

CONSUMER

Maintain POSITIVE

Decent outlook in the near term

KEY INVESTMENT HIGHLIGHTS

- Positive retail sales growth remained in Jan 2023
- Lower raw material costs for F&B players on yearly basis
- Raw material costs for livestock remains volatile in the near term
- USD/MYR exchange rate remained high in Feb 2023
- Maintain POSITIVE on the consumer sector
- Top buys are QL Resources (BUY, TP: RM6.80), F&N (BUY, TP: RM33.50), and AEON (BUY, TP: RM1.90)

Positive retail sales growth remained in Jan 2023.

Robust retail sales in Jan 2023. According to the Department of Statistics Malaysia ("DOSM"), retail sales for Jan 2023 stayed at a double-digit growth for the 10th consecutive month. The retail trade rose +21.7%yoy to RM59.6b. On monthly basis, retail trade expanded (+0.2%mom) in Jan 2023, albeit at a slower rate than in Dec 2022 (+1.2%mom) and Nov 2022 (+0.7%mom). Despite higher OPR of 2.75% in Jan 2023 compared to 1.75% in Jan 2022, retail sales remained robust and continued its upward momentum in Jan 2023.

Positive outlook for the retail subsector. Given that the OPR stays below the 3.00-3.25% range (pre-pandemic level), together with moderating inflationary pressures and a stable labor market (Unemployment rate: 3.6%), we are upbeat on domestic consumer spending in the short term. Furthermore, with various cash assistance, incentives, and income tax reductions offered in Budget 2023 for B40 and M40 income groups to enhance household income and stimulate domestic spending, we expect retail sales to remain solid in 2023. Meanwhile, the higher arrival of tourists with the reopening of most nations' borders, notably from China, will further enhance Malaysia's retail sales. All in, we opine that retailer such as **Aeon Co (BUY, TP: RM1.90)** and **Padini (BUY, TP: RM4.40)** would benefit from solid retail sales in 2023.

Table 1: Malaysia's monthly Key Statistics for Jan 2023

Data	Monthly data				
	Jan-23	Dec-22	Jan-22	YoY	MoM
Retail Trade (RM'b)	59.6	59.5	49.0	21.7%	0.2%
OPR (%)	2.75	2.75	1.75	100bps	0.0bps
CPI (%)	3.7	3.8	2.3	1.4ppt	(0.1) ppt
Unemployment rate (%)	3.6	3.6	4.2	(0.6) ppt	0.0 ppt

Sources: DOSM, BNM, MIDFR

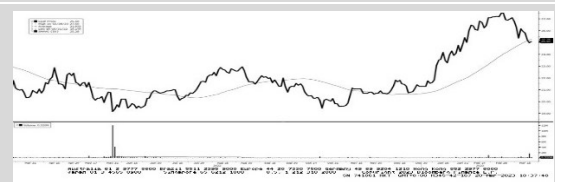
COMPANY IN FOCUS

Fraser & Neave Holdings Berhad

Maintain **BUY** | Unchanged Target Price: RM33.50
Price @ 20th Mar 2023: RM25.10

- Benefit from normalizing out-of-home beverage consumption.
- Additional revenue from Cocoland.

Share price chart

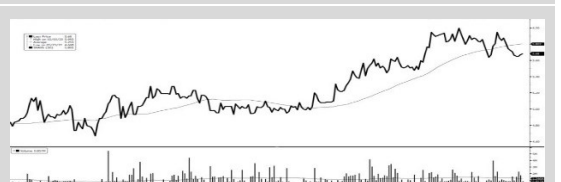


QL Resources Berhad

Maintain **BUY** | Unchanged Target price: RM6.80
Price @ 20th Mar 2023: RM5.68

- Solid demand for marine products.
- Benefit from expected removal of retail price ceiling for chicken and egg.

