# CONSUMER

## *Downgrade to* NEUTRAL

*(Previously POSITIVE)*

## Optimism with caution

### KEY INVESTMENT HIGHLIGHTS

- **Retail: Positive Outlook for F&B Consumption, Neutral on Discretionary Spending**
- **F&B: Elevated Prices for Certain Commodities in the near term**
- **Poultry: Resilient Outlook**
- **Depreciation of USD/MYR exchange rate in Nov 2023**
- **3QCY23 Earnings Wraps**
- **Downgrade to NEUTRAL (from POSITIVE) on the consumer sector with the top buys being QL Resources (BUY, TP: RM6.25) and F&N (BUY, TP: RM33.50)**

### Retail: Positive Outlook for F&B Consumption, Neutral on Discretionary Spending

**Solid demand for retail F&B and non-specialised in Sept 2023.** Based on the DOSM, retail trade for Sep 2023 increased by +5.9%yoy to RM61.1b. F&B and tobacco stores experienced its 18th consecutive double-digit growth in Sept 2023, indicating robust out-of-home consumption for F&B and tobacco products. Non-specialised sales recorded a robust yet normalizing retail trade growth of +8.9%yoy. On a monthly basis, retail trade continued its upward trajectory in Sep 2023, with a +0.9%mom increase, albeit at a softer pace.

**Table 1: Malaysia's monthly key statistics for Sept 2023**

| Data | Monthly Data | | | | |
|---|---|---|---|---|---|
| | Sep-23 | Aug-23 | Sep-22 | YoY | MoM |
| **Retail Trade (RM'b)** | **61.1** | **60.5** | **57.7** | **5.9%** | **0.9%** |
| Non-specialized Stores | 23.2 | 23.0 | 21.3 | 8.9% | 1.0% |
| F&B and Tobacco | 3.8 | 3.8 | 3.4 | 13.4% | 0.8% |
| Household Equipment | 7.2 | 7.1 | 7.0 | 2.4% | 0.9% |
| Others in Specialized Stores | 12.7 | 12.5 | 12.1 | 5.5% | 1.7% |
| Unemployment rate (%) | 3.4 | 3.5 | 3.6 | (0.2)ppt | (0.1)ppt |

*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 Specialized Stores = clothing, footwear, pharmaceuticals, watches, souvenirs, and others.*

**Resilient retail spending for Staple Food in 2024.** Moving forward, we are optimistic that consumption for staple food in F&B and tobacco, as well as non-specialised stores, will remain resilient in 2024. This is supported by (1) steady job market prospects (unemployment at 3.4% in FY24F), (2) sustained demand for essential daily items, (3) continuous robust out-of-home consumption, (4) various initiatives introduced in Budget 2024 to support consumer spending on staple food, (5) higher leisure tourist arrivals thanks to the visa-free entry for Chinese and Indian citizens from 1 December onward, as well as (6) rising business visits following the reopening of economy. This outlook aligns with MIDF Economists' optimistic retail trade forecast for 2024 in the **Economic Review: Sept 2023 Distributive Trade**.

**COMPANY IN FOCUS**

**Fraser & Neave Holdings Berhad**
Maintain **BUY** | Unchanged Target Price: RM33.50
Price @ 4TH Dec 2023: RM27.50

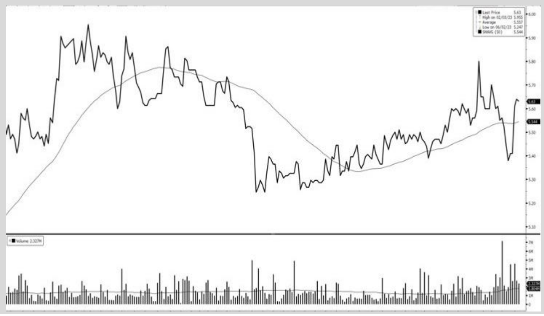
- Gain from the growing OOH beverages consumption.
- Benefit from the upcoming holiday and CNY celebrations.
- Obtain additional revenue from the integration of Cocoaland.

**Share price chart**

**QL Resources Berhad**
Maintain **BUY** | Unchanged Target price: RM6.25
Price @ 4TH Dec 2023: RM5.63

- Solid demand for marine and livestock products.
- Venturing into new markets by supplying in-flight hot food to MAS Awana.
- Diversified revenue base.

