

CONSUMER

Maintain POSITIVE

Mixed commodities prices in June 2023

KEY INVESTMENT HIGHLIGHTS

- Resilient retail trade in April 2023 and outlook
- Mixed global commodities prices for F&B producers in June 2023
- Lower global commodities prices for Livestock producers in June 2023, volatile soybean meal prices ahead
- Weakening MYR against USD in Jun 2023
- Maintain POSITIVE on the consumer sector
- Top buys are QL Resources (BUY, TP: RM6.75), and F&N (BUY, TP: RM33.50)

Resilient Retail Trade in April 2023 and Outlook

Solid retail trade in April 2023 despite normalized OPR. The Department of Statistics Malaysia (DOSM) reported a +12.9%yoy increase in retail trade in April 2023, hitting RM60.5b. This marks the 13th consecutive month of double-digit expansion. Notably, both non-specialized stores and specialized stores for F&B and tobacco witnessed significant double-digit boost, despite the normalization of the OPR to the pre-pandemic level of 3%. On a monthly basis, retail trade expanded by +3.1%mom in April 2023, compared to the moderate rise of +0.9%mom in Mar 2023. This was driven by the celebration of Hari Raya Aidilfitri.

Resilient demand outlook for consumer-staple related products.

The Malaysia Retailers Association (MRA) and the Malaysia Retail Chain Association (MRCA) project normalized growth rates of +2%yoy for 3QCY23 and +3%yoy for 4QCY23. However, we anticipate that this normalized growth will mainly apply to discretionary products. Non-specialized stores and specialized stores for F&B and tobacco are expected to thrive due to resilient demand for essential items and the strong growth in out-of-home consumption following the reopening. This is consistent with the optimistic outlook for retail trade in 2023 stated by MIDF economists in their most recent report : [Economic Review: Apr 2023 Distributive Trade](#). Therefore, we believe that retailers such as **Aeon Co (BUY, TP: RM1.50)** and **Padini (BUY, TP: RM4.40)** are likely to benefit from the upward trend in retail sales in 2023. Additionally, an increase in the movement of local and international tourists could further 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				
	Apr-23	Mar-23	Apr-22	YoY	MoM
Retail Trade (RM'b)	60.5	58.7	53.6	12.9%	3.1%
Non-specialised Stores	23.4	22.4	19.9	18.0%	4.9%
F&B and Tobacco in Specialised Stores	3.7	3.6	3.3	15.1%	2.8%
Unemployment rate (%)	3.5	3.5	3.9	-0.4ppt	0.0ppt

Sources: DOSM, BNM, MIDFR

*Non-specialized Stores = supermarkets, hypermarkets, and convenience stores

COMPANY IN FOCUS

Fraser & Neave Holdings Berhad

Maintain **BUY** | Unchanged Target Price: RM33.50
Price @ 3rd July 2023: RM25.80

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

Share price chart

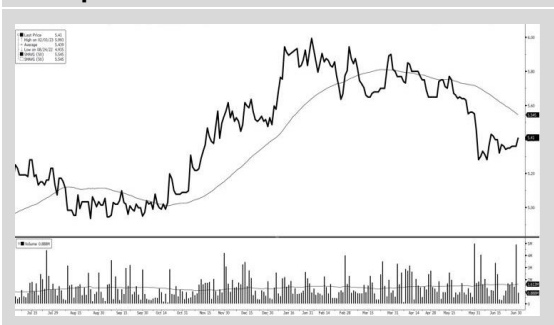


QL Resources Berhad

Maintain **BUY** | Unchanged Target price: RM6.75
Price @ 3rd July 2023: RM5.41

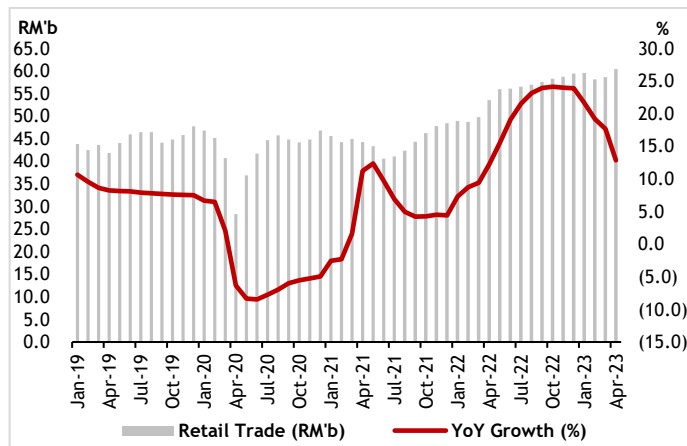
- Solid demand for marine and livestock products.
- Benefit from expected removal of retail price ceiling for chicken and egg.