Share price chart

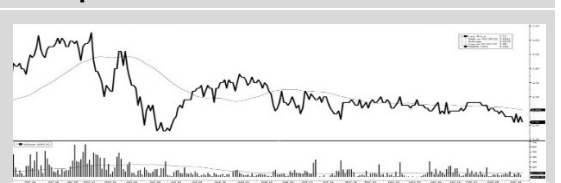


Aeon Co. (M) Berhad

Maintain **BUY** | Unchanged Target price: RM1.90
Price @ 20th Mar 2023: RM1.31

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

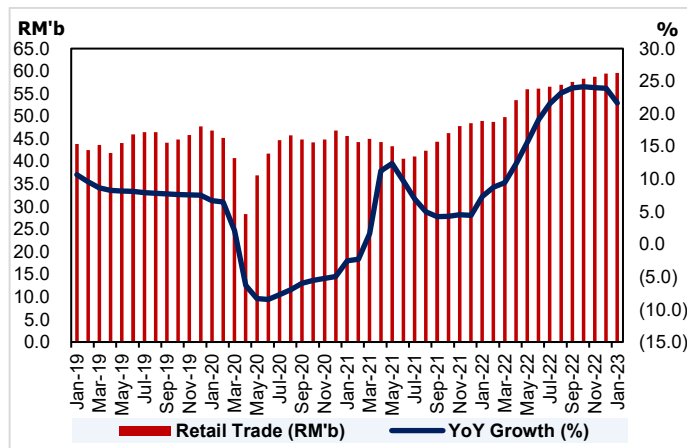
Share price chart



Analyst(s)

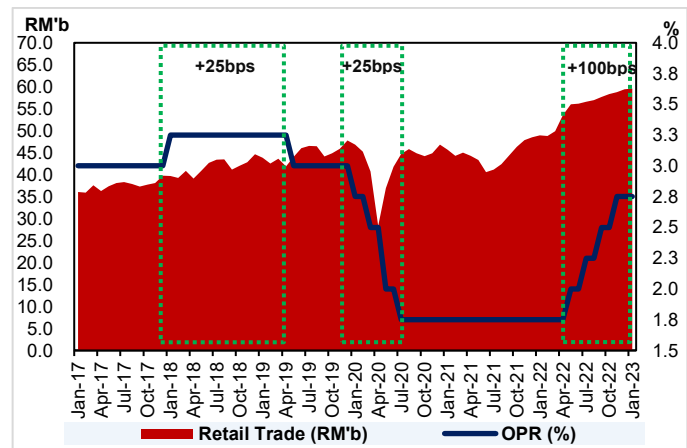
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Chart 1: Malaysia's Monthly Retail Trade



Sources: DOSM, MIDFR

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



Sources: DOSM, BNM, MIDFR

Lower raw material costs for F&B players on yearly basis.

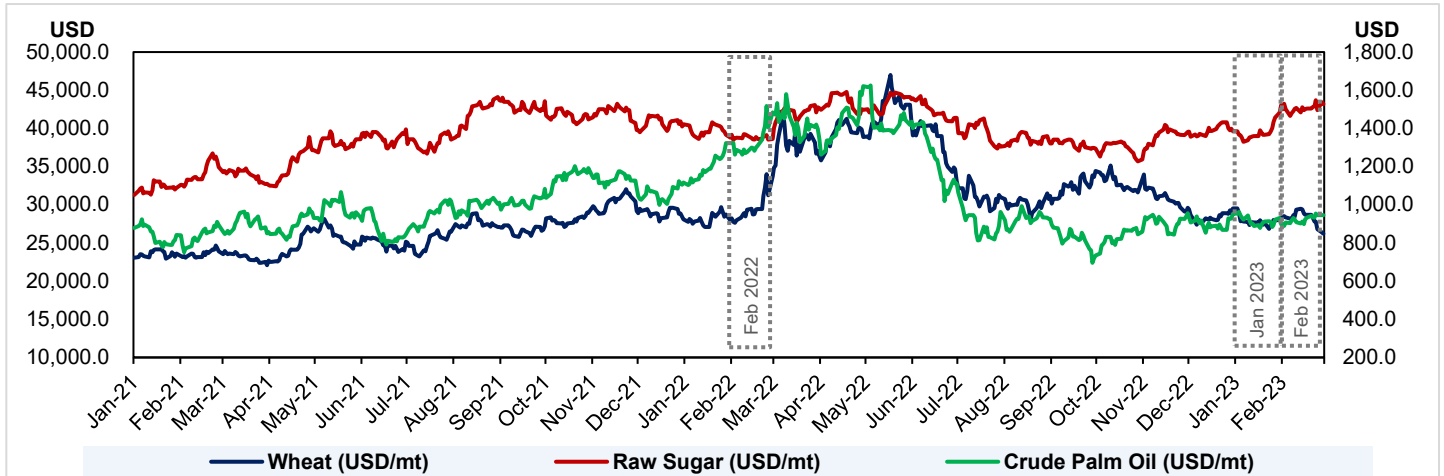
Mixed commodities price for food producers in Feb 2023. In Feb 2023, the average price trend of key raw materials for food producers, namely CPO, wheat, and sugar, was mixed. Most of the raw material prices for food producers dropped on yearly basis in Feb 2023, namely CPO (-30.6%yoy) and wheat (-4.7%yoy). However, the price of raw sugar climbed by +9.9%yoy to USD42.6k/mt. This was mostly due to concerns about limited global sugar supply ahead amid production slowdowns in both the EU and France, as well as reduced sugar output from India. In Feb 2023, all raw material prices increased on a monthly basis. Raw sugar leads the increase with a +9.8%mom growth, owing to the expectation of a lower global sugar supply in 2023. This was followed by a minor increase in wheat prices (+1.5% mom), which was partially caused by dry weather in certain regions of the United States and Argentina, resulting in lower output. Meanwhile, CPO prices increased marginally (+0.9%mom) in Feb 2023 due to decreasing output in Malaysia and the continued export ban in Indonesia. Overall, the average price of wheat and CPO has fallen over the past 12 months, benefiting food producers such as **Hup Seng Industries (BUY, TP: RM0.88)** and **Nestle Malaysia (NEUTRAL, TP: RM139.50)**. On the other hand, impact of higher raw sugar price is expected to be manageable for food producers due to various pricing adjustments made in the previous year, which may more than cover the increased cost.

