CONSUMER

Maintain POSITIVE

Resilient outlook for consumer staples

KEY INVESTMENT HIGHLIGHTS

- **Solid domestic retail growth & positive 2023 outlook**
- **Commodity Prices for F&B Producers Mostly Declining in Sep 2023.**
- **Rising Poultry Product Prices, Falling Animal Feed Costs**
- **Weakening MYR in Sept 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)**

Solid domestic retail growth & positive 2023 outlook

Strong domestic retail trade in Aug 2023. Based on Department of Statistics Malaysia ("DOSM"), retail trade rose +6.3%yoy to RM60.5b in Aug 2023. This growth was primarily driven by the expansion in non-specialised stores, as well as the F&B and tobacco sector, reflecting the continued trend of out-of-home consumption. On monthly basis, retail trade continued its upward trajectory in Aug 2023, with a +1.4%mom increase, maintaining consistency with the +0.5%mom growth observed in Jul 2023.

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

Data	Monthly Data				
	Aug-23	Jul-23	Aug-22	YoY	MoM
Retail Trade (RM'b)	**60.5**	**59.7**	**57.0**	**6.3%**	**1.4%**
Non-specialised Stores	23.0	22.7	21.1	9.2%	1.3%
F&B and Tobacco	3.8	3.8	3.3	13.3%	1.0%
Household Equipment	7.1	7.0	7.0	1.9%	1.4%
Others in Specialised Stores	12.5	12.2	11.8	5.7%	2.4%
Unemployment rate (%)	3.4	3.4	3.7	(0.3)ppt	0.0

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.*

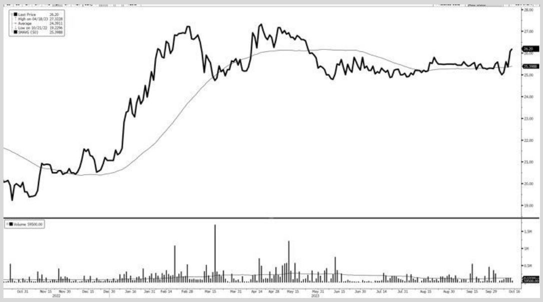
Budget 2024 to support consumer spending. The Budget 2024 maintains its tradition of allocating funds to boost consumer spending. This includes (1) cash assistance programs via STR, (2) lump-sum cash incentives for civil servants and government retirees, (3) an ongoing government review of civil servant salaries, expected to conclude by the end of 2024, potentially raising the household income of civil servants (4) introduction of multi-entry visas for tourists from India and China to boost the tourist movement in Malaysia, (5) implementation of various programs aimed at enhancing job opportunities and income. Additionally, the proposed 5-10% luxury tax on high-value goods is unlikely to have a significant impact on retail trade, as it's expected to primarily affect high-value products. However, we are awaiting further details on the threshold value for luxury items.

COMPANY IN FOCUS

Fraser & Neave Holdings Berhad
Maintain **BUY** | Unchanged Target Price: RM33.50
Price @ 16th Oct 2023: RM26.20

- 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 Cocoaland.

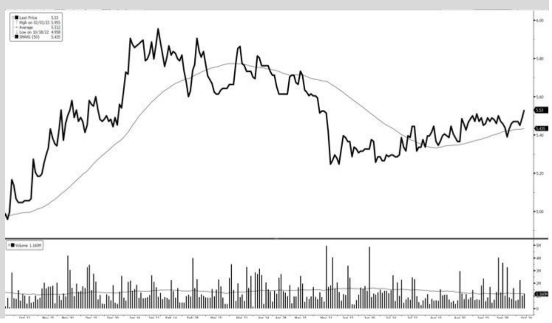
Share price chart



QL Resources Berhad
Maintain **BUY** | Unchanged Target price: RM6.75
Price @ 16th Oct 2023: RM5.50

- 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



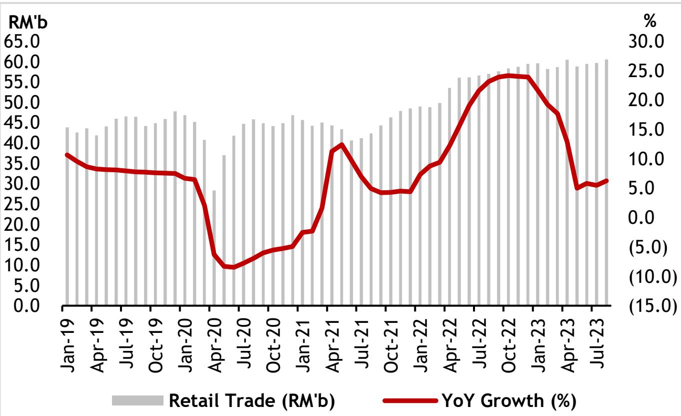
Analyst(s)
Genevieve Ng Pei Fen
genevieve.ng@midf.com.my

