

10 July 2024

## Consumer

### Bracing for Impact from Subsidy Rationalisation

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## NEUTRAL



We maintain NEUTRAL on the sector. After strong festive sales in 1QCY24, the retail sector, especially the discretionary sub-segment, is bracing for tougher times ahead as consumers tighten their belts on sustained elevated inflation that is unlikely to ease over the immediate term on the back of subsidy rationalisation, particularly RON95 fuel subsidy rationalisation. On a brighter note, the 13% salary increase for most civil servants from Dec 2024 should at least partially restore their spending power. Our sector top pick is consumer staples player F&N (OP, TP: RM38.25).

**Cautious spending outlook.** We project stronger private consumption growth of 5.6% in CY24 (vs. 4.7% in CY23). Similarly, despite cutting its forecast retail sales growth in CY24 to 3.6% (from 4.0% it projected back in Mar 2024), Retail Group Malaysia (RGM) also forecasts stronger retail sales in CY24 (vs. 2.2% in CY23). However, we are mindful that the growth may be driven more by higher prices rather than increased sales volumes.

According to RGM, retail sales in Malaysia started the year with a bang with a 7.8% YoY growth in 1QCY24, turning around from a 0.2% YoY contraction in 4QCY23. This surge was fueled by strong festive spending and a month-long school holiday, boosting apparel sales. Looking ahead, the association cited the primary challenge for Malaysia's retail sectors remains the escalating cost of living affecting consumers across all income brackets. Additionally, the weak MYR also continues to impact import-dependent businesses, leading to higher prices for consumers. RGM expects more moderate growth at 1.7% and 2.5% in 2Q and 3Q, respectively, but year ending on a high note with a 3.2% increase in 4Q from a low base a year ago.

Separately, despite strong retail growth in 1QCY24, consumer sentiment – as measured by the Malaysian Institute of Economic Research (MIER) Consumer Sentiment Index – dipped to 87.1 from points from 89.4 points in 4QCY23. This decline suggests that rising living costs have made consumers more cautious with their spending, even during festivities.

All in, we concur with RGM's view and believe current cautious consumer spending will persist throughout the remainder of CY24 and potentially into early-CY25 amidst sustained elevated inflation that is unlikely to ease over the immediate term on the back of subsidy rationalisation, particularly RON95 fuel subsidy rationalisation.

**Seasonal weakness expected.** Looking forward, we expect seasonally weak 2Q and 3Q, particularly in the apparel segment in the absence of major festivities. Consumer discretionary players like **PADINI (MP, TP: RM3.63)** and **AEON (MP, TP: 1.21)** may need to sacrifice margins to maintain sales. On a brighter note, the 13% salary increase for most civil servants effective Dec 2024 should partially restore their spending power.

**Commodity price fluctuations.** Prices of key commodities like sugar, cotton, and soybean, which have declined more than 8% YTD, are likely to stay soft due to strong global supply as a result of bumper crops in the key production areas, such as Brazil, India and Argentina. In contrast, prices of coffee and cocoa have surged 20% and 137%, respectively, on poor crop yields amidst extreme weather conditions in their production areas in Southeast Asia and West Africa. Additionally, the higher shipping cost as reflected in a 91% YTD increase in the Shanghai Shipping index will weigh on **PADINI** and **MRDIY (MP; TP: RM1.97)** that source a large portion of their products from China.

Our top picks for the sector are:

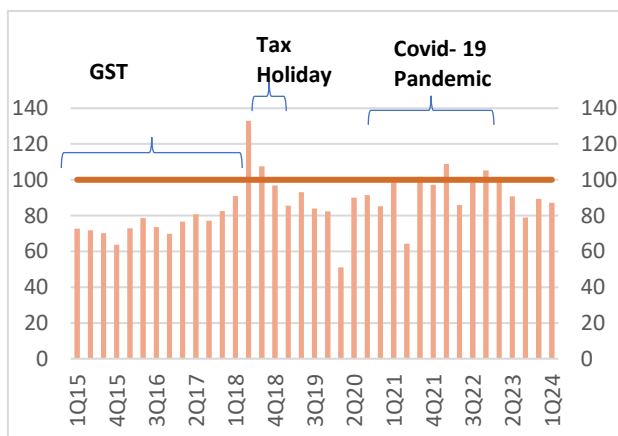
- **F&N** for: (i) its earnings defensiveness given the stable demand for essential food items despite high inflation and an uncertain global economic outlook, (ii) the rising popularity of ready-to-drink products where F&N has a strong presence, (iii) proxy to the recovery of domestic consumption and the return of tourists in Thailand and (iv) its long-term growth prospects driven by its investment in a sizeable dairy farm in Gemas, Negeri Sembilan.
- **KAREX (OP, TP: RM1.10)** for: (i) its leading market position and global reach in the rapidly growing condom industry, projected by industry experts at a CAGR of 8% to 9% over the immediate term, (ii) its strong R&D and product innovation, (iii) its adherence to international standards and certifications, (iv) its strategic shift in moving up higher the value chain, and (v) growing preference for high quality innovative condom products.