Share price chart



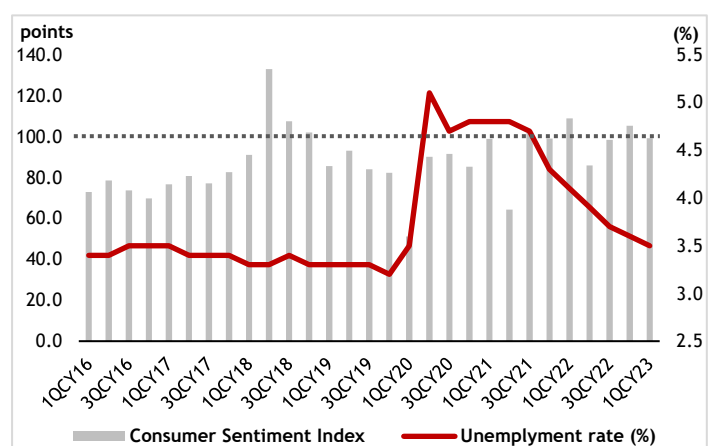
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Chart 1: Malaysia's Monthly Retail Trade



Sources: DOSM, MIDFR

Chart 2: Malaysia's Consumer Sentiment Index



Sources: DOSM, MIER, MIDFR

Mixed Global Commodities Prices for F&B Producers in June 2023

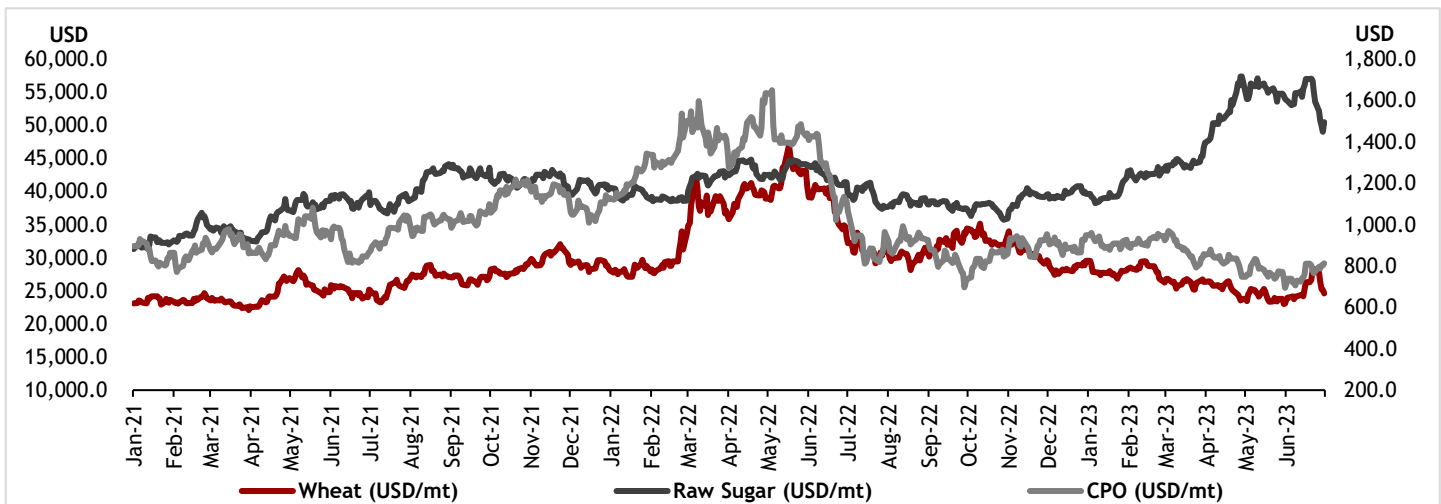
Normalized global commodities prices for food producers in Jun 2023. In June 2023, the average futures prices of CPO (-38.9%yoy) and wheat (-33.5%yoy) continued to fall on yearly basis in June 2023. The decreased CPO price was mostly due to the lifting of Indonesia's export ban in mid-May, as well as the normalization of Malaysia's palm oil inventories. Meanwhile, the decreased wheat price was due to expectations of increased global supply. In contrast, the average future price of raw sugar (+27.3%yoy) remained elevated in June 2023, owing to increasing demand following the economy reopening of various countries and decreased worldwide output on the back of bad weather in major exporting countries. On a monthly basis, CPO (-0.7%mom) followed a similar trend, while average prices for wheat (+5.5%mom) and raw sugar (-2.3%mom) shifted in the opposite direction of the yearly trend.

