

CONSUMER SECTOR

Removal of Price Control for Chicken, Effective 1 November 2023

Maintain POSITIVE

DEVELOPMENT

- The Agriculture and Food Security Minister – Datuk Seri Mohamad Sabu announced that subsidies and price controls on chicken will be discontinued from 1 November 2023.
- Meanwhile, subsidies for grade A, B, and C eggs will continue as per the existing mechanism.

OUR VIEW

- The removal of price controls and subsidies for chicken, effective from 1st November 2023, is a positive development for chicken producers. It gives them the flexibility to adjust prices based on market supply and demand dynamics and the ability to pass on increased production costs to consumers. This will benefit chicken producer under our coverage such as **Leong Hup International Berhad (NEUTRAL, TP:RM0.50)**.
- However, subsidies for grade A, B, and C eggs will continue, and the government did not mention the removal of price controls for chicken eggs. Therefore, we believe that the government intends to maintain price controls, which will not impact or benefit egg producers like **QL Resources (BUY, TP: RM6.75)** under our coverage. Given that layer eggs are one of the key contributors to the integrated livestock farming segment. Nevertheless, the economies of scale of QL Resources, along with government subsidies, will continue to sustain the margin.
- On a positive note, the average 3-month futures of key commodities for animal feed are now trading below their two-year peak levels as of 27 October 2023. This is positive as it will lower production costs for chicken and egg producers, given that animal feed is a significant production cost component. Based on our channel checks, we have gathered that production costs for efficient and large poultry players are now below the price ceiling for live birds, and the production costs for egg producers are at least on par or slightly above the market price of chicken eggs.
- Looking at the average prices for chicken and eggs (Grade A, B, and C) for Sept 2023, we noticed that chicken prices in most states are now below retail price ceilings, except for Pahang and Selangor. Meanwhile, the average prices for Grade A, B, and C eggs for Sept 2023 are mostly above the price ceilings. Hence, we believe that the government's announcements are appropriate, and the market price of chicken, after the removal of subsidies and price controls, will not increase substantially, considering that chicken is a staple protein for Malaysians. We also believe it will be closely monitored by the government and is under the government's watchlist. Nevertheless, the maintenance of subsidies for chicken eggs will continue to support egg producers and ensure that the market price of chicken eggs remains controllable.
- The removal is not expected to have an impact on the upcoming 3QCY23 results. We are making no changes to our earnings forecast and recommendations for now, pending for more details.
- Overall, we believe that the demand for poultry products will remain resilient since chicken products are the most affordable source of protein for Malaysians. Additionally, we are optimistic that chicken producer will benefit from the normalization of commodity prices (corn, soybean meal, CPO, and wheat). Along with the removal of price controls and subsidies for chicken effective from 1 November 2023, this will provide poultry players with more flexibility to adjust selling prices based on demand and supply dynamics, as well as profit margins.
- We maintain **POSITIVE** on the consumer sector, with a preference for consumer staples over discretionary items. This was underpinned by: (1) a defensive play due to the resilient demand for staple-related products, (2) strong domestic consumption outlook backed by various incentive introduced in Budget 2024, stable labour market, and increasing tourism activities, and (3) better profit margins for F&B producers driven by declining global

commodities prices, and (4) normalized profit margins for poultry players, boosted by the removal of price ceilings for chicken and eggs and the normalization of animal feed costs. Our top picks are consumer staples that exhibit resilient demand, such as **QL Resources (BUY, TP: RM6.75)** and **F&N (BUY, TP: RM33.50)**.



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Table 1: Malaysia Monthly Hen's egg and chicken statistics for Sept 2023

Data	Average monthly data					vs. 2021		
	Sep-23	Aug-23	Sep-22	YoY (%)	MoM (%)	Sep-23	Sep-21	chg (%)
Hen's Egg Grade A (each)	0.47	0.47	0.47	0.0	0.6	0.47	0.44	7.6
Hen's Egg Grade B (each)	0.45	0.45	0.45	0.9	0.2	0.45	0.41	11.6
Hen's Egg Grade C (each)	0.43	0.43	0.43	0.9	0.2	0.43	0.37	15.3
Chicken (per kg)	10.01	10.21	9.86	1.5	(2.0)	10.01	9.35	7.1

Sources: MIDFR

Table 2: Sept 2023 Egg and Chicken Statistics by State

	Grade A egg (each)	Grade B egg (each)	Grade C egg (each)	Chicken (per kg)
Malaysia	0.468	0.452	0.430	10.01
Johor	0.454	0.432	0.414	9.05
Kedah	0.457	0.434	0.431	9.16
Kelantan	0.465	0.443	0.420	8.98
Melaka	0.450	0.430	0.410	9.29
Negeri Sembilan	0.453	0.431	0.410	9.24
Pahang	0.453	0.430	0.410	9.68
Perak	0.455	0.435	0.419	9.32
Perlis	0.450	0.430	0.436	9.19
Pulau Pinang	0.465	0.436	0.414	9.11
Terengganu	0.455	0.453	0.411	9.39
Putrajaya	0.450	0.430	0.410	8.67
Selangor	0.455	0.430	0.413	9.51
Kuala Lumpur	0.450	0.440	0.410	9.13
Sabah	0.501	0.498	0.487	12.39
Sarawak	0.580	0.521	0.497	12.12
Labuan	0.000	6.000	0.000	11.30