Table 2: Average Monthly Wheat, Raw sugar, and CPO statistics for Feb 2023

Data	Average monthly data					vs. 2021		
	Feb-23	Jan-23	Feb-22	YoY (%)	MoM (%)	Feb-23	Feb-21	Chg. (%)
Wheat (USD/mt)	28,253.2	27,843.0	29,633.3	(4.7)	1.5	28,253.2	23,577.1	19.8
Raw Sugar (USD/mt)	42,634.1	39,623.1	38,820.1	9.8	7.6	42,634.1	34,156.2	24.8
Crude Palm Oil (USD/mt)	922.4	913.8	1,329.9	(30.6)	0.9	922.4	836.4	10.3

Sources: Bloomberg, MIDFR

Chart 3: Raw material Price Trend for Food Producer (USD/mt)



Sources: Bloomberg, MIDFR

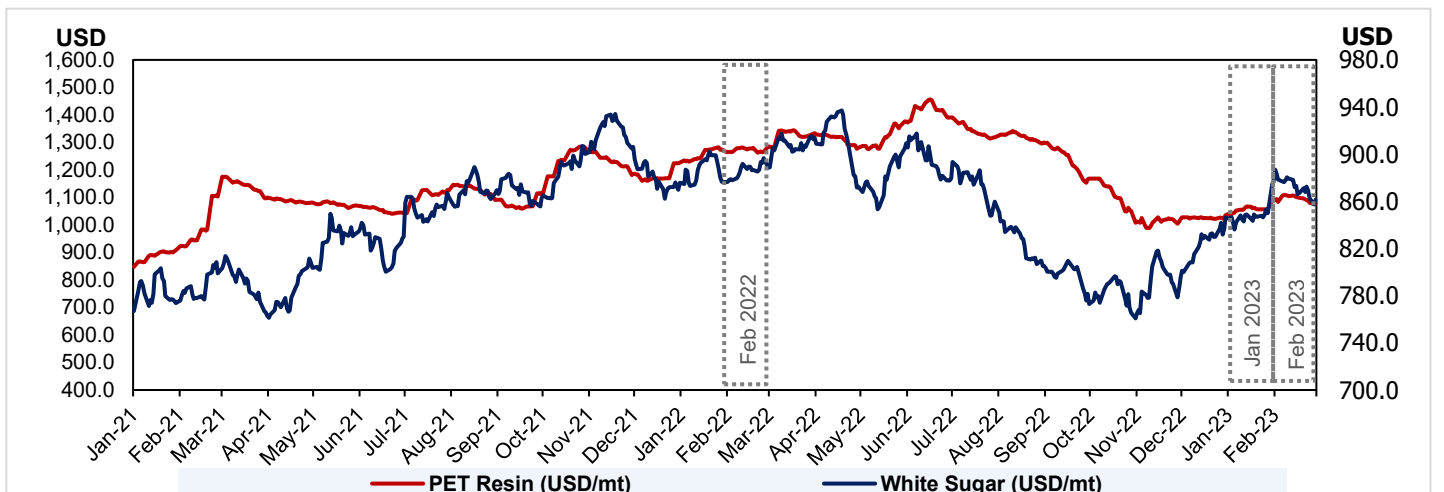
Reduced raw material prices for beverage manufacturers. The raw materials price that we tracked for beverage companies fell in Feb 2023 compared to Feb 2022 but remained volatile on a monthly basis. On yearly basis, the average price of Polyethylene Terephthalate (PET resin) plummeted by -13.5%yoy to USD1.1k/mt in Feb 2023 due to lower Brent crude oil prices. Similarly, white sugar prices dropped -1.5%yoy to USD872.9/mt. Both PET resin and white sugar prices increased marginally on a monthly basis by +3.5%mom/2.8%mom in Feb 2023. Overall, we saw a downward trend in the raw material prices for beverage producers which could benefit companies like such as **Fraser & Neave Holdings (BUY, TP: RM33.50)** and **Spritzer (BUY, TP: RM2.80)**.

