CONSUMER

***Maintain* POSITIVE**

Encouraging outlook

KEY INVESTMENT HIGHLIGHTS

- **Resilient retail sales growth remained in Feb 2023**
- **Lower commodity prices for F&B Producers in Mar 2023**
- **Near-term volatility for livestock costs**
- **Stronger USD against MYR in Mar 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)**

Resilient retail sales growth remained in Feb 2023.

Resilient February 2023 retail sales growth. The Department of Statistics Malaysia ("DOSM") reported that retail trade for Feb 2023 remained at a double-digit growth for the 11th consecutive month, which expanded +19.2%yoy to RM58.2b. On a positive note, the retail trade overall held steady during the month despite higher OPR of 2.75% in Feb 2023 compared to 1.75% in Feb 2022. Nevertheless, on monthly basis the retail sales reversed the uptrend by declining -2.4%mom in February as opposed to Jan 2023 (+0.2%mom) and Dec 202 (+1.2%mom).

Upbeat outlook for retailer. We are positive that the retail trade to stay upward in 2023, which in line with our-in-house economists view in their recent report (Economic Review: February 2023 Distributive Trade). This was due to several factors, including: (1) OPR remaining below the pre-pandemic level (3.00-3.25% range), (2) easing inflationary pressures, (3) a stronger labour market (Unemployment rate: 3.5%), (4) various assistance and incentives for B40 and M40 income groups in Budget 2023 to support household consumption and (5) a pick-up in tourism activities, both leisure and business-related, that further boost retail trade spending. All in, we believe that strong retail sales in 2023 will benefit retailers like **Aeon Co (BUY, TP: RM1.90)** and **Padini (BUY, TP: RM4.40).**

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

Data	Monthly data				
	Feb-23	Jan-23	Feb-22	YoY	MoM
Retail Trade (RM'b)	58.2	59.6	48.8	19.2%	(2.4) %
OPR (%)	2.75	2.75	1.75	100 bps	0.0 bps
CPI (%)	3.7	3.7	3.7	0.0 ppt	0.0 ppt
Unemployment rate (%)	3.5	3.6	4.1	(0.6) ppt	(0.1) ppt

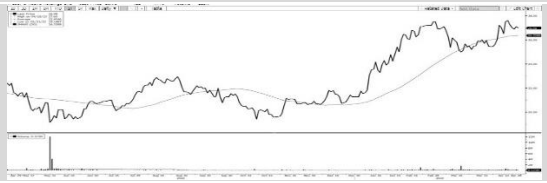
Sources: DOSM, BNM, MIDFR

COMPANY IN FOCUS

Fraser & Neave Holdings Berhad
Maintain **BUY** | Unchanged Target Price: RM33.50
Price @ 27th April 2023: RM26.98

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

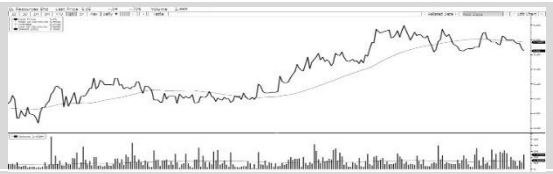
Share price chart



QL Resources Berhad
Maintain **BUY** | Unchanged Target price: RM6.80
Price @ 27th April 2023: RM5.65

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

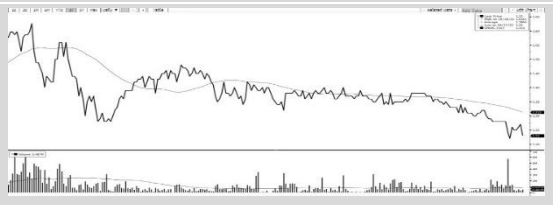
Share price chart



Aeon Co. (M) Berhad
Maintain **BUY** | Unchanged Target price: RM1.90
Price @ 27th April 2023: RM1.23

