

26 April 2024

Consumer

NEUTRAL

No Splurge Spending on New EPF Withdrawal Scheme



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We maintain our NEUTRAL stance on the consumer sector following the introduction of EPF Akaun Fleksibel. Looking back, upon the introduction of the last Employees Provident Fund (EPF) withdrawal scheme in Apr 2022, sales of retailers spiked but tapered off fairly quickly, while monthly auto sales were muted. We believe the boost to sales of retailers will be more subdued this time around compared to what we saw during Apr 2022. This is because even if we assume full participation in Akaun Fleksibel, the total withdrawals during the first year are estimated at only RM25b, vs. RM44.6b previously. All in, we make no changes to our earnings forecasts or stock ratings. With minimal cutback on daily essentials particularly food items despite high inflation, we anticipate more stable earnings from consumer staples players vs. those of the consumer discretionary sector. Our top picks remain F&N (OP; TP: RM33.80) and MRDIY (OP; TP: RM1.95).

Restructuring of EPF members' accounts. Effective 11 May, 2024, the EPF will restructure its accounts for all members under age 55 into three categories: Akaun Persaraan (previously known as Account 1), Akaun Sejahtera (previously known as Account 2), and Akaun Fleksibel (or Account 3). The new Akaun Fleksibel allows flexible withdrawals at any time for any purpose, with a minimum withdrawal of RM50.

From 11 May to 31 August, 2024, members will have a one-time option to transfer funds from Akaun Sejahtera to Akaun Fleksibel. Those opting in will allocate their savings as follows:- 75% to Akaun Persaraan, 15% to Akaun Sejahtera, and 10% to Akaun Fleksibel, based on a minimum Akaun Sejahtera threshold balance of RM3,000 (refer to exhibit 1 & 2). Members who do not opt in will start with zero balance in Akaun Fleksibel. For members over 55, on the other hand, savings in all three accounts will be merged into Akaun 55, and new contributions will be credited to Akaun Emas.

No impact on the EPF's portfolio, dividend for Account Fleksibel could differ in future. According to a statement by EPF CEO Amad Zulqarnain Onn, reported by Bernama, the introduction of the new Akaun Fleksibel will not affect the EPF's overall portfolio. Initially, dividends across all accounts will be uniform, but future variations may occur as liquid assets typically yield lower interest rates and dividends. If all EPF members choose to opt in, it's projected that RM57b could be transferred to Akaun Fleksibel, with about RM25b expected to be withdrawn in the first year, followed by annual withdrawals of RM4b to RM5b. This compares with RM44.6b withdrawals under the previous withdrawal scheme in Apr 2022 (see Exhibit 3 for total withdrawals under other EPF withdrawal schemes).

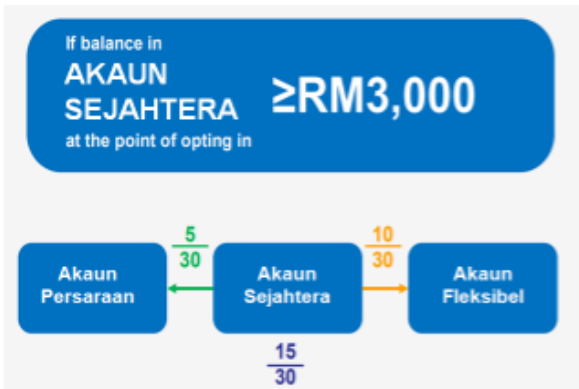
Minimal impact expected on consumer discretionary and automotive sectors. The initial three EPF withdrawal schemes—i-Lestari, i-Sinar, and i-Citra—were implemented to address urgent cash flow needs during Malaysia's movement control orders and the economic downturn caused by the pandemic, making them incomparable to later schemes. The subsequent Pengeluaran Khas scheme in April 2022, allowing withdrawals of up to RM10k, is a more apt comparison as it occurred during the economic recovery phase post-pandemic. This scheme attracted 6.6m applications and facilitated the withdrawal of RM44.6b. Major consumer discretionary firms like PADINI, AEON, PARKSON, and METROJAYA experienced a significant sales boost in 2QCY22 following this scheme (refer to exhibit 4). However, sales declined markedly in subsequent quarters, indicating that the impact was short-lived. Meanwhile, monthly vehicle sales did not rise but actually fell in Apr and May 2022 after the introduction of the withdrawal scheme (see Exhibit 6).

