CONSUMER

***Maintain* POSITIVE**

Falling Commodities Prices for F&B and Poultry Producers

KEY INVESTMENT HIGHLIGHTS

- **Solid Retail Trade in Mar 2023.**
- **Falling Prices of Specific Commodities for F&B Producers**
- **Promising Outlook for Livestock Producers.**
- **Weakening MYR against USD in May 2023.**
- **Retain POSITIVE on the consumer sector.**
- **Top buys are QL Resources (BUY, TP: RM6.75), F&N (BUY, TP: RM33.50), and AEON (BUY, TP: RM1.90)**

Solid Retail Trade in Mar 2023.

Robust retail trade despite softer consumer sentiment. Based on the Department of Statistics Malaysia (DOSM), retail trade for Mar 2023 rose +17.7%yoy to RM58.7b, marking the 12th consecutive month of double-digit expansion. Notably, both non-specialized stores, as well as specialized stores for F&B and tobacco, saw a notable double-digit increase during the month. Similarly, retail trade for Mar 2023 showed positive growth of 0.9%mom as compared to -2.4%mom in Feb 2023. Nonetheless, the MIER's Consumer sentiment index (CSI) decreased from 105.3 points in 4Q22 to 99.2 points in 1QCY23. This was due to weaker job and income prospects, as well as concerns about rising inflation. Despite these considerations, consumer spending plans remained unchanged.

Solid retail trade outlook. Moving forward, MIDF's economists are optimistic that retail trade will remain positive in 2023 in their latest report: Economic Review: Mar 2023 Distributive Trade. As such, we believe that the retail trade for essential items with competitive pricing will stay positive ahead. We reckon that retailers such as **Aeon Co (BUY, TP: RM1.90)** and **Padini (BUY, TP: RM4.40)** are expected to benefit from the upward trend in retail sales in 2023. Nevertheless, an uptick in the movement of local and international tourists could boost sales for convenience stores such as family mart under **QL Resources (BUY, TP: RM6.75).**

Table 1: Malaysia's monthly key statistics for Mar 2023

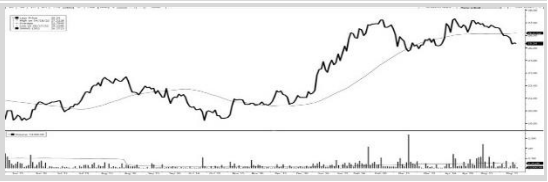
Data	Monthly data				
	Mar-23	Feb-23	Mar-22	YoY	MoM
Retail Trade (RM'b)	**58.7**	**58.2**	**49.9**	**17.7%**	**0.9%**
Non-specialised Stores (RM'b)	22.4	22.1	18.7	19.8%	1.0%
F&B and Tobacco in Specialised Stores (RM'b)	3.6	3.6	3.1	17.9%	1.1%
Unemployment rate (%)	**3.5**	**3.5**	**4.1**	**(0.6)ppt**	**0.0ppt**

Sources: DOSM, BNM, MIDFR
**Non-specialised Stores = supermarkets, hypermarkets, and convenience stores*

COMPANY IN FOCUS

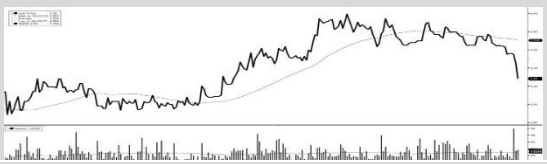
Fraser & Neave Holdings Berhad
Maintain **BUY** | Unchanged Target Price: RM33.50
Price @ 2nd June 2023: RM25.34
- Benefit from normalizing out-of-home beverage consumption.
- Additional revenue from Cocoaland.

Share price chart



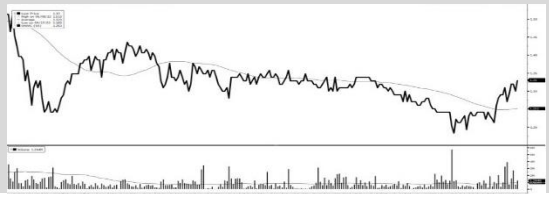
QL Resources Berhad
Maintain **BUY** | Unchanged Target price: RM6.75
Price @ 2nd June 2023: RM5.28
- Solid demand for marine and livestocks products.
- Benefit from expected removal of retail price ceiling for chicken and egg.