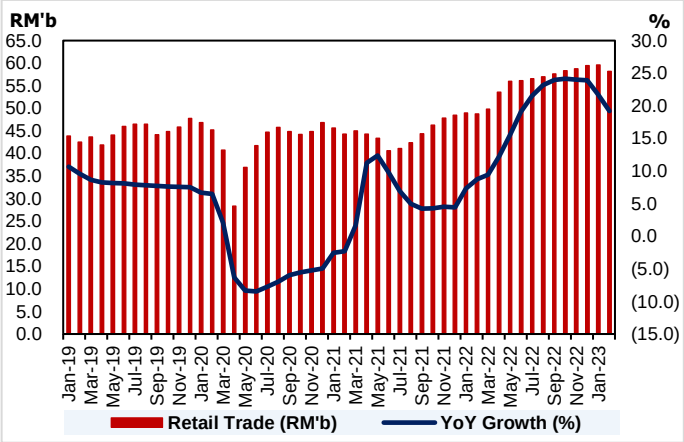
- Benefit from increasing out-of-home activities.
- Offers various in-house private brands, with a high margin.

Share price chart



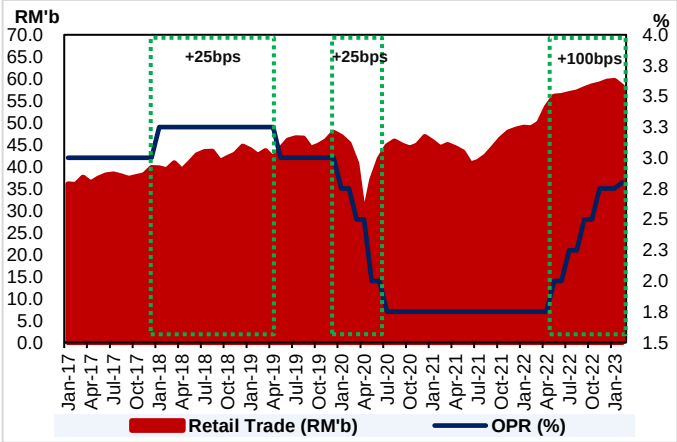
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Chart 1: Malaysia's Monthly Retail Trade



Sources: DOSM, MIDFR

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



Sources: DOSM, BNM, MIDFR

Lower Commodity Prices for F&B Producers in Mar 2023.

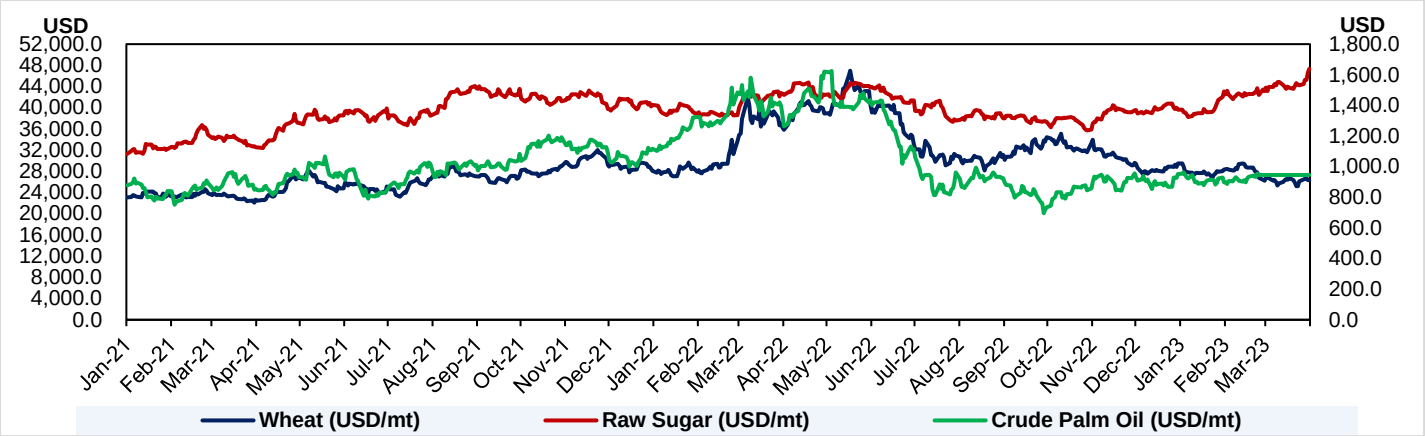
Declining commodities prices for Food Producers in March 2023, excluding raw sugar. The average price of key raw materials for food producers namely CPO and wheat was generally on a downward trajectory over the previous 12 months. In particular, average price for CPO (-34%yoy) and Wheat (-31%yoy) decreased on yearly basis in March 2023. However, the average price for raw sugar (+5.8%yoy) continued upward trend in Mar 2023. This was primarily brought on by increased refinery demand following China's reopening as well as worries over drastically reduced crop estimates in the major exporting nations because of the extreme weather. On monthly basis, the average wheat price for March 2023 (-7.2%mom) reversed the increase in February 2023 (+1.5%mom). Meanwhile, the average price of raw sugar (+4.3% mom) and CPO (+2.5% mom) continued upward movement over the month. The rising raw sugar price was caused by rising demand associated with a bad weather outlook, which reduced the global sugar supply. Meanwhile, average price of CPO increased in March 2023 due to poor production output in Malaysia, as well as Indonesia's prolonged export ban. In a nutshell, the recent decline in the average price of wheat and CPO could benefit food manufacturers such as **Hup Seng Industries (BUY, TP: RM0.88)** and **Nestle Malaysia (NEUTRAL, TP: RM139.50).** On the other hand, higher raw sugar costs are projected to be manageable by food producers due to relatively low sugar consumption compared to wheat and CPO, as well as numerous pricing modifications adopted in the previous year that are expected to offset the cost increase.

