Sector Update | Tuesday, 14 January 2025

CONSUMER

***Maintain* POSITIVE**

Bright Horizon Ahead

KEY INVESTMENT HIGHLIGHTS

- **Retail: Strong Domestic Retail Trade and Tourism Boost Drive Growth**
- **Rising Disposable Income: A Catalyst for Consumer Spending Surge**
- **F&B: Commodity price declines to boost margins despite cocoa price pressures**
- **Poultry: Falling Feed Costs Propel Strong Growth Momentum**
- **Currency: Ringgit Stabilizes with Slower Depreciation in December 2024**
- **Maintain POSITIVE on Consumer Sector with F&N (BUY, TP: RM36.77), and Aeon (BUY, TP: RM1.67) as our top picks**

Retail: Strong Domestic Retail Trade and Tourism Boost Drive Growth

Retail spending maintains momentum. Malaysia's retail sector exhibited robust performance in October 2024, with retail trade expanding by +7%yoy to RM64.9b. Cumulative retail consumption rose to RM634.2b in 10MCY24, compared to RM597.0b in 10MCY23 and RM542.9b in 10MCY22. Furthermore, the Retail Group Malaysia (RGM) reported a commendable +3.8%yoy growth in retail sales for 3QCY24, primarily driven by the minimarket-and-convenience store subsector. This performance surpassed the 3.6% target and marked a notable recovery from the +0.6%yoy growth recorded in 2QCY24. Looking ahead, RGM forecasts retail sales growth of +4.4% in 4QCY24, supported by consistent shopping traffic during the year-end holiday season and civil servant salary adjustments. The full-year retail growth for 2024 is projected at +3.9%, with steady growth of +4.0% anticipated for 2025, despite challenges related to the rising cost of living.

Moving forward, we remain optimistic about the sustainability of domestic consumption spending, underpinned by a stable macroeconomic environment, steady employment levels, salary increments for civil servants, and a gradual recovery in the tourism sector. These factors collectively are expected to drive continued growth in retail spending. The unemployment rate stabilized at a post-pandemic low of 3.2% in November 2024, with employment growth (+1.9%yoy) outpacing labor force expansion (+1.7%yoy). Meanwhile, moderating inflation at +1.8% in November 2024 enhanced purchasing power, further reinforcing domestic consumption.

Given these positive dynamics, we foresee sustained growth in consumer staples and general merchandise sales. Companies such as **Aeon (BUY, TP: RM1.67)** are well-positioned to benefit from the upward trajectory of domestic consumption, driving strong top-line performance in CY25.

COMPANY IN FOCUS

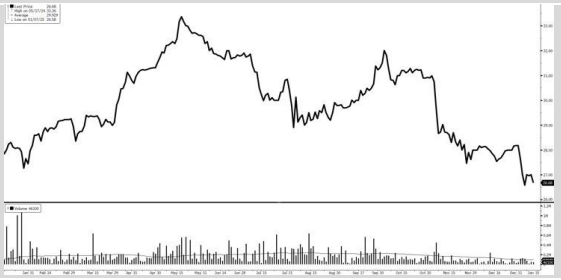
Fraser & Neave Holdings Berhad

Maintain **BUY** | Unchanged Target Price: RM36.77

Price @ 13 Jan 2025: RM26.68

- Capitalize on the robust OOH beverages consumption.
- Benefit from the high temperatures prevalent across SEA and the return of tourists' arrivals.
- Integration of Sri Nona and Cocoaland to expand food pillar businesses

Share price chart



Aeon Co. (M) Berhad

Maintain **BUY** | Unchanged Target price: RM1.67

Price @ 13 Jan 2025: RM1.52

- Benefit from sustained consumer spending, bolstered by Budget 2025 cash handouts, EPF Account 3, and the civil servant pay rise, all of which will increase disposable income.
- PMS segment is set for continued growth with

Share price chart



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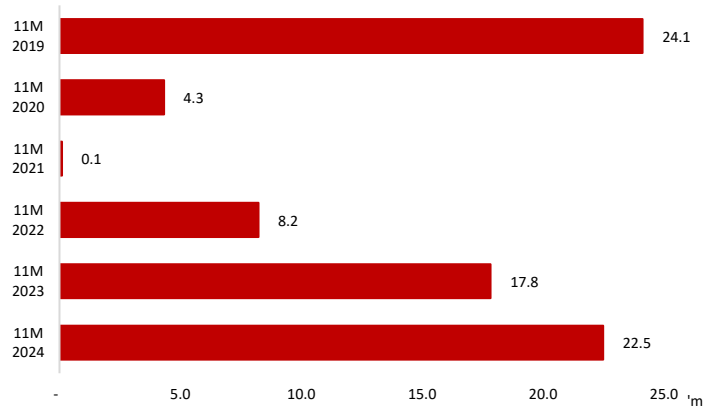
Tourism revival to bolster consumer demand. Malaysia's tourism sector remains a critical catalyst for the consumer market. International tourist arrivals surged to 22.5m in the first eleven months of 2024, compared to 17.8m in the same period of 2023. This milestone is particularly noteworthy as the 11MCY24 figure has already surpassed the total tourist arrivals for 2023 (20.1m). Tourist growth has been driven by easing visa restrictions and increased arrivals from key markets such as China and India. Notably, 3,038,314 tourists from China visited Malaysia between January and November 2024, marking a substantial +132.7%yoy increase. Similarly, visa-free entry for Indian nationals, implemented in December 2023, drove a +50.8%yoy increase in Indian tourists, reaching 1,009,114 arrivals. Singapore and Indonesia remain the largest contributors, with 8m and 3.3m arrivals, respectively. This surge has translated into higher tourism expenditure. Total receipts surpassed pre-pandemic levels, reaching RM45.4b in the first half of 2024 compared to RM41.7b during the same period in 2019.

