

# CONSUMER

**Maintain NEUTRAL**

## Walking the Middle Ground Ahead

### KEY INVESTMENT HIGHLIGHTS

- Steady demand for Out-of-home F&B consumption, discretionary spending remains muted
- F&B: Rising Cocoa, Arabica, and Robusta prices with remaining commodities normalized in March 2024
- Feed costs remain in a downward trend, with improved operations expected in Indonesia ahead
- Stronger USD Likely to partially offset the normalizing most global agricultural commodities
- Maintain a NEUTRAL stance on the consumer sector, with Fraser and Neave (BUY, TP: RM37.00) as the top pick, but QL Resources has been removed following a recent share price rally

### Steady demand for out-of-home F&B consumption, Discretionary spending remains muted

**Sustained retail trade growth with consistent out-of-home F&B consumption.** Based on DOSM, the retail trade for Feb 24 maintained a positive trajectory to RM61.5b (+5.8%yoy; +0.7%mom). This was primarily driven by increased consumer spending during the Chinese New Year festivities. Cumulatively, 2MCY24 retail trade increased +4.2%yoy propelled by sustained growth in non-specialized retail, food and beverage, tobacco, household equipment, and other stores. Notably, the out-of-home food and beverage consumption segment continued its robust performance, marking its 30<sup>th</sup> consecutive month of positive momentum.

**Table 1: Malaysia’s monthly key statistics for Feb 2024**

Data	Monthly Data				
	Feb-24	Jan-24	Feb-23	YoY	MoM
<b>Retail Trade (RM'b)</b>	<b>61.5</b>	<b>61.1</b>	<b>58.2</b>	<b>5.8%</b>	<b>0.7%</b>
Non-specialized Stores	23.6	23.2	22.1	6.7%	1.7%
F&B and Tobacco	3.9	3.9	3.6	8.0%	0.9%
Household Equipment	7.1	7.2	6.8	4.0%	(2.0)%
Others in Specialized Stores	13.0	12.9	11.9	9.5%	1.1%
Unemployment rate (%)	3.3	3.3	3.6	(0.3) ppt	0.0ppt

Sources: Department of Statistics Malaysia (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.

**..out-of-home F&B consumption remains a prevailing trend ahead.** Looking ahead, we retain sanguine about the positive retail trade growth for F&B and tobacco in 2024. This is mainly supported by (1) resilient out-of-home F&B consumption driven by a domestic inclination towards such expenditure, resurgence in tourism activities, and heightened demand during extreme weather conditions, (2) steady job market prospects and rising incomes, as well as (3) various government cash assistance and targeted subsidies expected to further bolster spending on essential food items. This in tandem with MIDF Economists' upbeat 2024 retail trade outlook.

### COMPANY IN FOCUS

#### Fraser & Neave Holdings Berhad

Maintain **BUY** | Unchanged Target Price: RM37.00

Price @ 22nd Apr 2024: RM31.48

- Gain from the growing OOH beverage consumption.
- Benefit from the hot weather, Raya celebration and influx of tourists.
- Obtain additional revenue from the integration of Coccoland.

