

CONSUMER

Maintain POSITIVE

Steady optimism for the near future

KEY INVESTMENT HIGHLIGHTS

- **Robust domestic retail growth & positive 2023 outlook**
- **Most global commodities futures for F&B producers remained below their two-year peak in August 2023**
- **Lower animal feed costs ahead thanks to the normalization of soybean meal and corn futures**
- **Weakening MYR in Aug 2023**
- **Attractive valuation**
- **Maintain POSITIVE on the consumer sector with the top buys being QL Resources (BUY, TP: RM6.75) and F&N (BUY, TP: RM33.50)**

Robust domestic retail growth & positive 2023 outlook

Sustained growth in domestic retail trade. The Department of Statistics Malaysia ("DOSM") reported a sustained retail trade growth of +5.5%yoy to RM59.7b in Jul 2023, despite higher base in the previous year. This was primarily driven by increased consumer spending in non-specialised stores, F&B and tobacco, automotive fuel, and other goods. On a monthly basis, retail trade continued its upward trend in Jul 2023, increasing by +0.5%mom, consistent with the +1%mom in Jun 2023.

Optimistic retail outlook in 2023. Looking ahead, we expect continued growth in the retail sector throughout 2023. This is expected to encompass non-specialised stores, as well as the F&B and tobacco segments in specialised stores. This is underpinned by sustained demand for essential items, the resurgence of out-of-home consumption following the economy reopening, and an uptick in tourist arrivals. This aligns with MIDF Economists' upbeat retail trade forecast for 2023 in : [Economic Review: July 2023 Distributive Trade](#) . As such, we anticipate that non-specialised retailers like **Aeon Co (BUY, TP: RM1.40)** and Family Mart within **QL Resources (BUY, TP: RM6.75)** will reap the benefits of this upward trend. Additionally, considering their competitively priced products, **Padini (BUY, TP: RM4.60)** is well-positioned to capitalize on the favourable retail trade environment.

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

Data	Monthly Data				
	Jul-23	Jun-23	Jul-22	YoY	MoM
Retail Trade (RM'b)	59.7	59.4	56.6	5.5%	0.5%
Non-specialised Stores	22.7	22.8	20.8	9.0%	(0.3) %
F&B and Tobacco	3.8	3.7	3.3	12.5%	0.3%
Household Equipment	7.0	6.9	7.0	0.2%	1.7%
Others in Specialised Stores	12.2	12.0	11.7	4.6%	1.6%
Unemployment rate (%)	3.4	3.4	3.7	(0.3) ppt	0.0ppt

Sources: DOSM, BNM, MIDFR

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

*F&B and Tobacco = restaurant, food-related & tobacco related stores.

* Household Equipment = textiles, hardware, carpets, electrical appliances, or furniture.

* Others in Specialised Stores = clothing, footwear, pharmaceuticals, watches, souvenirs, and others.

COMPANY IN FOCUS

Fraser & Neave Holdings Berhad

Maintain **BUY** | Unchanged Target Price: RM33.50
Price @ 13th Sept 2023: RM25.40

- 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 @ 13th Sept 2023: RM5.47

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

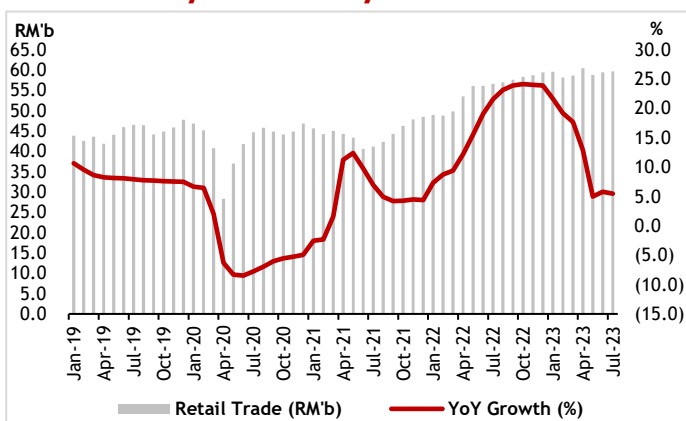
Share price chart



Analyst(s)