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

Data	Average monthly data					vs. 2021		
	Mar-23	Feb-23	Mar-22	YoY (%)	MoM (%)	Mar-23	Mar-21	chg. (%)
Wheat (USD/mt)	26,227.4	28,253.2	38,000.6	(31.0)	(7.2)	26,227.4	23,124.6	13.4
Raw Sugar (USD/mt)	44,459.6	42,634.1	42,007.6	5.8	4.3	44,459.6	33,880.3	31.2
Crude Palm Oil (USD/mt)	945.7	922.4	1,432.7	(34.0)	2.5	945.7	898.6	5.2

Sources: Bloomberg, MIDFR

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



Sources: Bloomberg, MIDFR

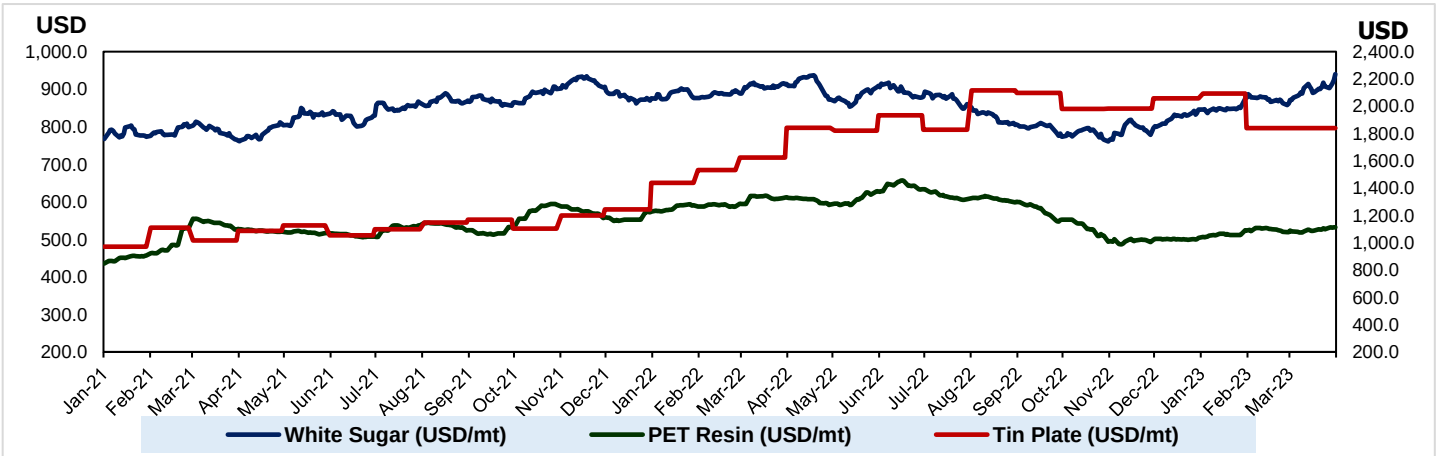
Most commodity prices for beverage producers fall in March 2023. In Mar 2023, the average price of key raw materials (specifically white sugar, and pet resin) for beverage producers had been generally decreasing over the past twelve months. The average price of Polyethylene Terephthalate (PET resin) fell -17.5%yoy to USD1.09k/mt in Mar 2023 due to lower Brent crude oil prices. This was followed by a modest decline in white sugar (-0.9%mom). On the other hand, the average Tin plate price (+12.6%yoy) increased owing to concerns about tight worldwide supply in 2023. On monthly basis, only PET resin (-0.3%mom) had a lower average price in March 2023, while average Tin plate price (+0.0%mom) remained constant. Conversely, the average price of white sugar (+3.1% mom) rose as raw sugar costs increased. In general, we observed a decreased trend in most raw material prices for beverage producers (including white sugar and pet resin) during the last 12 months, which should benefit companies like **Fraser & Neave Holdings (BUY, TP: RM33.50)** and **Spritzer (BUY, TP: RM2.80)**.