Share price chart



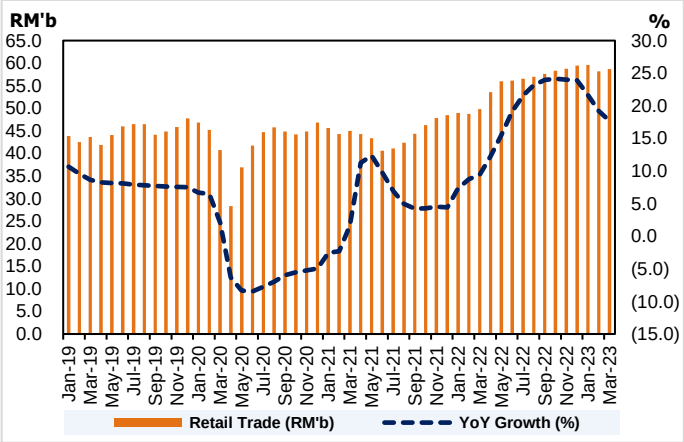
Aeon Co. (M) Berhad
Maintain **BUY** | Unchanged Target price: RM1.90
Price @ 2nd June 2023: RM1.33
- Benefit from increasing out-of-home activities.
- Offers various in-house private brands with a high margin.

Share price chart



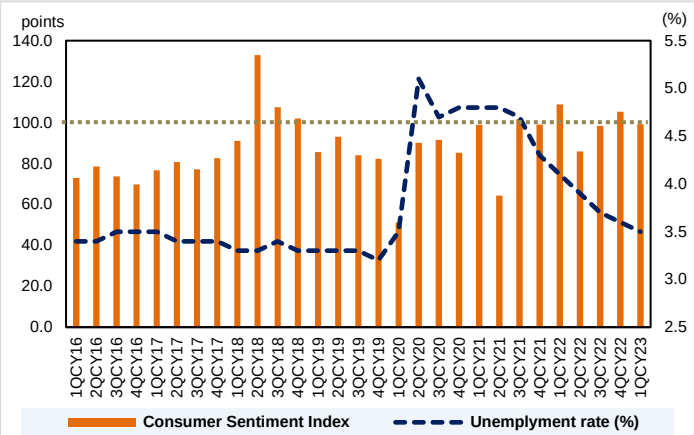
Analyst(s)
Genevieve Ng Pei Fen
genevieve.ng@midf.com.my

Chart 1: Malaysia's Monthly Retail Trade



Sources: DOSM, MIDFR

Chart 2: Malaysia's Consumer Sentiment Index



Sources: DOSM, MIER, MIDFR

Falling Prices of Specific Commodities for F&B Producers

Normalized Average CPO and Wheat Price for Food Producers. In May 2023, the average prices of CPO (-47.8%yoy) and Wheat (-42.8%yoy) continued to decline on yearly basis. The reduced CPO price can be ascribed to the lifting of Indonesia's export ban in mid-May, as well as the normalization of Malaysia's Palm Oil inventories. Meanwhile, the declined wheat price was driven by the expectation of higher global production and subdued demand, despite uncertainties surrounding the Black Sea Grain Initiative. Conversely, the average price of raw sugar (+27.6%yoy) remained on an upward trajectory in May 2023, owing primarily to increased demand following the reopening of various countries, as well as lower global production in the near term due to unfavourable weather conditions in major exporting countries. On a monthly basis, all commodities followed a similar trajectory, with CPO (-5.2%mom) price and Wheat (-7.4%mom) experienced a decline in May 2023 while average price of raw sugar (+5.7%mom) continued to rise.