Table 3: Average Monthly White sugar, and PET resin statistics for Feb 2023

Data	Average monthly data					vs. 2021		
	Feb-23	Jan-23	Feb-22	YoY (%)	MoM (%)	Feb-23	Feb-21	Chg. (%)
White Sugar (USD/mt)	872.9	848.8	886.1	(1.5)	2.8	872.9	787.4	10.9
PET Resin (USD/mt)	1,096.1	1,058.5	1,273.0	(13.9)	3.5	1,096.1	988.9	10.8

Sources: Bloomberg, MIDFR

Chart 4: Raw material Price Trend for Beverage Producer (USD/mt)



Sources: Bloomberg, MIDFR

Raw material costs for livestock remains volatile in the near term.

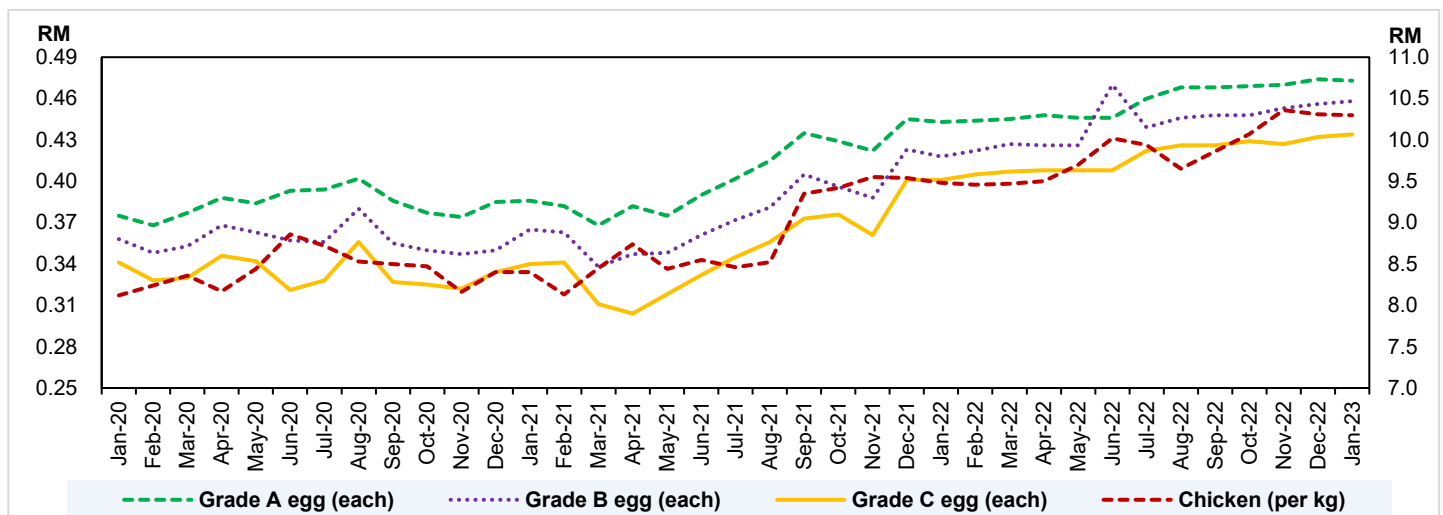
Lower Grade A egg and chicken average prices in Jan 2023. On yearly basis, average chicken price in Jan 2023 remained high at RM10.30/kg as compared to RM9.48/kg in Jan 2022 and RM8.40/kg in Jan 2021. In terms of chicken eggs, the Grade B egg (+9.6%yoy) had the highest yearly increase, followed by the Grade C egg (+8.2%yoy) and the Grade A egg (+6.8%yoy). Monthly average chicken prices (-0.1%mom) continued to fall in Jan 2023, but at a lower quantum than in Dec 2022 (-0.5%mom). The Grade A egg trended downward in Jan 2023 (-0.2%mom) compared to +0.9%mom in Dec 2022. Meanwhile, the Grade B/Grade C eggs remained elevated, increasing by +0.5%mom/+0.4%mom throughout the month. Overall prices for chicken and eggs (Grade A, B and C) remained high in comparison to the previous year, due to higher input costs as a result of increased feed and labor costs.

