

CONSUMER

Maintain POSITIVE

Falling F&B commodities prices in July 2023

KEY INVESTMENT HIGHLIGHTS

- Retail trade expected to remain solid in 2023
- All global commodities prices for F&B Producers below 2-year peak in July 2023, except cocoa prices
- Elevated chicken and eggs prices; cautious outlook for animal feed ahead
- Strengthening MYR in July 2023
- Maintain POSITIVE on the consumer sector with the top buys being QL Resources (BUY, TP: RM6.75) and F&N (BUY, TP: RM33.50)

Retail trade expected to remain solid in 2023

May 2023 retail trade growth normalizes amid high base effect. Based on Department of Statistics Malaysia ("DOSM"), retail trade for May 2023 showed a single-digit growth of +5%yoy amounting to RM58.8b, following 13 consecutive months of double-digit growth. This slowdown can be attributed to the previous year's high base, which was bolstered by robust spending following the reopening of the economy. Despite the overall moderation, non-specialised stores (including supermarkets, hypermarkets, or convenience stores) continued to exhibit upward momentum with a single-digit growth of +8.4%yoy. Moreover, specialized stores in the F&B and Tobacco specialized stores also maintained a robust performance, achieving a significant growth rate of +10%yoy. However, on a monthly basis, retail trade experienced a decline of -2.7%mom, most likely due to lack of festive season celebrations.

Solid outlook. Moving forward, we expect retail trade for non-specialised store as well as F&B, and Tobacco in Specialised stores to continue upward trajectory in 2023. This was supported by the resilient demand to purchased staple-related products, normalizing out-of-home consumption following the reopening of border, as well as the increase in tourist arrival. This is consistent with the optimistic outlook for retail trade in 2023 stated by MIDF economists in their most recent report : [Economic Review: May 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. Additionally, an increase in the arrival of 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 May 2023

Data	Monthly data				
	May-23	Apr-23	May-22	YoY (%)	MoM (%)
Retail Trade (RM'b)	58.8	60.5	56.0	5.0	(2.7)
Non-specialised Stores	22.5	23.4	20.7	8.4	(4.1)
F&B and Tobacco in Specialised Stores	3.7	3.7	3.3	10.0	(1.8)
Unemployment rate (%)	3.5	3.3	3.9	-0.4ppt	0.0ppt

Sources: DOSM, BNM, MIDFR

COMPANY IN FOCUS

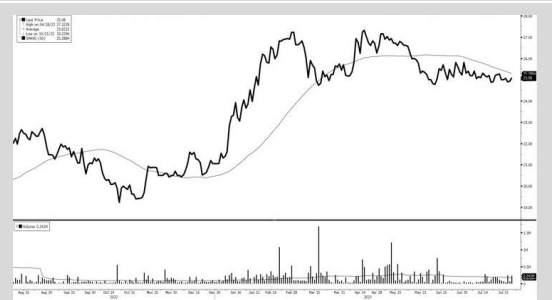
Fraser & Neave Holdings Berhad

Maintain **BUY** | Unchanged Target Price: RM33.50

Price @ 4th Aug 2023: RM25.08

- Gain advantages from the growing trend of consuming beverages outside the home.
- Benefit from the increased demand for beverages during the current El Niño weather conditions.
- Obtain extra revenue from Coccoland.