Overall, we observed a decline in the average prices of CPO and wheat from its two-year peak in the 1H 2022 and raw sugar prices have also fallen from their two-year peak. This normalization of global commodity prices implies a potential future normalization of raw material costs for food producers, which could offset the higher labor costs resulting from the revised employment act and support profit margins. Food producers such as **Hup Seng Industries (BUY, TP: RM0.88)** and **Nestle Malaysia (NEUTRAL, TP: RM139.50)** are likely to benefit from this trend.

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

Data	Average monthly data					vs. 2021		
	Jun-23	May-23	Jun-22	YoY (%)	MoM (%)	Jun-23	Jun-21	chg. (%)
Wheat (USD/mt)	25,393.2	24,068.3	38,171.3	(33.5)	5.5	25,393.2	24,935.6	1.8
Raw Sugar (USD/mt)	53,891.0	55,173.1	42,336.8	27.3	(2.3)	53,891.0	38,836.4	38.8
CPO (USD/mt)	762.6	768.2	1,248.6	(38.9)	(0.7)	762.6	882.5	(13.6)

Sources: Bloomberg, MIDFR

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

Sources: Bloomberg, MIDFR

Most global commodities prices for beverage producers remained elevated in June 2023. On a yearly basis, the average futures prices for Arabica (-27%yoy) and PET resin (-28.4%yoy) continued their downward trend. The lower Arabica prices was due to expected global production improvements from more favorable weather conditions, contrasting with the extreme weather experienced in 2021. The reduced PET resin prices were in line with the lower Brent crude oil prices. Conversely, the elevated average prices for cocoa (+29.1%yoy) were driven by the bad weather in West Africa. Meanwhile, the higher Robusta (+24.5%yoy) prices was due to expectation of lower global production caused by an extreme weather in India, Indonesia, and Brazil negatively impacted yields and pollination, despite Vietnam's improved production outlook. Meanwhile, the higher white sugar prices (+5.5%yoy) were in line with the elevated raw sugar prices. On monthly basis, the Arabica (-5.7%mom), Pet resin (-6.1%mom), Cocoa (+7%mom), and Robusta (+6.4%mom) followed similar trends as the yearly basis. Meanwhile, white sugar (-2.7%mom) prices reversed downward, aligning with the trend in raw sugar prices.

Overall, we observed that most raw materials for beverage companies remained volatile. While Arabica prices have normalized from its two-year peak, the prices of other commodities continued to fluctuate. This indicates a potentially volatile raw material cost for beverage companies in the future, following the global commodities price trend. However, the packaging cost for beverage companies is expected to decrease due to lower PET resin prices. This could benefit companies like **Fraser & Neave Holdings (BUY, TP: RM33.50)** and **Spritzer (BUY, TP: RM2.70)**.