Looking ahead, 2025 promises even greater momentum, supported by strategic government initiatives such as global promotions, infrastructure improvements, and enhanced accessibility through improved connectivity. The government's target of 31.4m visitors with RM125.5b in tourism revenue highlights the sector's growth potential. Preparations for *Visit Malaysia Year 2026*, aiming to attract 35.6m tourist arrivals and to generate RM147.1b in revenue, further amplify this outlook. The government's Budget 2025 allocation of nearly RM550m for tourism promotion and preparation, along with the extension of visa-free travel for Chinese tourists until the end of 2026, underscores Malaysia's commitment to boosting the sector. The resurgence in tourism is expected to drive significant growth in travel-related consumer markets. The hospitality and F&B sectors stand to benefit, with companies like **Spritzer (BUY, TP: RM3.25)** well-positioned to capitalize on the increased demand for bottled water. Similarly, Family Mart under **QL Resources (NEUTRAL, TP: RM4.83)** is poised to gain from rising demand for convenience food driven by the growing number of tourists. As Malaysia continues to attract tourists, consumer activity tied to travel, and hospitality will continue to provide a solid foundation for sector-wide growth.

Chart 1: Tourist Arrivals to Malaysia (11M2019 – 11M20224)



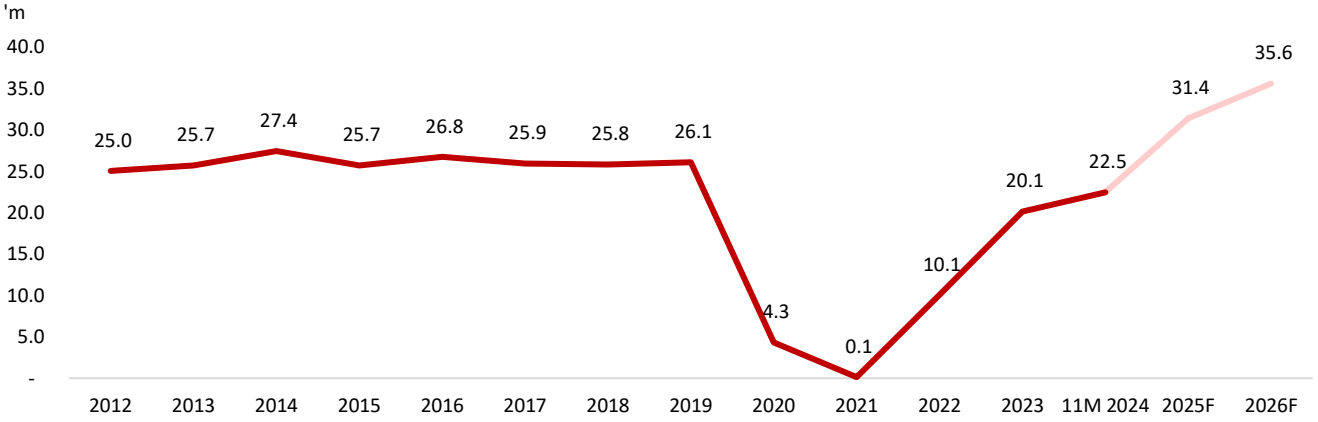
Sources: Tourism Malaysia, MIDFR

Table 1: Top Tourist Arrivals by Countries (Jan to Nov 2024)

	Tourist arrival	Growth YoY (%)
Singapore	8,048,898	10.70
Indonesia	3,269,113	18.40
China	3,038,314	132.70
Thailand	1,497,564	5.10
Brunei	1,014,643	71.70
India	1,009,114	50.80

Sources: Tourism Malaysia, MIDFR

Chart 2: Tourist Arrivals to Malaysia (2012-2026F)