No direct impact from the rationalization of diesel prices. Budget 2024 introduced a phased rationalization of diesel prices, excluding certain companies like logistics firms (implying continued subsidized diesel prices). We gather that diesel is primarily used for business, commercial, and industrial purposes, such as logistics, construction, and public transportation. Therefore, we anticipate no direct impact on domestic consumer spending due to this rationalization. Besides, we also do not expect increased transportation costs for consumer companies under our coverage given the exemption of logistics companies from the rationalisation. Note that transport fares are determined by diesel prices, input costs, and added margins. However, we await further details on the rationalization mechanism for diesel prices.

Worst-case scenario for the introduction of RON95 price rationalization. MIDF Economists expects that the government may opt for a managed-float retail fuel price mechanism, rather than a free-float option for both RON95 and diesel in the **MIDF Budget 2024** report. Although Budget 2024 did not mention the rationalization of RON95 fuel prices, considering the worst-case scenario, we believe it may affect the disposable income of a portion of the M40 income group, leading to reduced spending on non-essential durable items. Besides, we believe that affected consumers might opt for stand-alone stores offering competitive prices over shopping malls with premium prices. As such, this will impact **Aeon Co (BUY, TP:RM1.40),** as its revenue is derived from retail and property management services segments, primarily targeting the M40 income group. With declining disposable income, people may reduce spending on hardline and softline products, impacting the retail segment. The shift in shopping preferences and decreased disposable income for other products will affect tenant sales and, consequently, PMS income. Recall that PMS income is derived from fixed rentals and variable rentals (profit-sharing method). On a positive note, we anticipate continued resilient demand for consumer staples. Additionally, product demand for **Padini (BUY, TP: RM4.60)** is expected to remain strong, boosted by various cash assistance programs in Budget 2024 and competitively priced products.

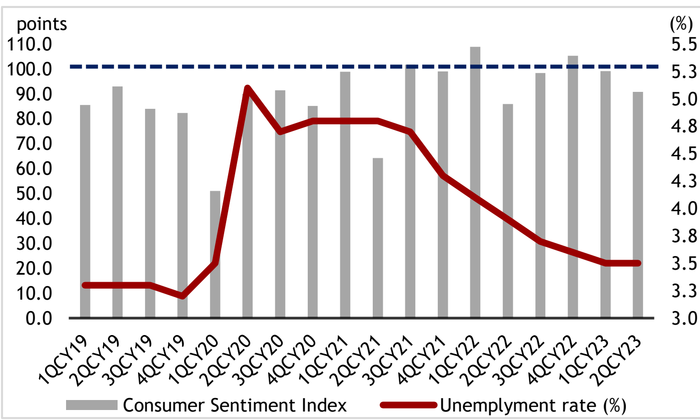
Solid retail trade prospect for staple products in 2023. Looking ahead, we expect continued growth in retail spending for staple products in 2023 and 2024. This is underpinned by: (1) strong job market and income prospects, (2) sustained demand for essential items, (3) resurgence of out-of-home consumption following the reopening of the economy, (4) various initiatives introduced in the Budget 2024 to support consumer spending, (5) an uptick in tourist arrivals. This outlook aligns with MIDF Economists' optimistic retail trade forecast for 2023 in the **Economic Review: Aug 2023 Distributive Trade**. Consequently, Family Mart within **QL Resources (BUY, TP: RM6.75)** will reap the benefits of this upward trend, particularly from the increased out-of-home consumption of F&B products and the rise in tourism activities. Furthermore, owing to their competitively priced products, **Padini (BUY, TP: RM4.60)** is well-positioned to benefit from the various cash aids allocated to the B40 income group and civil servants.

Chart 1: Malaysia's Monthly Retail Trade



Sources: DOSM, MIDFR

Chart 2: Malaysia's Consumer Sentiment Index



Sources: DOSM, MIER, MIDFR

Commodity Prices for F&B Producers Mostly Declining in Sep 2023.

