**17.7**	**18.7**	**14.3**	**13.3**	**3.2**	**3.6**

Sources: Bloomberg, MIDFR

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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