Sources: Tourism Malaysia, MIDFR

Rising Disposable Income: A Catalyst for Consumer Spending Surge

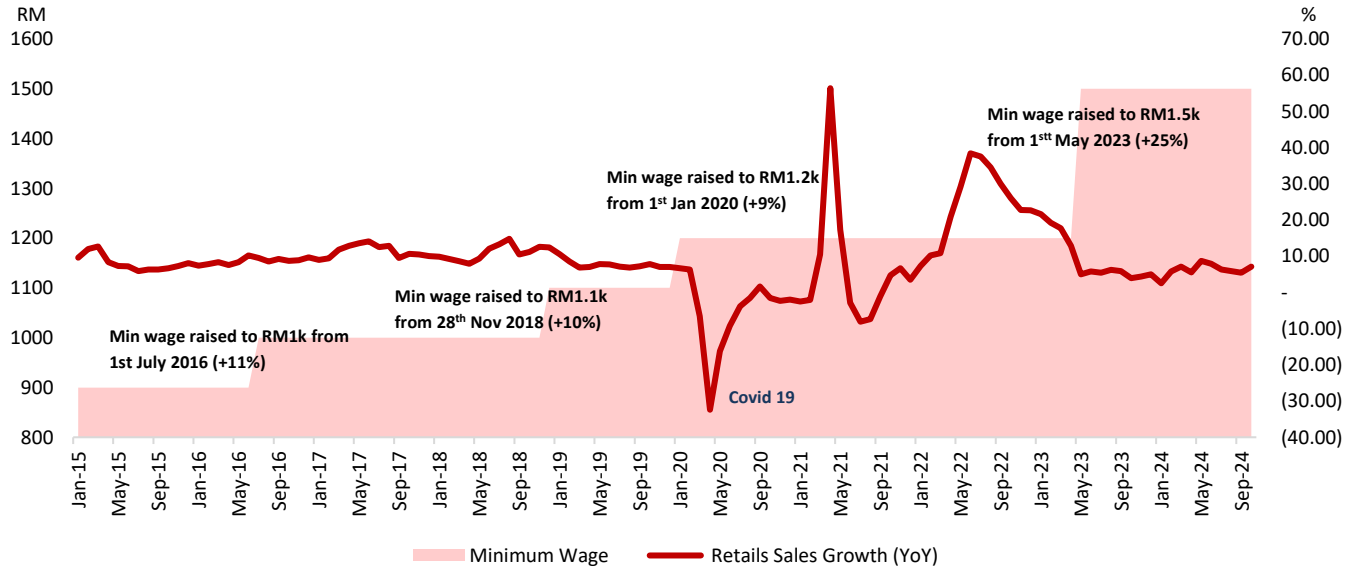
Rising disposable income, bolstered by strategic government initiatives, is poised to drive higher consumer spending. The introduction of EPF's Akaun Fleksibel (Account 3) offers unprecedented liquidity, enabling members to withdraw funds at any time for any purpose. This policy has already boosted household cash flow, spurring expenditures across both essential and discretionary categories. Complementing this is the civil servant salary adjustment, effective December 2024, which provides additional financial relief to a broad segment of the population. Moreover, the upcoming minimum wage hike to RM1,700 in February 2025 is expected to elevate household incomes, particularly among lower-income groups. Together, these timely adjustments in wages and liquidity are set to catalyse a surge in consumer spending, especially during festive seasons. Retailers are well-positioned to capitalize on this momentum as households redirect their enhanced purchasing power toward both discretionary and staple categories.

Cost pressures persist but remain manageable. The minimum wage hike to RM1,700 presents a double-edged sword for the consumer sector. While it enhances disposable income and supports higher spending, it also increases labour costs for businesses, particularly in labour-intensive industries like retail. Retailers such as **Aeon** and **Padini** are likely to experience moderate earnings pressure. However, for consumer staples companies like **Nestle Malaysia**, **Leong Hup Malaysia**, and **QL Resources**, the impact is anticipated to be minimal due to high levels of automation and the relatively low contribution of labour costs to their total operating expenses.

Rising utility costs and subsidy rationalization. Additional cost challenges stem from the proposed electricity tariff hike and RON95 petrol subsidy rationalization, both slated for mid-2025. While these measures will increase operating costs, their broader impact on consumer spending is expected to be limited. Historical data suggests that electricity tariff hikes have minimal inflationary effects; for instance, the 25% tariff hike in mid-2023 primarily affected the top 1% of households and had negligible spillover effects on inflation (see here). Moreover, the government's targeted approach to RON95 subsidy rationalization, focusing on the top 15% of income earners, ensures that the majority of the population remains unaffected. This mitigates potential disruptions to retail spending and maintains a stable consumption environment.

Resilience through mitigation. Despite these headwinds, cost pressures remain manageable, supported by proactive mitigation efforts. Many companies have optimized workforce productivity, integrated automation, and adopted renewable energy solutions, such as solar panel installations, to offset rising labour and energy costs. These initiatives ensure operational efficiency and long-term cost containment. Additionally, exemptions from diesel subsidy rationalization for essential goods manufacturers, such as **Nestle Malaysia**, further reduce cost pressures within the sector. As disposable incomes rise and cost challenges are effectively managed, the consumer sector is well-positioned for sustained growth. Key beneficiaries under our coverage, including **Aeon** (**BUY, TP: RM1.67**) and **Padini** (**NEUTRAL, TP: RM2.19**), stand to capitalize on the robust momentum in consumer spending, driven by higher household liquidity and resilient retail demand.