Sept 2023 Sees Key Commodities Futures at Low Levels. Overall, the 3-months average futures prices for key food production materials like wheat and CPO continued to drop in Sept 2023. Moving forward, we expect that this trend will lead to lower costs for food makers, which will benefit **Hup Seng Industries (BUY, TP: RM0.95)** and **Nestle Malaysia (NEUTRAL, TP: RM139.50).**

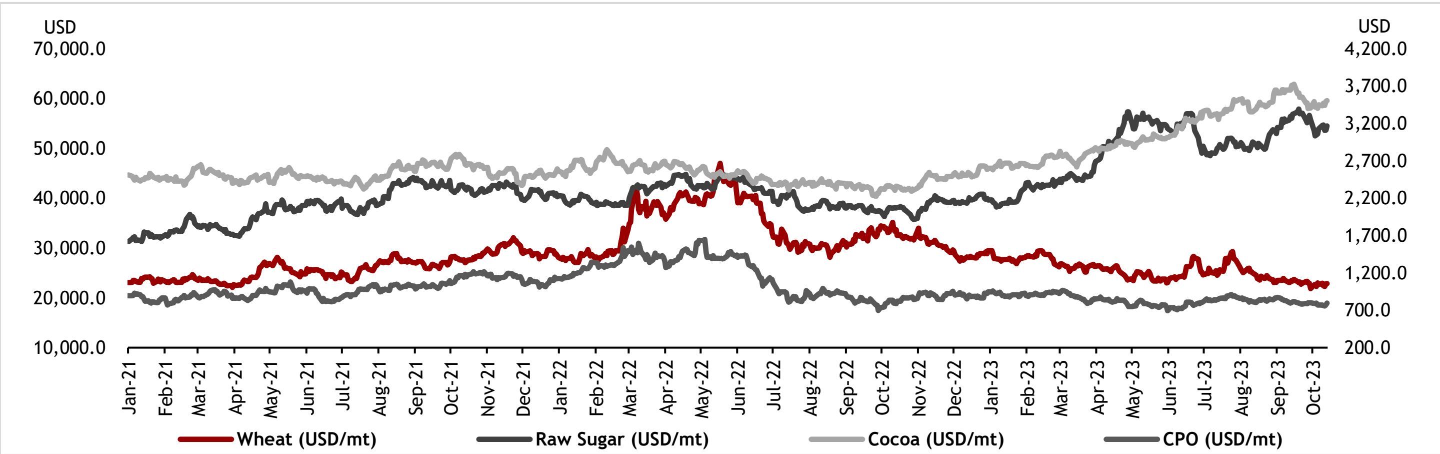
Despite the rising raw sugar prices, we believe the impact will be manageable. This is primarily supported by the growing health-conscious consumer base, which has driven demand for low-sugar food products, hence prompting food producers to reduce sugar content. Therefore, we expect food producers to 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 Sept 2023

Commodities	Sep-23	Aug-23	Sep-22	YoY (%)	MoM (%)	Remarks
Wheat (USD/mt)	23,231	24,449	32,438	(28.4)	(5.0)	YoY: Reduced price was attributed to the anticipation of greater seasonal availabilities from multiple prominent exporters and weaker demand. MoM: Price drops result from expectations of an uptick in global supply.
Cocoa (USD/mt)	3,584	3,467	2,329	53.9	3.4	YoY: Higher price was attributed to the continued scarcity of supply in western Africa, exacerbated by severe weather conditions, the cacao swollen shoot virus, and a shortage of fertilizers.. MoM: Increased price was anticipation of reduced production yields in the near future, driven by the factors mentioned earlier.
Raw Sugar (USD/mt)	56,066	51,125	37,934	47.8	9.7	YoY: Increased price was buoyed by limited supply expectations from adverse weather, increased biofuel production amid rising oil prices, and India's halt in sugar exports (Oct 2023). MoM: Higher price was mainly driven by expectations of tight supplies following India's sugar export halt in Oct 2023, as well as ongoing El Niño effect affecting cane yields in Asia.
CPO (USD/mt)	813	838	818	(0.6)	(3.0)	YoY: Reduced price was due to anticipated weaker demand and an elevated supply of CPO during the peak crop season, despite worries about the El Niño effect on the crop. MoM: Decreased price was due to anticipation of weaker CPO and increased CPO production during the peak crop season.

Sources: Bloomberg, USDA, MIDFR

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



Sources: Bloomberg, MIDFR

All commodities on a falling monthly trend in Sept 2023. In Sept 2023, all the commodities we tracked for beverage producers were on a downward trend, falling below their 2-year peak levels. This trend indicates the potential for lower raw material costs in the near term, aligning with the ongoing global pattern of declining commodity prices. The key beneficiaries are **Fraser & Neave Holdings (BUY, TP: RM33.50), Nestle Malaysia (NEUTRAL, TP: RM139.50),** and **Spritzer (BUY, TP: RM1.85).**