Share price chart



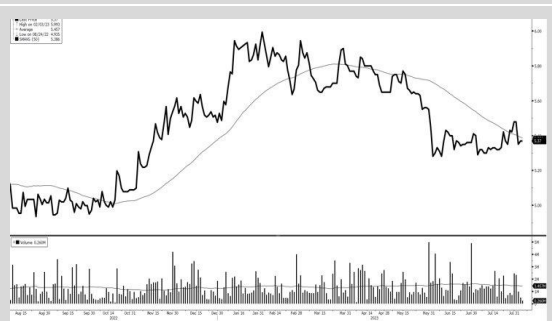
QL Resources Berhad

Maintain **BUY** | Unchanged Target price: RM6.75

Price @ 4th Aug 2023: RM5.37

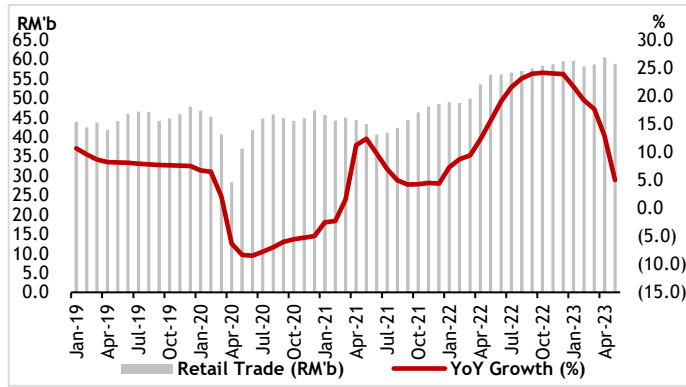
- Solid demand for marine and livestock products.
- Convenience stores benefit from a solid retail trade outlook and out-of-home consumption.
- Diversified portfolio

Share price chart



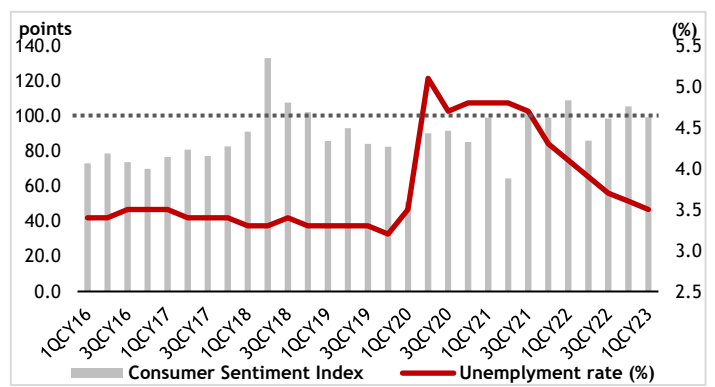
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Chart 1: Malaysia's Monthly Retail Trade



Sources: DOSM, MIDFR

Chart 2: Malaysia's Consumer Sentiment Index



Sources: DOSM, MIER, MIDFR

All global commodities prices for F&B Producers below 2-year peak in July 2023, except cocoa prices.

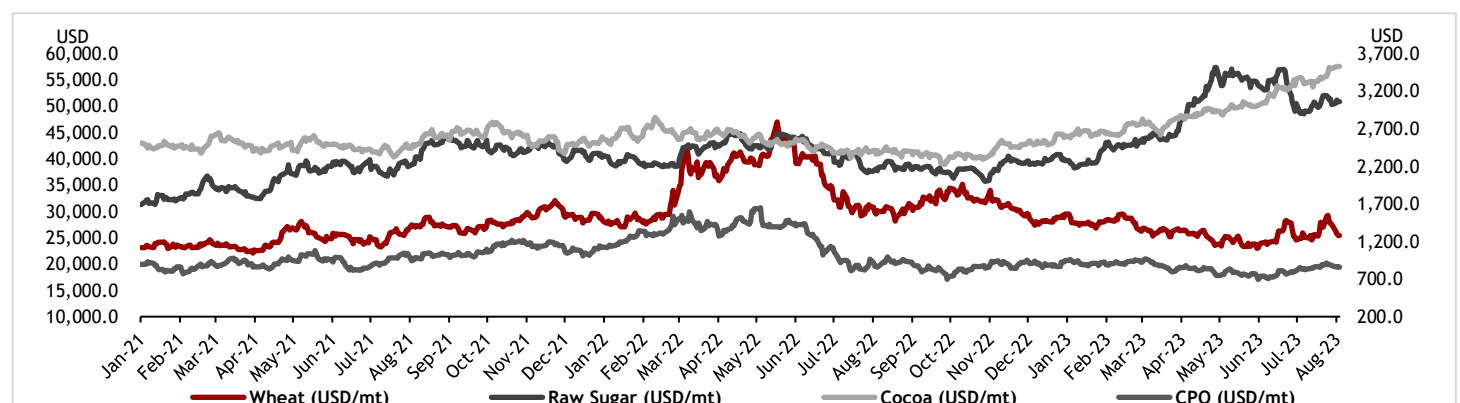
All commodities below their 2-year peak despite mixed performance in July 2023. In July 2023, wheat and CPO prices increased due to concerns over food security following Russia's exit from Black Sea deals on 17 July 2023. However, both CPO and wheat futures saw a decline from their 2-year peak, along with raw sugar prices falling from their peak in July 23. This normalization of global commodity prices suggests a potential future reduction in raw material costs for food producers, hence support profit margins. As such, food producers like **Hup Seng Industries (BUY, TP: RM0.88)** and **Nestle Malaysia (NEUTRAL, TP: RM139.50)** are likely to benefit from this trend. Meanwhile, we believe that the elevated cocoa prices are manageable for food producers with a strong brand presence, given the resilient demand for cocoa-related products. Hence, they have a greater ability to pass on the increased cocoa prices to customers.