Chart 3: Retail Sales Growth and Minimum Wage



Sources: DOSM, MIDFR

F&B: Commodity Price Declines to Boost Margins Despite Cocoa Price Pressures

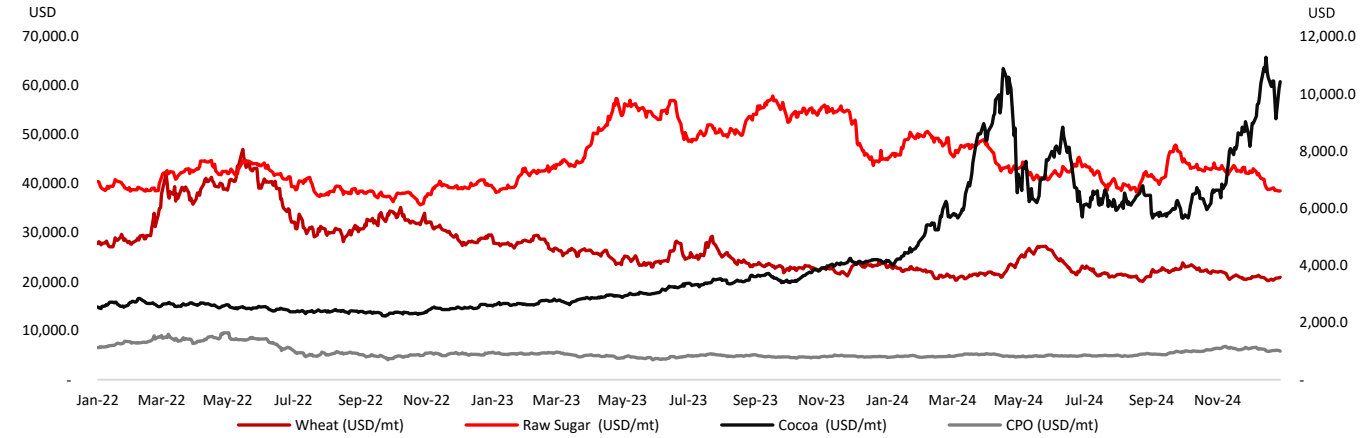
Mixed Trends in F&B Commodity Prices as of December 2024. December 2024 commodity trends present a mixed outlook for Malaysia's food producers, with notable price fluctuations across key inputs. Cocoa, arabica, and robusta prices continued its upward trend as of December 2024, rising by +138.1%yoy, +67.3%yoy, and +84.6%yoy, respectively, which could exert cost pressure on chocolate and coffee producers. However, other critical inputs like wheat, sugar, and PET resin have seen declines of -11.7%yoy, -13.4%yoy, and -14.2%yoy, respectively, lowering input costs for staple goods and beverage producers. Despite elevated coffee prices, the overall effect remains manageable due to the broader downward trend in key commodities and strong brand equity enabling market players like **Nestle Malaysia (NEUTRAL, TP: RM101.90)** to effectively pass on costs without significantly affecting demand. Looking ahead, the operating environment is expected to improve as commodity prices stabilize after a volatile 2024. While cocoa and coffee prices are likely to remain elevated, the continued decline in sugar, wheat, and PET resin costs will ease margin pressures for food and beverage producers, supporting a more balanced cost structure and steady earnings growth across the sector.

Table 2: December 2024 Average Commodities Futures Prices for F&B Producers

Commodities	Dec-24	Nov-24	Dec-23	YoY (%)	MoM (%)	Remarks
Wheat (USD/mt)	20,735	21,254	23,491	(11.7)	(2.4)	Year-on-year: Lower prices were due to improved supply conditions from key wheat-producing regions like the EU and North America. The easing of extreme weather conditions and better yields have contributed to higher stockpiles globally. Month-on-month: Lower prices due to improved supply conditions from key wheat-producing regions.
Cocoa (USD/mt)	9,860	7,723	4,141	138.1	27.7	Year-on-year: Prices soared due to anticipated supply disruptions in Western Africa caused by extreme rainfall and the cocoa swollen shoot virus. Month-on-month: Higher prices was due to the expectation of low production yield ahead due to the reason mentioned above.
Raw Sugar (USD/mt)	40,479	42,897	46,741	(13.4)	(5.6)	Year-on-year: Prices reduced due to record sugarcane crushing in Brazil and better-than-expected sugar production in India and Thailand, despite adverse weather in major producing countries. Month-on-month: Prices reduce due to larger than expected sugar production in Brazil in the second half of November and the weakening of the Brazilian real against the USD.
CPO (USD/mt)	1,055	1,099	807	30.8	(4.0)	Year-on-year: Prices peaked due to near-term tightness in palm oil inventory and concerns over lower supplies. Month-on-month: Prices drop mom due to more favourable palm supply and absence of major weather events.
White Sugar (USD/mt)	821	815	943	(6.7)	0.8	Year-on-year: Lower prices aligned with reduced raw sugar prices as the market saw higher sugar production from major producing countries. Month-on-month: Prices rose modestly, reflecting a short term rebound after priced dropped this year.
Arabica (USD/mt)	6,473	5,716	3,868	67.3	13.2	Year-on-year: Higher prices due to concerns about global supply shortages in most exporting countries, shrinking inventories, and continuously strong demand for Arabica coffee beans. Month-on-month: Higher price due to due to bad weather in Brazil and Vietnam.
Robusta (USD/mt)	4,957	4,645	2,685	84.6	6.7	Year-on-year: High prices were mainly due to market concerns about supply impacted by drier weather in Vietnam, affecting crops. Month-on-month: Higher price due to due to bad weather in Brazil and Vietnam.
PET Resin (USD/mt)	843	871	982	(14.2)	(3.2)	Year-on-year: Decreased prices reflect stabilized crude oil prices and a recovery in raw material supply chains, which have eased production costs. Month-on-month: Lower price due to lower crude oil prices providing a consistent cost base for producers.