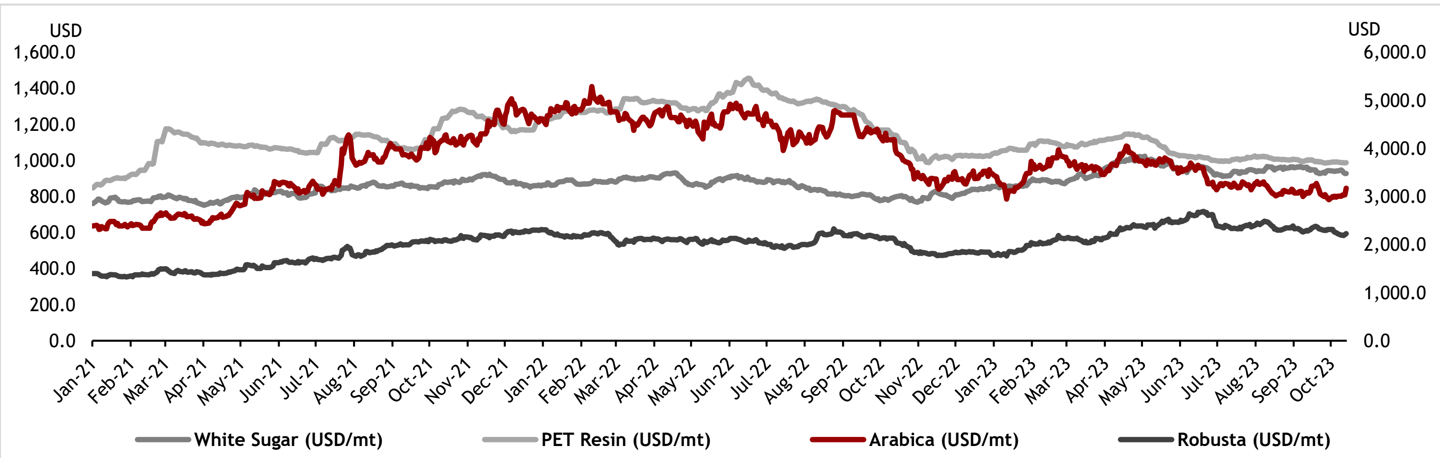
However, we maintain caution regarding the possibility of white sugar prices remaining high in the near term due to weak global supply. Additionally, the proposed increase in the excise duty on sugary beverages in the 2024 Budget, rising from 40 cents per litre to 50 cents per litre, may prompt beverage companies to take two potential courses of action: either (1) reduce the sugar content in their existing products while keeping current prices or (2) introduce low-sugar alternatives. It's worth noting that regular sugar-level products will be subject to the tax increase, and the consumer's choice will determine whether they opt for beverages with normal sugar levels at higher prices or lower-sugar options. We believe that any increase in production costs will likely be passed on to consumers through price hikes. Overall, we believe that the introduction of the higher sugar drink excise duty is manageable for beverage companies in our coverage. This is because the excise duty on Sugar Sweetened Beverages (SSB) was initially proposed in the budget 2022 and was postponed twice, providing beverage companies with ample time to prepare for the excise duty. Nevertheless, we gathered that **Fraser & Neave Holdings (BUY, TP: RM33.50)** and **Nestle Malaysia (NEUTRAL, TP: RM139.50)** are prepared to reformulate their products once the excise duty is introduced.

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

Commodities	Sep-23	Aug-23	Sep-22	YoY (%)	MoM (%)	Remarks
White Sugar (USD/mt)	948	954	802	18.2	(0.7)	YoY: Higher price aligned with elevated raw sugar prices due to expectations of a tight global sugar supply. MoM: Price weakened slightly but are expected to rebound due to the ongoing global sugar supply constraints.
Arabica (USD/mt)	3,088	3,149	4,454	(30.7)	(2.0)	YoY: Normalized price after reaching a peak in 2022. This was due to reduced demand and the expectation of a good global supply, thanks to progress in harvesting in Brazil. MoM: Similar trend as YoY.
Robusta (USD/mt)	2,315	2,385	2,184	6.0	(2.9)	YoY: Increased price was due to increased demand and the anticipation of reduced supply stemming from Brazil's drought and El Niño forecasts for Indonesia and Vietnam. MoM: Price saw a partial reversal during this period, primarily due to weaker demand and an uptick in coffee supply in the market. But remained elevated.
PET Resin (USD/mt)	996	1,011	1,233	(19.3)	(1.5)	YoY: Decreased price due to lower Brent crude oil prices compared to the previous year. MoM: Similar trend as YoY.