**Share price chart**



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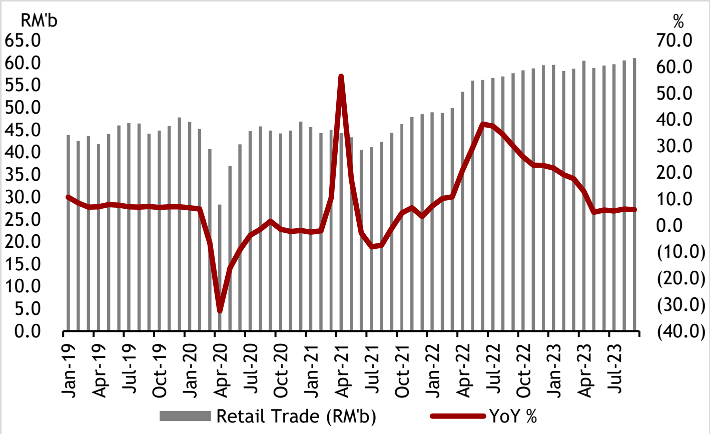
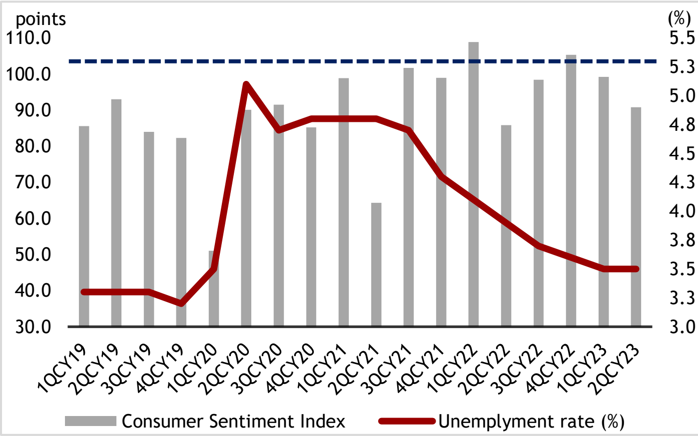
**Cheaper staples benefit, neutral on discretionary products.** Despite the continuous strong out-of-home consumption for F&B and sustained demand for staple food, we opine that consumers are becoming more price-sensitive and restrained in spending on discretionary and major durable items. This is mainly due to global economic instability, rising inflationary pressure, and normalizing interest rates. Hence, we foresee a softer demand for discretionary items like Hardline and Softline for **Aeon Co (NEUTRAL, TP: RM1.14),** which could offset the positive trend in the food line business (due to robust out-of-home consumption). Meanwhile, we expect the demand for products at Family Mart of **QL Resources (BUY, TP: RM6.25)** may be slightly affected by weaker consumer sentiment. Nevertheless, the return of leisure and business tourism activities, along with continuous store openings in residential areas, could offset the downturn. We also believe that **Padini (NEUTRAL, TP: RM3.50)** is poised to leverage cash aids for the B40 income group and civil servants under Budget 2024, and the topline of its products is expected to remain resilient against various challenges due to its competitively priced products.

**Chart 1: Malaysia's Monthly Retail Trade**




*Sources: DOSM, MIDFR*

**Chart 2: Malaysia's Consumer Sentiment Index**




*Sources: DOSM, MIER, MIDFR*

## F&B: Elevated Prices for Certain Commodities in the near term

**Volatile 3-month futures Global Commodity Prices in Nov 2023.** In November, all global commodities for F&B producers were trending below its 2-year peak levels. However, there has been a rebound in the average 3-month futures global commodity prices for key raw ingredients in F&B production, including raw sugar, white sugar, cocoa, robusta, and arabica. This was primarily attributed to tight global supplies for the aforementioned commodities due to extreme weather and congestion at Brazilian ports.

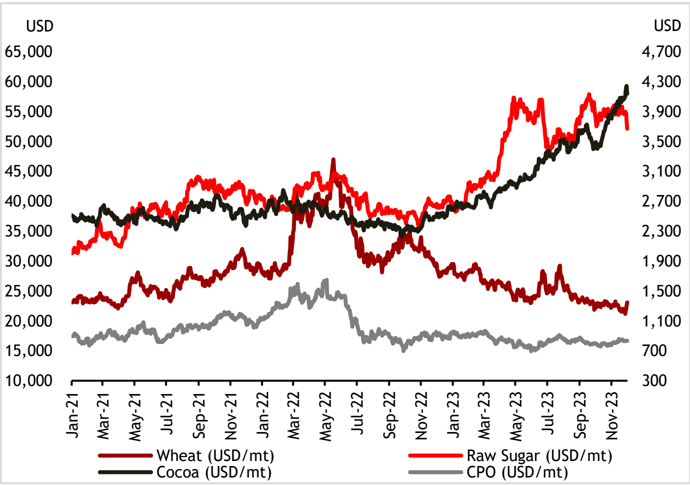
Looking ahead to 2024, we are cautious that fluctuations in certain global commodities prices (coffee, cocoa, and sugar) for F&B manufacturers will likely continue in the near term. This is primarily due to the anticipated tight supplies of persisting into 2024, caused by the adverse weather in the major producing countries. Additionally, we are wary of ongoing congestion at the main Brazilian ports for agricultural commodity exports, where extended congestion might exacerbate global supply shortages for sugar and coffee. Note that Brazil is a major global producer of coffee, soybeans, corn, and sugar. Given this, we anticipate **Nestle Malaysia (NEUTRAL, TP: RM129.70)** to be the impacted by higher sugar, cocoa, and coffee prices. Concurrently, as sugar is a key raw material for both **Fraser & Neave (BUY, TP: RM33.50)** and **Hup Seng Industries (BUY, TP: RM0.98),** we are closely monitoring the impact of rising sugar prices on both. We are also sceptical of a potential reversal in pet resin price, especially if OPEC+ members achieve their pledge for voluntary cutbacks, leading to an increase in Brent crude oil. This would have the greatest impact on **Spritzer (BUY, TP: RM2.10),** as the company uses pet resin for its plastic water bottles. On a plus side, the normalized global wheat and CPO prices could partially outweigh the elevated in the sugar, cocoa and coffee prices.