Assuming a blue-sky scenario where every EPF member opts into Akaun Fleksibel and withdraws RM25b in the first year, the economic impact would still only be about half of that seen with Pengeluaran Khas. Considering the average EPF savings as of 31 December 2023—RM1.7k for B40 and RM28k for M40—the projected transfers to Akaun Fleksibel would range between RM1k and RM3k (refer to exhibit 5). Therefore, the launch of Akaun Fleksibel is unlikely to significantly affect consumer discretionary sectors, including the automotive industry, which showed stable sales and backlog figures (200k-250k units) during the special withdrawal period of April-May 2022 (refer to exhibit 6). Overall, we are of the view that contributors will allocate funds from Akaun Fleksibel prudently, with minimal expenditure on high-ticket items.

Maintained stocks valuations: Our earnings forecasts, valuation methodology, target prices, and ratings remain unchanged for the consumer sector portfolio. We still favour the consumer staples players rather than the consumer discretionary names. **F&N (OP, TP: RM33.80)** and **MRDIY (OP, TP: RM1.95)** remained our top pick for the sector. Note that, our valuation basis of 22x for consumer staples companies was aligned with the sector's average historical forward PER. Meanwhile, our PER valuation for department store and apparel companies remains at 12x, reflecting a 20% discount from the sector's average historical forward PER of 15x to reflect the eroded spending power of their target customers, i.e. the M40 group. For **PWROOT**, on the other hand, its valuation basis stayed at 13x, at a discount to the average historical forward PER of 22x for the food and beverage to reflect the company less extensive product range vs. its peers.

Our valuation basis, TP and recommendation for consumer stocks are summarised in Exhibit 7.

Exhibit 1: Initial Amount Above or Equal to RM3k



Source: EPF, Kenanga Research

Exhibit 2: Initial Amount Below RM3k



Source: EPF, Kenanga Research

Exhibit 3: EPF Withdrawal Schemes

Scheme	Application Period		Eligible Amount/Criterial	Payment Date	Applications	Total withdrawals amount
	From	To				
i-Lestari	Apr-20	Mar-21	Up to RM500/mth from Account 2 over the next 12 mths	May-20	5.3	20.8
i-Sinar	Dec-20	Jun-21	For Account 1 savings RM100k and below, maximum withdrawal of RM10k	Jan-21	6.6	58.7
			For Account 1 savings above RM100k, maximum withdrawal of 10% of Account 1 savings (capped at RM60k)			
i-Citra	Jul-21	Sep-21	Up to RM5k (from acct 1 or 2) in total over 5 mths	Aug-21	5.2	21.4
Pengeluaran Khas	1/4/2022	30/4/2022	RM10k	20/4/2022	6.6	44.6
EPF Account Restructuring	11/5/2024	31/8/2024	Rename Account 1, and 2 to Akaun persaraan, and Akaun Sejahtera and introduced Akaun Fleksibel (Account 3)			
			New allocation will be allocated 75% into Akaunt Persaraan, 15% into Akaunt Sejahtera, and 10% into Akaunt Fleksibel			
			Between 11 May to 31 August 2024, members will have a one time option to transfer part of their Akaun Sejahtera (previously known as Account 2) as an initial amount to Akaun Flexsibel. If the member does not choose to opt-in, no transfer will be made and the existing balance will remain in Akaun Sejahtera			
TOTAL					8.1	145.5

Source: EPF, Kenanga Research

Exhibit 4: Consumer Discretionary Companies' Sales (RMm)

	1QCY22	2QCY22	QoQ chg	3QCY22	QoQ chg
	RMm	RMm		RMm	
PADINI	329.3	481.2	46.1%	379.1	-21.2%
AEON	1,001.8	1,095.5	9.4%	982.0	-10.4%
PARKSON - MSIA	160.4	206.7	28.9%	160.2	-22.5%
Metrojaya (MUI - Retailing)	- 4.2	8.3	299.3%	6.6	-20.4%