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

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



Sources: Bloomberg, MIDFR

Rising Poultry Product Prices, Falling Animal Feed Costs

Most average prices for poultry products remained high, except for Grade A egg in Aug 2023. On an annual basis, the prices for Grade B and C eggs, as well as chicken, continued to stay elevated. However, Grade A egg prices decreased by -0.6%yoy to RM0.47 per egg. On a monthly basis, prices for Grade B and C were higher compared to July 2023, while chicken prices dropped by -2.9%mom to RM10.21, and Grade A egg prices remained unchanged. Looking at average prices by states, we noticed that eggs prices mostly remained above the retail price ceilings across states. Meanwhile, average chicken prices across states were mostly at or below the price ceilings.

Lifting price ceilings for chicken and eggs. Based on Budget 2024, the Malaysian government plans to remove price ceilings and subsidies for chicken and eggs. This announcement is **positive** for poultry producers, enabling them to adjust market prices according to supply and demand, offering greater flexibility in passing on increased costs to customers. Nevertheless, we now anticipate a gradual reduction in subsidies for chicken and eggs in the remaining months of 2023. This is due to the declining trend in global commodity prices for animal feed (like corn and soybean meal). We gather that the production costs for chicken are slightly below the price ceiling, while egg production costs exceed it. As such, we expect chicken prices to remain competitive after the removal of price ceilings on the back of the sufficient supply in the market. On the flip side, the removal of price ceilings and subsidies is likely to lead to an increase in egg prices, with expectations of at least a 22% rise across various grades. Note that Malaysia imports eggs from India to support its local egg supply. However, we make no changes for now, pending further details on the timeline for these changes. Nonetheless, the demand for poultry products in Malaysia is expected to remain stable and robust, given that poultry are the most affordable source of protein in the market.

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

Data	Average monthly data					vs. 2021		
	Aug-23	Jul-23	Aug-22	YoY (%)	MoM (%)	Aug-23	Aug-21	chg (%)
Hen's Egg Grade A (each)	0.47	0.47	0.47	(0.6)	0.0	0.47	0.42	12.0
Hen's Egg Grade B (each)	0.45	0.45	0.45	1.1	0.4	0.45	0.38	18.4
Hen's Egg Grade C (each)	0.43	0.43	0.43	0.7	0.2	0.43	0.36	20.5
Chicken (per kg)	10.21	10.51	9.65	5.8	(2.9)	10.21	8.52	19.8

Sources: MIDFR

Table 5: Aug 2023 Egg and Chicken Statistics by State

	Grade A egg (each)	Grade B egg (each)	Grade C egg (each)	Chicken (per kg)
Malaysia	0.465	0.451	0.429	10.21
Johor	0.453	0.431	0.421	9.46
Kedah	0.475	0.433	0.424	9.47
Kelantan	0.461	0.438	0.416	9.20
Melaka	0.450	0.430	0.410	9.44
Negeri Sembilan	0.449	0.441	0.411	9.53
Pahang	0.454	0.429	0.410	9.94
Perak	0.462	0.439	0.420	9.62
Perlis	0.450	0.430	0.430	9.25
Pulau Pinang	0.461	0.448	0.406	9.58
Terengganu	0.438	0.422	0.410	8.85
Putrajaya	0.438	0.422	0.410	8.85
Selangor	0.451	0.432	0.412	9.63
Kuala Lumpur	0.480	0.438	0.405	9.48
Sabah	0.505	0.498	0.484	12.55
Sarawak	0.498	0.508	0.457	12.08
Labuan	0.000	0.000	0.000	11.30