Exhibit 1: Raw Material / Commodities Price Trend

	Last Price @	Price Change								Future Price Trend*
	19/6/2024	1M	QTD	1QCY24	YTD	vs. 2023 average price	vs. 2022 average price	vs. 2021 average price		
Sugar (USD/lb)	18.9	4.4	-16.0	9.4	-8.1	-21.4	0.5	5.9	↓	
Coffee (USD/lb)	226.3	9.5	19.8	1.4	20.2	33.6	5.7	33.8	↑	
Cocoa (USD/MT)	9,938.0	35.2	1.8	132.7	136.8	201.3	303.4	299.2	↑	
Milk (USD/MT)	3,394.0	1.3	8.0	-2.0	5.8	10.2	-12.7	-11.7	↓	
Wheat (USD/MT)	406.5	-8.0	6.9	-10.8	-4.6	-8.2	-33.9	-15.0	↓	
Corn (USD/Bushel)	376.3	0.7	3.1	-6.2	-3.3	-18.1	-33.4	-20.0	↓	
Soybean (USD/Bushel)	1,174.0	-4.4	-1.5	-7.9	-9.2	-16.7	-23.5	-14.3	↓	
CPO (RM/MT)	3,966.0	1.6	-8.3	18.1	8.3	4.0	-21.9	-9.8	↑	
Cotton (USD/lb)	71.0	-6.4	-22.3	12.8	-12.3	-14.4	-36.7	-24.0	↑	
Aluminium (USD/MT)	2,462.8	-4.7	6.8	-1.9	4.7	8.7	-9.0	-0.7	↑	
Baltic Dry Index	1,961.0	6.2	7.7	-13.0	-6.4	42.3	1.4	-33.4	↑	
WTI Crude Oil (USD/Bar)	81.3	1.9	-2.2	16.1	13.5	4.8	-13.8	19.4	↓	
Volatility Index	12.5	4.1	-4.1	4.5	0.2	-25.9	-51.3	-36.5		
Dollar Index	1,264.4	1.6	1.5	2.7	4.2	2.0	1.0	10.4	↔	
USDMYR	4.71	-0.4	0.4	2.9	2.4	3.1	6.9	13.5	↔	
Shanghai Shipping Index	1,733.47	40.0	43.5	32.9	90.7	84.9	-37.2	-34.2		

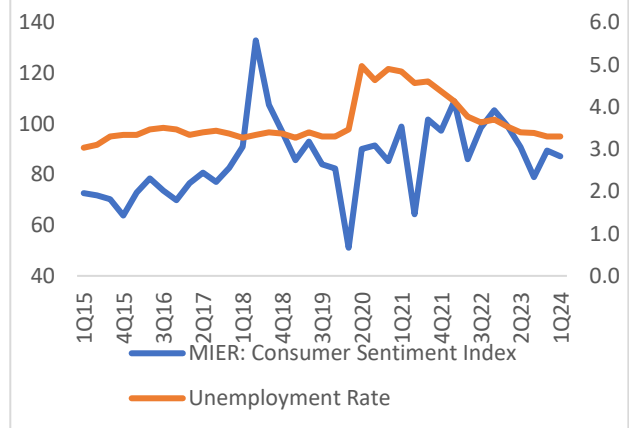
Source: \*Trading Economics, Bloomberg, Kenanga Research

Exhibit 2: MIER Consumer Sentiment Index



Source: MIER, Kenanga Research

Exhibit 3: Jobless Rate & Consumer Sentiment



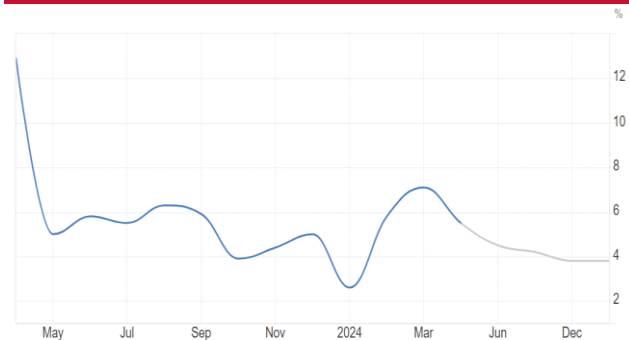
Source: Dept. of Statistics, CEIC, Kenanga Research