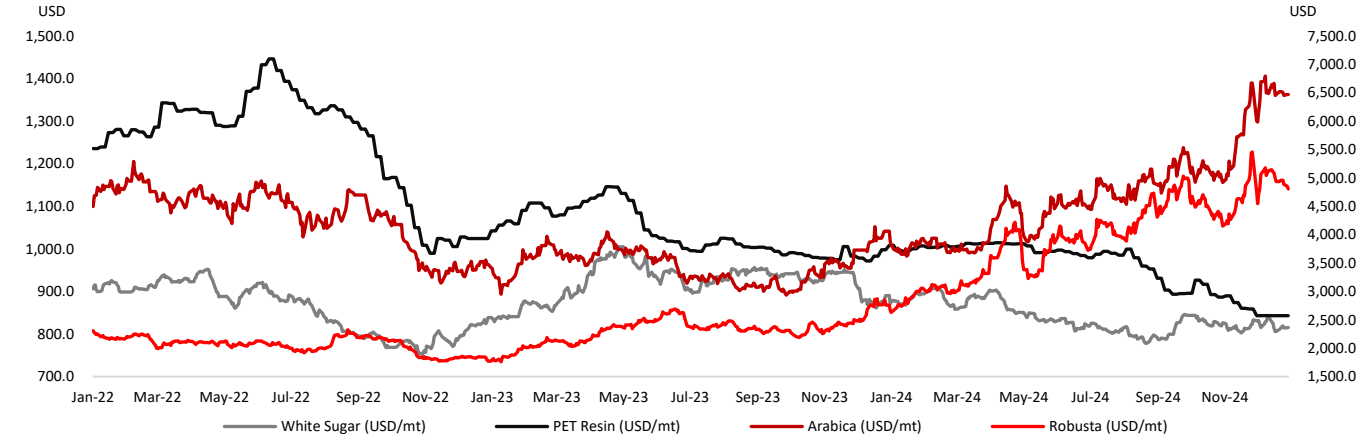
Sources: Bloomberg, USDA, MIDFR
****Pet resin = Polyethylene terephthalate*

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



Sources: Bloomberg, MIDFR

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



Sources: Bloomberg, MIDFR

Poultry: Falling Feed Costs Propel Strong Growth Momentum

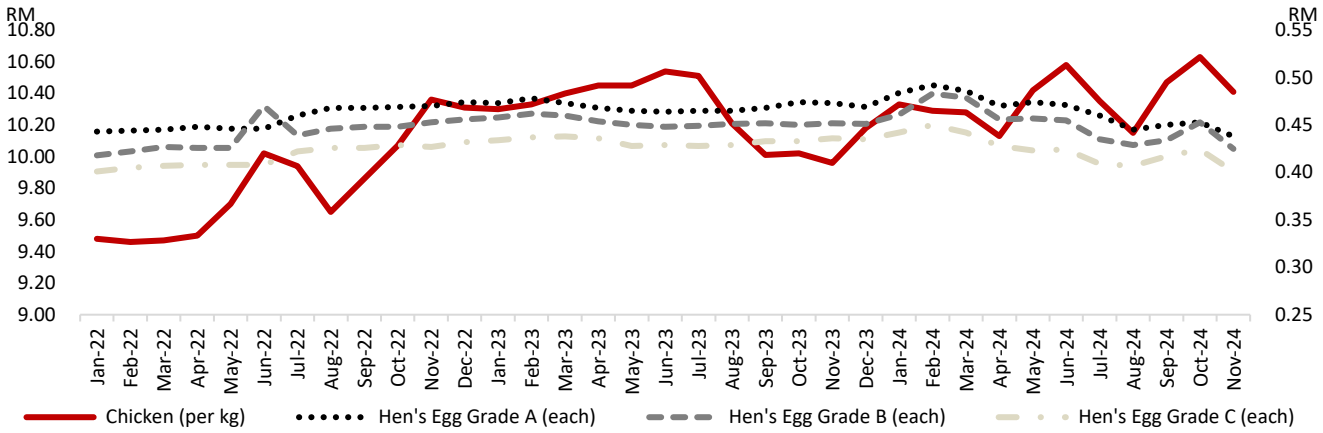
Decline in egg and chicken prices in November 2024. In November 2024, the poultry market saw a significant drop in both chicken and egg prices, continuing a downward trend from the previous month and year. The average price of chicken decreased to RM10.41 per kg, reflecting a slight dip of -2.1%mom, though still up 4.5%yoy. Similarly, egg prices across all grades showed a decline. Grade A eggs fell by -7.4%yoy and -3.3%non, averaging RM0.44 each. Grade B eggs dropped by -6.0%yoy and -6.2%mom, priced at RM0.43 each, while Grade C eggs saw a steeper fall of -8.0%yoy and -5.4%mom, averaging RM0.39 each. This reduction in poultry prices is primarily attributed to lower feed costs