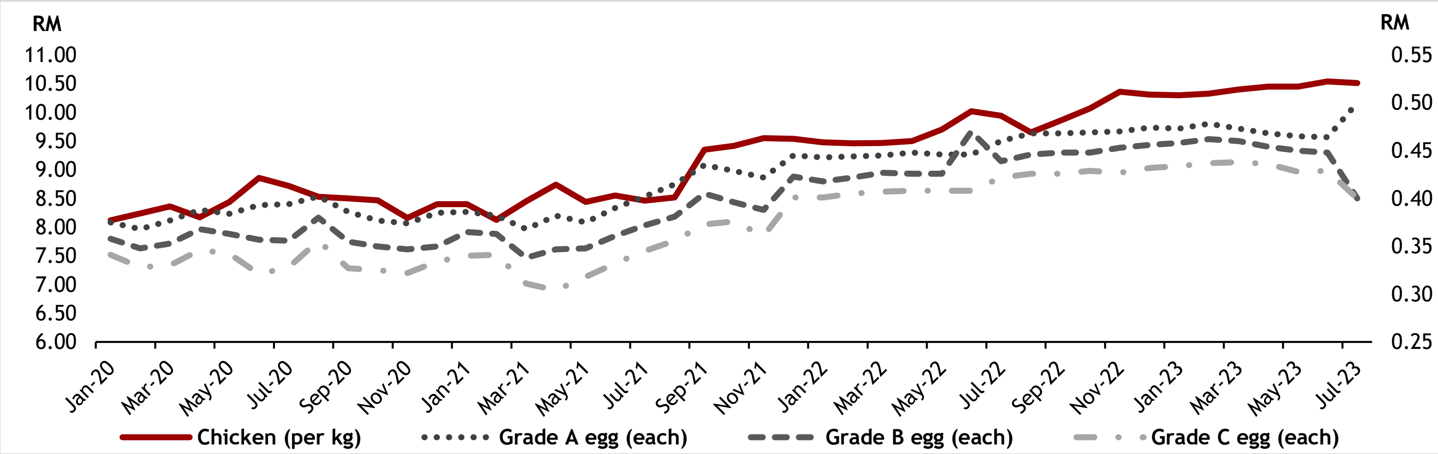
Sources: MIDFR

***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 5: Malaysia's Average Price Trend for Chicken and Eggs



Sources: MIDFR

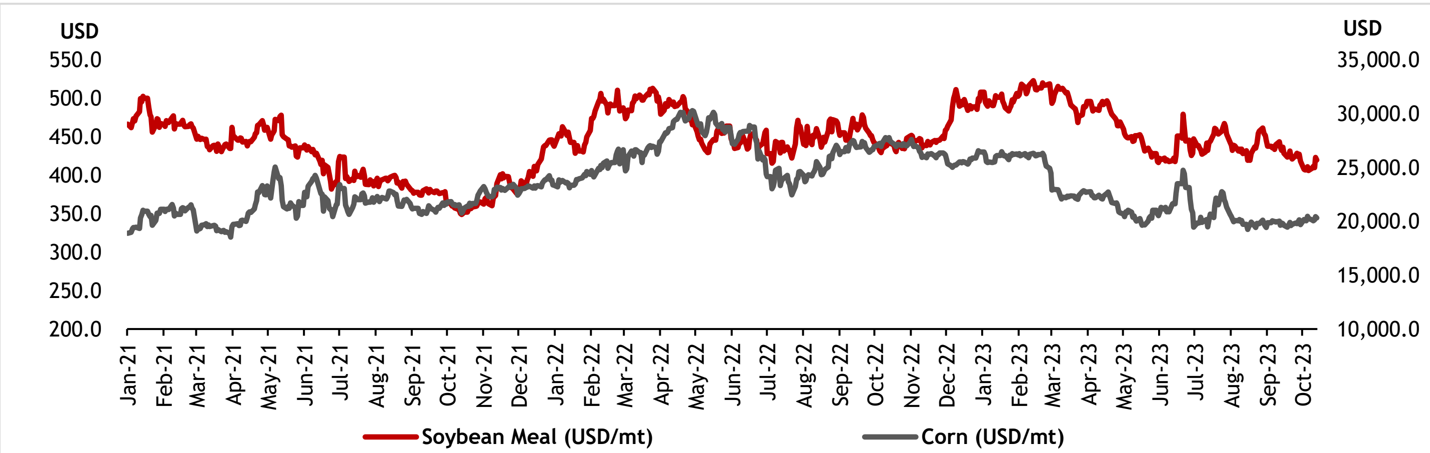
Normalizing soybean meal and corn prices in Sept 2023. Overall, both soybean meal and corn futures for September 2023 are still trading above 2019 levels. However, on a positive note, soybean meal and corn futures are currently trading below their two-year peak levels, indicating a potential decrease in raw material costs for animal feed in the near term. The expectation of lower animal feed costs, combined with the anticipated removal of government subsidies and retail price ceilings for chicken and eggs, will provide poultry companies with more flexibility to adjust market prices based on supply and demand dynamics and to pass on increased costs. This is expected to benefit poultry companies like **QL Resources (BUY, TP: RM6.75)** and **Leong Hup International (NEUTRAL, TP: RM0.50).**

Table 6: Average Monthly Soybean meal, and corn futures prices for Sept 2023

Commodities	Sep-23	Aug-23	Sep-22	YoY (%)	MoM (%)	Remarks
Soybean Meal (USD/mt)	431	438	458	(5.9)	(1.5)	YoY: Reduced price was primarily due to reduced downstream demand from Asian countries and a record harvest in Latin America. Looking ahead, we are cautious about the potential increase in soybean meal prices due to logistical issues in the US, especially since the USDA has recently lowered the US soybean yield forecast. MoM: Similar trend as YoY.
Corn (USD/mt)	19,836	19,836	26,875	(26.2)	0.0	YoY: Lower price was attributed to the higher availability of corn supply, as corn crops were not as adversely affected by hot and dry weather. MoM: Prices remain unchanged.