Source: Companies, Bloomberg, Kenanga Research

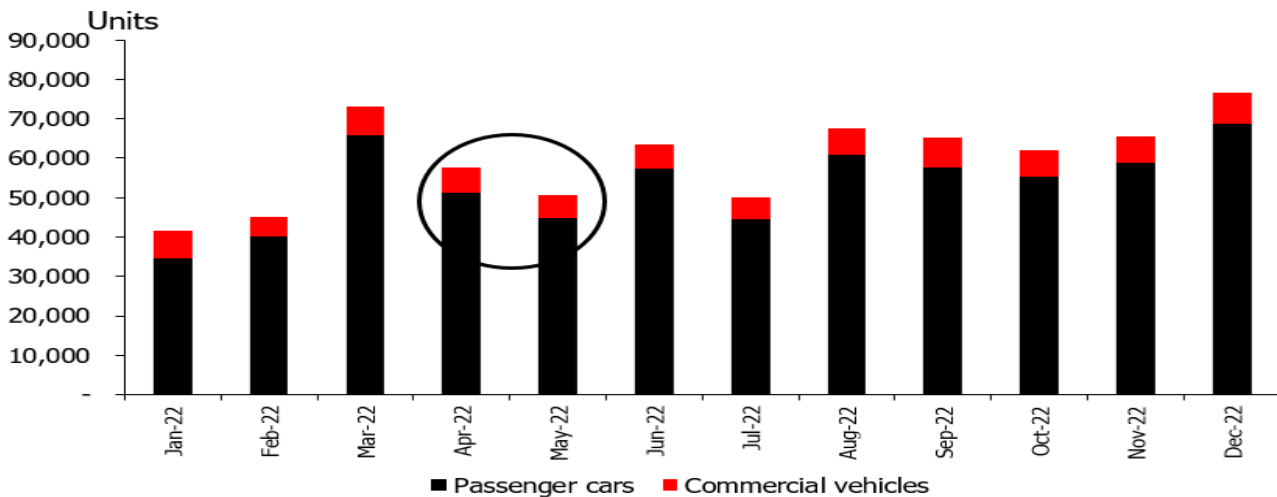
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Exhibit 5: Savings of EPF Members by Saving Level Group (as at 31 Dec 2023)

Savings Level Group	No. of Members (Million)	Savings (RM Billion)	Average Savings (RM)	Median Savings (RM)
B40	6.43	11.01	1,713	1,063
M40	6.43	180.23	28,032	20,660
T20	3.21	896.70	278,941	170,266
Total	16.07	1,087.94	67,686	10,898

Source: EPF, Kenanga Research

Exhibit 6: Monthly New Car Sales Dropped in Apr-May 2022 Despite EPF Withdrawal Scheme



Source: TIV, Kenanga Research

Exhibit 7: Changes to Valuation Basis, TPs and Recommendations

Company	FYE	Valuation					TP (RM)			Recommendation		
		Basis	Base Year	After	Before	Chg	After	Before	Chg (%)	After	Before	Chg
AEON	DEC	PER (x)	FY25	12	12	↔	1.01	1.01	0	UP	UP	↔
DLADY	DEC	PER (x)	FY25	22	22	↔	27.65	27.65	0	UP	UP	↔
MRDIY	DEC	PER (x)	FY25	25		↔	1.95	1.95	0	OP	OP	↔
NESTLE	DEC	WACC (%)		5.2	5.2	↔	115	115	0	UP	UP	↔
F&N	SEP	PER (x)	FY25	22	22	↔	33.80	33.80	0	OP	OP	↔
PADINI	JUN	PER (x)	FY25	12	12	↔	3.20	3.20	0	UP	UP	↔
PWROOT	MAR	PER (x)	FY25	13	13	↔	1.55	1.55	0	UP	UP	↔
QL	MAR	WACC (%)		5.8	5.8	↔	6.25	6.25	0	MP	MP	↔
KAREX	JUN	PER (x)	FY25	25	36	↔	1.06	1.06	0	OP	OP	↔

Source: Kenanga Research

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Exhibit 8: EPF YTD December 2023 Members/Employers' Registration

Indicator	2022 (as at Dec 2022)	2023 (as at Dec 2023)	Growth (YTD Dec 2022 and YTD Dec 2023)
1. Members			
Total members	15,716,213	16,073,317	2.27%
Active members	8,392,031	8,524,975	1.58%
New member registrations	635,989	460,447	-27.60%
2. Employers			
Total employers	588,714	606,187	2.97%
New employer registrations	93,669	82,005	-12.45%