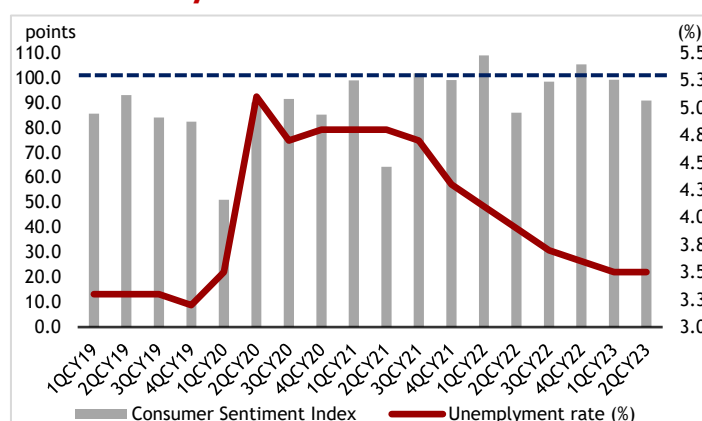
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Chart 1: Malaysia's Monthly Retail Trade



Sources: DOSM, MIDFR

Chart 2: Malaysia's Consumer Sentiment Index



Sources: DOSM, MIER, MIDFR

Most global commodities futures for F&B producers remained below their two-year peak in August 2023.

Key commodities futures stayed at low level in Aug 2023. Overall, the 3-month average futures prices for key raw materials of food producers, such as wheat and CPO, continued their downward trend in August 2023. Looking ahead, we foresee decreased raw material costs for food manufacturers due to the lowering of futures prices for key commodities such as wheat and CPO. As such, **Hup Seng Industries (Buy, TP: RM0.90)** and **Nestle Malaysia (Neutral, TP: RM139.50)** are well positioned to capitalize on this trend.

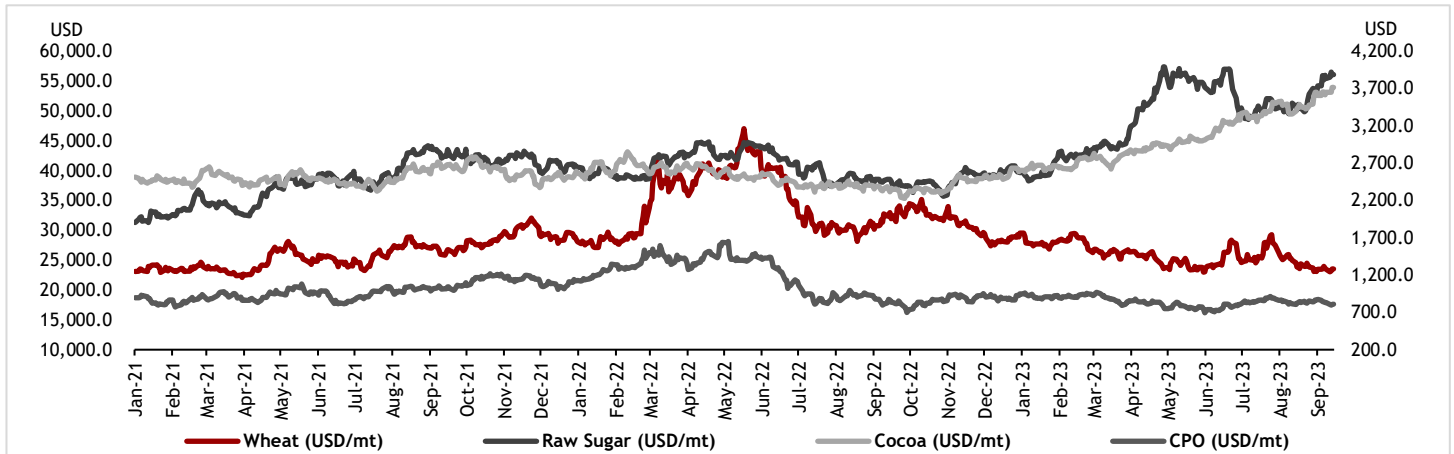
Despite the rising raw sugar prices, we believe the impact will be manageable. This is primarily supported by the growing health-conscious consumer base, which has driven demand for low-sugar food products, hence prompting food producers to reduce sugar content. Therefore, we expect food producers to strategically adjust sugar levels to mitigate the impact of higher raw sugar prices. While rising cocoa futures may have an impact on Nestle Malaysia, the impact should be controllable. Recall that, Nestle implemented a price hike for "MILO" at the beginning of the year, and the brand's strong reputation provides them with the flexibility to pass on increased costs to consumers.