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

Data	Monthly Data				
	Nov-24	Oct-24	Nov-23	YoY	MoM
Hen's Egg Grade A (each)	0.44	0.45	0.47	-7.4%	-3.3%
Hen's Egg Grade B (each)	0.43	0.45	0.45	-6.0%	-6.2%
Hen's Egg Grade C (each)	0.40	0.42	0.44	-8.0%	-5.4%
Chicken (per kg)	10.41	10.63	9.96	4.5%	-2.1%

Sources: DOSM, MIDFR

Chart 5: Raw Material Futures Price Trend for Beverage Producers (USD/mt)



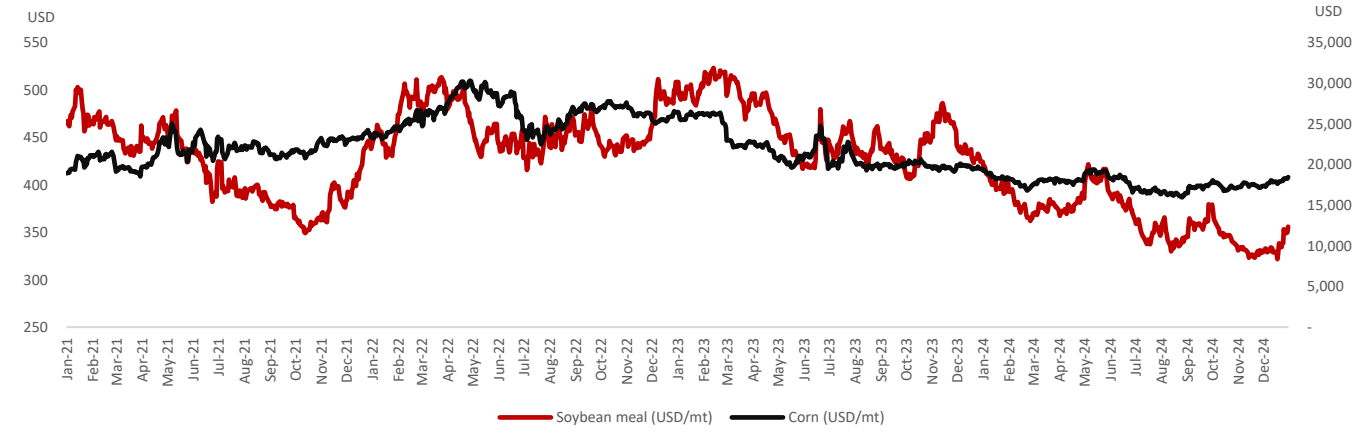
Feed Cost Declines Offer Tailwinds for the Sector. The poultry sector is experiencing a favourable shift as feed costs, a major expense in poultry production, have been steadily decreasing since early 2024. This decline is driven by the stabilization of key ingredients, particularly corn and soybean meal. By December 2024, soybean prices had fallen by -22.5%yoy to USD335/mt, while corn prices dropped by -9.5%yoy to USD178.51/mt. With feed accounting for 65-75% of poultry production costs, this reduction in input expenses presents a significant boost to profit margins across the industry. Looking ahead, we remain optimistic about the continued low feed costs through 2025, bolstered by stable supply from major exporting countries. This trend is expected to enhance profitability for key players such as **QL Resources (NEUTRAL, TP: RM4.83)** and **Leong Hup International (BUY, TP: RM0.90),** positioning them to benefit from ongoing cost efficiencies and solidifying their competitive edge in the market.

Table 3: Average Monthly Soybean meal, and corn futures prices for November 2024

Commodities	Dec-24	Nov-24	Dec-23	YoY (%)	MoM (%)	Remarks
Soybean Meal (USD/mt)	335	329	433	(22.5)	2.0	Year-on-year: Lower prices due to the expectation of higher global soybean supplies as production from key exporters such as Argentina, the U.S., and China improves. This reflects an increase in anticipated yields, which has softened the market. Month-on-month: Higer prices due to concern over potential supply disruptions in Argentina.
Corn (USD/mt)	17,851	17,417	19,721	(9.5)	2.5	Year-on-year: Lower prices due to higher global corn stocks driven by increased production in key regions, including the U.S., China, the European Union, and Ukraine. Month-on-month: Prices rose modestly due to strong export demand and higher domestic ethanol productions.