Table 3: Average Monthly White sugar, PET resin and Tin Plate statistics for Mar 2023

Data	Average monthly data					vs. 2021		
	Mar-23	Feb-23	Mar-22	YoY (%)	MoM (%)	Mar-23	Mar-21	chg. (%)
White Sugar (USD/mt)	899.7	872.9	907.4	(0.9)	3.1	899.7	790.2	13.8
PET Resin (USD/mt)	1,093.3	1,096.1	1,325.2	(17.5)	(0.3)	1,093.3	1,143.5	(4.4)
Tin Plate (USD/mt)	1,839.0	1,839.0	1,633.4	12.6	0.0	1,839.0	1,020.1	80.3

Sources: Bloomberg, MIDFR

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



Sources: Bloomberg, MIDFR

Near-term volatility for livestock costs.

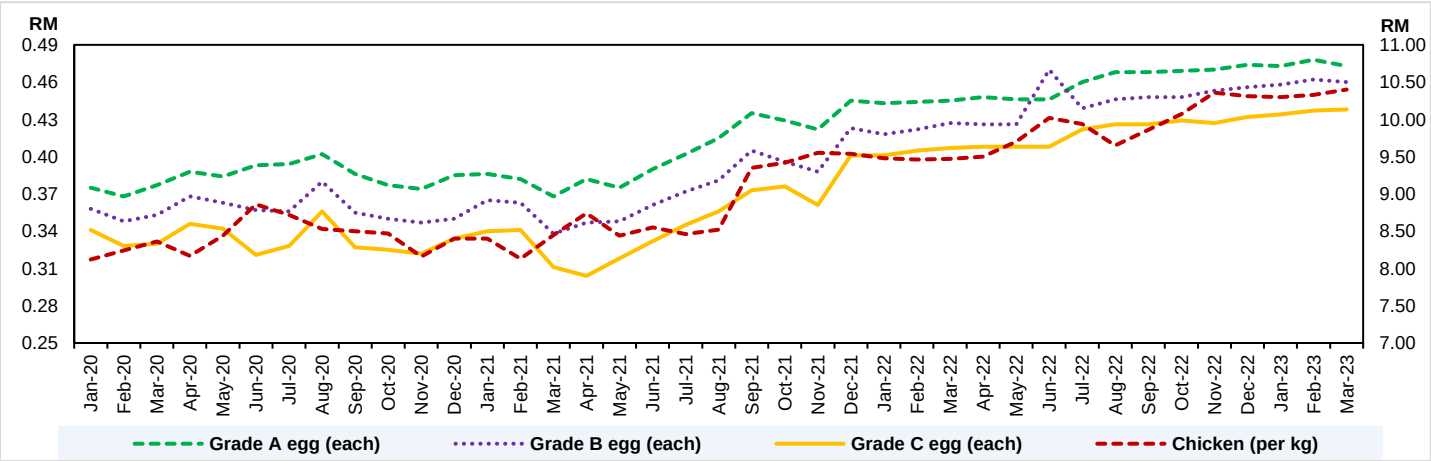
Elevated average prices for chicken and chicken egg in Mar 2023. The average prices for chicken and chicken eggs (Grade A, B, and C) increased in March 2023 compared to March 2022. This was primarily due to rising global commodity prices (soybean meal and maize) for poultry feed. On a monthly basis, the average price of chicken (+0.7%mom) and Grade C chicken egg (+0.2%mom) remained elevated, but the prices of Grade A chicken egg (-1%mom) and Grade B chicken egg (-0.4%mom) declined in March 2023. In short, average chicken and chicken egg prices (Grade A, B, and C) remained elevated compared to the previous year and 2021 due to increased demand post reopening of economy, as well as higher input costs (increased animal feed and labour expenses) that disrupt production.