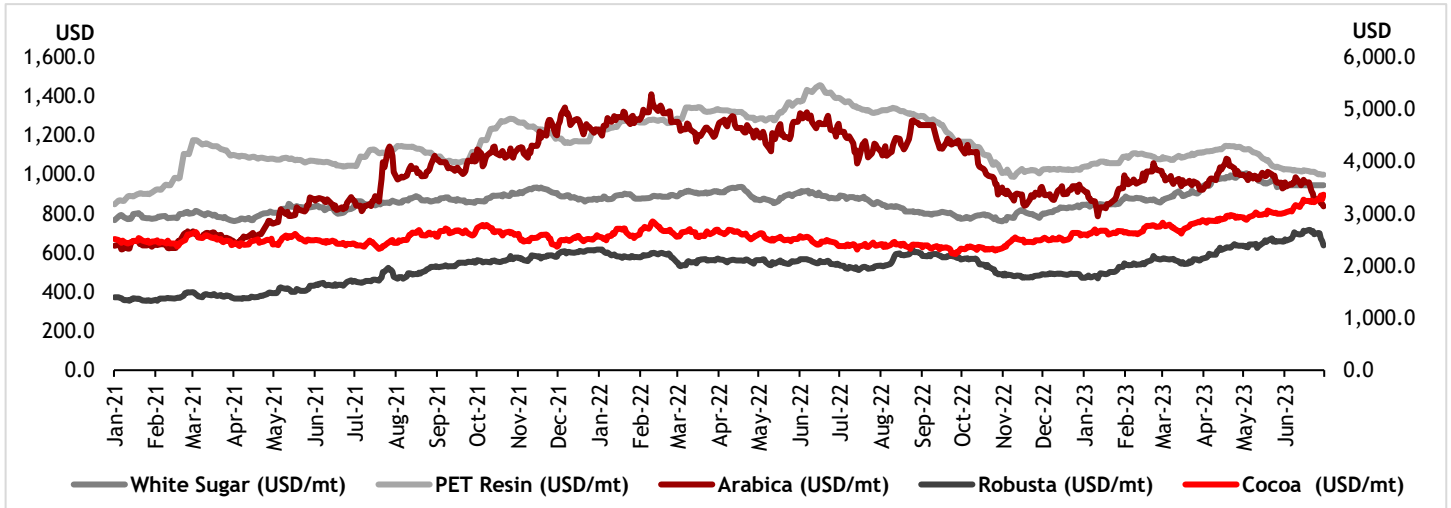
Table 3: Average Monthly White sugar, PET resin and Tin Plate statistics for Jun 2023

Data	Average monthly data					vs. 2021		
	Jun-23	May-23	Jun-22	YoY (%)	MoM (%)	Jun-23	Jun-21	chg. (%)
White Sugar (USD/mt)	944.9	970.7	895.7	5.5	(2.7)	944.9	821.6	15.0
Cocoa (USD/mt)	3,192.3	2,982.2	2,473.4	29.1	7.0	3,192.3	2,450.0	30.3
Arabica (USD/mt)	3,471.5	3,683.2	4,755.3	(27.0)	(5.7)	3,471.5	3,201.5	8.4
Robusta (USD/mt)	2,588.7	2,432.3	2,079.0	24.5	6.4	2,588.7	1,650.0	56.9
PET Resin (USD/mt)	1,015.1	1,081.3	1,416.8	(28.4)	(6.1)	1,015.1	1,053.8	(3.7)

Sources: Bloomberg, MIDFR

***Pet resin = Polyethylene terephthalate

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



Sources: Bloomberg, MIDFR

Lower Global Commodities for Livestock Producers in June 2023, Volatile Soybean Meal Prices Ahead