Sources: Bloomberg, USDA, MIDFR

Chart 5: Raw Material Futures Price Trend for Poultry Producer (USD/mt)



Sources: Bloomberg, MIDFR

Currency: Ringgit Stabilizes with Slower Depreciation in December 2024

Ringgit slows depreciation in December 2024. In December 2024, the Malaysian Ringgit (MYR) showed signs of stabilizing, as its depreciation against the US Dollar (USD) slowed. The average exchange rate for the month was USD 1.00 to RM4.46, a marginal decline from November's rate of RM4.44 per USD. Despite this, the MYR posted a notable +4.2% year-on-year appreciation compared to December 2023, when the exchange rate was RM4.66 per USD. This relative stability in the MYR is expected to offer some relief to industries heavily reliant on imports, particularly in the food and beverage (F&B) and poultry sectors, where many essential commodities are priced in USD. Looking ahead, the MYR is expected to continue its upward trajectory, with economists predicting an average exchange rate of RM4.23 per USD. If this forecast holds true, the strengthening of the Ringgit will likely create a more favourable business environment for domestic players, especially those with substantial dependence on imported raw materials. Reduced import costs would contribute to improved profit margins for companies in the F&B and poultry sectors.

Table 4: USD/MYR Monthly statistics for December 2024

Data	Average monthly data				
	Dec-24	Nov-24	Dec-23	YoY (%)	MoM (%)
USD/MYR	4.46	4.44	4.66	(4.2)	0.6

Sources: Bloomberg, MIDFR

Chart 6: Price Trend of USD/MY



Sources: Bloomberg, MIDFR

Strong growth prospects for Malaysia's consumer sector in 2025. The outlook for Malaysia's consumer sector in 2025 remains highly positive, underpinned by a range of favourable economic conditions. The key driver of growth is the anticipated rise in disposable income, which will fuel increased consumer spending. This rise in disposable income is further supported by targeted government measures, particularly initiatives in Budget 2025 designed to stimulate consumption and uplift households. In tandem with this, a stable labour market will ensure continued income growth, fostering sustained domestic consumption. The sector will also benefit from a surge in tourist arrivals, contributing to heightened demand for both essential and discretionary goods. Beyond these demand-side factors, the strengthening of the Malaysian Ringgit and a favourable decline in raw material costs are set to enhance operating margins for companies throughout the sector. Retailers such as **Padini (NEUTRAL, TP: RM2.19)** and **Aeon (BUY, TP: RM1.67)** are expected to see higher foot traffic and improved sales volumes, bolstered by its strong reputations for quality and affordability. Likewise, companies like **QL Resources (NEUTRAL, TP: RM4.83)** and **Leong Hup International (BUY, TP: RM0.90)** will continue to thrive, benefiting from sustained demand for everyday necessities. This confluence of positive drivers will create a solid growth trajectory for the consumer sector, boosting retail activity and contributing to overall sector performance in 2025.

Maintain POSITIVE on the Consumer Sector. Overall, we remain optimistic for consumer sector, supported by several key factors: (1) the rise in disposable income, which is expected to drive consumer spending, supported by government initiatives and favourable measures in Budget 2025; (2) a stable labour market that continues to drive domestic consumption,

(3) increased tourist arrivals, which will bolster demand for both essential and discretionary goods; and (4) a stronger Malaysian Ringgit coupled with a decline in raw material costs, which will enhance operating margins for companies across the sector.

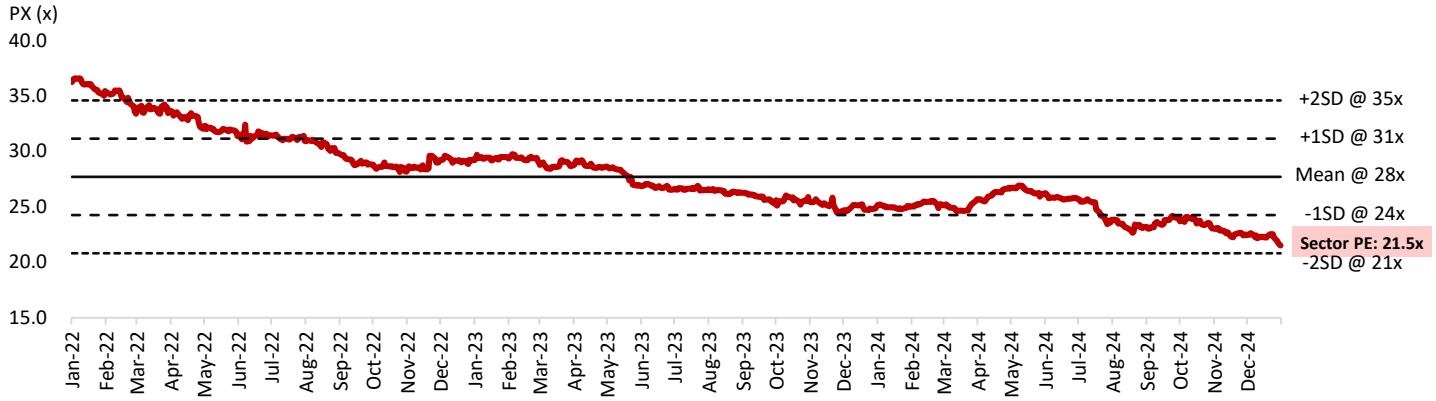
Our top pick for consumer sector remains **F&N (BUY, TP: RM36.77)** and **Aeon (BUY, TP: RM1.67).** F&N is well-positioned to capitalize on the rising demand for ready-to-go (RTG) beverages, particularly from increasing tourist traffic. The company's expansion into integrated dairy farming could further boost its revenue base. Aeon, with its strong presence in general merchandise and supermarkets, is poised to benefit from robust domestic demand for essential goods. Moreover, Aeon's Property Management Services segment is expected to thrive, driven by optimized tenant mixes and improved rental rates.