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

Data	Average monthly data					vs. 2021		
	Mar-23	Feb-23	Mar-22	YoY (%)	MoM (%)	Mar-23	Mar-21	chg (%)
Egg – Grade A (each)	0.47	0.48	0.45	6.3	(1.0)	0.47	0.37	28.5
Egg – Grade B (each)	0.46	0.46	0.43	7.7	(0.4)	0.46	0.34	36.1
Egg – Grade C (each)	0.44	0.44	0.41	7.6	0.2	0.44	0.31	40.8
Chicken (per kg)	10.40	10.33	9.47	9.8	0.7	10.40	8.45	23.1

Sources: MIDFR

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



Sources: MIDFR

Mixed raw material prices of feedstock in Mar 2023. Average raw material prices for chicken feed (corn and soybean mean) stayed elevated compared to the level in 2021 despite a recent drop in the corn price. On yearly basis, the average corn price (-14.5%yoy) dropped partly due to the expectation of a record harvest in Brazil which might offset the decreased production from the United States, the European Union, and Argentina. Meanwhile, the average price for soybean meal (+23.8%yoy) remained high due to worries about a declining global soybean supply, which was mostly caused by production losses and poor yields in Argentina's crop. Both commodities also had comparable monthly price changes, with the average price of maize dropped by -13.3%mom in March 2023 and the average price of soybean meal increased by +0.3%mom.

Overall, despite the recent drop in the average corn price, it remained significantly higher than the level of 2021, thus we anticipate that the price of chicken feed will remain high in the near future. Going forward, we reckon the margin compression for poultry players will persist in the near term due to increased labour expenses as well as the continuing price cap for retail chicken and eggs (which will be in place until June 2023). On a positive note, 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 a marginal impact from rising input costs 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. Furthermore, we believe that the anticipated elimination