Sources: Bloomberg, USDA, MIDFR

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



Sources: Bloomberg, MIDFR

Weakening MYR in Sept 2023

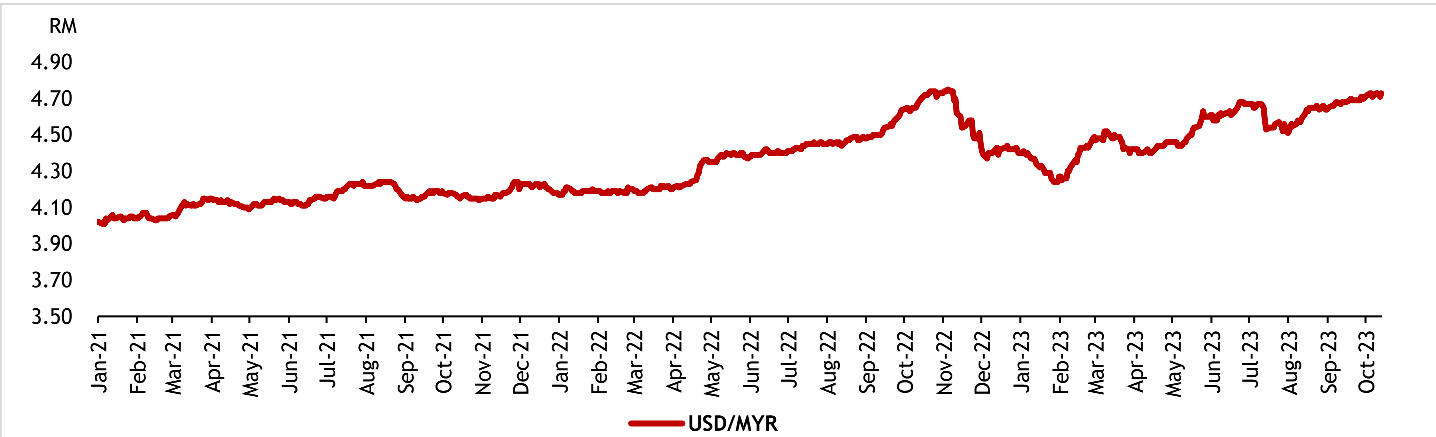
Weakening MYR in Sept 2023. In Sept 2023, the average exchange rate stood at USD 1.00: RM 4.68, indicating a weaker MYR compared to July 2023 (USD 1.00: RM 4.61). The volatility in the MYR exchange rate against USD poses a risk to all F&B and poultry players who source commodities in USD. Nevertheless, we believe the impact will be more than offset by the recent normalization of global commodity prices for key raw materials. Going forward, our economists anticipate a stronger MYR, with an average exchange rate of USD 1.00: RM 4.48 for 2023, projected to reach USD 1.00: RM 4.30 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, as a significant portion of their revenue is received in USD.

Table 7: USD/MYR Monthly statistics for Sept 2023

Data	Average monthly data					vs. 2-year peak		
	Sep-23	Aug-23	Sep-22	YoY (%)	MoM (%)	Sep-23	2-yr peak	chg. (%)
USD/MYR	4.68	4.61	4.55	(2.9)	(1.5)	4.68	4.75	1.4

Sources: Bloomberg, MIDFR

Chart 7: Price Trend of USD/MYR



Sources: Bloomberg, MIDFR

Attractive Valuation for a Staple Player. 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 46x 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.

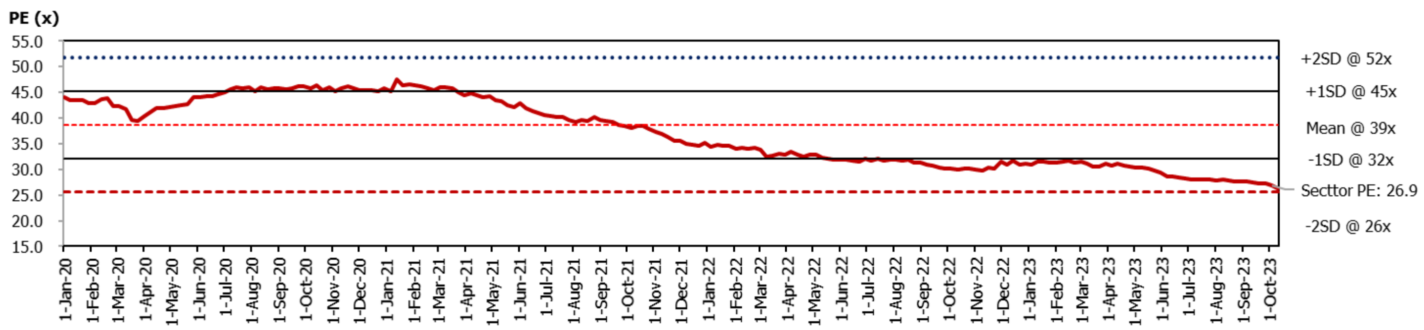
Maintain POSITIVE on the consumer sector, focusing on consumer staples. Overall, we remain optimistic about the prospects for the consumer sector, with a preference for consumer staples over discretionary items . This was underpinned by: (1) a defensive play due to the resilient demand for staple-related 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).** We favor QL due to 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, driven by increased tourist traffic. 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 8: Peer comparison table