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

Commodities	Aug-23	Jul-23	Aug-22	YoY (%)	MoM (%)	Remarks
Wheat (USD/mt)	23,456	26,352	30,107	(22.1)	(11.0)	YoY: Lower prices due to expectation of higher seasonal availabilities from several leading exporters and weaker demand. MoM: Prices declined due to anticipations of increased global supply.
Cocoa (USD/mt)	3,634	3,380	2,400	51.4	7.5	YoY: Elevated prices was due to ongoing tight supply in western Africa on the back of extreme weather, cacao swollen shoot virus and fertilizer shortage. MoM: Higher prices was due to the expectation of low production yield ahead due to the reason mentioned above.
Raw Sugar (USD/mt)	55,242	50,172	38,451	43.7	10.1	YoY: Increased prices was mostly due to expectations of continuous limited supply due to adverse weather in producing countries, a rally in oil prices encouraging cane crushers to shift production to biofuel blenders, and India expected to halt sugar exports in Oct 2023. Recall that India is the largest producer of raw sugar. MoM: This triggered by expectations of tight supplies ahead, as India is expected to halt sugar exports in Oct 2023 due to the continuous El Niño effect affecting cane yields.
CPO (USD/mt)	838	862	923	(9.2)	(2.8)	YoY: Lower prices could be attributed to expectations of weaker demand and higher CPO supply during the peak crop season, despite concerns about the El Niño effect affecting the crop. MoM: Decreased prices were due to expectations of weaker demand for CPO and increased CPO supply during the peak crop season.

Sources: Bloomberg, USDA, MIDFR

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



Sources: Bloomberg, MIDFR

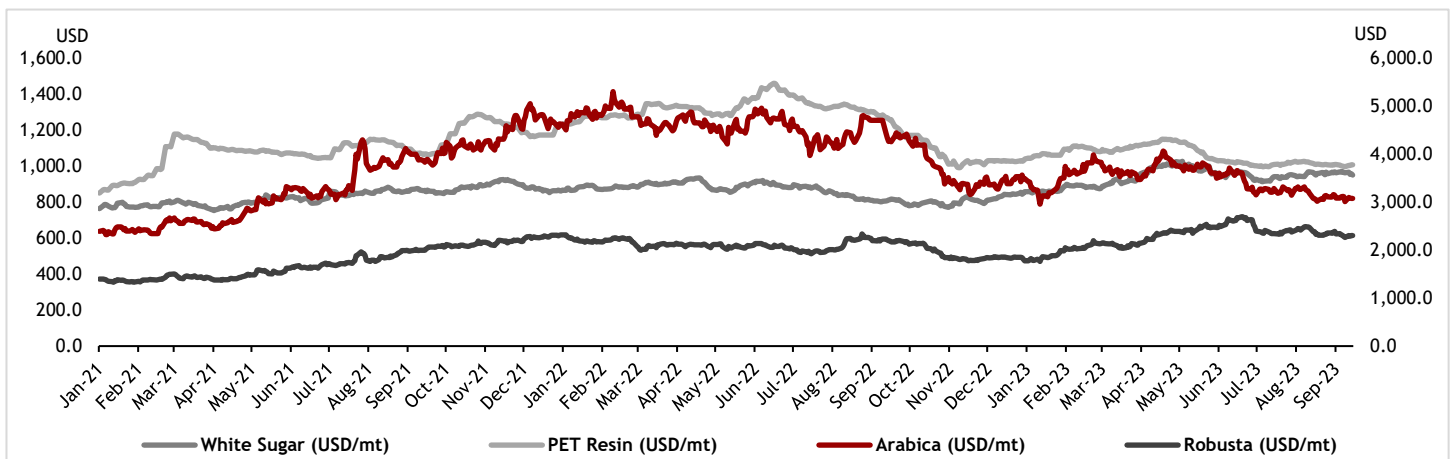
Global commodities for beverage producer remain below 2-year peak. In August 2023, despite fluctuations in the average 3-month future prices of global commodities, the commodities futures remained significantly below their 2-year peak levels. This suggests the potential for lower raw material costs in the near term, aligning with the ongoing global trend of declining commodity prices. As such, this presents potential advantages for companies in the beverage sector, such as **Fraser & Neave Holdings (BUY, TP: RM33.50)**, **Nestle Malaysia (NEUTRAL, TP: RM139.50)**, and **Spritzer (BUY, TP: RM1.85)**.

