

18 June 2024

Consumer

1QCY24 Report Card: Pockets of Strength

By Cheow Ming Liang | cheowml@kenanga.com.my

NEUTRAL



The sector's earnings delivery (against our expectations) in the recently-concluded 1QCY24 results season held up despite various challenges. We remain cautious over its near-term outlook given subdued consumer spending on sustained elevated inflation and consumers' anxiety over the impending RON95 fuel subsidy rationalisation. On a brighter note, a 13% salary increase for civil servants from Dec 2024 should at least partially restore spending power of consumers. We see a limited boost to consumer spending from the new EPF Account 3 withdrawal scheme. We maintain NEUTRAL on the sector. Our sector top pick is F&N (OP, TP: RM38.25).

A decent 1QCY24 report card. The sector's earnings delivery (against our expectations) in the recently-concluded 1QCY24 results season held up despite various challenges, with 38%/50%/12% coming in above/within/below our forecasts, which were identical to the preceding quarter. **F&N (OP, TP: RM38.25)**, **AEON (MP, TP: RM1.21)** and **KAREX's (OP, TP: RM1.10)**'s results came in above our expectations due to a favourable product mix, margin expansion (on the back of lower input costs) and stronger-than-expected festive sales. Conversely, **PWROOT (UP, TP: RM1.40)** fell short of expectations due to softer sales in the domestic and the Middel Eastern markets and its inability to fully pass on higher costs.

Seasonally weak 2Q. Looking ahead, we anticipate a seasonally soft 2QCY24, especially in the retail department store segment, due to the absence of key festivals post Hari Raya (in early April) while persistent inflationary pressure will continue to weigh down on consumer spending. Adding pressure to inflation, will be the rationalisation of diesel fuel subsidy from 10 Jun 2024 and RON95 fuel subsidy in 2HCY24. Consumer discretionary players like **PADINI (MP, TP: RM3.63)**, and **AEON** will continue to face challenging times and may need to sacrifice margins to hold up sales. On a brighter note, the 13% salary increase for civil servants effective Dec 2024 should partially restore consumer spending power.

Not much boost from EPF Accounts 3 withdrawal. Recent news reported that the EPF has approved 3.04m applications to withdraw money from Account Flexible (or Account 3) as of 22 May, amounting to RM5.52b since the option became available on 12 May. It has also received 2.86m applications during the period to transfer funds from Account 2 to Account 3, involving RM8.78b. These suggested that a total of 5.9m applications (or 36.7%) over the total 16.07m (as of end CY23) total EPF members have applied, involving RM14.3b. Although EPF members can still opt to transfer one-third of their savings from Account 2 to Account 3 until August 31, we believe the number of applications is likely to taper off, given the latest application number is closed to an average 5.9m applications received over the past four withdrawal schemes. Due to the smaller withdrawal amounts involved, the boost to consumer spending is expected to be milder than previous schemes.

Mixed commodity price trends. 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 136% and 17%, respectively, on poor crop yields amidst extreme weather conditions in their production areas in Southeast Asia and West Africa. While shipping cost has stayed elevated with no sign of the Red Sea Crisis abating.

Preference for consumer staples player. We still favour the consumer staples players rather than the consumer discretionary names with **F&N** remaining our top pick for the sector. Note that, our valuation basis of 22x for consumer staples companies is aligned with the sector's average historical forward PER. Meanwhile, our valuation for department store and apparel companies remains at 13.5x, reflecting a 10% discount on 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**, we maintain our valuation basis at 15x, at a discount to the average historical forward PER of 22x for the food and beverage segment to reflect the company's less extensive product range vs. its peers. **KAREX**, meanwhile, remains our preferred small-cap pick due to its dominant market position in the global condom industry and strong earnings growth prospects. We have downgraded **MRDIY (TP: RM1.97)** stock rating from OUTPERFORM to MARKET PERFORM, following the recent share price rally.

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, and (iii) proxy to the recovery of domestic consumption and the return of tourists in Thailand.
- **KAREX** 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.

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Exhibit 1: Quarterly Results Performance

Consumer	1QCY24						4QCY23					
	KENANGA			CONSENSUS			KENANGA			CONSENSUS		
	Above	Within	Below	Above	Within	Below	Above	Within	Below	Above	Within	Below
F&N	1			1			1			1		
NESTLE		1				1		1				1
PWROOT			1		1				1			1
QL		1			1			1		1		
AEON	1			1			1				1	
MRDIY		1			1			1			1	
PADINI		1			1			1				1
KAREX	1			1			1			1		
Total	3	4	1	3	4	1	3	4	1	3	2	3
Total (%)	38	50	12	38	50	12	38	50	12	38	25	38