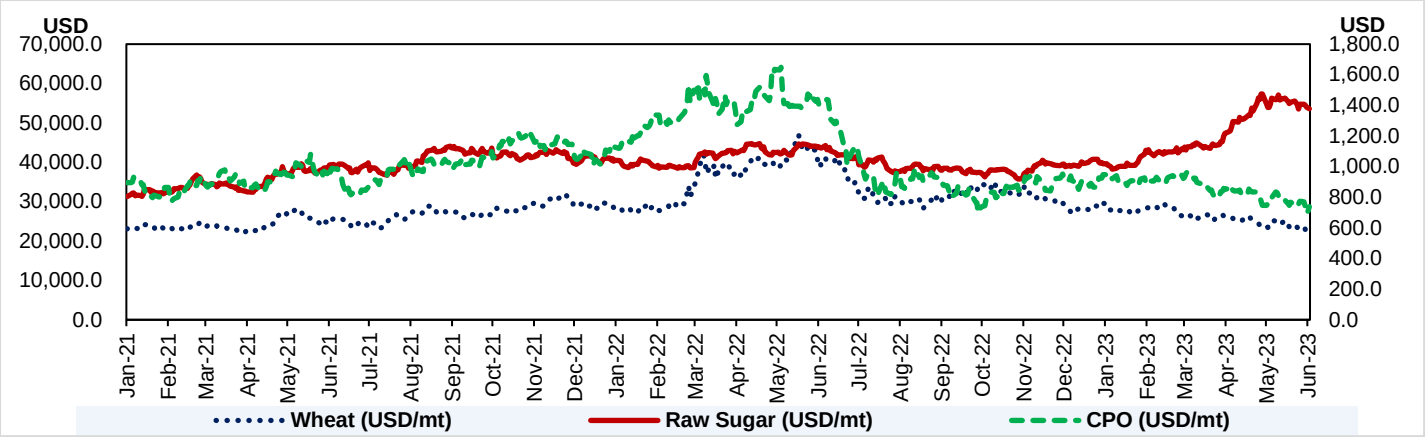
Overall, we saw that the average prices of CPO and wheat have returned to pre-Russia Ukraine conflict levels (2021), which benefits food producers such as **Hup Seng Industries (BUY, TP: RM0.88)** and **Nestle Malaysia (NEUTRAL, TP: RM139.50).** The normalization of prices can reduce the cost of raw materials and offset the higher labor and energy costs, hence supporting the margin. Although the price of raw sugar remains high, we believe the impact on food producers is manageable given that sugar consumption is relatively low compared to wheat and CPO. Also, we reckon that the various price hikes implemented in CY22 are adequate to offset the increased in labor and energy cost and may not be reintroduced in the near term.

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

Data	Average monthly data					vs. 2021		
	May-23	Apr-23	May-22	YoY (%)	MoM (%)	May-23	May-21	chg. (%)
Wheat (USD/mt)	24,068.3	25,388.1	42,109.4	(42.8)	(5.2)	24,068.3	25,942.8	(7.2)
Raw Sugar (USD/mt)	55,173.1	52,209.9	43,241.5	27.6	5.7	55,173.1	38,167.3	44.6
CPO (USD/mt)	768.2	829.3	1,470.7	(47.8)	(7.4)	768.2	990.2	(22.4)

Sources: Bloomberg, MIDFR

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



Sources: Bloomberg, MIDFR

Mixed commodities price trend for beverage producers. The average costs of key raw materials for beverage manufacturers in May 2023 move in different direction on yearly basis but remained high in contrast to pre-Russia Ukraine conflict levels in 2021. On yearly basis, the average price for Arabica (-18.6%yoy) declined the most, followed by PET resin (-18%yoy) due to lower brent crude oil. Conversely, the average price for Robusta (+17.3%yoy) increased largely due to lower global production caused by off-cycle periods, extreme weather, and high production costs, as well as higher global demand. The increased in the average price for white sugar (+10.3%yoy) was due to higher raw sugar price, increased labor costs, and energy costs (higher natural gas and coal prices), all of which increased the cost of refined sugar. On monthly basis, the average price for pet resin (-4.8%yoy), Arabica(-2.9%yoy) and white sugar (-0.7%yoy) decreased in May 2023 while Robusta prices (+5.4%yoy) expanded.