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

Commodities	Aug-23	Jul-23	Aug-22	YoY (%)	MoM (%)	Remarks
White Sugar (USD/mt)	954	930	828	15.3	2.6	YoY: Increased price was in line with elevated raw sugar prices due to lower global sugar supply MoM: Similar trend as YoY.
Arabica (USD/mt)	3,149	3,232	4,409	(28.6)	(2.5)	YoY: Higher prices was driven up by lower demand as well as the prospect of strong global supply owing to harvesting progress in Brazil. MoM: Similar trend as YoY.
Robusta (USD/mt)	2,385	2,366	2,165	10.2	0.8	YoY: Elevated prices due to higher demand and expectations of lower supply from Brazil's drought and El Niño forecasts for Indonesia and Vietnam. Recall that Robusta is a cheaper coffee compared to higher-priced Arabica. MoM: Increased prices was owing to rising demand and forecasted Robusta shortages.
PET Resin (USD/mt)	1,011	1,006	1,321	(23.4)	0.6	YoY: Reduced prices due to lower Brent crude oil prices compared to the previous year. MoM: Higher prices possibly due to Brent crude oil price rebound.

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

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



Sources: Bloomberg, MIDFR

Lower animal feed costs ahead thanks to the normalization of soybean meal and corn futures.

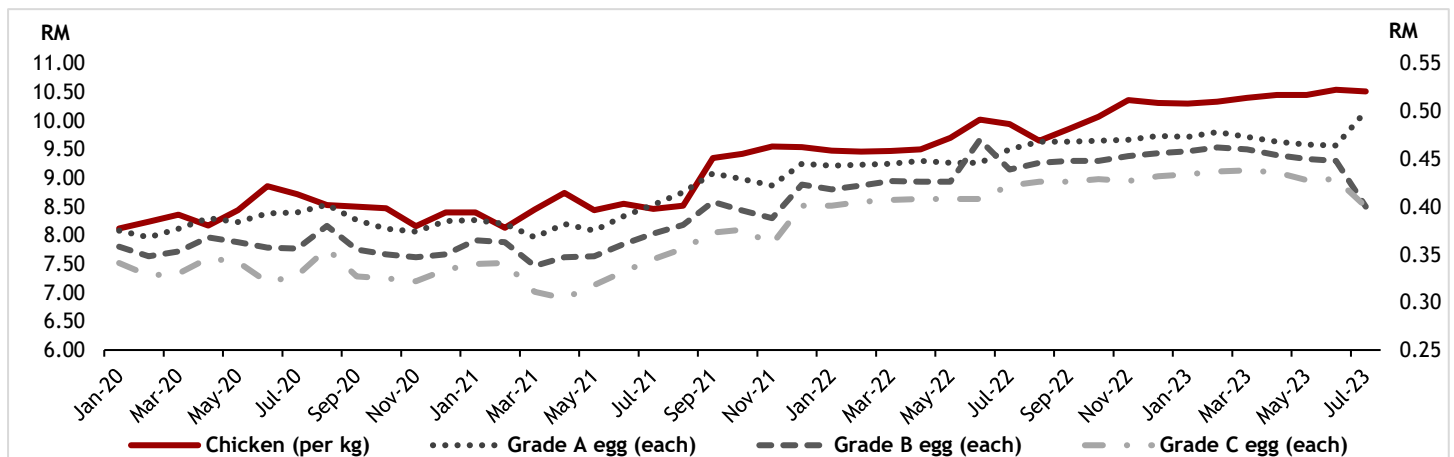
Grade A eggs remained at elevated levels in July 2023. On a yearly basis, both chicken and Grade A egg prices stayed elevated in July 2023, whereas Grade B and Grade C egg prices declined. On a monthly basis, only Grade A eggs continued to remain high, partly due to increased production costs, which led producers to cull less efficient mature chickens. Note that only aging chickens can produce Grade A eggs. Overall, the prices of both chicken and chicken eggs (Grade A, B, and C) remained higher compared to 2021 levels. However, based on the average price in July 2023 in Malaysia, we could suggest that the supply for Grade B and C eggs is sufficient in Malaysia, given that the price is now selling below the retail price ceilings of 43 sen per egg and 41 sen per egg, respectively. However, the average market price for Grade A eggs and chicken remained higher than the price ceilings of 45 sen per egg and RM9.40 per kg.