#### Share price chart

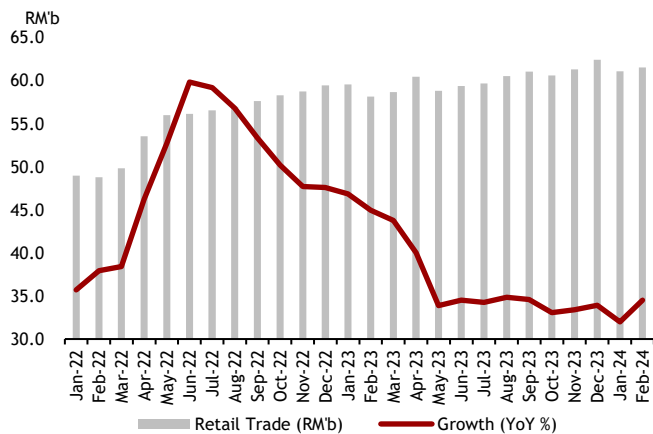


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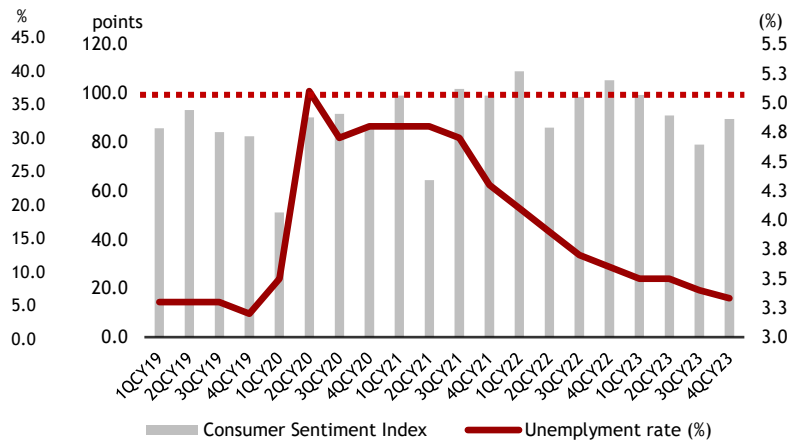
...**subdued discretionary demand amidst rising cost-of-living pressure.** We anticipate that price-sensitive consumers will exercise greater caution in their discretionary and major durable spending in 2024, primarily due to the escalating cost of living throughout the year, driven by various fiscal policy changes. Specifically, we are closely monitoring the introduction of the LVG tax, expanded scope, and higher services tax, HVG tax, and targeted fuel subsidies, all of which are likely to elevate living costs. We also observed that consumers are now seeking cheaper alternatives such as private label brand products, and to some extent, delaying significant purchases unless absolutely necessary or big promotion. Consequently, we expect a spillover impact on retailers like **Aeon Co (NEUTRAL, TP: RM1.14)**, which engage in the sale of hardline and softline products.

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



Sources: DOSM, MIDFR

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



Sources: DOSM, MIER, MIDFR

## F&B: Rising Cocoa, Arabica, and Robusta prices with remaining commodities normalized in March 2024

**Rising cocoa, Arabica, and Robusta prices, with others trading below their 2-year peak levels.** Among the 8 global agricultural commodities futures monitored for key F&B production ingredients, we observed that wheat, raw sugar, white sugar, and pet resin are currently trading below their 2-year peak levels. However, cocoa, Arabica, and Robusta prices have skyrocketed due to tight global supplies stemming from extreme weather events in major producing countries (as detailed in Table 2).

**Looking ahead,** we remain cautious that fluctuations in cocoa, Arabica, and Robusta prices are likely to persist for F&B manufacturers, driven by anticipated tight supplies continuing into 2024. This scarcity is attributed to global climate issues leading to adverse weather conditions in major producing regions. Furthermore, ongoing congestion at Brazilian ports (expected until 2Q24), drought at the Panama Canal, and avoidance of the Suez Canal (due to escalated Israel-Iran tensions) have disrupted global shipping, particularly prolonging and delaying agricultural deliveries to Asia.

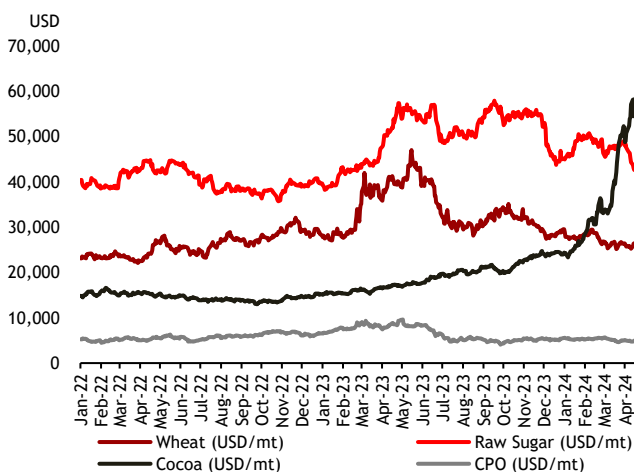
**As such,** we anticipate continuous margin compression for cocoa and coffee-related F&B products, potentially prompting companies to partially offset increased costs through upward price adjustments. However, we think that the full pass-through is unlikely due to limited room and the need to sustain product demand. Among F&B companies, **Nestle Malaysia (NEUTRAL, TP: RM127.00)** is expected to be most affected, especially regarding its MILO and NESCAFE product lines. Meanwhile, we foresee a manageable impact from the sugar prices as they are currently below the 2-year peak, with increased supply from Brazil expected to counterbalance shortages from India. This is given that certain F&B producers have implemented various product price hikes since FY22, along with stabilization in certain commodities (Wheat, Pet resin, and CPO). We do not anticipate further price increases in the near term to maintain customer demand.