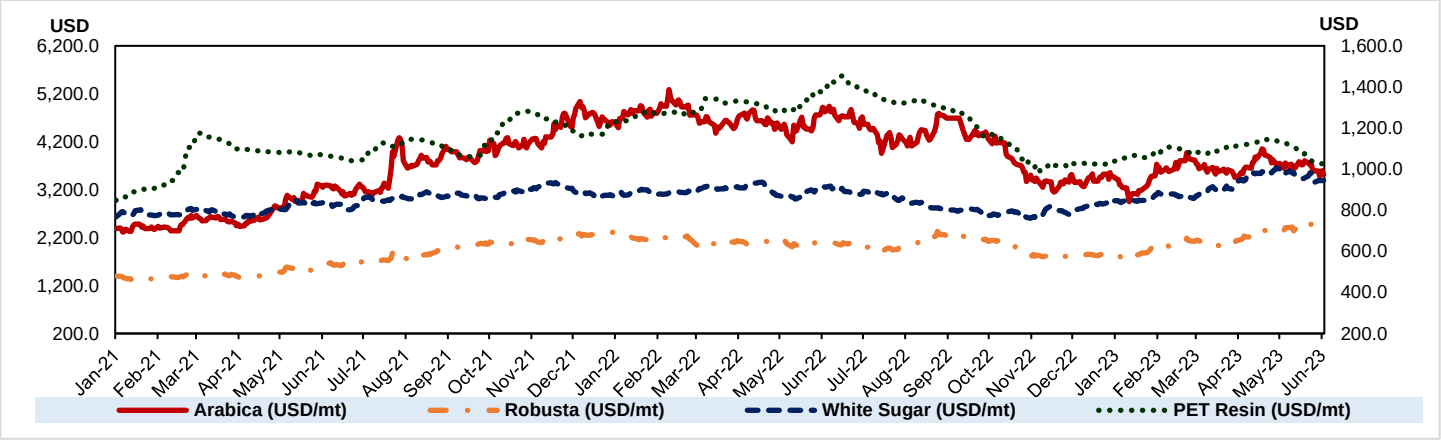
Overall, we have observed a favorable trend with all raw materials for beverage firms that we track have declining from their 2-year peak in May 2023, while still maintaining elevated levels compared to 2021. This will result in lower potential lower raw material prices, which could benefit companies like **Fraser & Neave Holdings (BUY, TP: RM33.50)** and **Spritzer (BUY, TP: RM2.70).**

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

Data	Average monthly data					vs. 2021		
	May-23	Apr-23	May-22	YoY (%)	MoM (%)	May-23	May-21	chg. (%)
White Sugar (USD/mt)	970.7	977.1	880.0	10.3	(0.7)	970.7	828.5	17.2
Arabica (USD/mt)	3,683.2	3,792.2	4,522.7	(18.6)	(2.9)	3,683.2	3,051.1	20.7
Robusta (USD/mt)	2,432.3	2,307.6	2,073.9	17.3	5.4	2,432.3	1,547.4	57.2
PET Resin (USD/mt)	1,081.3	1,133.4	1,318.1	(18.0)	(4.6)	1,081.3	1,074.7	0.6

Sources: Bloomberg, MIDFR
****Pet resin = Polyethylene terephthalate*

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



Sources: Bloomberg, MIDFR

Promising Outlook for Livestock Producers.