Table 4: Malaysia Monthly Hen's egg and chicken Statistics

Data	Average monthly data					vs. 2021		
	Jan-23	Feb-22	Jan-22	YoY (%)	MoM (%)	Jan-23	Jan-21	Chg. (%)
Egg – Grade A (each)	0.47	0.47	0.44	6.8	(0.2)	0.47	0.39	22.5
Egg – Grade B (each)	0.46	0.46	0.42	9.6	0.4	0.46	0.37	25.5
Egg – Grade C (each)	0.43	0.43	0.40	8.2	0.5	0.43	0.34	27.6
Chicken (per kg)	10.30	10.31	9.48	8.6	(0.1)	10.30	8.40	22.6

Sources: MIDFR

Chart 5: Malaysia's Average Price Trend for Chicken and Egg



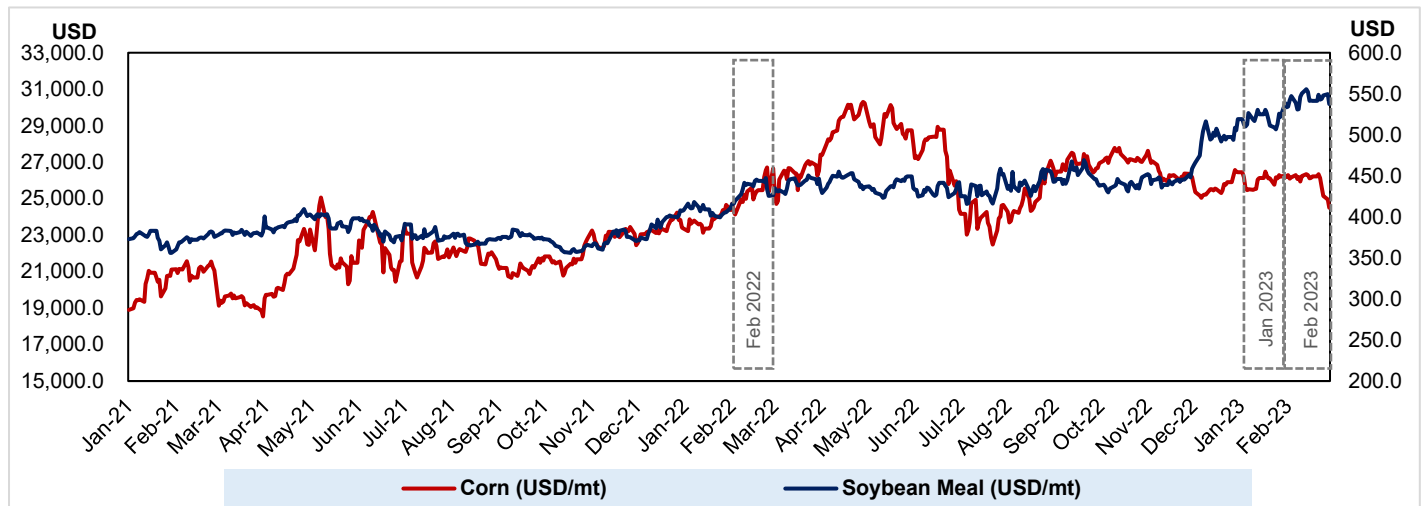
Sources: MIDFR

Raw material prices of feedstock remained high in Feb 2023. Animal feed costs stayed elevated in Feb 2023, owing to higher corn and soybean meal prices. On yearly basis, the increasing corn price (+2.5%yoy) was attributable to reduced global corn output, which included lower production from the United States, the European Union, and Argentina. Soybean meal price increased (+25.1%yoy) due to concerns about decreasing global soybean supply, mostly because of production losses and low yields in Argentina's crop. On monthly basis, average corn price dropped marginally by -0.1%mom while soybean meal remained elevated (+4.3%mom). Overall, we anticipate that soybean meal and corn prices will stay elevated in the near term. Combined with the rising labor costs and the continuing price ceiling for retail chicken and eggs, the poultry players' margins may remain tight. On a positive note, the government's subsidy for chicken and eggs may provide some relief to poultry producers. The poultry players under our coverage, namely **Leong Hup International (BUY, TP: RM0.90)** and **QL Resources (BUY, TP: RM6.80)** are expected to see marginal impact due