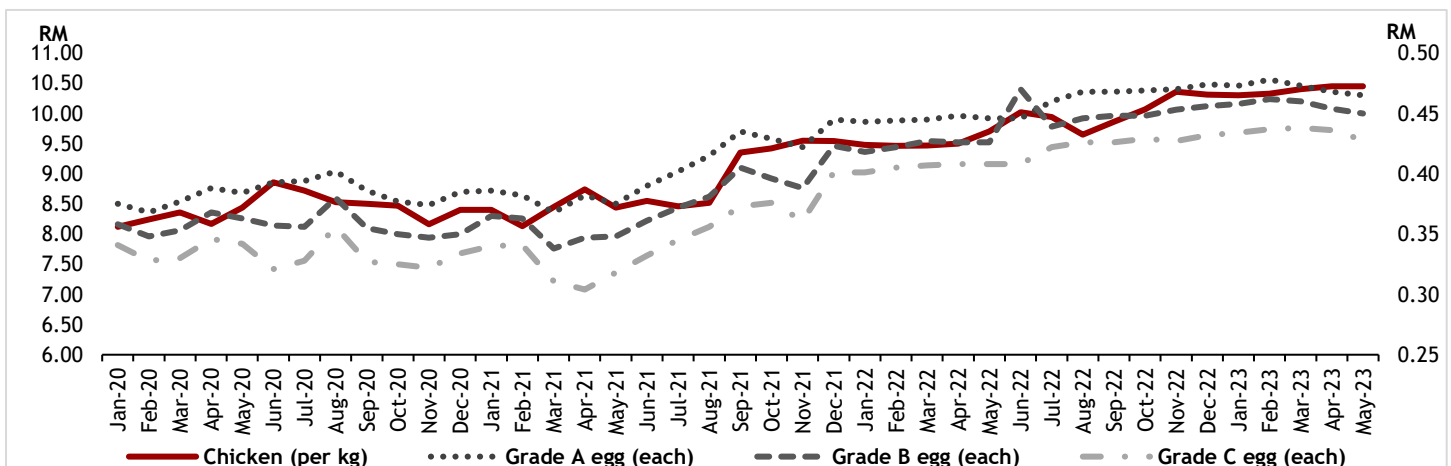
Increased Prices for Chicken and Eggs in May 2023. In May 2023, the average prices for chicken and eggs (Grade A, B, and C) saw an increase compared to the previous year. However, on monthly basis there was a noticeable downward trend in the prices of chicken eggs, with Grade C experiencing the greatest reduction (-1.8%mom), followed by Grade B eggs (-0.9%mom), and Grade A eggs (-0.6%mom). Chicken prices, on the other hand, have stayed mostly unchanged. Overall, the average prices for chicken and chicken eggs (Grade A, B, and C) remained elevated in comparison to the previous year and 2021.

Table 4: Malaysia Monthly Hen’s egg and chicken statistics for May 2023

Data	Average monthly data					vs. 2021		
	May-23	Apr-23	May-22	YoY (%)	MoM (%)	May-23	May-21	chg (%)
Hen's Egg Grade A (each)	0.47	0.47	0.45	4.3	(0.6)	0.47	0.38	24.0
Hen's Egg Grade B (each)	0.45	0.45	0.43	5.6	(0.9)	0.45	0.35	29.3
Hen's Egg Grade C (each)	0.43	0.44	0.41	4.9	(1.8)	0.43	0.32	34.6
Chicken (per kg)	10.45	10.45	9.70	7.7	0.0	10.45	8.44	23.8

Sources: MIDFR

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



Sources: MIDFR

Reduced average corn and soybean meal prices in Jun 2023. In June 2023, the global futures average prices for soybean meal (-2.4%yoy) and corn (-19.7%yoy) showed a downward trend. The lower soybean meal prices can be attributed to higher exports from Brazil, the United States, and India, as well as an increased global supply of rapeseed meal, which partially offset the reduced supply of soybean meal from Argentina. The reduced corn price was due to the expectation of abundant supplies from major exporters, which outweighed the weaker supplies from Argentina due to ongoing drought conditions. On monthly basis, the price of soybean meal (-1.6%mom) continued to follow a similar trend, while corn prices (+7.9%mom) increased.