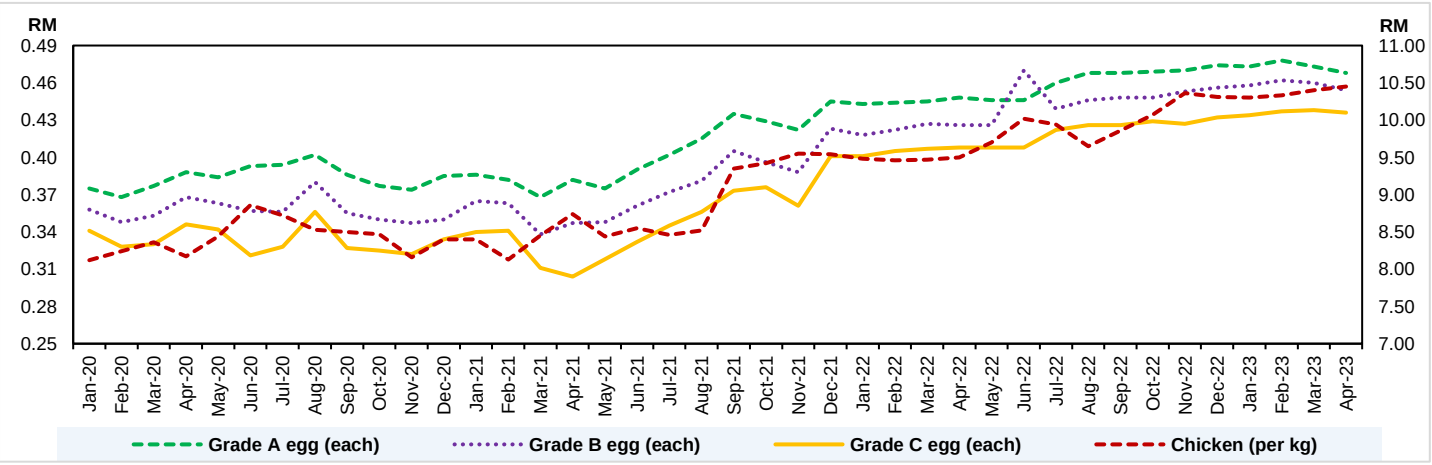
Increased Prices for Chicken and Eggs in April 2023. In April 2023, the average prices for chicken and chicken eggs (Grade A, B, and C) were higher compared to April 2022. This can be attributed to the higher demand for chicken and chicken eggs during the Ramadan and Hari Raya Aidilfitri celebration. On a monthly basis, the average price of chicken eggs showed a downward trend, with Grade B eggs experiencing the largest drop (-1.3%mom), followed by Grade A eggs (-1.1%mom), and Grade C eggs (-0.5%mom). However, the price of chicken increased slightly (+0.5%mom). In short, the average prices for chicken and chicken eggs (Grade A, B, and C) remained elevated compared to the previous year and 2021. This can be attributed to the imposition of retail price ceilings, and higher input costs that incur downward pressure on profit margins, leading some producers to reduce their production.

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

Data	Average monthly data					vs. 2021		
	Apr-23	Mar-23	Apr-22	YoY (%)	MoM (%)	Apr-23	Apr-21	chg (%)
Hen's Egg Grade A (each)	0.47	0.47	0.45	4.5	(1.1)	0.47	0.38	22.5
Hen's Egg Grade B (each)	0.45	0.46	0.43	6.6	(1.3)	0.45	0.35	30.8
Hen's Egg Grade C (each)	0.44	0.44	0.41	6.9	(0.5)	0.44	0.30	43.4
Chicken (per kg)	10.45	10.40	9.50	10.0	0.5	10.45	8.74	19.6

Sources: MIDFR

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



Sources: MIDFR

Lower Average Corn and Soybean Prices in May 2023. The prices of raw materials used in livestock feed, specifically corn and soybean, posted a downward trend in May 2023. These prices have now returned to the levels observed before the Russia-Ukraine war in 2021. The lower average corn price (-29.4%yoy) can be attributed to the anticipation of ample supplies from major exporters such as Brazil, Argentina, and the United States, which outweighed the weaker supplies from Ukraine. The reduced average price of soybean meal (-1.8%yoy) was primarily due to the expectation of an increase in Argentina's soybean production and increased supply from the United States and Brazil. Likewise, both corn (-7.5%mom) and soybean meal (-9%mom) continued to decline on a monthly basis in May 2023.