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

Data	Average monthly data					vs. 2021		
	Jul-23	Jun-23	Jul-22	YoY (%)	MoM (%)	Jul-23	Jul-21	chg (%)
Hen's Egg Grade A (each)	0.50	0.46	0.46	8.7	7.8	0.50	0.40	24.4
Hen's Egg Grade B (each)	0.40	0.45	0.44	(8.9)	(10.7)	0.40	0.37	7.5
Hen's Egg Grade C (each)	0.40	0.43	0.42	(5.2)	(6.8)	0.40	0.35	15.9
Chicken (per kg)	10.51	10.54	9.94	5.7	(0.3)	10.51	8.46	24.2

Sources: MIDFR

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



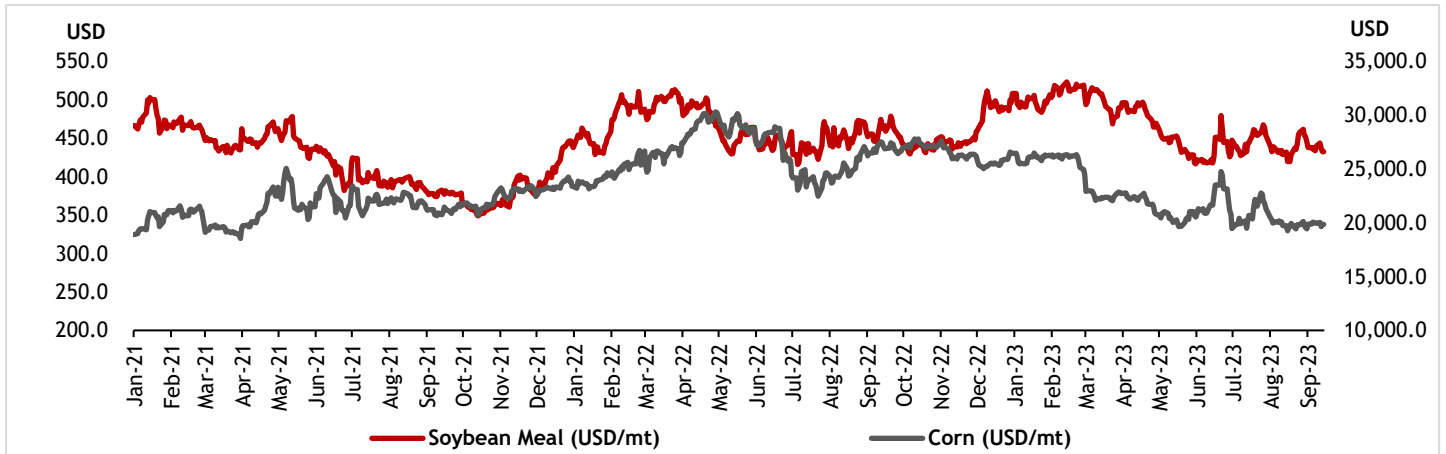
Sources: MIDFR

Normalized soybean meal and corn prices in August 2023. Overall, both soybean meal and corn futures for August 2023 are now trading at below their 2-year peak levels, which could reflect a lower raw material cost for animal feed in the near term. The expectations of lower animal feed costs, along with government subsidies, are expected to support profit margins against the ongoing price ceilings for chicken and eggs. As such, this will benefit poultry companies like **QL Resources (BUY, TP: RM6.75)** and **Leong Hup International (NEUTRAL, TP: RM0.50)**. Furthermore, given the expectation of falling animal feed costs, this could encourage poultry players to increase the supply of Grade A eggs and, hence, lower the average price for Grade A eggs in the near term.