## Table 2: Nov 2023 Average Commodities Futures Prices for F&B Producers

| Commodities | Sep-23 | Aug-23 | Sep-22 | YoY (%) | MoM (%) | Remarks |
|---|---|---|---|---|---|---|
| **Wheat** (USD/mt) | 22,229 | 22,741 | 30,922 | (28.1) | (2.3) | YoY: Lower price was due to ample global supplies, with major exporters having greater seasonal availabilities and strong competition among competitors.<br>MoM: Price dropped due to continued ample global supplies. |
| **Cocoa** (USD/mt) | 4,015 | 3,607 | 2,466 | 62.8 | 11.3 | YoY: Increased price was attributed to an anticipated global cocoa supply shortage. Given that Western Africa (70% market share) is severely affected by extreme rainfall, raising the risk of lost crops, along with continuous threats of the cacao swollen shoot virus and a shortage of fertilizers.<br>MoM: Higher price was due to similar reasons of tight global cocoa supply. |
| **Raw Sugar** (USD/mt) | 54,958 | 54,302 | 39,027 | 40.8 | 1.2 | YoY: Higher price was due to the anticipation of lower global supplies after continuous extreme dry weather that reduced harvests in India and Thailand (the 2nd & 3rd largest exporters), Brazilian port congestion, along with India's suspension of sugar exports beyond Oct 2023.<br>MoM: Higher price was due to expectation of reduced global supplies. |
| **CPO** (USD/mt) | 827 | 782 | 905 | (8.6) | 5.7 | YoY: Lower price was due to anticipated weaker demand from households, headwinds, and normalized PO closing stock from major importing countries returning to pre-pandemic levels.<br>MoM: Higher price was due to near-term El Nino phenomenon, rising biodiesel demand, robust crude oil prices, and pricing of sunflower oil. |
| **White Sugar** (USD/mt) | 953 | 936 | 801 | 18.9 | 1.8 | YoY: Higher price aligned with elevated raw sugar prices due to expectations of a tight global sugar supply.<br>MoM: Heightened price followed similar trend, anticipating tight supplies for global sugar ahead. |
| **Arabica** (USD/mt) | 3,478 | 3,177 | 3,341 | 4.1 | 9.5 | YoY: Higher price was due to tight supplies from most global exporting countries, Brazilian port congestion, shrinking inventories, and continuous strong demand for Arabica coffee.<br>MoM: Similar to the previous reason, due to tight supplies from most global exporting countries, Brazilian port congestion, shrinking inventories, and continuous strong demand for Arabica coffee. |
| **Robusta** (USD/mt) | 2,388 | 2,299 | 1,805 | 32.3 | 3.9 | YoY: Higher price was due to continuous strong demand and anticipation of lower production, in line with tight supplies of Arabica.<br>MoM: Uptick of price was due to strong demand and weaker global supplies for coffee inventory. |
| **PET Resin** (USD/mt) | 986 | 985 | 1,012 | (2.6) | 0.1 | YoY: Decreased price due to lower Brent crude oil prices compared to previous year.<br>MoM: Price higher due to recent rebound in Brent crude oil. |

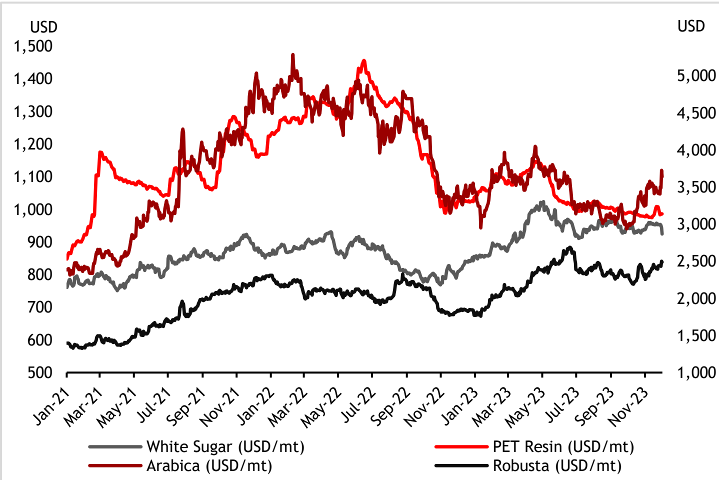
*Sources: Bloomberg, USDA, MIDFR*
****Pet resin = Polyethylene terephthalate*

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




*Sources: Bloomberg, MIDFR*

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




*Sources: Bloomberg, MIDFR*

## Poultry: Resilient Outlook.

**Hen's egg prices remained elevated in October 2023.** The average prices for all Grade A-C hen's eggs in October 2023 were above the retail price controls for eggs in Malaysia. This was partly due to continuous shortages of eggs in Malaysia, causing higher prices. Meanwhile, chicken prices across most states in Peninsular Malaysia were selling at prices below the price control of RM9.40 per kg in October 2023. Note that the government removed price control and subsidies for chicken with the effective date of 1 November 2023, while price control and subsidies for chicken eggs continue. Based on our channel check, the actual farm price for live birds does not recognize the removal of subsidies after the price control lifted. Instead, the farm price live birds were selling at a lower level, which closely follows the market supply and demand dynamics.