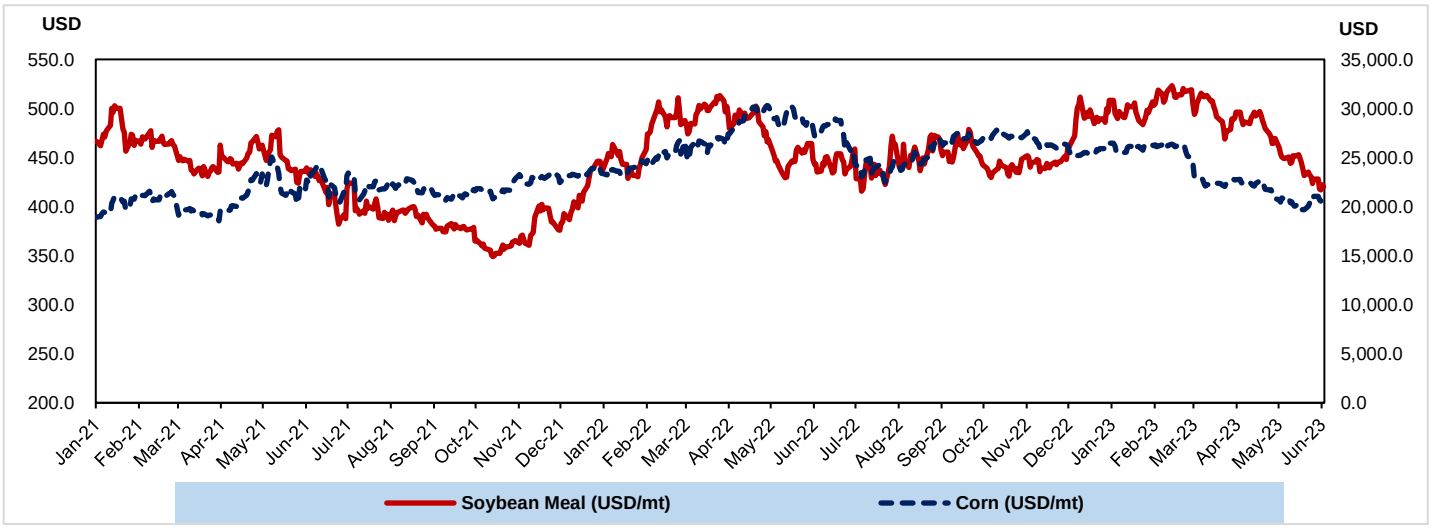
Overall, the main raw materials for livestock feed have returned to 2021 levels due to the expected increase in global production, which is likely to result in lower prices for corn and soybean meal. This suggests a decrease in the cost of chicken feed ahead. Additionally, the government subsidies for chicken egg production, which are in place until 30th June 2023, along with the lower feed costs, are expected to support profit margins despite the ongoing price ceiling for chicken and eggs. As a result, **QL Resources (BUY, TP: RM6.75)** and **Leong Hup International (NEUTRAL, TP: RM0.50)** are expected to benefit from these favorable conditions.

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

Data	Average monthly data					vs. 2021		
	May-23	Apr-23	May-22	YoY (%)	MoM (%)	May-23	May-21	chg. (%)
Soybean Meal (USD/mt)	440.6	484.2	448.6	(1.8)	(9.0)	440.6	448.2	(1.7)
Corn (USD/mt)	20,415.9	22,081.7	28,904.4	(29.4)	(7.5)	20,415.9	22,244.0	(8.2)

Sources: Bloomberg, MIDFR

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



Sources: Bloomberg, MIDFR

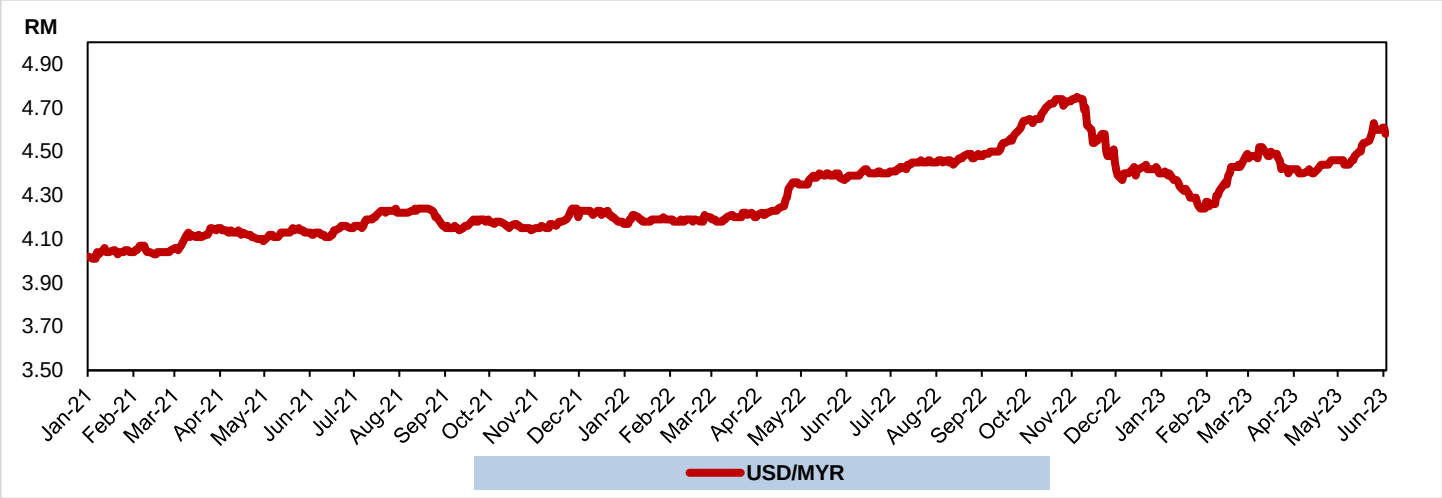
Weakening MYR against USD in May 2023. In May 2023, the average exchange rate was USD1.00 : RM4.52, indicates a depreciation of the Malaysian Ringgit (MYR) against the US Dollar (USD) as compared to April 2023 (USD1.00 : RM4.43) and May 2022 (USD1.00 : RM4.38). Given that F&B and poultry manufacturers typically purchase their raw materials in USD, the depreciation of the MYR is anticipated to raise input costs. Nevertheless, export-focused companies such as **Asia File (NEUTRAL, TP: RM1.55)** and **Rhong Khen International (NEUTRAL, TP: RM1.30),** are anticipated to gain from the stronger USD as most of their sales are received in USD.

