CONSUMER SECTOR

***Maintain* POSITIVE**

The end of price control for chicken and egg

DEVELOPMENT

- The Agriculture and Food Security Minister, Datuk Seri Mohamad Sabu, announced that starting from 1 July 2023, the prices of eggs and chicken will no longer be fixed and will fluctuate. Additionally, the ban on exporting live chicken, dressed chicken, and chicken parts will also be lifted from 1st July 2023 onwards.
- The government will allow the importation of chicken from recognized countries such as Thailand, China, Brazil, and Denmark. As for eggs, imports will be permitted from Thailand and Ukraine.
- Recall that the price controls for chicken and eggs were imposed in July 2022. Currently, in Peninsular Malaysia, the retail price ceiling for standard chicken is RM9.40/kg, while the price ceiling for eggs, is 45 sen for Grade A, 43 sen for Grade B, and 41 sen for Grade C. The subsidy for eggs will end on 30th June 2023.

OUR VIEW

- We are positive about the removal of chicken and egg price caps from 1 July 2023 onward as poultry players now have greater price flexibility in response to changes in input costs. Also, this change allows market forces to determine prices based on supply and demand conditions. Meanwhile, the recent decline in the futures contract prices for global soybean meal (-1.8%yoy) and corn (-29.4%yoy) in May 2023, could provide some relief to the poultry's cost pressure and may help offset increased labour and electricity costs. Therefore, we believe that the removal of price controls after July 2023 will allow poultry farmers to have more price flexibility to pass on higher input costs to consumers and improve profit margins. Key beneficiaries of this change would be **QL Resources (BUY, TP: RM6.75)** and **Leong Hup International (NEUTRAL, TP: RM0.50)**.
- In addition, the lifting of export restrictions on live chicken, dressed chicken, and chicken parts may encourage poultry players to increase chicken production in Malaysia and explore export opportunities, diversifying its revenue streams.
- However, given the tight egg supply in Malaysia, we anticipate a potential increase in egg prices in the near term. Moreover, the global avian flu outbreak has led to reduced egg supplies in other countries, potentially making imported eggs more expensive in Malaysia. In April 2023, the average prices were RM10.45/kg for chicken, RM0.47/egg for Grade A, RM0.45/egg for Grade B, and RM0.44/egg for Grade C. As such, we believe that the floating prices for chicken should not experience substantial increases after the removal of price controls but the price of eggs may rise due to limited supply both domestically and internationally.
- We make no changes to our earnings forecast for livestock players under our coverage for now pending more details on the announcement.
- Overall, we are **POSITIVE** about the outlook for the 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 **F&N Holdings (BUY, TP: RM33.50),** and **QL Resources (BUY, TP: RM6.75).**

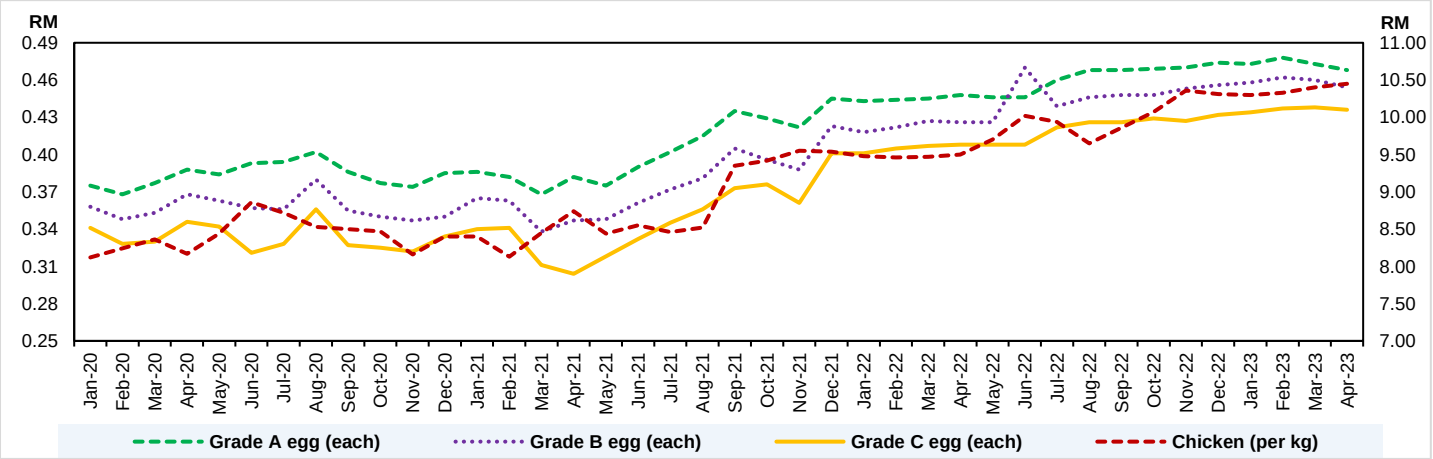
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Table 1: Malaysia Monthly Hen's Egg and Chicken Statistics

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 1: Malaysia's Average Price Trend for Chicken and Egg



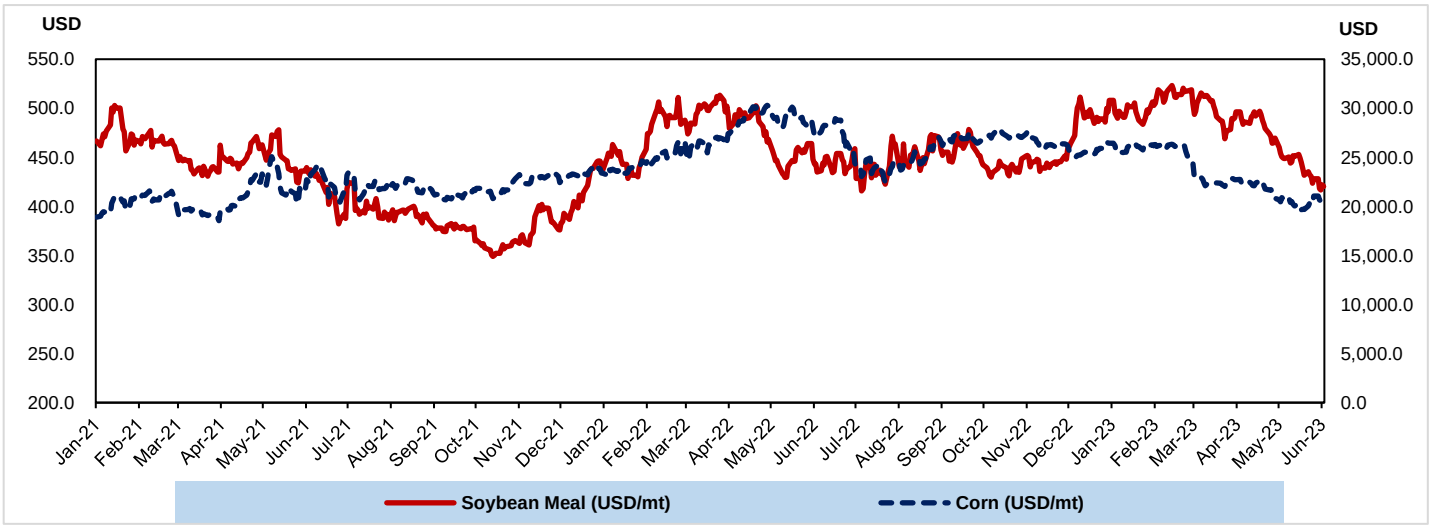
Sources: MIDFR

Table 3: 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 4: Raw Material Futures Price Trend for Poultry Producer (USD/mt)



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