**Table 2: Mar 2024 Average Commodities Futures Prices for F&B Producers**

Commodities	Mar-24	Feb-24	Mar-23	YoY (%)	MoM (%)	Remarks
<b>Wheat</b> (USD/mt)	21,080	21,607	26,227	(19.6)	(2.4)	<b>Year-on-year:</b> Lower prices were due to ample global supplies, with major exporters like Iran and Argentina expected to have higher production, as per USDA. <b>Month-on-month:</b> Reduced prices were due to sufficient global supplies of wheat, as mentioned on a yearly basis.
<b>Cocoa</b> (USD/mt)	6,802	5,460	2,764	146.1	24.6	<b>Year-on-year:</b> Continued higher prices are mainly attributed to an anticipated global cocoa deficit. Western Africa (80% market share) is severely affected by extreme rainfall, raising the risk of lost crops, as well as ongoing risks from the cocoa swollen shoot virus and a scarcity of fertilizers. <b>Month-on-month:</b> The higher price was due to similar reasons of limited global cocoa supply.
<b>Raw Sugar</b> (USD/mt)	47,377	49,233	44,460	6.6	(3.8)	<b>Year-on-year:</b> Higher price was due to the anticipation of lower global supplies following continuous extreme dry weather that caused drought in India and Thailand (the 2nd & 3rd largest exporters). Supplies remained scarce despite the fact that output in Centre-South Brazil (the top production region) is likely to continue high despite a minor decline in cane harvest, with mills preferring to produce the sweetener over biofuel ethanol. <b>Month-on-month:</b> Lower price was due to expectations of greater supply from Brazil, the leading global exporter, which offset concerns about shortages in India and Thailand.
<b>CPO</b> (USD/mt)	872	806	878	(0.7)	8.2	<b>Year-on-year:</b> Lower price was attributed to weaker export demand, with greater purchases shifted to soy oil and sunflower oil. <b>Month-on-month:</b> Higher price was due to relatively low palm oil inventories in Indonesia and Malaysia, as well as market concerns regarding global vegetable oil output.
<b>White Sugar</b> (USD/mt)	879	897	916	(4.1)	(2.1)	<b>Year-on-year:</b> Decreased price due to the anticipated greater supply in Brazil that offset the concerns of limited supply in Asia. <b>Month-on-month:</b> Prices increased in tandem with raw sugar prices.
<b>Arabica</b> (USD/mt)	3,733	3,822	3,598	3.8	(2.3)	<b>Year-on-year:</b> Higher price was due to concerns about global supply shortages in most exporting countries, shrinking inventories, and continuously strong demand for Arabica coffee beans. <b>Month-on-month:</b> Lower price was due to the anticipation of an increase in supplies for the current season, primarily from Arabica producers such as Brazil, Colombia, and Ethiopia, which dominate the Arabica market.
<b>Robusta</b> (USD/mt)	3,153	3,043	2,100	50.1	3.6	<b>Year-on-year:</b> Higher price was attributed to continuous high demand and the expectation of decreased output, reflecting tight supplies of Arabica. Given that key Robusta suppliers - Indonesia and Vietnam - grapple with poor crop yields, potentially leading to shortages. <b>MoM:</b> Uptick of price was due to strong demand and weaker global supplies for coffee inventory.
<b>PET Resin</b> (USD/mt)	1,010	1,005	1,093	(7.6)	0.5	<b>Year-on-year:</b> Decreased price due to normalize Brent crude oil prices compared to previous year. <b>Month-on-month:</b> Price increased mainly due to higher Brent crude oil prices during the month, as geopolitical tensions in the Middle East, OPEC+ cuts support oil supply more than offset a forecast from the International Energy Agency for slowing demand.