to ongoing government subsidies for chicken and eggs, economies of scale, and offset by other divisions that distribute animal feed to other poultry producers. Yet, we believe that the projected elimination of price ceilings after June 2023 would help poultry players under our coverage by giving them more flexibility to adjust prices in light of rising production costs while maintaining profit margins.

Table 5: Malaysia Monthly Soybean meal and corn statistics for Jan 2023

Data	Average monthly data					vs. 2021		
	Feb-23	Jan-23	Feb-22	YoY (%)	MoM (%)	Feb-23	Feb-21	Chg. (%)
Soybean Meal (USD/mt)	543.3	520.8	434.2	25.1	4.3	543.3	373.3	45.5
Corn (USD/mt)	25,966.8	26,000.1	25,323.1	2.5	(0.1)	25,966.8	21,101.9	23.1

Sources: Bloomberg, MIDFR

Chart 6: Raw material Price Trend for Poultry Producer (USD/mt)

Sources: Bloomberg, MIDFR

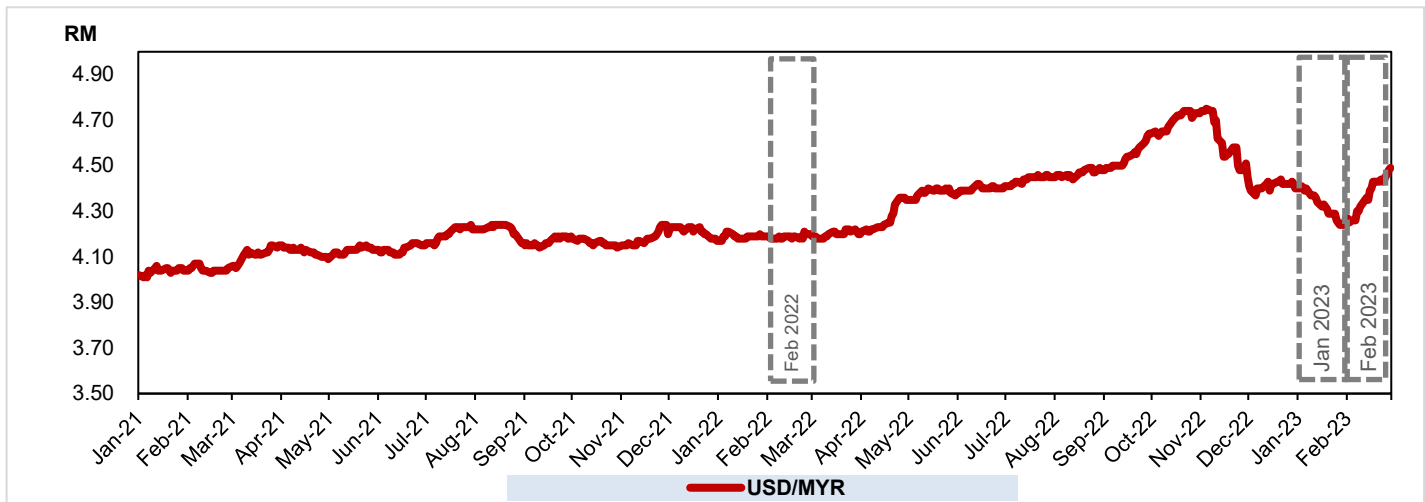
USD/MYR exchange rate remained high in Feb 2023. On yearly basis, the USD/MYR exchange rate remained strong, averaging at RM4.37/USD in Feb 2023 vs. RM4.19/USD in Feb 2022. This was due to the aggressive interest rate hikes by Fed that resulted in a stronger USD. On monthly basis, the USD experienced a reversed trend, strengthening by +0.9%mom in Feb 2023 compared to -1.9%mom in Jan 2023. Going forward, our economists expect average USD/MYR to be at RM4.20 in 2023. Hence, we expect that MYR's appreciation to benefit the most of the F&B and poultry companies, given commodities and raw materials was purchased in USD. On the flip side, the stronger MYR will impact the revenue of export-oriented companies such as **Asia File (NEUTRAL, TP: RM1.60)** and **Rhong Khen International (NEUTRAL, TP: RM1.35)**.