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

Commodities	Aug-23	Jul-23	Aug-22	YoY (%)	MoM (%)	Remarks
Soybean Meal (USD/mt)	438	447	454	(3.5)	(2.2)	YoY: Prices dropped as global supply from all major exporters, particularly Brazil, continued to outpace global protein meal demand. MoM: Prices normalized after the previous month's increase, following the expected reduction in the US soybean harvest and Russia's withdrawal from the Black Sea deal.
Corn (USD/mt)	19,836	20,918	25,095	(21.0)	(5.2)	YoY: Increased price was due to higher corn supply availability, as corn crops were not as negatively affected by hot and dry weather. MoM: Similar trend as YoY.

Sources: Bloomberg, USDA, MIDFR

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

Sources: Bloomberg, MIDFR

Weakening MYR in Aug 2023

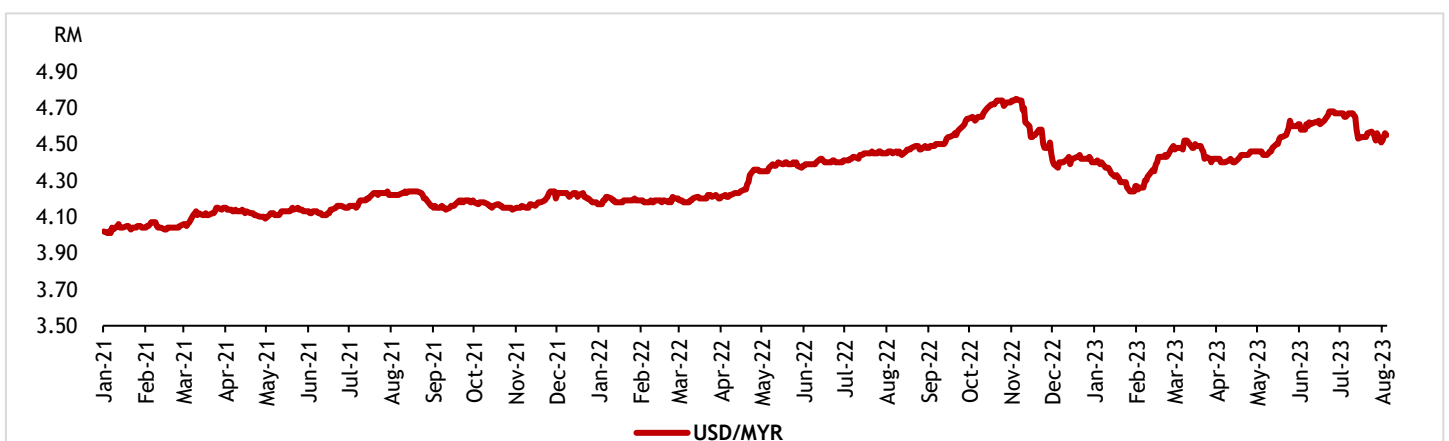
Weakening MYR in Aug 2023. In August 2023, the average exchange rate stood at USD 1.00: RM 4.61, indicating a weaker MYR compared to July 2023 (USD 1.00: RM 4.59). The volatility in the MYR exchange rate against USD poses a risk to all F&B and poultry players who source commodities in USD. Nevertheless, we believe the impact will be manageable, considering the recent normalization of global commodity prices for key raw materials.