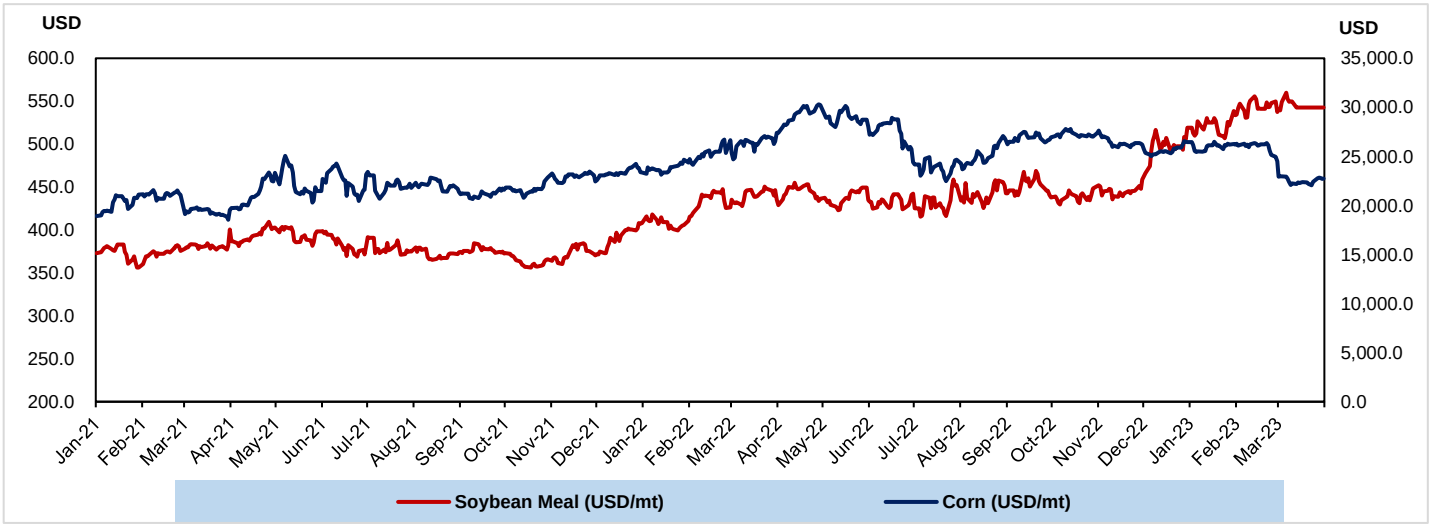
of price ceilings after June 2023 will benefit poultry players under our coverage by providing them with greater flexibility to modify prices in response to growing production costs while maintaining profit margins.

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

Data	Average monthly data					vs. 2021		
	Mar-23	Feb-23	Mar-22	YoY (%)	MoM (%)	Mar-23	Mar-21	chg. (%)
Soybean Meal (USD/mt)	544.8	543.3	440.1	23.8	0.3	544.8	381.4	42.8
Corn (USD/mt)	22,512.7	25,966.8	26,342.5	(14.5)	(13.3)	22,512.7	19,331.1	16.5

Sources: Bloomberg, MIDFR

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



Sources: Bloomberg, MIDFR

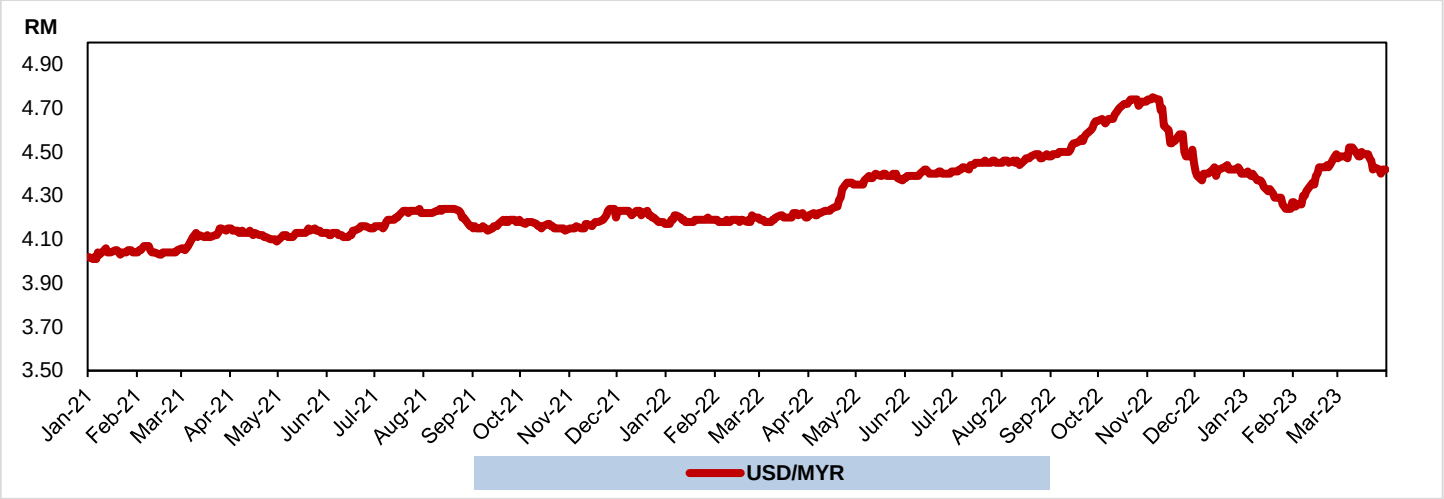
Stronger USD against MYR in Mar 2023. The average USD/MYR for March 2023 decreased -6%yoy to RM4.47/USD. This was owing to the Fed's aggressive interest rate hikes, which caused the USD to strengthen. Similarly, the MYR continued its downward trend against the USD, falling by -2.2%mom in March 2023 after falling by -0.9%mom in February 2023. Despite the recent MYR's depreciation, our economists expect the ringgit to strengthen in 2023, with an average USD/MYR rate of RM4.20/USD and RM4.00/USD by end of 2023. As such, the appreciation of MYR is expected to benefit the F&B and poultry companies under our coverage, given that most of the raw materials was purchased in USD. On the flip side, the stronger MYR will have an impact on the revenue of export-oriented companies such as **Asia File (NEUTRAL, TP: RM1.60)** and **Rhong Khen International (NEUTRAL, TP: RM1.35)**, where most of their sales was received in USD.