Table 2: Average Monthly Wheat, Cocoa, Raw sugar, and CPO futures prices for July 2023

Commodities	Jul-23	Jun-23	Jul-22	YoY (%)	MoM (%)	Remarks
Wheat (USD/mt)	26,352	25,393	31,062	(15.2)	3.8	YoY: Decreased prices were likely a result of increased year-over-year production and strong global competition. MoM: Prices increased due to fears of tight supplies after the Russian pullout from the Black Sea deal.
Cocoa (USD/mt)	3,380	3,192	2,390	41.4	5.9	YoY: Higher prices were caused by an unusual production fall in western Africa and concerns about limited supply due to extreme weather. MoM: A similar trend was observed.
Raw Sugar (USD/mt)	50,172	53,891	39,369	27.4	(6.9)	YoY: Elevated prices were attributed to extreme weather in major producing countries, trade issues, tight global supplies, and growing demand for F&B applications. MoM: The drop was likely due to a slowdown in sugar delivery for food use during the month.
CPO (USD/mt)	862	763	897	(3.9)	13.0	YoY: Lowered prices resulted from the normalization of CPO prices following weaker demand in major importing countries. MoM: The price surge was triggered by spillover effects from fears about a soybean shortage after the Russian pullout from the Black Sea deal as well as lower planted and harvested soybean area in US than previously expected.

Sources: Bloomberg, USDA, MIDFR

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



Sources: Bloomberg, MIDFR

Beverage commodities slide in July 2023. In July 2023, all tracked commodities prices for beverage producers reported a monthly decline, and all commodities prices were below their highest levels in the past two years. This could indicate that raw material costs for beverage companies might drop in the near future, following the global commodities price trend. As such, this could be advantageous for the beverage segment of companies such as **Fraser & Neave Holdings (BUY, TP: RM33.50)**, **Nestle Malaysia (NEUTRAL, TP: RM139.50)**, and **Spritzer (BUY, TP: RM1.80)**. Please note that we adjusted our target price (TP) for Spritzer following the completion of the [proposed 1-for-2 bonus-issue](#). Our post-bonus issue TP is based on a diluted FY23F EPS of 12.8 sen/share (from 19.3sen/share) after adjusting the post-bonus issue share outstanding. This is pegged to an unchanged PER of 14x.

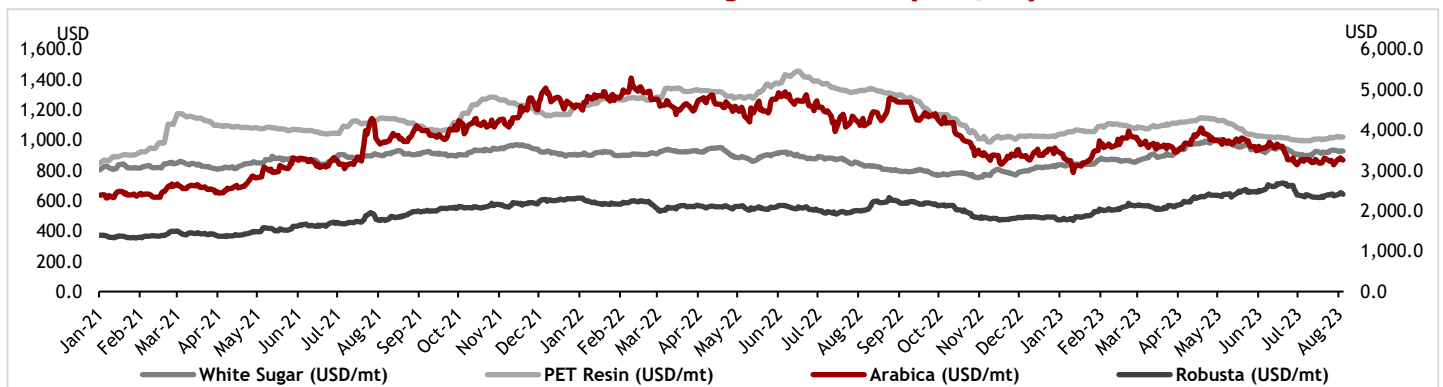
Table 3: Average Monthly White sugar, Arabica, Robusta and PET resin futures prices for July 2023