### Table 3: Malaysia Monthly Hen's egg and chicken statistics for Oct 2023

| Data | Average monthly data | | | | | vs. 2021 | | |
|---|---|---|---|---|---|---|---|---|
| | Oct-23 | Sep-23 | Oct-22 | YoY (%) | MoM (%) | Oct-23 | Oct-21 | chg (%) |
| Hen's Egg Grade A (each) | 0.47 | 0.47 | 0.47 | 1.1 | 1.3 | 0.47 | 0.43 | 10.5 |
| Hen's Egg Grade B (each) | 0.45 | 0.45 | 0.45 | 0.4 | (0.4) | 0.45 | 0.40 | 13.6 |
| Hen's Egg Grade C (each) | 0.43 | 0.43 | 0.43 | 0.9 | 0.7 | 0.43 | 0.38 | 15.2 |
| Chicken (per kg) | 10.02 | 10.01 | 10.07 | (0.5) | 0.1 | 10.02 | 9.42 | 6.4 |

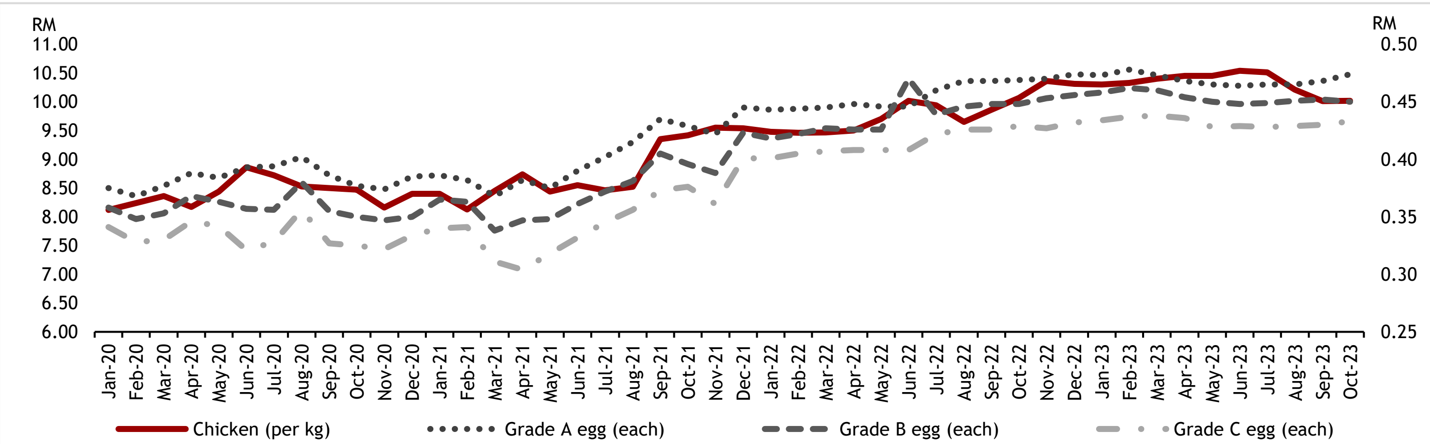
*Sources: MIDFR*

### Table 4: Oct 2023 Egg and Chicken Statistics by State

| | Grade A egg (each) | Grade B egg (each) | Grade C egg (each) | Chicken (per kg) |
|---|---|---|---|---|
| **Malaysia** | 0.474 | 0.450 | 0.433 | 10.02 |
| **Johor** | 0.452 | 0.432 | 0.414 | 9.12 |
| **Kedah** | 0.474 | 0.449 | 0.438 | 9.24 |
| **Kelantan** | 0.467 | 0.439 | 0.422 | 9.00 |
| **Melaka** | 0.450 | 0.430 | 0.410 | 9.38 |
| **Negeri Sembilan** | 0.453 | 0.429 | 0.410 | 9.24 |
| **Pahang** | 0.450 | 0.430 | 0.411 | 9.84 |
| **Perak** | 0.456 | 0.435 | 0.415 | 9.31 |
| **Perlis** | 0.450 | 0.430 | 0.430 | 9.27 |
| **Pulau Pinang** | 0.467 | 0.440 | 0.416 | 9.23 |
| **Terengganu** | 0.463 | 0.450 | 0.410 | 9.56 |
| **Putrajaya** | | | 0.410 | 8.82 |
| **Selangor** | 0.459 | 0.433 | 0.417 | 9.49 |
| **Kuala Lumpur** | 0.450 | 0.440 | 0.410 | 9.09 |
| **Sabah** | 0.505 | 0.495 | 0.493 | 12.39 |
| **Sarawak** | 0.681 | 0.598 | 0.530 | 11.95 |
| **Labuan** | 0.000 | 0.600 | 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.*
*Note: Retail price control for chicken ended on 30 Oct 2023; price controls for chicken eggs still ongoing*

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




*Sources: MIDFR*

**Normalizing corn prices could offset the price reversal in soybean meal.** While soybean meal prices reversed its upward trend in November 2023, we believe that the price increase is manageable. Given that soybean meal contributed only 19-32% of the total chicken feed and corn contributed 55-69% of the total chicken feed, we anticipate that lower corn prices will offset the recent surge in soybean meal prices. Nevertheless, both soybean meal and corn prices are still trading below the 2-year peak level. This is a positive note as it indicates continuously low animal feed input costs going forward, thereby lowering production costs and improving gross profit margins and earnings.