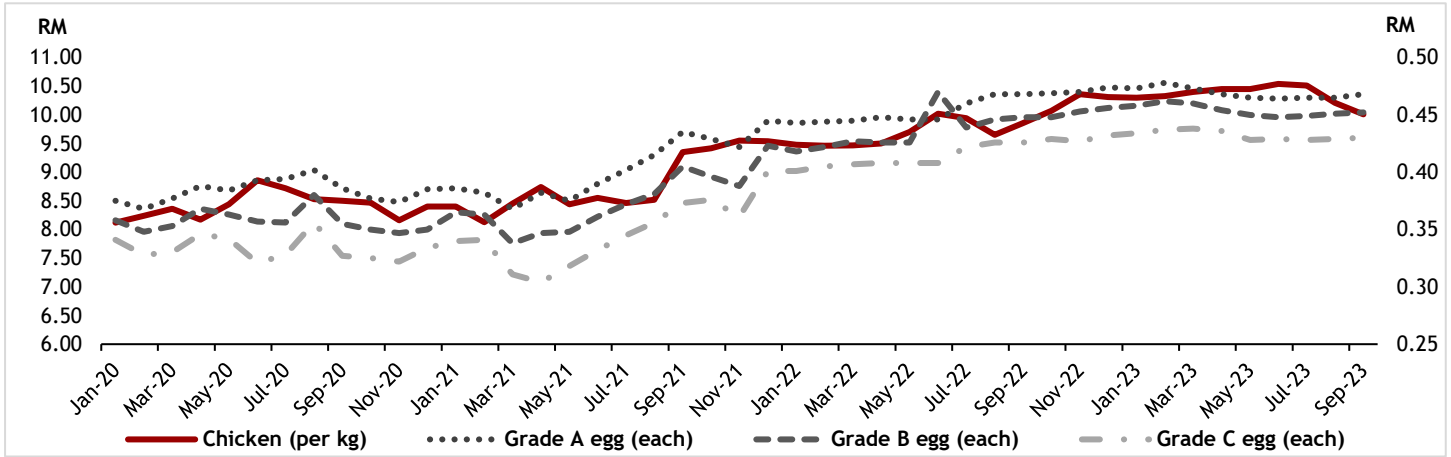
Sources: MIDFR

**Red: Above Retail Price Ceilings

**Green: Below Retail Price Ceilings

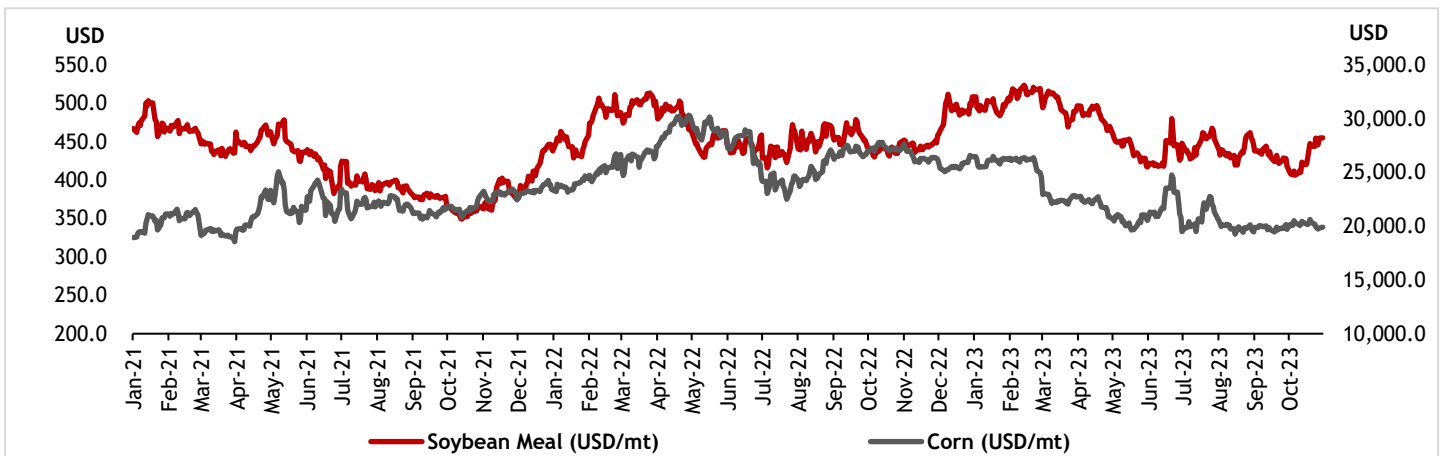
**Note: Sabah, Sarawak, and Labuan are not subject to standard retail price ceilings, as price ceilings vary across cities.

Chart 3: Malaysia's Average Price Trend for Chicken and Eggs



Sources: 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 <i>rise</i> 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 <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