Commodities	Jul-23	Jun-23	Jul-22	YoY (%)	MoM (%)	Remarks
White Sugar (USD/mt)	915	933	871	5.0	(2.0)	YoY: The higher average prices were driven by elevated raw sugar prices and increased energy costs in refining sugar to white sugar. MoM: The reduced prices was in line with lower raw sugar prices.
Arabica (USD/mt)	3,232	3,471	4,308	(25.0)	(6.9)	YoY: The decreased prices were a result of the expected high global supply due to progress in harvesting in Brazil. MoM: A similar trend was observed.
Robusta (USD/mt)	2,366	2,589	1,966	20.4	(8.6)	YoY: The higher prices were likely due to increasing demand for cheaper coffee compared to higher-priced Arabica. MoM: Following the trend of cheaper Arabica prices, Robusta prices also decreased as customers might have shifted back to Arabica.
PET Resin (USD/mt)	1,006	1,015	1,343	(25.1)	(0.9)	YoY: The reduced prices was in line with lower Brent crude oil prices as compared to the previous year. MoM: The lower prices might be due to some laggardness in reflecting the rebound in Brent crude oil prices.

Sources: Bloomberg, USDA, MIDFR

***Pet resin = Polyethylene terephthalate

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



Sources: Bloomberg, MIDFR

Elevated chicken and eggs prices; cautious outlook for animal feed ahead

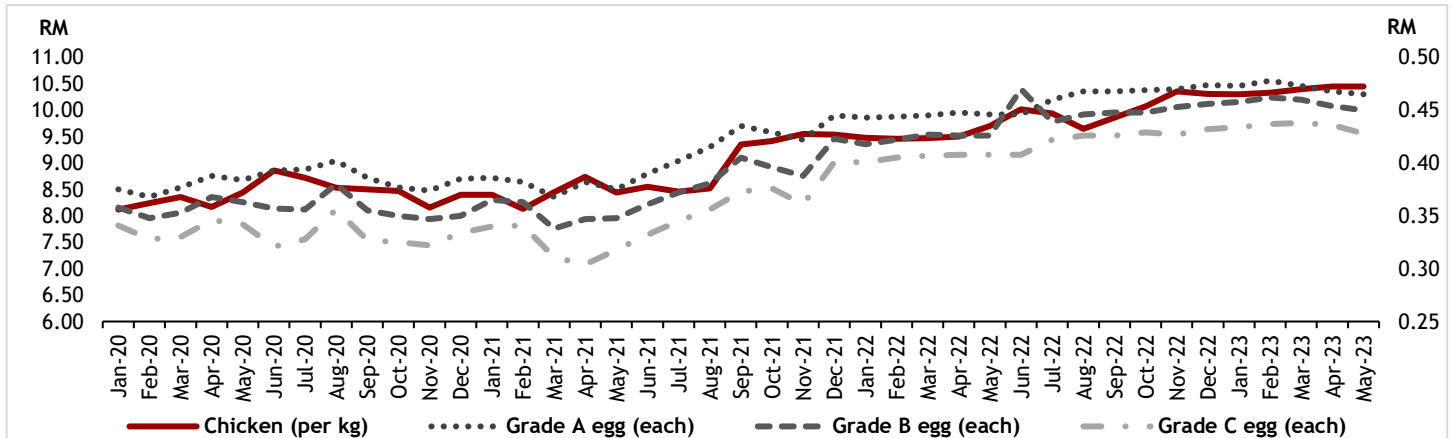
Chicken and eggs prices remained elevated in June 2023, while Grade B egg dropped. The average prices for chicken, and eggs (Grade A and C) continued to increase in June 2023. Meanwhile, Grade B egg dropped by -4.7% year on year to RM0.45 per egg. On a monthly basis, both Grade A and B eggs continued to show a downward trend in June 2023, while Grade C egg and chicken prices remained elevated during the month. Overall, the average prices for chicken and chicken eggs (Grade A, B, and C) remained elevated in comparison to the 2021 levels.