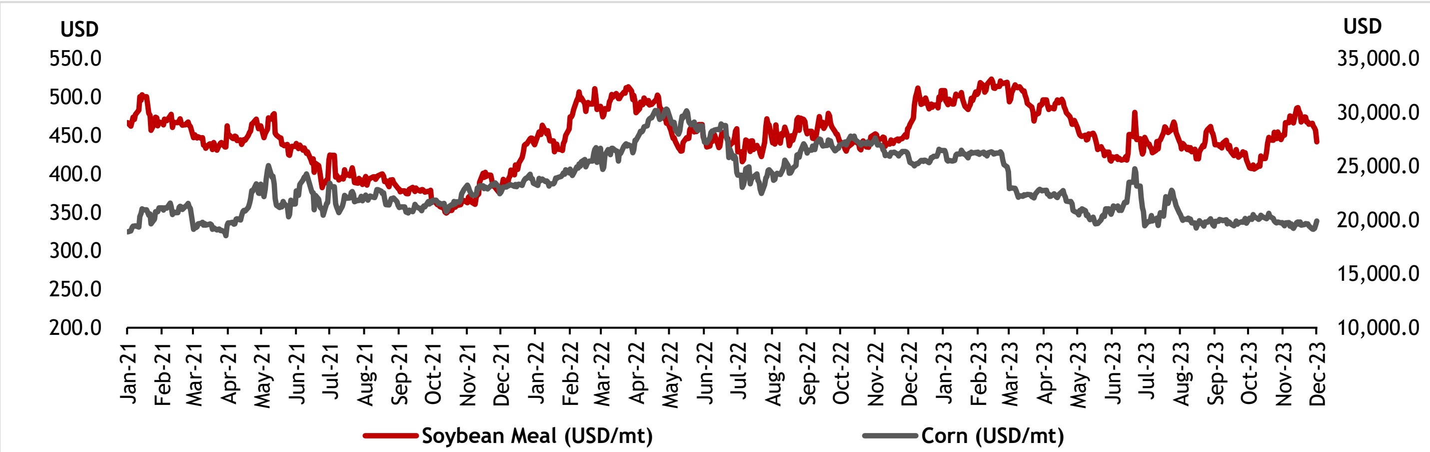
Looking ahead to 2024, we expect global corn prices to remain at the current level, owing to ample global corn supply and a less water-intensive crop that is resistant to hot and dry weather. While we are cautiously optimistic about the supply of soybean meal in 2024, we believe that lower global corn prices will offset the slightly higher soybean meal prices. Hence, we expect animal feed costs to stay rather steady at the current level. This, along with Malaysia's removal of price controls, and the Indonesian government-managed market supply to improve selling prices, could all benefit the poultry players under our coverage, leading to better margins ahead. This is expected to benefit poultry companies like **QL Resources (BUY, TP: RM6.25)** and **Leong Hup International (BUY, TP: RM0.90).**

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

| Commodities | Nov-23 | Oct-23 | Nov-22 | YoY (%) | MoM (%) | Remarks |
|---|---|---|---|---|---|---|
| **Soybean Meal** (USD/mt) | 469 | 429 | 445 | 5.3 | 9.3 | YoY: Prices reversed upward following higher soybean prices. This was largely due to fluctuating demand, weather concerns for Brazil's crops, stronger US exports, but still tight supplies from the US and Argentina. Nevertheless, congestion in the Brazilian major port has further delayed the shipping schedule and worsened global supplies.<br>MoM: Higher prices were due to fluctuating demand, potential low production from Brazil, and continued tight supplies from the US and Argentina, pushing up the price. |
| **Corn** (USD/mt) | 19,539 | 20,122 | 26,426 | (26.1) | (2.9) | YoY: Lower prices were attributed to the higher availability of corn supply, thanks to the larger production and export from major exporters, as corn crops were not as adversely affected by hot and dry weather. Note that corn is a less water-intensive crop.<br>MoM: Normalized prices were due to sufficient global supply for corn. |

*Sources: Bloomberg, USDA, MIDFR*

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




*Sources: Bloomberg, MIDFR*

## Depreciation of USD/MYR exchange rate in Nov 2023

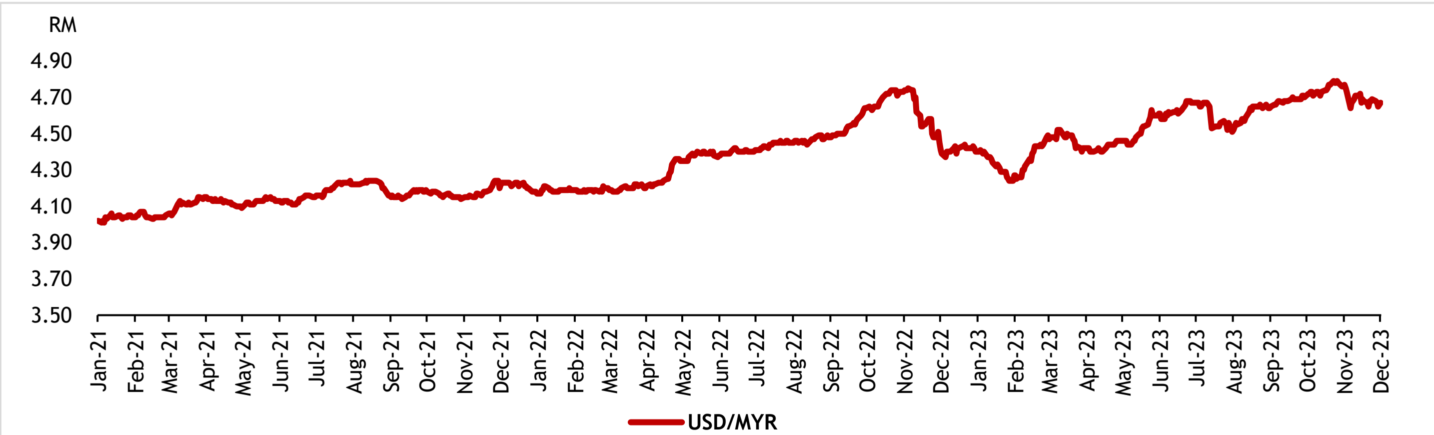
**Slight appreciation of MYR in Nov 2023**. The average exchange rate of USD/MYR for November 2023 was USD 1.00: RM4.69, indicating a stronger MYR compared to October 2023 (USD 1.00: RM 4.75). The depreciation in USD will benefit all F&B and poultry players, as global commodities are typically sourced in USD. Moving 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 1.60)** and **Rhong Khen International (NEUTRAL, TP: RM 1.22)** may experience lower sales, as a significant portion of their revenue is received in USD.