Table 6: USD/MYR Monthly statistics for Mar 2023

Data	Average monthly data					vs. 2021		
	Mar-23	Feb-23	Mar-22	YoY (%)	MoM (%)	Mar-23	Mar-21	chg. (%)
USD/MYR	4.47	4.37	4.20	(6.0)	(2.2)	4.47	4.11	(8.0)

Sources: Bloomberg, MIDFR

Chart 7: Price Trend of USD/MYR



Sources: Bloomberg, MIDFR

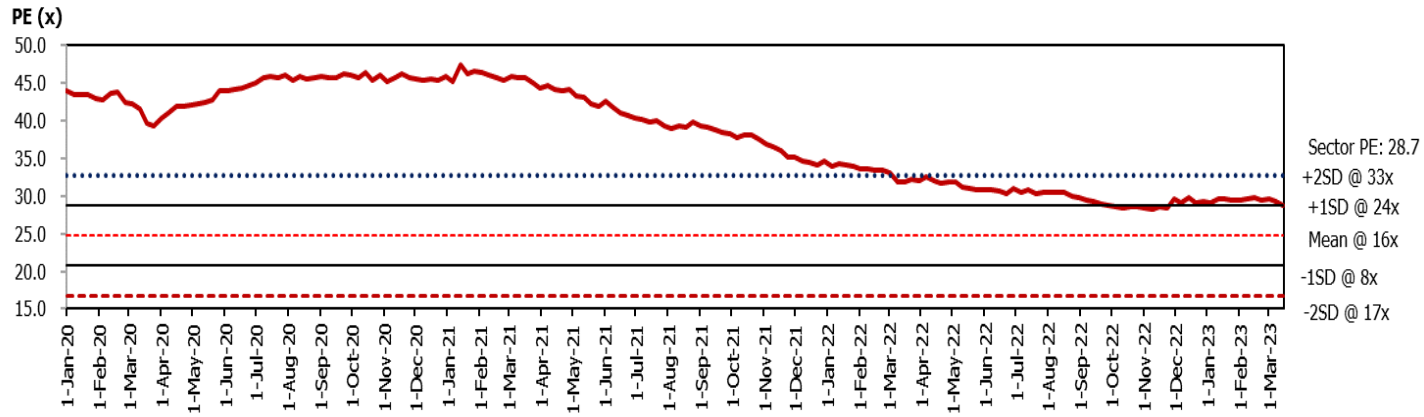
Retain POSITIVE on the consumer sector. We remain bullish about the sector due to: (1) a stable labour market that supports domestic consumption, (2) high tourist movement, which supports retail sales and out-of-home consumption, and (3) better margins for F&B producers supported by the lower commodity prices and a stronger MYR outlook. 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 favour QL Resources, which is supported by consistent demand for marine and cattle 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 @ 27-Apr-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	RM26.98	RM33.50	9,720.4	108.5	125.4	24.9	21.5	2.3	2.5	0.0
Leong Hup International	Buy	RM0.54	RM0.90	1,971.0	6.7	7.8	8.0	6.9	3.2	2.5	0.4
QL Resources	Buy	RM5.65	RM6.80	13,750.2	13.6	16.9	41.4	33.5	0.8	0.7	0.2
Spritzer	Buy	RM2.46	RM2.80	516.6	17.2	20.2	14.3	12.2	2.5	2.5	Net Cash
Hup Seng Industries	Buy	RM0.72	RM0.88	572.0	3.3	4.5	21.9	15.7	2.8	3.2	Net Cash
Nestle Malaysia	Neutral	RM135.30	RM139.50	31,727.9	269.6	318.2	50.2	42.5	0.0	2.8	1.3
Weighted Avg.					**177.9**	**199.3**	**40.1**	**34.9**	**1.8**	**2.0**	
Consumer Discretionary:											
Aeon Co M	Buy	RM1.23	RM1.90	1,726.9	9.7	11.5	12.7	10.7	3.5	4.5	0.1
Padini Holdings	Buy	RM4.06	RM4.40	2,671.1	27.4	34.0	14.8	12.0	2.5	2.6	Net Cash
Asia File Corp	Neutral	RM1.76	RM1.60	342.8	19.2	21.9	9.2	8.0	1.1	1.1	Net Cash
Rhong Khen International	Neutral	RM1.42	RM1.35	275.9	17.6	19.5	8.1	7.3	3.9	3.9	Net Cash
Weighted Avg.					**19.8**	**23.8**	**12.7**	**10.7**	**2.9**	**3.3**	