Looking ahead, our economists anticipate a stronger MYR, with an average exchange rate of USD 1.00: RM 4.43 for 2023, projected to reach USD 1.00: RM 4.24 by the end of the year. Consequently, a stronger MYR is expected to benefit consumer-staple companies, including both F&B and poultry players, as it has the potential to lower their raw material costs. Conversely, export-oriented companies such as **Asia File (Sell, TP: RM 1.50)** and **Rhong Khen International (NEUTRAL, TP: RM 1.35)** may experience lower sales due to the stronger MYR against USD, as a significant portion of their revenue is received in USD.

Table 6: USD/MYR Monthly statistics for Aug 2023

Data	Average monthly data					vs. 2021		
	Aug-23	Jul-23	Aug-22	YoY (%)	MoM (%)	Jul-23	Jul-21	chg. (%)
USD/MYR	4.61	4.59	4.47	(3.1)	(0.5)	4.59	4.20	(8.4)

Sources: Bloomberg, MIDFR

Chart 7: Price Trend of USD/MYR

Sources: Bloomberg, MIDFR

Attractive valuation. QL Resources and F&N currently have attractive valuations. QL Resources has a PER of 28.3x for CY24, while F&N's PER is 16.7x for the same year. These are lower than their 3-year historical average PER of 47x and 22x respectively, as well as the consumer staple sector's 3-year forward average PER of 27.5x. This indicates that these stocks might be undervalued, making them compelling investments in the consumer staple sector, considering their strong fundamentals.


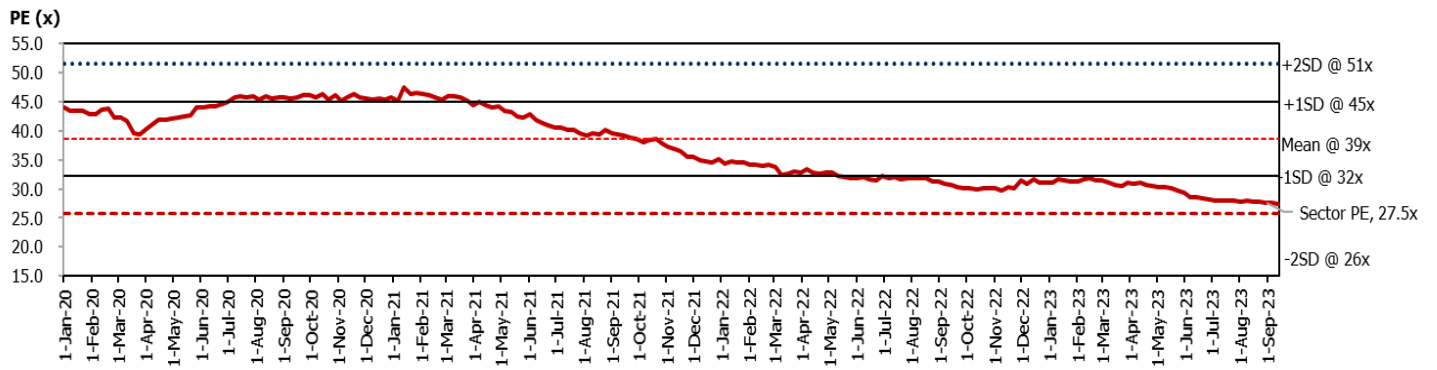
Maintain POSITIVE on the consumer sector. Overall, we remain positive about the outlook for consumer sector underpinned by: (1) a defensive play due to the resilient demand for staple-related products, (2) solid domestic consumption backed by stable labour market, robust retail trade, and increased tourism activities, and (3) better profit margins for F&B producers driven by declining global commodities prices and previous price hikes, offsetting other cost pressures. Additionally, the normalizing soybean meal and corn futures prices suggest lower raw material costs for poultry players, further supporting their profit margins. 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 @	TP	Mkt. Cap (RM'm)	Core EPS (sen)		PER (x)		Div. Yield (%)		Net Gearing
		13-Sept-23			CY23	CY24	CY23	CY24	CY23	CY24	
Consumer Staples:											
Fraser & Neave Holdings	Buy	RM25.40	RM33.50	9,334	125.4	152.4	20.3	16.7	2.6	2.8	0.0
Leong Hup International	Neutral	RM0.55	RM0.50	1,989	5.0	6.0	10.9	9.1	2.8	3.6	0.8
QL Resources	Buy	RM5.47	RM6.75	13,318	16.5	19.4	33.1	28.3	1.5	1.3	0.3
Spritzer	Buy	RM1.54	RM1.85	500	4.5	5.5	34.2	28.1	0.0	0.0	Net Cash
Hup Seng Industries	Buy	RM0.70	RM0.90	560	4.5	6.1	15.4	11.6	4.9	5.0	Net Cash
Nestle Malaysia	Neutral	RM130.40	RM139.50	30,579	318.2	359.1	41.0	36.3	2.4	2.5	1.3
Weighted Avg.					197.8	225.3	34.3	29.9	2.2	2.3	
Consumer Discretionary:											
Aeon Co M	Buy	RM1.03	RM1.40	1,446	9.0	10.0	11.5	10.3	4.4	3.6	0.2
Padini Holdings	Buy	RM3.95	RM4.60	2,599	37.0	39.9	10.7	9.9	2.8	3.0	Net Cash
Asia File Corp	Sell	RM1.96	RM1.50	382	16.7	16.6	11.7	11.8	1.2	1.3	Net Cash
Rhong Khen International	Neutral	RM1.30	RM1.35	252	12.5	12.6	10.4	10.3	2.9	2.9	Net Cash
Weighted Avg.					25.4	27.3	11.0	10.2	3.2	3.1	