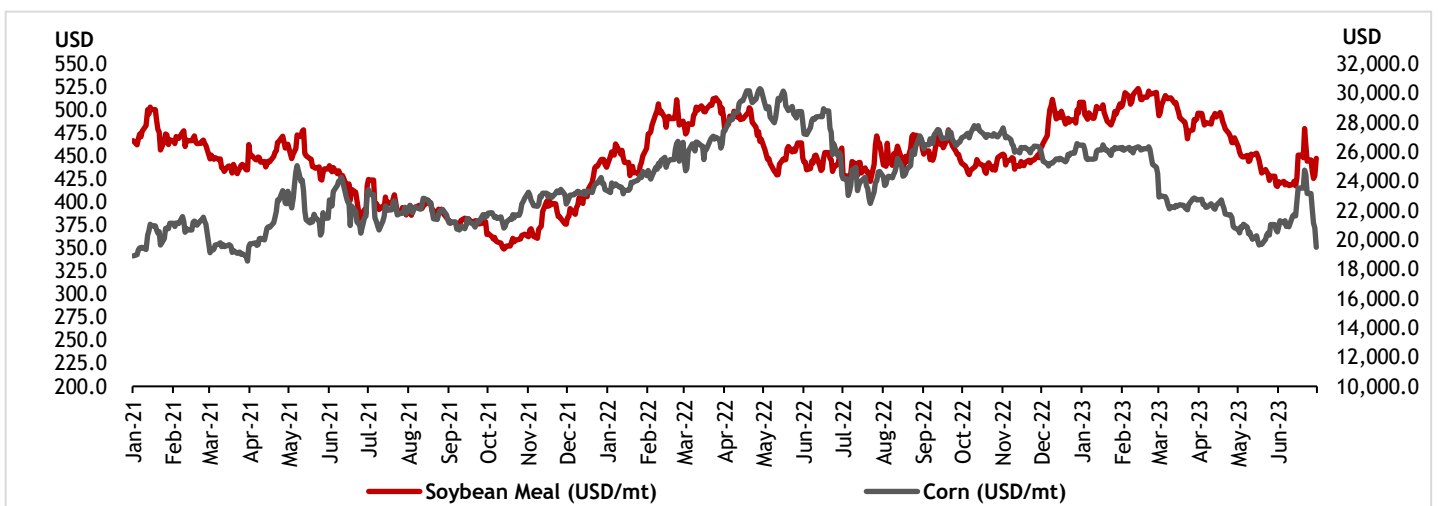
Overall, the main raw materials for livestock feed moved in different directions compared to 2021 levels, with corn prices returning to previous levels in June 2023, while soybean meal prices remained elevated. Moving forward, corn prices are anticipated to continue normalizing due to ample supplies from major exporters, as well as the US's commitment to increase the corn planted area. On the other hand, volatility in soybean meal pricing is projected to remain after the US target to reduce the soybean planted area in 2023. This suggests a mixed outlook for the cost of chicken feed going forward. Additionally, ongoing price ceilings for chicken and eggs, along with the continuous government subsidies, are expected to limit profit margins. As a result, **QL Resources (BUY, TP: RM6.75)** and **Leong Hup International (NEUTRAL, TP: RM0.50)** are expected to be affected by these conditions.

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

Data	Average monthly data					vs. 2021		
	Jun-23	May-23	Jun-22	YoY (%)	MoM (%)	Jun-23	Jun-21	chg. (%)
Soybean Meal (USD/mt)	433.8	440.6	444.4	(2.4)	(1.6)	433.8	415.1	4.5
Corn (USD/mt)	22,023.0	20,415.9	27,411.9	(19.7)	7.9	22,023.0	22,464.1	(2.0)