### Table 6: USD/MYR Monthly statistics for Nov 2023

| Data | Average monthly data | | | | | vs. 2-year peak | | |
|---|---|---|---|---|---|---|---|---|
| | Nov-23 | Oct-23 | Nov-22 | YoY (%) | MoM (%) | Nov-23 | Max | chg. (%) |
| USD/MYR | 4.69 | 4.75 | 4.61 | (1.7) | 1.3 | 4.69 | 4.79 | 2.2 |

*Sources: Bloomberg, MIDFR*

### Chart 7: Price Trend of USD/MYR




*Sources: Bloomberg, MIDFR*

## 3QCY23 Earnings Wraps

**Consumer staple 3QCY23 earnings mostly exceeded expectations.** Among the 6 consumer staples we cover, **Nestle Malaysia (NEUTRAL, TP: RM129.70)** and **QL Resources (BUY, TP: RM6.25)** 3QCY23 earnings came in within our projections. Meanwhile, the remaining 4 companies surpassed expectations. This includes **Fraser & Neave (BUY, TP: RM33.50), Hup Seng Industries (BUY, TP: RM0.98), Spritzer (BUY, TP: RM2.10), and Leong Hup International (BUY, TP: RM0.90).** The outperformance in F&B earnings was driven by (i) increased local and export sales and (ii) lower operational costs resulting from recent declines in global commodities and effective cost management. Leong Hup's higher-than-expected core earnings were attributed to (i) a strong turnaround in its Malaysia and Indonesia businesses, (ii) increased sales of high-margin goods, and (iii) lower operational expenses due to economies of scale and lower feed input prices.

**Consumer discretionary 3QCY23 earnings disappointed.** All 4 consumer discretionary companies under our coverage reported missed earnings for the 3QCY23. Asia File's earnings outperformed expectations, partly attributed to effective cost management offsetting lower sales. However, Aeon and Rhong Khen experienced reduced earnings due to diminished spending and demand for discretionary items, influenced by multiple headwinds such as normalized interest rates and rising inflationary pressures. Padini's lower earnings were primarily attributed to increased operating costs, which affected profit margins in 3QCY23, despite higher revenue.

## TABLE 7: 3QCY23 Revenue & Earnings Overview

| Companies | Dividend (sen/share) | 3QCY23 Revenue Overview | | | 3QCY23 Core PATANCI Overview | | |
|---|---|---|---|---|---|---|---|
| | | YoY (%) | QoQ (%) | Ytd (%) | YoY (%) | QoQ (%) | Ytd (%) |
| **Consumer Staples:** | | | | | | | |
| Fraser & Neave Holdings | 50 | 9.4 | (6.6) | 11.9 | 41.7 | 0.0 | 26.0 |
| Leong Hup International | 1.2 | 6.6 | 4.2 | 6.0 | 217.9 | 85.1 | 60.3 |
| QL Resources | N/A | 3.2 | 5.7 | 4.1 | 30.6 | 32.1 | 22.2 |
| Spritzer | N/A | 10.8 | 7.2 | 12.7 | 50.4 | 45.2 | 43.5 |
| Hup Seng Industries | N/A | 34.2 | 15.5 | 17.4 | 229.1 | 50.7 | 128.2 |
| Nestle Malaysia | 70.0 | 8.1 | 1.2 | 7.0 | (0.9) | 0.2 | 10.4 |
| **Consumer discretionary:** | | | | | | | |
| Aeon Co M | N/A | (2.7) | (7.5) | 0.5 | (17.2) | (49.7) | (6.9) |
| Padini Holdings | 2.5 | 2.4 | (18.5) | 2.4 | (42.3) | (53.0) | (42.3) |
| Asia File Corp | 3.5 | 2.7 | 4.5 | (6.1) | 3.4 | 70.9 | (15.8) |
| Rhong Khen International | N/A | (48.5) | (7.9) | (48.5) | (72.3) | (71.4) | (72.3) |