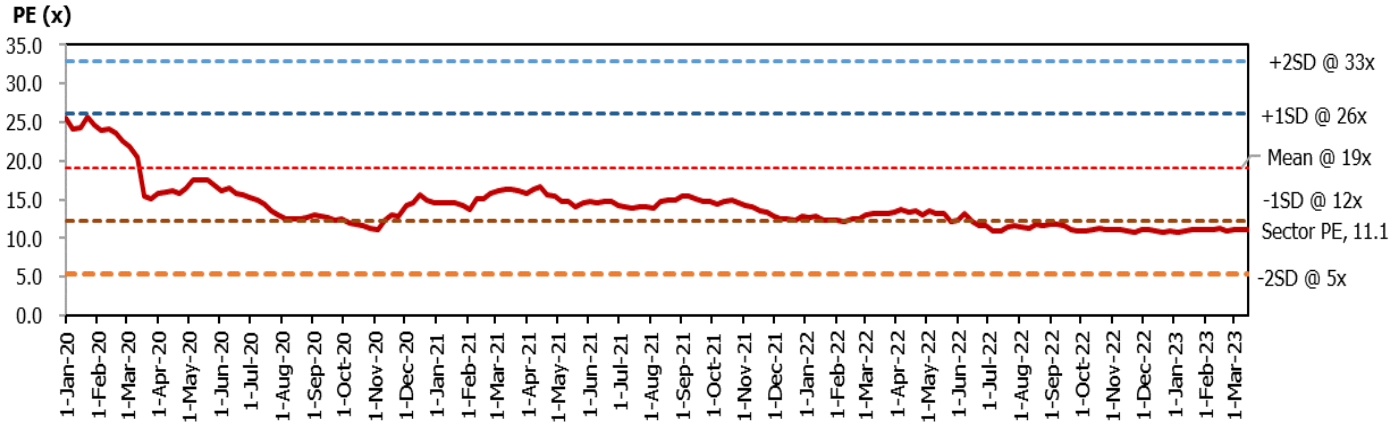
Sources: Bloomberg, MIDFR

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



Source: MIDFR

Chart 9: 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 *rise* 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 *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