Source: Kenanga Research, Bloomberg

Exhibit 2: EPF Withdrawal Schemes

Scheme	Application Period		Eligible Amount/Criterial	Payment Date	Applications m	Total withdrawals amount RMb
	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
TOTAL					8.1	145.5
Simple Average					5.9	18.0
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)		5.9*	14.3
			New allocation will be allocated 75% into Akaun Persaraan, 15% into Akaun Sejahtera, and 10% into Akaun 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 Fleksibel. If the member does not choose to opt-in, no transfer will be made and the existing balance will remain in Akaun Sejahtera			

*A combination of 3.04m (involving RM5.52b) approved application and 2.86m (involving RM8.78b) submission as of 22 May

Source: EPF, Kenanga Research

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Exhibit 3: Food Commodity Prices

	Last Price @	Price Change							
	11/6/2024	1M	QTD	1QCY24	YTD	vs. 2023 average price	vs. 2022 average price	vs. 2021 average price	Future Price Trend*
Sugar (USD/lb)	18.8	-2.6	-16.6	9.4	-8.7	-22.0	-0.2	5.1	↓
Coffee (USD/lb)	220.6	9.6	16.8	1.4	17.1	28.6	3.0	30.4	↑
Cocoa (USD/MT)	9,910.0	11.5	1.5	132.7	136.2	200.5	302.3	298.1	↑
Milk (USD/MT)	3,478.0	6.4	10.7	-2.0	8.5	12.9	-10.6	-9.5	↑
Wheat (USD/MT)	433.4	-3.7	14.0	-10.8	1.7	-2.2	-29.6	-9.4	↑
Corn (USD/Bushel)	373.2	-3.8	2.3	-6.2	-4.1	-18.8	-34.0	-20.6	↓
Soybean (USD/Bushel)	1,178.0	-3.4	-1.1	-7.9	-8.9	-16.4	-23.3	-14.0	↓
CPO (RM/MT)	3,925.0	2.1	-9.2	18.1	7.2	2.9	-22.7	-10.8	↑
Cotton (USD/lb)	72.7	-5.9	-20.4	12.8	-10.2	-12.4	-35.2	-22.2	↓
Aluminium (USD/MT)	2,499.4	-0.1	8.3	-1.9	6.3	10.3	-7.6	0.8	↑
Baltic Dry Index	1,883.0	-11.6	3.4	-13.0	-10.1	36.6	-2.6	-36.0	↑
WTI Crude Oil (USD/Bar)	78.2	-0.1	-6.0	16.1	9.1	0.7	-17.1	14.8	↑
Volatility Index	12.9	2.4	-1.2	4.5	3.2	-23.7	-49.9	-34.6	
Dollar Index	1,266.4	1.0	1.7	2.7	4.4	2.2	1.1	10.6	↑
USDMYR	4.72	0.2	0.1	2.9	2.7	3.4	7.2	13.8	↑
Shanghai Shipping Index	1,592.57	33.4	31.8	32.9	75.2	69.9	-42.3	-39.6	

Source: *Trading Economics, Bloomberg, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price @ 14 Jun (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	MP	1.42	1.21	-14.8%	1,993.7	Y	12/2024	8.7	8.9	6.9%	2.1%	16.2	15.9	1.0	6.5%	4.0	2.8%
FRASER & NEAVE HOLDINGS BHD	OP	31.78	38.25	20.4%	11,656.2	Y	09/2024	167.6	176.4	26.9%	5.3%	19.0	18.0	3.2	17.7%	85.0	2.7%
MR D.I.Y.	MP	1.95	1.97	1.0%	18,430.1	Y	12/2024	7.0	7.9	18.2%	12.6%	27.8	24.7	9.2	35.4%	4.0	2.1%
NESTLE (MALAYSIA) BHD	UP	124.20	115.00	-7.4%	29,124.9	Y	12/2024	292.3	306.0	3.8%	4.7%	42.5	40.6	44.3	102.9%	300.0	2.4%
PADINI HOLDINGS BHD	MP	3.74	3.63	-2.9%	2,460.6	Y	06/2024	23.5	26.9	-30.4%	14.2%	15.9	13.9	2.2	14.3%	12.0	3.2%
POWER ROOT BHD	UP	1.65	1.40	-15.2%	758.6	Y	03/2025	9.1	9.8	2.6%	7.3%	18.1	16.9	2.2	12.2%	7.0	4.2%
QL RESOURCES BHD	MP	6.30	6.25	-0.8%	15,332.0	Y	03/2025	19.5	20.8	8.7%	6.2%	32.2	30.4	4.7	16.4%	9.0	1.4%
KAREX BHD	OP	0.850	1.10	29.4%	895.4	Y	06/2024	2.4	4.4	137.1%	85.1%	35.9	19.4	1.8	5.1%	1.0	1.2%
Sector Aggregate					80,651.6					9.9%	8.1%	29.0	26.8	6.0	20.7%		2.5%

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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KENANGA INVESTMENT BANK BERHAD (15678-H)

Level 17, Kenanga Tower, 237, Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia
Telephone: (603) 2172 0880 Website: www.kenanga.com.my E-mail: research@kenanga.com.my