*Source: MIDFR, Company*

## TABLE 8: 3QCY23 Forecast Revisions Summary

| Companies | FYE | 3QCY23 Results Overview | | Revisions | | |
|---|---|---|---|---|---|---|
| | | Ours | Streets' | Recommendation | Target Price | Earings Forecast |
| **Consumer Staples:** | | | | | | |
| Fraser & Neave Holdings | SEPT (4QFY23) | **Above** 112% | **Above** 107% | **Unchanged** BUY | **Unchanged** RM33.50 | **Revised Upward** FY24F = +5.9% FY25F = +5.3% |
| Leong Hup International | DEC (3QFY23) | **Above** 116% | **Above** 120% | **Unchanged** BUY | **Higher** RM0.90 | **Revised Upward** FY23F = +66.9% FY24F = +62.7% FY25F = +55.1% |
| QL Resources | MAR (2QFY24) | **Within** 52.6% | **Above** 55.9% | **Unchanged** BUY | **Lower** RM6.25 | **Revised Downward** FY24F= -1% FY25F = -8.8% FY26F = -6.8% |
| Spritzer | DEC (3QFY23) | **Above** 87.1% | **Above** 95.7% | **Unchanged** BUY | **Higher** RM2.10 | **Revised Upward** FY23F = +33.4% FY24F = +21.1% |
| Hup Seng Industries | DEC (3QFY23) | **Above** 88% | **Above** 117% | **Unchanged** BUY | **Higher** RM0.98 | **Revised Upward** FY23F = +17.4% FY24F = +4.1% |
| Nestle Malaysia | DEC (3QFY23) | **Within** 76.9% | **Within** 79.5% | **Unchanged** NEUTRAL | **Lower** RM129.70 | **Unchanged** |
| **Consumer discretionary:** | | | | | | |
| Aeon Co M | DEC (3QFY23) | **Below** 67.1% | **Below** 68% | **Downgraded** NEUTRAL | **Lower** RM1.14 | **Revised Downward** FY24F = -6.9% FY25F = -18.6% FY26F = -34.8% |
| Padini Holdings | JUN (1QFY24) | **Below** 11.6% | **Below** 11.9% | **Downgraded** NEUTRAL | **Lower** RM3.50 | **Revised Downward** FY24F = -31.8% FY25F = -26.1% FY26F = -24.3% |
| Asia File Corp | MAR (2QFY24) | **Above** 56.4% | N/A | **Unchanged** SELL | **Higher** RM1.60 | **Revised Upward** FY24F = +8.3% FY25F = +6.3% FY26F = +4.5% |
| Rhong Khen International | JUN (1QFY24) | **Below** 13.9% | **Below** 15.4% | **Unchanged** NEUTRAL | **Lower** RM1.22 | **Revised Downward** FY24F = -48.1% FY25F = -41.8% FY26F = -31.2% |

*Source: MIDFR, Company*

**Attractive Valuation for a Staple Player.** QL Resources and F&N currently have attractive valuations. QL Resources has a PER of 31.4x for CY24, while F&N's PER is 17.2x for the same year. These figures are lower than its 3-year historical average PERs of 46x and 22x, respectively, as well as the consumer staple sector's 3-year forward average PER of 38x. This suggests that these stocks might be undervalued, making them compelling investments in the consumer staple sector, given their solid fundamentals and aggressive pursuit of revenue growth avenues.

**Downgrade to NEUTRAL (from POSITIVE) on the consumer sector.** Moving forward, while, we are optimistic about FY24 outlook for **consumer staples**, underpinned by (1) its defensive nature, (2) a solid domestic consumption outlook, supported by various cash handouts in Budget 2024, better job market prospects, and higher tourist arrivals (leisure and business), and (3) slightly better outlook for poultry players ahead, driven by the expectation of lower chicken feed input costs, coupled with the improving operating environment in Malaysia and Indonesia. However, we are cautious about the volatility in certain global commodity prices (sugar, coffee, and cocoa) will likely to persist in the near term. This could more than outweigh the drop in other key commodities (such as wheat and CPO), thus exerting inflationary pressure on the margins of F&B manufacturers in the near term. Besides, we also expect sluggish demand for consumer discretionary in 2024, primarily due to growing inflationary pressures, fears of a future global recession, persistently high interest rates in the US, and normalized OPR in Malaysia. These factors are expected to erode household discretionary expenditure, leading to tighter spending on durable items. Hence, we **downgrade our consumer sector recommendation to NEUTRAL** (from POSITIVE) primarily due to the cautious outlook.

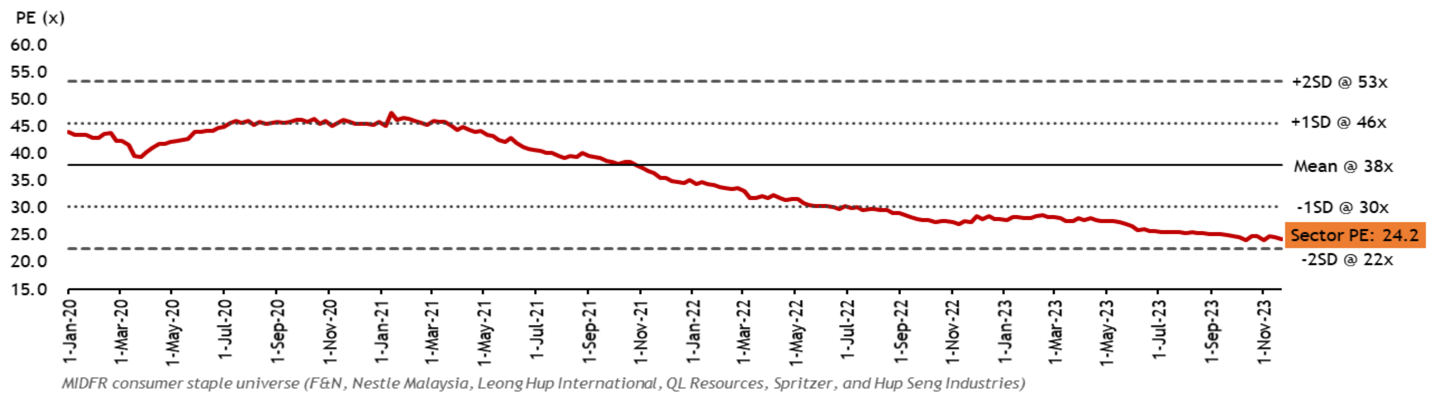
**Top Picks**. Our top picks are consumer staples that exhibit resilient demand, such as **QL Resources (BUY, TP: RM6.25)** and **Fraser & Neave Holdings (BUY, TP: RM33.50).** We like QL due to the sustained demand for marine and livestock products. Additionally, we favour the company's strategic move to explore new markets by providing in-flight hot food to MAS Awana. While this venture is currently in the pilot phase, we are optimisitcs about QL's ability to capitalize on its central kitchen and potentially to lead to an expansion of the company's revenue. Meanwhile, we like F&N because the company is likely to benefit from the rising demand for RTD beverages, driven by increasing tourist traffic. We also appreciate F&N's initiative to continue growing via recently integrated Sri Nona, followed by Cocoaland and the upcoming integrated dairy farm that could ensure the self-sufficiency of dairy and potentially expand the revenue base.