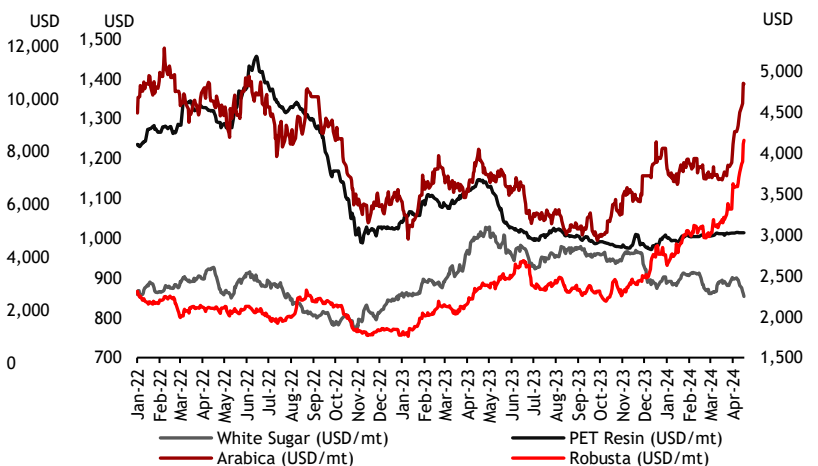
Sources: Bloomberg, USDA, MIDFR  
\*\*\*Pet resin = Polyethylene terephthalate

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



Sources: Bloomberg, MIDFR

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



Sources: Bloomberg, MIDFR

**Poultry: Feed costs remain in a downward trend, coupled with improved operations expected in Indonesia ahead.**

**Chicken egg prices in Malaysia continued to surge in February 2024**, indicating persistent shortages. Grade A egg prices remained consistently above retail price ceilings in all states except Putrajaya. Notably, Putrajaya also saw lower prices for grade B and C eggs, alongside Negeri Sembilan. Despite this, average chicken prices in February 2024 stayed below previous retail price ceilings in most states, except for Melaka, Pahang, Perak, Pulau Pinang, Terengganu, and Selangor.

**Table 3: Malaysia Monthly Hen’s egg and chicken statistics for Feb 2024**

Data	Average monthly data					vs. 2021		
	Feb-24	Jan-24	Feb-23	YoY (%)	MoM (%)	Feb-24	Feb-21	chg (%)
Hen's Egg Grade A (each)	0.49	0.48	0.48	2.9	1.7	0.49	0.38	28.8
Hen's Egg Grade B (each)	0.48	0.46	0.46	4.5	4.8	0.48	0.36	33.1
Hen's Egg Grade C (each)	0.45	0.44	0.44	3.0	1.8	0.45	0.34	32.0
Chicken (per kg)	10.29	10.33	10.33	(0.4)	(0.4)	10.29	8.13	26.6

Sources: MIDFR

**Table 4: Feb 2024 Egg and Chicken Statistics by State**

	Grade A egg (each)	Grade B egg (each)	Grade C egg (each)	Chicken (per kg)
Malaysia	0.492	0.483	0.450	10.29
Johor	0.453	0.464	0.450	9.24
Kedah	0.457	0.435	0.426	9.49
Kelantan	0.455	0.446	0.420	9.08
Melaka	0.450	0.431	0.410	9.61
Negeri Sembilan	0.456	0.428	0.408	9.44
Pahang	0.450	0.432	0.412	10.13
Perak	0.513	0.434	0.468	9.58
Perlis	0.450	0.430	0.420	9.42
Pulau Pinang	0.461	0.434	0.419	9.56
Terengganu	0.510	0.459	0.418	9.57
Putrajaya	0.425	0.418	0.398	9.14
Selangor	0.464	0.442	0.419	9.66
Kuala Lumpur	0.450	0.423	0.410	9.40
Sabah	0.522	0.523	0.489	12.71
Sarawak	0.802	0.709	0.533	13.00
Labuan				12.00