Exhibit 4: Malaysia Consumer Confidence



Source: Trading Economics, Kenanga Research

Exhibit 5: Malaysia Retail Sales YoY Growth



Source: Trading Economics, Kenanga Research

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**Exhibit 6: Sugar Prices (USD/lb)**



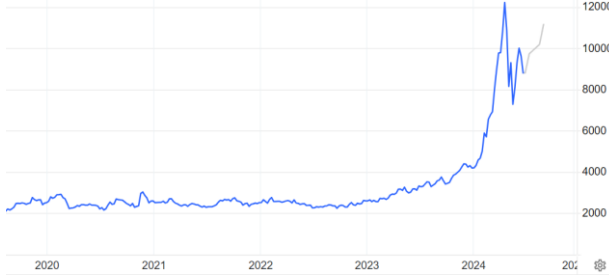
Source: Trading Economics, Kenanga Research

**Exhibit 7: Coffee Prices (USD/lb)**



Source: Trading Economics, DOSM, Kenanga Research

**Exhibit 8: Cocoa Prices (USD/MT)**



Source: Trading Economics, Kenanga Research

**Exhibit 9: Milk Prices (USD/MT)**



Source: Trading Economics, Kenanga Research

**Exhibit 10: Wheat Prices (USD/MT)**



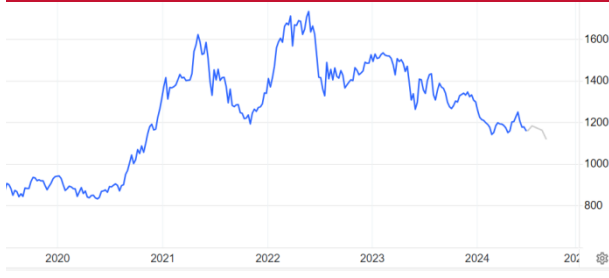
Source: Trading Economics, Kenanga Research

**Exhibit 11: Corn Prices (USD/Bushel)**



Source: Trading Economics, Kenanga Research

**Exhibit 12: Soybean Prices (USD/Bushel)**



Source: Trading Economics, Kenanga Research

**Exhibit 13: CPO Prices (RM/MT)**



Source: Trading Economics, Kenanga Research

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Exhibit 14: Cotton Prices (USD/lb)



Source: Trading Economics, Kenanga Research

Exhibit 15: Aluminium Prices (USD/MT)



Source: Trading Economics, Kenanga Research

Exhibit 16: Baltic Dry Index



Source: Trading Economics, Kenanga Research

Exhibit 17: WTI Crude Oil Prices (USD/Barrel)



Source: Trading Economics, Kenanga Research

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## Peer Table Comparison

Name	Rating	Last Price @ 9 Jul (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.
<b>CONSUMER</b>																	
AEON CO. (M) BHD	MP	1.39	1.21	-12.9%	1,951.6	Y	12/2024	8.7	8.9	6.9%	2.1%	15.9	15.6	1.0	6.5%	4.0	2.9%
FRASER & NEAVE HOLDINGS BHD	OP	31.38	38.25	21.9%	11,509.5	Y	09/2024	167.6	176.4	26.9%	5.3%	18.7	17.8	3.2	17.7%	85.0	2.7%
MR D.I.Y.	MP	1.94	1.97	1.5%	18,337.6	Y	12/2024	7.0	7.9	18.2%	12.6%	27.7	24.6	9.2	35.4%	4.0	2.1%
NESTLE (MALAYSIA) BHD	UP	122.40	115.00	-6.0%	28,702.8	Y	12/2024	292.3	306.0	3.8%	4.7%	41.9	40.0	43.7	102.9%	300.0	2.5%
PADINI HOLDINGS BHD	MP	3.58	3.63	1.4%	2,355.3	Y	06/2024	23.5	26.9	-30.4%	14.2%	15.2	13.3	2.1	14.3%	12.0	3.4%
POWER ROOT BHD	UP	1.58	1.40	-11.4%	726.3	Y	03/2025	9.1	9.8	2.6%	7.3%	17.3	16.2	2.1	12.2%	7.0	4.4%
QL RESOURCES BHD	MP	6.53	6.25	-4.3%	15,891.8	Y	03/2025	19.5	20.8	8.7%	6.2%	33.4	31.5	4.9	16.4%	9.0	1.4%
KAREX BHD	OP	0.870	1.10	26.4%	916.5	Y	06/2024	2.4	4.4	137.1%	85.1%	36.8	19.9	1.9	5.1%	1.0	1.1%
<b>Sector Aggregate</b>					<b>80,391.4</b>					<b>9.9%</b>	<b>8.1%</b>	<b>28.9</b>	<b>26.7</b>	<b>6.0</b>	<b>20.7%</b>		<b>2.6%</b>

Source: 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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