Stocks	Rec.	Price @ 16-Oct-23	TP	Mkt. Cap (RM'm)	Core EPS (sen) CY23	Core EPS (sen) CY24	PER (x) CY23	PER (x) CY24	Div. Yield (%) CY23	Div. Yield (%) CY24	Net Gearing
Consumer Staples:											
Fraser & Neave Holdings	Buy	RM26.20	RM33.50	9,628	125.4	152.4	20.9	17.2	2.5	2.7	0.0
Leong Hup International	Neutral	RM0.64	RM0.50	2,336	5.0	6.0	12.7	10.7	2.4	3.6	0.7
QL Resources	Buy	RM5.50	RM6.75	13,391	16.5	19.4	33.3	28.4	1.5	1.3	0.3
Spritzer	Buy	RM1.55	RM1.85	503	4.5	5.5	34.5	28.3	0.0	0.0	Net Cash
Hup Seng Industries	Buy	RM0.70	RM0.95	560	4.5	6.1	15.4	11.6	6.2	6.1	Net Cash
Nestle Malaysia	Neutral	RM123.30	RM139.50	28,914	318.2	359.1	38.8	34.3	2.6	2.5	1.3
Weighted Avg.					**192.4**	**219.2**	**33.0**	**28.6**	**2.3**	**2.3**	
Consumer Discretionary:											
Aeon Co M	Buy	RM1.09	RM1.40	1,530	9.0	10.0	12.1	10.9	4.1	3.6	0.2
Padini Holdings	Buy	RM3.93	RM4.60	2,586	37.0	39.9	10.6	9.8	2.8	3.0	Net Cash
Asia File Corp	Sell	RM1.95	RM1.50	380	16.7	16.6	11.7	11.7	1.2	1.3	Net Cash
Rhong Khen International	Neutral	RM1.29	RM1.35	250	12.5	12.6	10.3	10.2	2.9	2.9	Net Cash
Weighted Avg.					**25.1**	**27.0**	**11.2**	**10.3**	**3.1**	**3.1**	

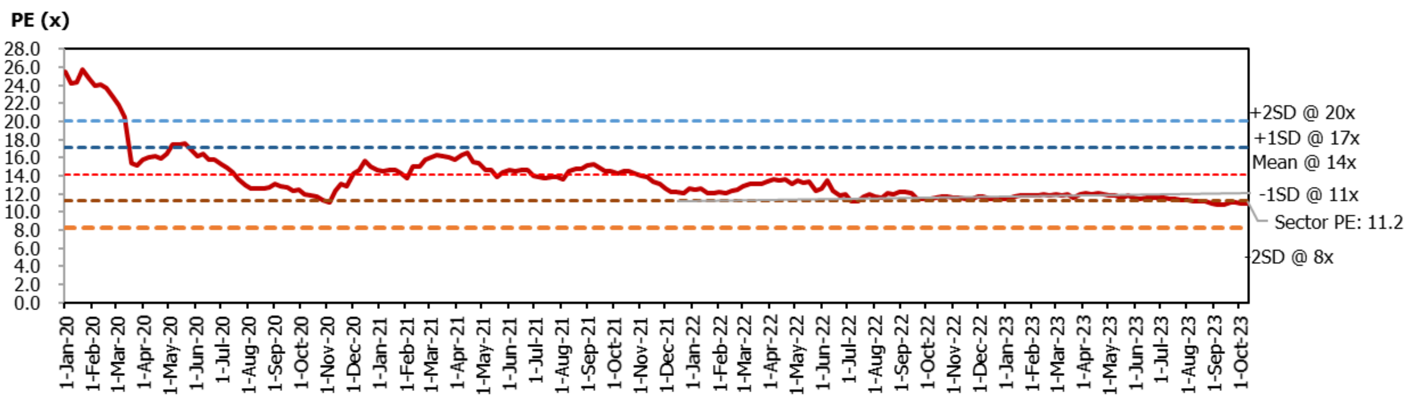
Sources: Bloomberg, MIDFR

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 *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