Sources: MIDFR

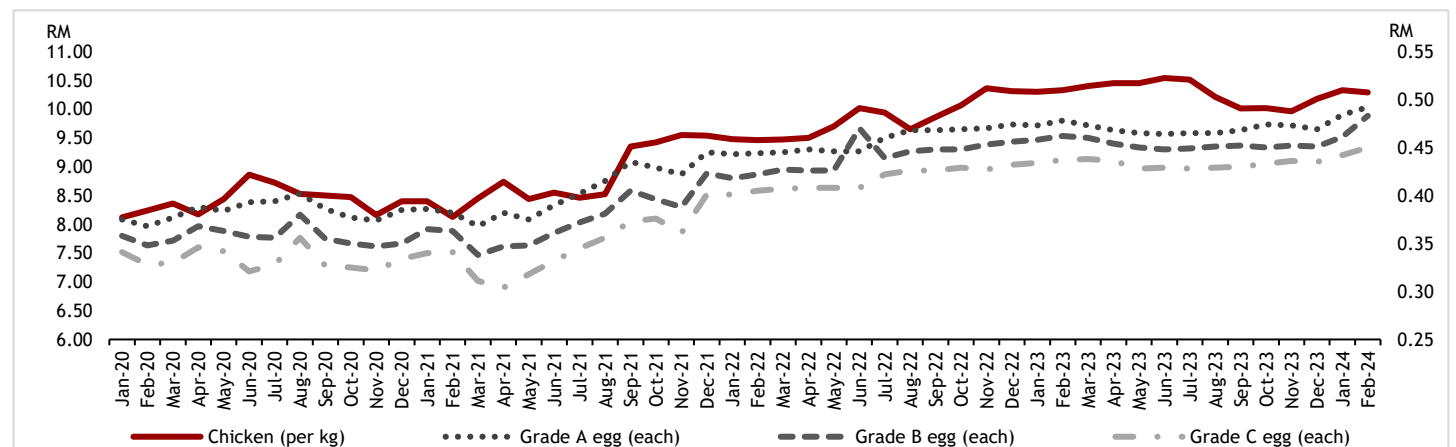
Red: Above Retail Price Ceilings

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

**Feed costs have been on a downward trend**, aligning with stabilized corn and soybean meal prices. This trend suggests potential future benefits for poultry farm producers, as lower feed costs could lead to improved margins. Notably, feed costs, comprising 65-75% of production expenses, primarily hinge on corn (55-69%) and soybean meal (19-32%) prices. Looking ahead, we anticipate that global corn and soybean meal prices will remain steady throughout 2024. This expectation is underpinned by abundant export supplies from major producing countries, which should translate into reduced feed costs and increased margins for poultry farm operators. However, we foresee a lower feed mill revenue for feed miller due to operating on a cost-plus margin model. The potential beneficiaries are **QL Resources (NEUTRAL, TP: RM6.50)** and **Leong Hup International (BUY, TP: RM0.70)**.

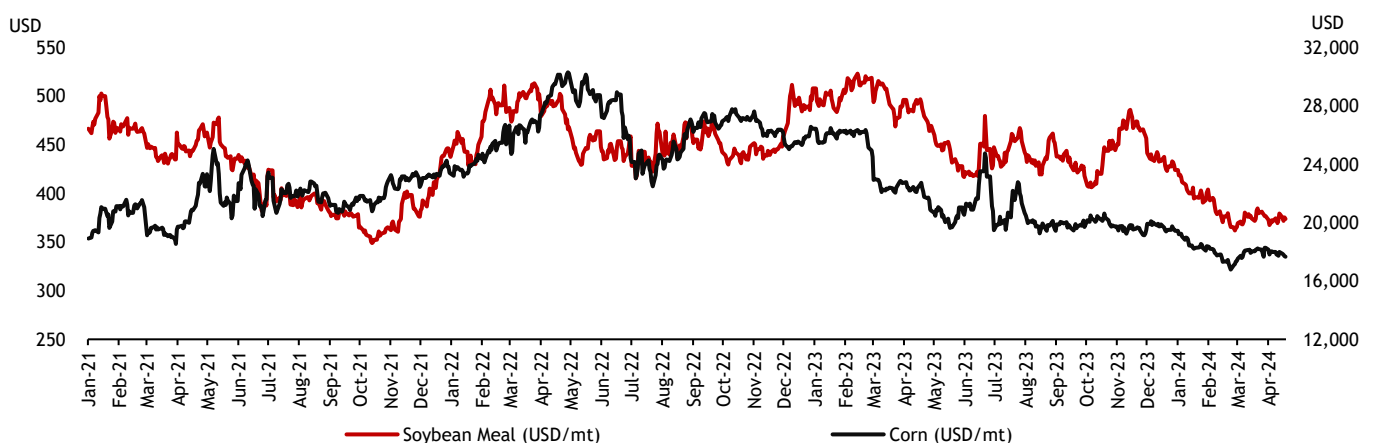
**Continued government subsidies for egg producers** are poised to alleviate higher costs, thereby potentially sustaining profit margins. Operationally, we foresee improved demand for livestock-related products in Indonesia during the 1HFY24. This stems from the General Election in the 1Q, followed by the Hari Raya Celebration, both of which are expected to boost demand. Our channel checks indicate that average live bird and DOC prices have normalized to 3QCY23 levels amid heightened domestic demand. While Prabowo Subianto's presidency is anticipated to succeed Joko Widodo's, we do not foresee significant changes to the Indonesian poultry industry in the near term.