## Table 9: Peer comparison table

| Stocks | Rec. | Price @ 4-Dec-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 | RM27.50 | RM33.50 | 10,185 | 138.6 | 161.1 | 20.0 | 17.2 | 2.7 | 2.6 | Net Cash |
| Leong Hup International | Buy | RM0.64 | RM0.90 | 2,373 | 9.2 | 10.7 | 7.0 | 6.1 | 6.2 | 4.5 | 0.7 |
| QL Resources | Buy | RM5.63 | RM6.25 | 13,731 | 16.4 | 18.0 | 34.4 | 31.4 | 1.4 | 1.4 | 0.3 |
| Spritzer | Buy | RM1.81 | RM2.10 | 591 | 17.1 | 19.0 | 10.6 | 9.6 | 3.3 | 3.2 | 0.0 |
| Hup Seng Industries | Buy | RM0.79 | RM0.98 | 624 | 5.3 | 6.3 | 14.6 | 12.4 | 6.4 | 6.1 | Net Cash |
| Nestle Malaysia | Neutral | RM113.90 | RM129.70 | 28,140 | 318.2 | 359.1 | 37.7 | 33.4 | 2.6 | 2.7 | 1.3 |
| **Weighted Avg.** | | | | | **190.9** | **216.3** | **31.8** | **28.3** | **2.5** | **2.5** | |
| **Consumer Discretionary:** | | | | | | | | | | | |
| Aeon Co M | Neutral | RM1.12 | RM1.14 | 1,530 | 8.4 | 8.2 | 13.1 | 13.3 | 3.8 | 3.6 | 0.2 |
| Padini Holdings | Neutral | RM3.62 | RM3.50 | 2,395 | 26.4 | 29.9 | 13.8 | 12.2 | 2.7 | 2.7 | Net Cash |
| Asia File Corp | Sell | RM1.99 | RM1.60 | 384 | 17.7 | 17.7 | 11.1 | 11.1 | 1.2 | 1.4 | Net Cash |
| Rhong Khen International | Neutral | RM1.24 | RM1.22 | 243 | 8.7 | 7.0 | 14.4 | 18.0 | 3.1 | 1.7 | Net Cash |
| **Weighted Avg.** | | | | | **18.6** | **20.3** | **13.4** | **12.8** | **3.0** | **2.9** | |

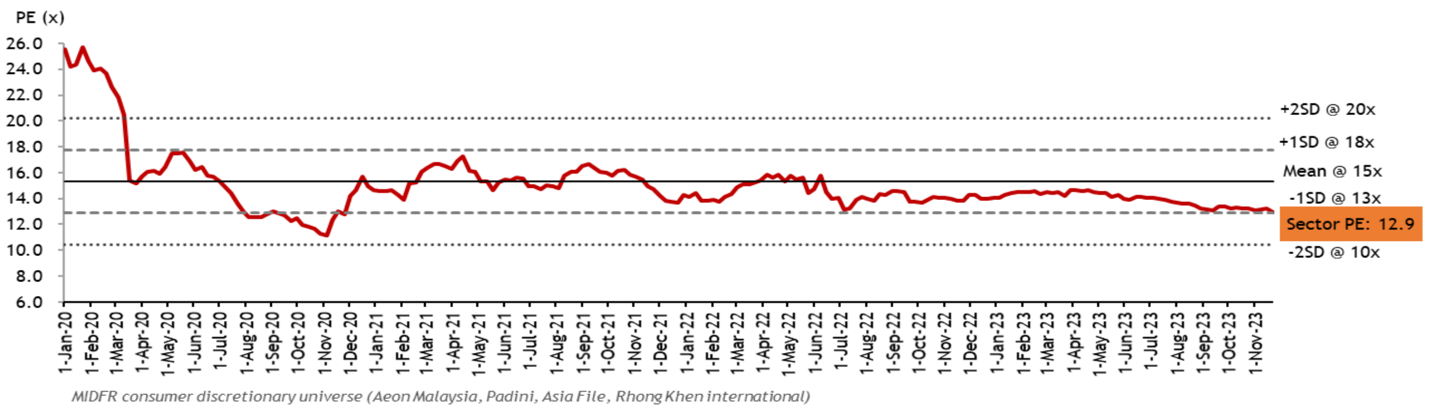
*Sources: Bloomberg, MIDFR*

## 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 *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