Table 6: USD/MYR Monthly statistics for Mar 2023

Data	Average monthly data					vs. 2021		
	May-23	Apr-23	May-22	YoY (%)	MoM (%)	May-23	May-21	chg. (%)
USD/MYR	4.52	4.43	4.38	(3.0)	(2.1)	4.52	4.13	(8.6)

Sources: Bloomberg, MIDFR

Chart 7: Price Trend of USD/MYR



Sources: Bloomberg, MIDFR

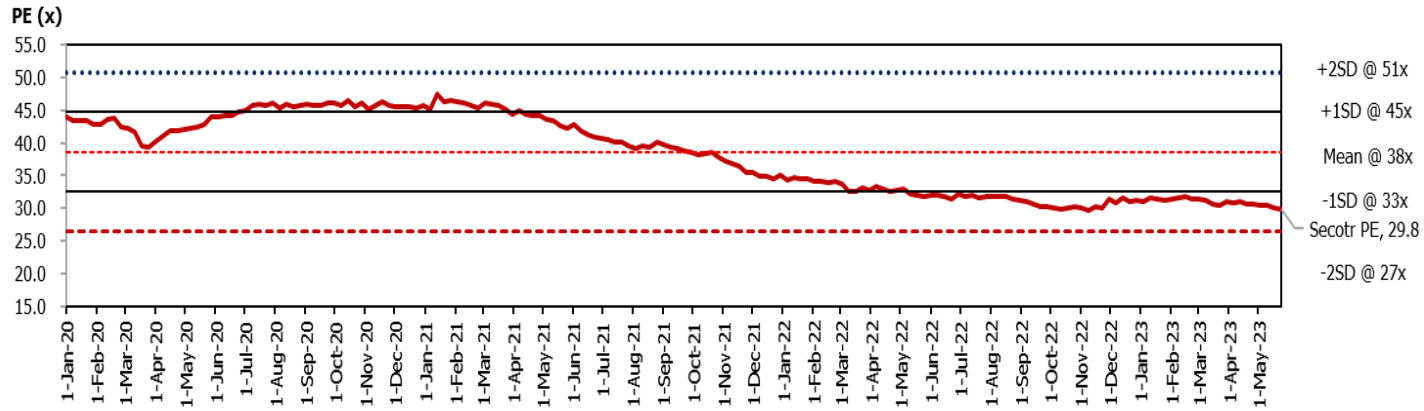
Retain POSITIVE on the consumer sector. Overall, we are positive about the outlook for consumer sector underpinned by: (1)) a defensive play due to the resilient demand for staple-related products (2) solid domestic consumption ahead, supported by a stable labour market, robust retail trade, and increased tourism activities, (3) solid profit margins for F&B producers driven by falling raw material prices and previous price hikes, offsetting other cost pressures and (4) normalized commodity prices for livestock feed are likely to alleviate elevated input costs for poultry players. Our top picks continue to be consumer staple-related companies that exhibit resilient demand, such as **QL Resources (BUY, TP: RM6.75), 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 livestocks 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 benefit from the strong domestic demand and an increase in tourist arrivals.