Sources: Bloomberg, MIDFR

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



Sources: Bloomberg, MIDFR

Currency price trend

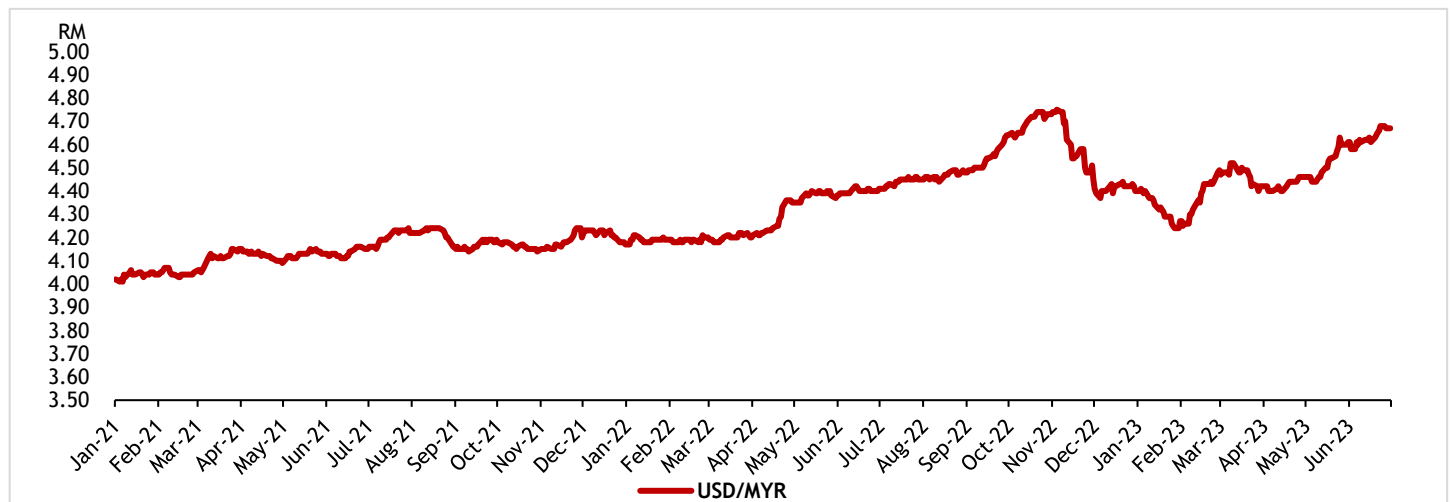
Weakening MYR against USD in Jun 2023. In June 2023, the average exchange rate was USD1.00 : RM4.63, indicates a depreciation of the Malaysian Ringgit (MYR) against the US Dollar (USD) as compared to April 2023 (USD1.00 : RM4.52) and Mar 2022 (USD1.00 : RM4.47). Looking ahead, our economists anticipate the MYR to average higher at USD1.00 : RM4.43 for 2023. The stronger USD will benefit export-oriented companies such as **Asia File (NEUTRAL, TP:RM1.55)** and **Rhong Khen International (NEUTRAL, TP:RM1.30)**, given that its revenue is largely received in USD. This could provide some relief given the ongoing sluggish demand for office supplies and wooden furniture. On the flip side, the stronger USD will have a negative impact the consumer-staple companies, including F&B and poultry producers, given that they source commodities in USD, potentially increasing production costs.

Table 6: USD/MYR Monthly statistics for Jun 2023

Data	Average monthly data					vs. 2021		
	Jun-23	May-23	Jun-22	YoY (%)	MoM (%)	Jun-23	Jun-21	chg. (%)
USD/MYR	4.63	4.52	4.40	(5.0)	(2.5)	4.63	4.14	(10.8)

Sources: Bloomberg, MIDFR

Chart 7: Price Trend of USD/MYR



Sources: Bloomberg, MIDFR


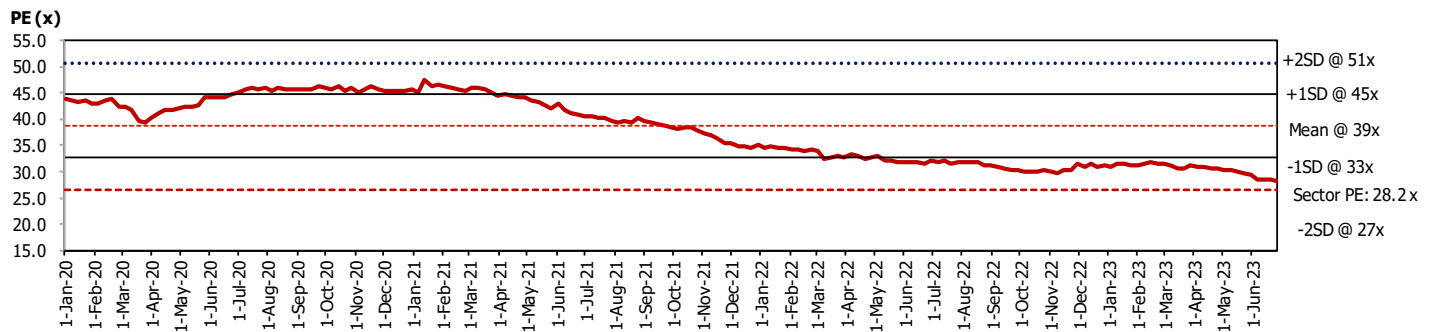
Maintain POSITIVE on the consumer sector. Overall, we are positive about the outlook for consumer sector underpinned by: (1) a defensive play due to the resilient demand for staple-related products (2) solid domestic consumption ahead, supported by a stable labour market, robust retail trade, and increased tourism activities, and (3) solid profit margins for F&B producers driven by falling global commodities prices and previous price hikes, offsetting other cost pressures. Moreover, the strong net cash position of the two discretionary companies we cover can protect them against various challenges. Therefore, we maintain our **POSITIVE** stance on consumer sector. Our top picks continue to be consumer staple-related companies that exhibit resilient demand, such as **QL Resources (BUY, TP: RM6.75)**, and **F&N (BUY, TP: RM33.50)**. We favour QL Resources, which is supported by consistent 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. 