**Table 5: Average Monthly Soybean meal, and corn futures prices for Mar 2024**

Commodities	Mar-24	Feb-24	Mar-23	YoY (%)	MoM (%)	Remarks
<b>Soybean Meal</b> (USD/mt)	376	378	496	(24.3)	(0.5)	<p><b>Year-on-year:</b> Lower price was in tandem with lower soybean prices. This can be attributed largely to the anticipation of greater global soybean supplies ahead, with increased yields expected from Argentina, the US, and China.</p> <p><b>Month-on-month:</b> Lower price was in tandem with reduced soybean prices, primarily due to the anticipated improvement in supplies from some of the major producing countries in 2024.</p>
<b>Corn</b> (USD/mt)	17,994	17,567	22,513	(20.1)	2.4	<p><b>Year-on-year:</b> Lower prices were mainly due to greater global corn ending stocks, driven by increased world corn production. This higher output was observed in the US, China, the European Union, and Ukraine, offsetting the lower production forecast for Brazil. Note that corn crops were not as adversely affected by hot and dry weather, as it is a less water-intensive crop. Both Brazil and the USA contributed 27% each to the market share.</p> <p><b>Month-on-month:</b> Prices rose mainly due to the expectations of lower 2024 corn acreage and the ongoing disruption in Brazil major port.</p>

Sources: Bloomberg, USDA, MIDFR

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



Sources: Bloomberg, MIDFR

## Stronger USD likely to partially offset the normalizing most global agricultural commodities

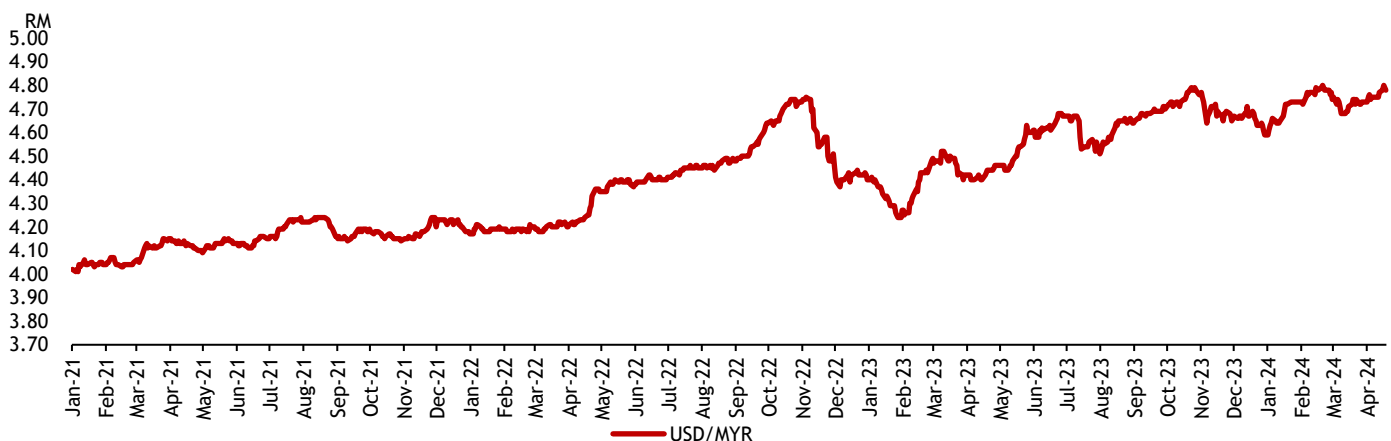
**Weakening trend of the ringgit persists**, as evidenced by the average exchange rate of USD/MYR for March 2024, which saw a modest improvement of +1.1% month-on-month, settling at USD1.00: RM4.72. However, this rate remains higher than March 2023's USD1.00: RM4.47, indicating ongoing depreciation against the USD. Looking ahead, our in-house economists anticipate further ringgit depreciation, with the USD/MYR exchange rate projected to reach RM4.53 in 2024 (compared to the previous forecast of RM4.38 in the 2Q24 Outlook) and potentially hitting RM4.43 by the end of the year (compared to the previous forecast of RM4.20 in the 2Q24 Outlook). We foresee that export-oriented companies like **Rhong Khen International (NEUTRAL, TP: RM 1.22)**, which heavily rely on USD-denominated exports, stand to benefit from the stronger USD. Conversely, the weakening ringgit is expected to elevate raw material costs for F&B and poultry companies in our coverage. This is particularly significant as most raw materials (constituting 70-85% of total production costs) are sourced in USD. Hence, we believe that any USD strengthening would only partially offset the normalization of certain major input costs and export sales.