Table 7: Peer comparison table

Stocks	Rec.	Price @ 2-Jun-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	RM25.34	RM33.50	9,311.8	108.5	125.4	23.4	20.2	2.4	2.6	0.0
Leong Hup International	Neutral	RM0.49	RM0.50	1,788.5	6.7	5.0	7.3	9.8	3.7	3.0	0.8
QL Resources	Buy	RM5.28	RM6.75	12,849.7	12.9	16.2	41.0	32.6	0.7	0.7	0.3
Spritzer	Buy	RM2.35	RM2.70	508.2	17.1	19.3	13.8	12.2	2.7	2.5	Net Cash
Hup Seng Industries	Buy	RM0.66	RM0.88	528.0	3.3	4.5	20.2	14.5	4.5	3.2	Net Cash
Nestle Malaysia	Neutral	RM131.80	RM139.50	30,907.1	269.6	318.2	48.9	41.4	2.0	2.3	1.3
Weighted Avg.					**170.5**	**200.9**	**40.9**	**34.3**	**1.8**	**2.0**	
Consumer Discretionary:											
Aeon Co M	Buy	RM1.33	RM1.90	1,867.3	9.7	11.5	13.8	11.6	3.3	4.2	0.1
Padini Holdings	Buy	RM3.70	RM4.40	2,434.3	27.5	34.0	13.4	10.9	2.8	2.8	Net Cash
Asia File Corp	Neutral	RM1.71	RM1.55	335.0	17.7	18.2	9.7	9.4	2.0	1.6	Net Cash
Rhong Khen International	Neutral	RM1.34	RM1.30	260.4	10.7	7.6	12.6	17.6	2.4	1.0	Net Cash
Weighted Avg.					**19.1**	**22.9**	**13.3**	**11.4**	**2.9**	**3.2**	

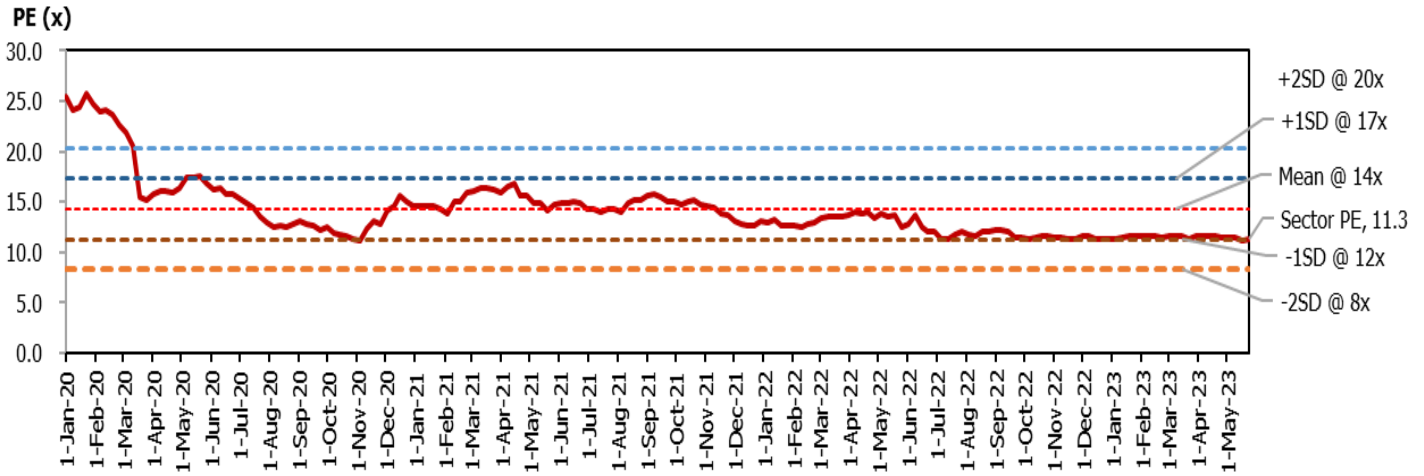
Sources: Bloomberg, MIDFR

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