Table 6: USD/MYR Monthly statistics for Feb 2023

Data	Average monthly data					vs. 2021		
	Feb-23	Jan-23	Feb-22	YoY (%)	MoM (%)	Feb-23	Feb-21	chg. (%)
USD/MYR	4.37	4.33	4.19	4.3	0.9	4.37	4.05	8.0

Sources: Bloomberg, MIDFR

Chart 7: Price Trend of USD/MYR



Sources: Bloomberg, MIDFR


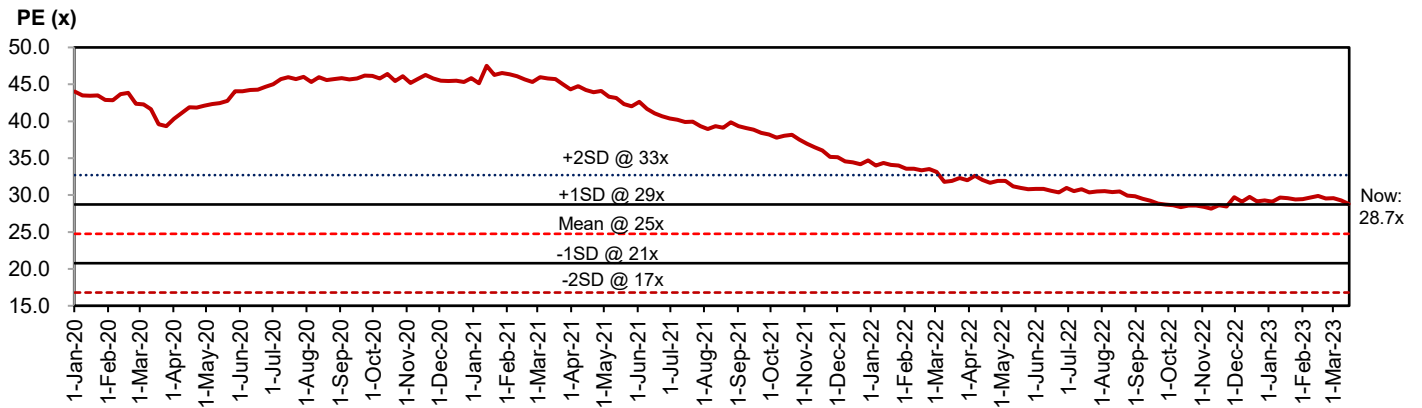
Maintain POSITIVE on the consumer sector. We remain optimistic about the sector due to: (1) a stable labour market that supports domestic consumption, (2) high tourist movement, which supports retail sales and out-of-home consumption, and (3) better margins for F&B producers supported by the lower commodity prices and a stronger MYR. Hence, we maintain our **POSITIVE** stance on the consumer sector. We continue to prefer 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: RM6.80)**, **F&N (BUY, TP: RM33.50)**, and **AEON (BUY, TP: RM1.90)**. We like QL Resources underpinned by the steady demand for marine and livestock products. We also like F&N because the company is likely to benefit from the rising demand for ready-to-drink beverages, which is being fueled by an increase in tourist traffic. 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 tourist arrivals. 