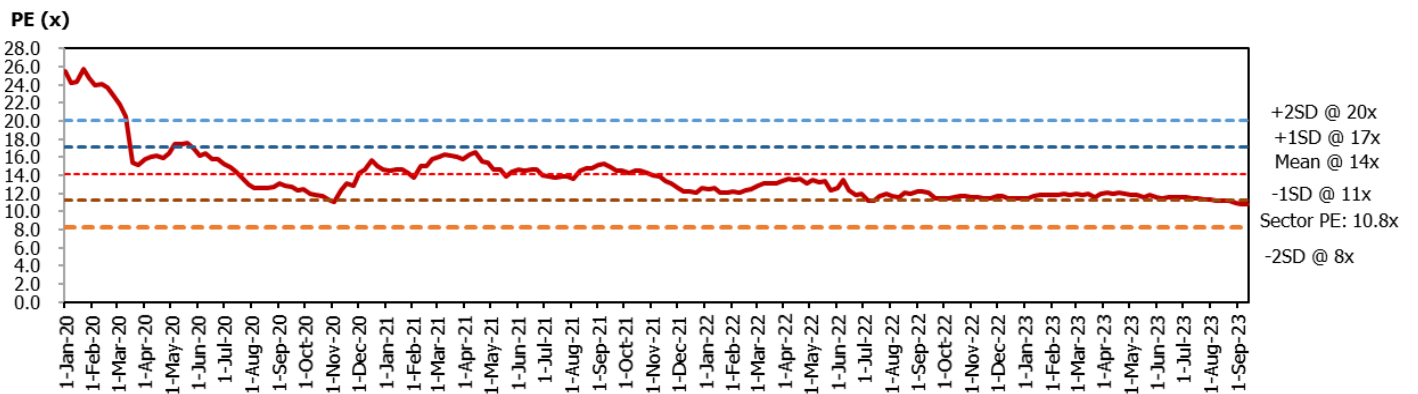
Sources: Bloomberg, MIDFR

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