Table 7: Peer comparison table

Stocks	Rec.	Price @ 3-Jul-23	TP	Mkt. Cap (RM'm)	Core EPS (sen)		PER (x)		Div. Yield (%)		Net Gearing
					CY23	CY24	CY23	CY24	CY23	CY24	
Consumer Staples:											
Fraser & Neave Holdings	Buy	RM25.80	RM33.50	9,480.8	125.4	152.4	20.6	16.9	2.6	2.8	0.0
Leong Hup International	Neutral	RM0.49	RM0.50	1,788.5	5.0	6.0	9.8	8.2	3.1	3.6	0.8
QL Resources	Buy	RM5.41	RM6.75	13,166.1	16.2	19.4	33.4	27.9	0.9	0.9	0.3
Spritzer	Buy	RM1.49	RM2.70	322.2	19.3	23.5	7.7	6.3	4.5	3.0	Net Cash
Hup Seng Industries	Buy	RM0.64	RM0.88	512.0	4.5	6.1	14.1	10.6	4.4	4.4	Net Cash
Nestle Malaysia	Neutral	RM131.80	RM139.50	30,907.1	318.2	359.1	41.4	36.7	2.4	2.5	1.3
Weighted Avg.					200.3	228.2	34.6	30.0	2.1	2.2	
Consumer Discretionary:											
Aeon Co M	Buy	RM1.28	RM1.50	1,797.1	10.2	10.8	12.6	11.8	4.0	3.6	0.1
Padini Holdings	Buy	RM3.91	RM4.40	2,572.4	32.7	35.3	11.9	11.1	2.7	2.6	Net Cash
Asia File Corp	Neutral	RM1.77	RM1.55	346.8	16.6	18.4	10.6	9.6	1.6	1.6	Net Cash
Rhong Khen International	Neutral	RM1.25	RM1.30	242.9	4.5	10.4	27.7	12.0	1.1	2.5	Net Cash
Weighted Avg.					22.0	24.0	12.9	11.3	3.0	2.9	

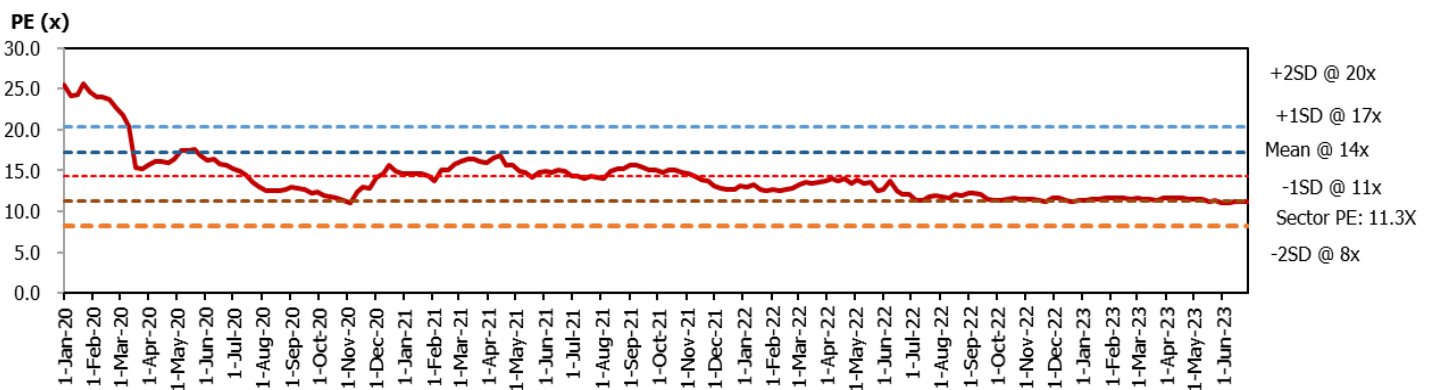
Sources: Bloomberg, MIDFR

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 <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