Table 7: Peer comparison table

Stocks	Rec.	Price @ 20-Mar-23	TP	Mkt. Cap (RM'm)	Core EPS (sen)		PER (x)		Div. Yield (%)		Net Gearing
					CY22	CY23	CY22	CY23	CY22	CY23	
Consumer Staples:											
Fraser & Neave Holdings	Buy	RM25.10	RM33.50	9,043.0	33.5	108.5	125.4	23.1	20.0	2.4	0.0
Leong Hup International	Buy	RM0.50	RM0.90	1,806.8	81.8	6.7	7.8	7.3	6.4	3.4	0.4
QL Resources	Buy	RM5.68	RM6.80	13,823.2	19.7	13.6	16.9	41.7	33.7	0.8	0.2
Spritzer	Buy	RM2.31	RM2.80	485.1	21.2	17.2	20.2	13.4	11.4	2.7	Net Cash
Hup Seng Industries	Buy	RM0.69	RM0.88	552.0	27.2	3.3	4.5	21.2	15.2	2.9	Net Cash
Nestle Malaysia	Neutral	RM133.90	RM139.50	31,399.6	4.2	285.6	318.2	46.9	42.1	2.0	1.3
Weighted Avg.					177.9	199.3	40.1	34.9	1.8	2.0	
Consumer Discretionary:											
Aeon Co M	Buy	RM1.31	RM1.90	1,839.2	44.9	10.1	11.5	13.0	11.4	3.3	0.1
Padini Holdings	Neutral	RM3.69	RM4.40	2,427.7	19.2	27.4	34.0	13.5	10.9	2.8	Net Cash
Asia File Corp	Neutral	RM1.71	RM1.60	333.0	(6.6)	19.2	21.9	8.9	7.8	1.1	Net Cash
Rhong Khen International	Neutral	RM1.40	RM1.35	272.0	(3.3)	17.6	19.5	7.9	7.2	4.0	Net Cash
Weighted Avg.					19.8	23.8	12.7	10.7	2.9	3.3	

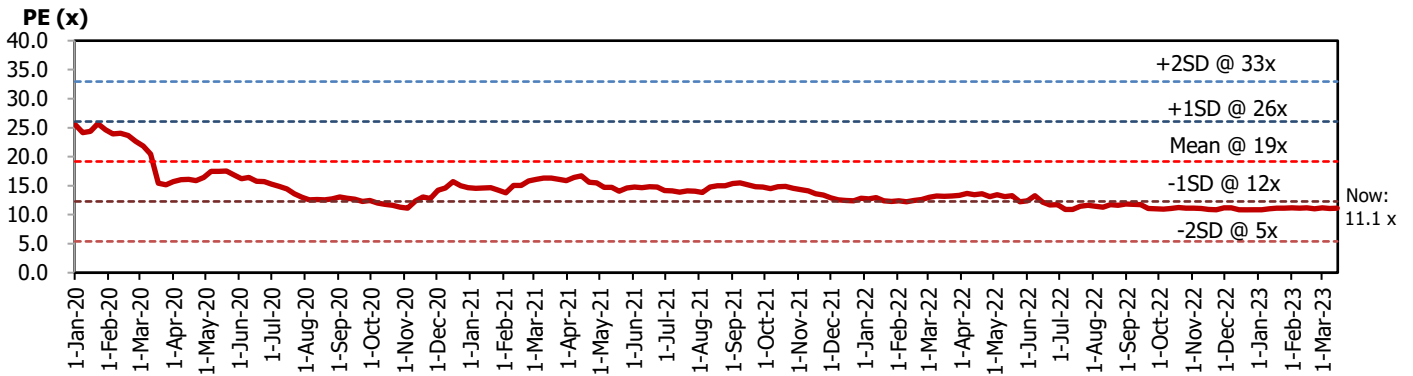
Sources: Bloomberg, MIDFR

Chart 8: 3-Year Forward P/E Band – Consumer Staple



Source: MIDFR

Chart 8: 3-Year Forward P/E Band – Consumer Discretionary



Source: 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 <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive news flow.
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 <i>fall</i> 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