Table 4: Malaysia Monthly Hen's egg and chicken statistics for July 2023

Data	Average monthly data					vs. 2021		
	Jun-23	May-23	Jun-22	YoY (%)	MoM (%)	Jun-23	Jun-21	chg (%)
Hen's Egg Grade A (each)	0.46	0.47	0.45	4.0	(0.2)	0.46	0.39	19.0
Hen's Egg Grade B (each)	0.45	0.45	0.47	(4.7)	(0.4)	0.45	0.36	24.1
Hen's Egg Grade C (each)	0.43	0.43	0.41	5.1	0.2	0.43	0.33	29.2
Chicken (per kg)	10.54	10.45	10.02	5.2	0.9	10.54	8.55	23.3

Sources: MIDFR

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



Sources: MIDFR

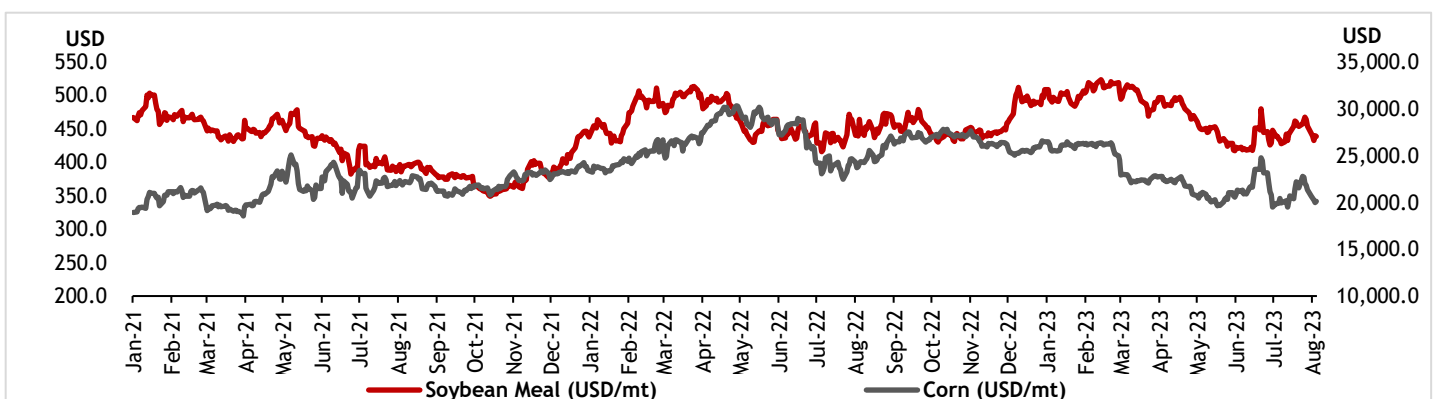
Elevated Animal Feed Prices in July 2023. Despite both soybean meal and corn prices having dropped from their 2-year peak levels, we remain cautious about the potential for elevated commodity prices for animal feed in the future. This concern arises due to expectations of lower production caused by extreme weather, leading to lower yield, along with Russia's withdrawal from the Black Sea deal, which could trigger global food security issues for corn and soybeans. Additionally, ongoing price ceilings for chicken and eggs, along with continuous government subsidies, are expected to limit profit margins. Consequently, **QL Resources (BUY, TP: RM6.75)** and **Leong Hup International (NEUTRAL, TP: RM0.50)** are likely to be affected by these conditions.

Table 5: Average Monthly Soybean meal, and corn futures prices for July 2023

Commodities	Jul-23	Jun-23	Jul-22	YoY (%)	MoM (%)	Remarks
Soybean Meal (USD/mt)	447	434	438	2.0	3.2	YoY: The elevated prices was due to the fears of lower soybean supply ahead after the Russian withdrawal from the Black Sea deal combined with the lower global production on the back a lower-than-expected soybean planted and harvested area in US. MoM: A similar trend was observed.
Corn (USD/mt)	20,918	22,023	23,821	(12.2)	(5.0)	YoY: The dropped in the corn prices could be the due to normalization of prices along with the greater than expected planted area in US and Ukraine MoM: A similar trend was observed.