**Table 6: USD/MYR Monthly statistics for Mar 2024**

Data	Average monthly data					vs. 2-year peak		
	Mar-24	Feb-24	Mar-23	YoY (%)	MoM (%)	Mar-24	Max	chg. (%)
USD/MYR	4.72	4.77	4.47	(5.3)	1.1	4.72	4.80	1.7

Sources: Bloomberg, MIDFR

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




Sources: Bloomberg, MIDFR

**Maintain NEUTRAL on Consumer Sector**, with preference for consumer staples. Our optimism for the 2024 outlook in consumer staples is underpinned by: (1) steady demand for staples, and (2) solid domestic out-of-home consumption thanks to extreme hot weather, rising incomes, improved job market prospects, and the recovery of tourism activities. We expect a lower raw material costs for certain biscuit, dairy, and livestock-related players on the back of the stabilization of prices for wheat, skimmed milk powder, whole milk powder, crude palm oil, sugar, corn, and soybean meal. We also anticipate sustained demand for livestock-related products in Indonesia amidst the general election and Hari Raya celebrations, which will support prices and benefit poultry players operating in Indonesia.

However, we remain cautious about rising inflationary pressure in 2024 along with concerns regarding a global economic slowdown (partly fueled by escalating geopolitical tensions). These factors could impact consumer discretionary income, leading to weakened consumer sentiment on non-essential purchases and a preference for cheaper products. The persistent rise in certain raw material input costs such as cocoa, sugar, Arabica, and Robusta is likely to continue compressing margins for chocolate and cocoa-related food and beverage manufacturers. We anticipate some partial cost pass-through via price adjustments in the future. In a nutshell, we maintain our **NEUTRAL** stance on consumer sector.

**Our top pick for consumer sector** remain **Fraser & Neave Holdings (BUY, TP: RM37.00)** due to its strong fundamental. We continue to favor Fraser & Neave Holdings as the company is expected to benefit from the rising demand for ready-to-drink beverages, driven by increasing tourist traffic and hot weather conditions (at least in 1HFY24). Additionally, we like F&N's expansion into upstream dairy farming as it positions the company to tap into the underserved fresh milk market, reduce reliance on imported milk, and subsequently lower costs.

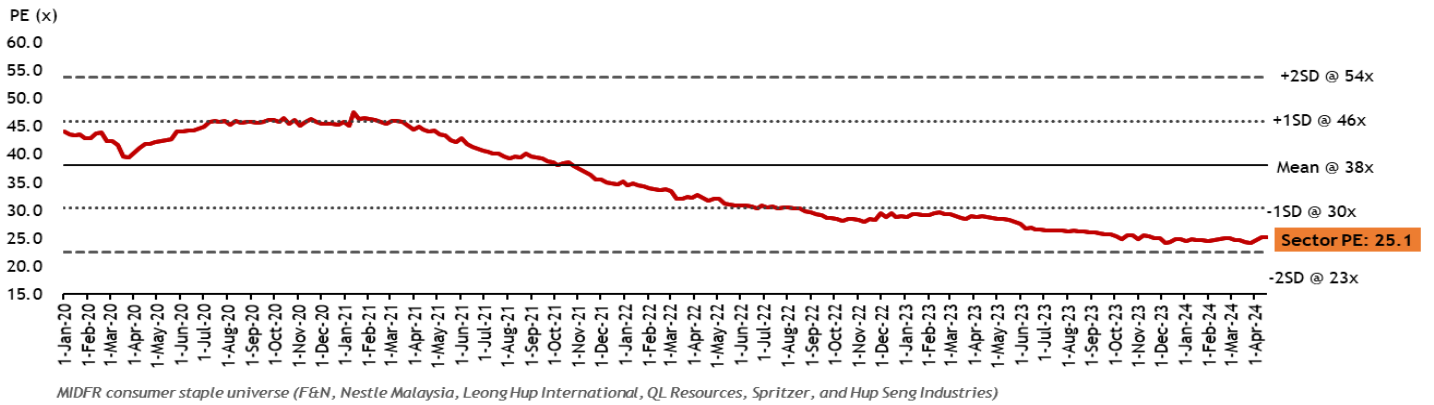
Meanwhile, we downgrade **QL Resources** to **NEUTRAL** from BUY with target price for QL Resources under review, primarily due to the recent share price rally, which has diminished expected returns. 