Table 7: Peer comparison table

Stocks	Rec.	Price (RM) @	TP (RM)	Mkt. Cap (RM'm)	Core EPS (sen)		PER (x)		Div. Yield (%)		Net Gearing
		13Jan25			CY24F	CY25F	CY24F	CY25F	CY24F	CY25F	
Consumer Staples:											
Fraser & Neave Holdings	Buy	26.68	36.77	9,785.7	160.8	172.9	16.6	15.4	2.8	2.9	Net Cash
Leong Hup International	Buy	0.59	0.90	2,153.5	12.3	13.1	4.8	4.5	6.3	6.6	0.6
QL Resources	Neutral	4.51	4.83	16,463.7	16.5	18.8	27.4	24.0	1.3	1.5	0.2
Spritzer	Buy	3.00	3.25	957.9	21.9	23.7	13.7	12.6	2.3	2.2	0
Hup Seng Industries	Neutral	1.13	1.04	904.0	7.8	8.1	14.5	14.0	5.5	5.8	Net Cash
Nestle Malaysia	Neutral	92.50	101.90	21,691.3	281.8	306.4	32.8	30.2	2.9	3.1	0.8
Weighted Avg.					**154.2**	**167.6**	**26.2**	**23.8**	**2.5**	**2.8**	
Consumer Discretionary:											
Aeon Co M	Buy	1.52	1.67	2,134	10.8	11.2	14.1	13.5	2.8	3.0	0.2
Padini Holdings	Neutral	2.13	2.19	2,101	15.2	15.6	14.0	13.6	5.5	5.6	Net Cash
Asia File Corp	Sell	1.68	1.44	329	15.2	15.5	11.0	10.9	3.6	3.6	Net Cash
Rhong Khen International	Buy	1.25	1.60	244	9.3	12.3	13.4	10.2	2.2	3.0	Net Cash
Weighted Avg.					**12.9**	**13.5**	**13.8**	**13.2**	**4.0**	**4.2**	

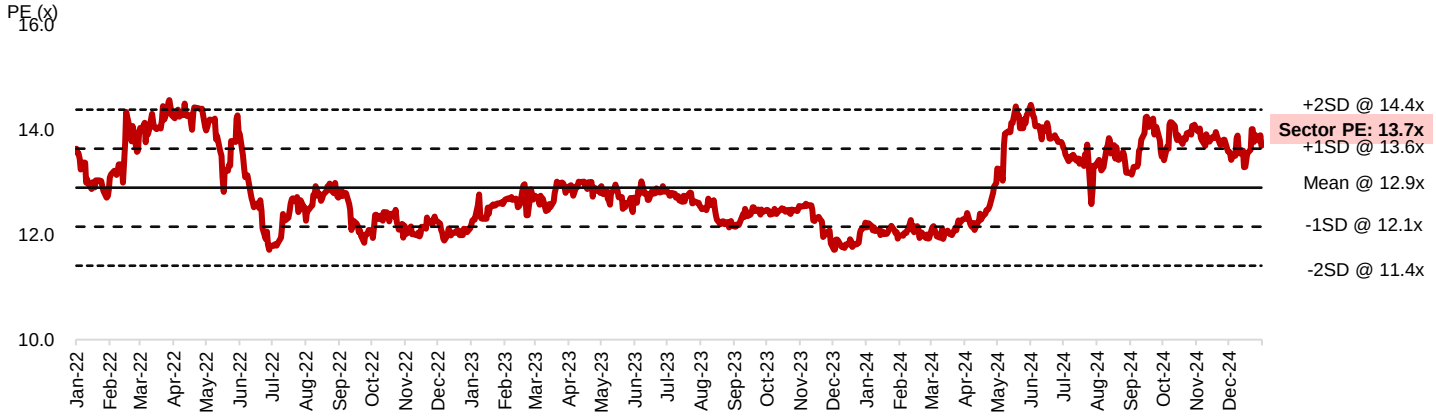
Sources: Bloomberg, MIDFR

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