Sources: Bloomberg, USDA, MIDFR

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



Sources: Bloomberg, MIDFR

Strengthening MYR in July 2023

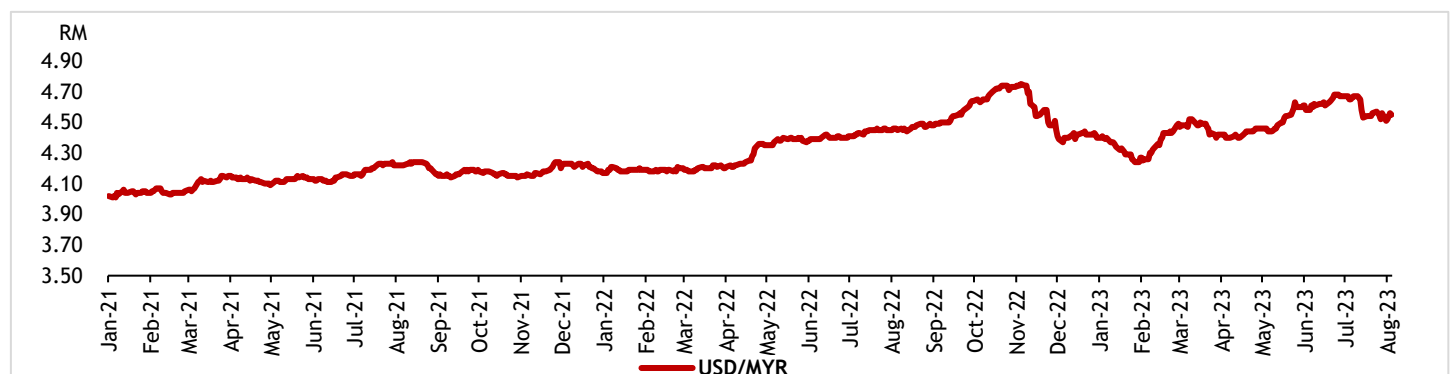
Strengthening MYR against USD in July 2023. In July 2023, the average exchange rate was USD 1.00: RM 4.59, which indicates a stronger MYR against the USD compared to June 2023 (USD 1.00: USD 4.63). Looking ahead, our economists anticipate a stronger MYR, with an average of USD 1.00: RM 4.43 for 2023 and reaching USD 1.00: USD 4.20 by the end of 2023. As such, the stronger MYR will benefit consumer-staple companies (both F&B and poultry players) that source commodities in USD, potentially lowering their raw material costs. Meanwhile, export-oriented companies such as Asia File (NEUTRAL, TP: RM 1.55) and Rhong Khen International (NEUTRAL, TP: RM 1.30) would experience lower sales due to the stronger MYR against USD, given that most of their revenue is received in USD.

Table 6: USD/MYR Monthly statistics for July 2023

Data	Average monthly data					vs. 2021		
	Jul-23	Jun-23	Jul-22	YoY (%)	MoM (%)	Jul-23	Jul-21	chg. (%)
USD/MYR	4.59	4.63	4.44	(3.3)	1.0	4.59	4.20	(8.4)

Sources: Bloomberg, MIDFR

Chart 7: Price Trend of USD/MYR



Sources: Bloomberg, MIDFR

Maintain POSITIVE on the consumer sector. Overall, we remain 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) better profit margins for F&B producers driven by falling global commodities prices and previous price hikes, offsetting other cost pressures. Hence, 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.


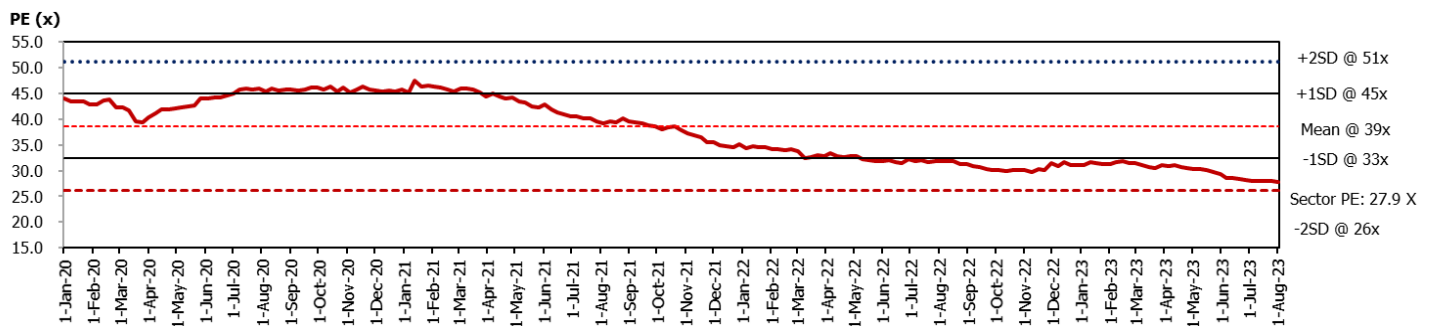
Attractive valuation. The valuations for both QL Resources and F&N appear very attractive, as they are currently trading at a CY24F PER of 27.7x and 16.5x respectively. These are significantly below their 3-year historical mean PER of 48.2x for QL Resources and 22.5x for F&N, as well as the consumer staple sector's forward 3-year mean PE of 27.9x. As such, this suggests potential undervaluation, along with their solid fundamentals, which could signal compelling investment opportunities in the consumer staple sector. 