Source: EPF, Kenanga Research

Exhibit 9: Savings of EPF Members by Age Group (as at 31 Dec 2023)

Age Group	No. of Members (Million)	Savings (RM Billion)	Average Savings (RM)	Median Savings (RM)
Below 25	1.92	10.91	5,674	3,372
25 – 29	2.24	36.95	16,505	9,642
30 – 34	2.12	74.95	35,390	15,572
35 – 39	2.03	125.04	61,606	24,711
40 – 44	1.82	161.95	89,226	30,658
45 – 49	1.63	198.24	121,287	40,673
50 – 54	1.45	200.60	137,903	38,731
55 – 59	1.14	122.84	107,922	11,115
60 – 64	0.65	76.74	118,779	8,122
65 and above	1.07	79.72	74,157	2,400
Total	16.07	1,087.94	67,686	10,898

Source: EPF, Kenanga Research

Exhibit 10: Savings of EPF Members by Race Group (as at 31 Dec 2023)

Race Group	No. of Members (Million)	Savings (RM Billion)	Average Savings (RM)	Median Savings - All Age (RM)	Median Savings - Age Below 55 (RM)
Bumiputera	9.76	371.24	38,039	7,320	8,254
• Malay	8.13	332.00	40,827	7,838	8,950
• Other Bumiputera	1.63	39.24	24,110	5,183	5,889
Chinese	4.37	613.68	140,285	43,595	48,627
Indian	1.33	89.67	67,602	14,488	17,375
Other Races	0.61	13.36	21,795	1,996	2,181
Total	16.07	1,087.94	67,686	10,898	12,053

Source: EPF, Kenanga Research

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Peer Comparison

Name	Rating	Last Price at 25-Apr (RM)	Target Price (RM)	Upside	Market Cap (RM m)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE	Net Div. (sen)	Net Div Yld
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.	1-Yr. Fwd.
CONSUMER																	
AEON CO. (M) BHD	UP	1.11	1.01	-9.0%	1,558.4	Y	12/2024	8.3	8.4	1.2%	2.1%	13.4	13.1	0.8	6.2%	4.0	3.6%
DUTCH LADY MILK INDUSTRIES BHD	UP	33.44	27.65	-17.3%	2,140.2	Y	12/2024	123.1	126.3	9.4%	2.5%	27.2	26.5	4.4	17.1%	50.0	1.5%
FRASER & NEAVE HOLDINGS BHD	OP	31.56	33.80	7.1%	11,575.5	Y	09/2024	150.2	155.7	13.8%	3.6%	21.0	20.3	3.2	16.0%	77.0	2.4%
MRDIY GROUP BHD	OP	1.52	1.95	28.3%	14,361.3	Y	12/2024	7.0	7.8	17.6%	12.2%	21.8	19.5	7.1	34.8%	4.0	2.6%
NESTLE (MALAYSIA) BHD	UP	127.00	115.00	-9.4%	29,781.5	Y	12/2024	290.8	305.0	3.3%	4.9%	43.7	41.6	45.6	102.7%	300.0	2.4%
PADINI HOLDINGS BHD	UP	3.50	3.20	-8.6%	2,302.7	Y	06/2024	23.0	26.7	-31.9%	15.7%	15.2	13.1	2.0	14.0%	10.0	2.9%
POWER ROOT BHD	UP	1.66	1.55	-6.6%	764.6	Y	03/2024	10.2	11.6	-25.0%	13.4%	16.2	14.3	2.4	15.0%	8.0	4.8%
QL RESOURCES BHD	MP	6.44	6.25	-3.0%	15,672.8	Y	03/2024	17.8	19.5	25.2%	9.2%	36.1	33.1	5.4	17.0%	9.0	1.4%
KAREX BHD	OP	0.815	1.06	30.1%	858.6	Y	06/2024	2.3	4.2	125.7%	87.8%	36.2	19.3	1.7	4.9%	0.5	0.6%
Sector Aggregate					79,015.5					8.3%	8.3%	28.8	26.6	5.8	20.2%		2.5%

Source: Bloomberg, Kenanga Research

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Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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