**Table 9: Peer comparison table**

Stocks	Rec.	Price @ 22-Apr-24	TP	Mkt. Cap (RM'm)	Core EPS (sen)		PER (x)		Div. Yield (%)		Net Gearing
					CY24F	CY25F	CY24F	CY25F	CY24F	CY25F	
<b>Consumer Staples:</b>											
Fraser & Neave Holdings	BUY	RM31.52	RM37.00	11,581	168.8	187.8	18.7	16.8	2.4	2.4	Net Cash
Leong Hup International	BUY	RM0.56	RM0.70	2,045	8.3	10.1	6.7	5.5	5.3	5.1	0.6
QL Resources	NEUTRAL	RM6.37	RM6.50	15,509	19.1	21.4	33.3	29.8	1.5	1.6	0.3
Spritzer	NEUTRAL	RM2.25	RM2.08	711	17.1	18.2	13.2	12.3	2.3	2.6	0.0
Hup Seng Industries	BUY	RM0.83	RM0.99	664	6.7	7.8	12.4	10.7	8.0	7.9	Net Cash
Nestle Malaysia	NEUTRAL	RM124.70	RM127.00	29,242	339.1	368.9	36.8	33.8	2.6	2.8	1.0
<b>Weighted Avg.</b>					<b>204.2</b>	<b>223.1</b>	<b>30.8</b>	<b>28.0</b>	<b>2.4</b>	<b>2.5</b>	
<b>Consumer Discretionary:</b>											
Aeon Co M	NEUTRAL	RM1.09	RM1.14	1,531	8.2	7.8	13.3	13.9	3.7	3.5	0.2
Padini Holdings	NEUTRAL	RM3.51	RM3.50	2,309	26.4	29.9	13.3	11.7	2.8	2.8	Net Cash
Asia File Corp	SELL	RM2.26	RM1.85	440	20.7	21.3	10.9	10.6	3.2	3.3	Net Cash
Rhong Khen International	NEUTRAL	RM1.34	RM1.22	260	7.0	9.2	19.2	14.6	1.6	2.1	Net Cash
<b>Weighted Avg.</b>					<b>18.6</b>	<b>20.4</b>	<b>13.4</b>	<b>12.5</b>	<b>3.1</b>	<b>3.1</b>	

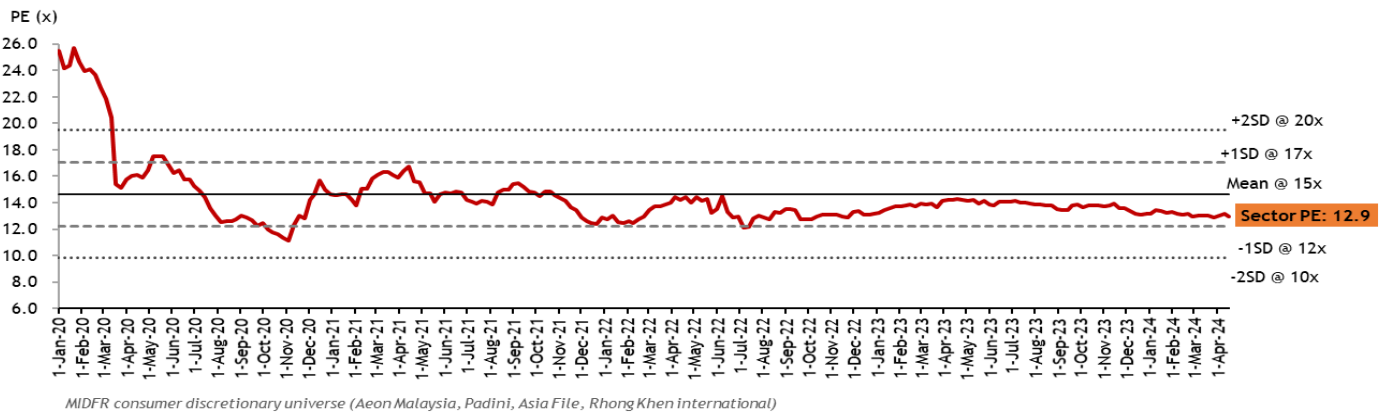
Sources: Bloomberg, MIDFR

**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