Table 7: Peer comparison table

Stocks	Rec.	Price @ 4-Aug-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	RM25.08	RM33.50	9,216	125.4	152.4	20.0	16.5	2.6	2.8	0.0
Leong Hup International	Neutral	RM0.51	RM0.50	1,843	5.0	6.0	10.1	8.4	3.0	3.6	0.8
QL Resources	Buy	RM5.37	RM6.75	13,069	16.2	19.4	33.2	27.7	0.9	0.9	0.3
Spritzer	Buy	RM1.50	RM1.80	489	12.8	15.7	11.7	9.6	3.0	3.0	Net Cash
Hup Seng Industries	Buy	RM0.65	RM0.88	516	4.5	6.1	14.2	10.6	4.3	4.4	Net Cash
Nestle Malaysia	Neutral	RM132.10	RM139.50	30,977	318.2	359.1	41.5	36.8	2.4	2.5	1.3
Weighted Avg.					200.4	228.2	34.5	29.9	2.1	2.3	
Consumer Discretionary:											
Aeon Co M	Buy	RM1.18	RM1.50	1,657	10.2	10.8	11.6	10.9	4.3	3.6	0.1
Padini Holdings	Buy	RM3.96	RM4.40	2,605	32.7	35.3	12.1	11.2	2.6	2.6	Net Cash
Asia File Corp	Neutral	RM1.86	RM1.55	364	16.6	18.4	11.2	10.1	1.5	1.5	Net Cash
Rhong Khen International	Neutral	RM1.29	RM1.30	251	4.5	10.4	28.6	12.4	1.0	2.4	Net Cash
Weighted Avg.					22.4	24.5	12.7	11.1	3.0	2.8	

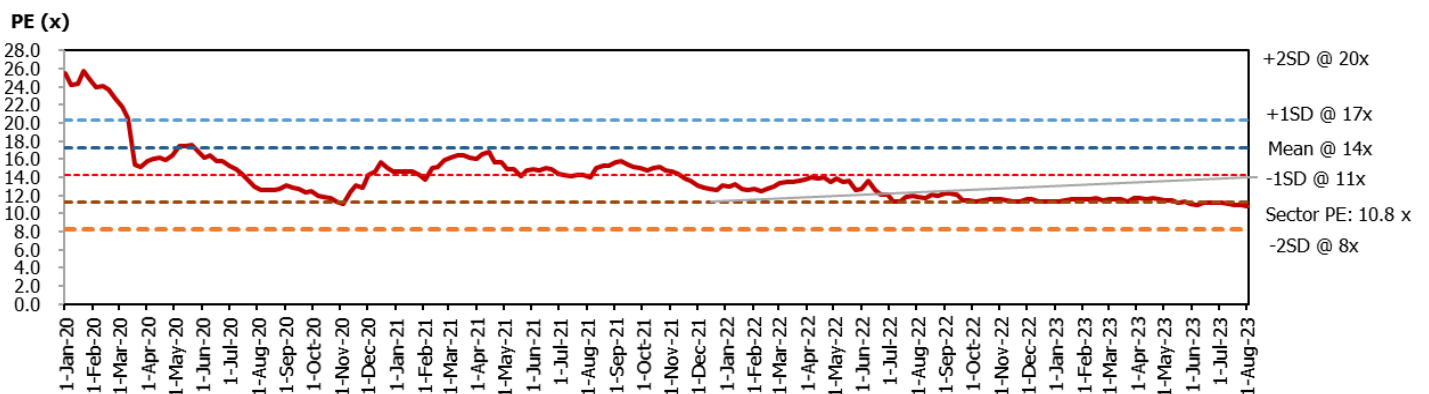
Sources: Bloomberg, MIDFR

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