Consumer Staples - Overall

Sector poised for an upcycle upon reopening

Malaysia

Overweight *(previously Neutral)*

- We turn more positive on the outlook for consumer sector, driven by i) pent-up demand, ii) selling price hikes, and iii) greater economies of scale.
- The surge in input costs should be well-mitigated by counterefforts, in our view, setting the path for margin expansion beyond the next two quarters.
- Hence, we upgrade the sector from Neutral to Overweight. Our sector top picks are Berjaya Food, Bonia, and QL Resources.

Upgrading the consumer sector to Overweight; expect better times

In our view, earnings for consumer stocks likely bottomed in 4QCY21, as pent-up demand from the economic reopening should drive stronger topline growth (via price hikes and higher sales volume), which could further expand core net profit (CNP) margin as we factor in a 150-190bp increase on average for FY22-23F. This should drive sector core EPS growth of 13.8% yoy/15.5% yoy in FY22/23F. This is underpinned by higher economies of scale, selling price increases to more than offset rising input costs, and leaner operating models. Also, we believe that consumer companies under our coverage have higher pricing power due to strong brand equity and target customers in higher-income bracket. Consumer items (staples and food and beverages [F&B]) are daily necessities as well.

To benefit from pickup in economy and strong pent-up demand

With higher vaccination rates and easing of lockdown measures in Malaysia since 11 Oct 2021 where interstate travel is allowed, we believe that consumer staple stocks should benefit from a pickup in demand, mainly from the hotel, restaurants and café (HORECA) segment. Consumer discretionary stocks stand to benefit from higher consumer footfall and increase in consumer spending too. Google Mobility data corroborated that movement trends have recovered close to or exceeded the pre-pandemic level, alongside an improving macroeconomic outlook and various stimulus (i.e. larger cash-handouts) in Budget 22. We expect easing of lockdown measures to allow consumer companies to beef up sales/production which should result in higher revenue and greater economies of scale.

Expecting margin expansion ahead despite rising input costs

In our view, current rise in input costs should be well-mitigated and not weigh down on margins beyond 2QCY22F. This is the result of ongoing initiatives by consumer companies such as: i) gradual product price hikes (average 10-15% rise), ii) greater economies of scale, and iii) cost-saving initiatives (i.e. reducing overheads, more effective marketing costs and automation). In addition, our proprietary analysis indicates that rising input costs do not directly translate into erosion of operating margins (Figures 38-45). Meanwhile, we are of the view that raw material prices should taper off from 2H22F as output normalises on higher production volume and easing of supply chain disruptions. This would augur well for consumer stocks, resulting in margin expansion.

Valuations have turned appealing on stronger earnings prospects

The overall consumer sector's valuation is currently trading at 30.7x 1-year forward P/E, below its 10-year mean of 31.3x. We opine that the overall consumer sector should trade higher, at least +1 s.d. above 10-year mean (40.9x), given the expected stronger CNPCNP growth 2022F (+13.8% yoy) as compared to pre-Covid period of 2018 (+9.7% yoy) and 2019 (-2.2% yoy). We think the staples sub-sector should continue to trade at a premium to discretionary, premised on i) scarcity premium of staple stocks, ii) resilient demand, and iii) strong brand equity. We also expect valuations of the discretionary sector to rise, anchored by higher growth rate and as beneficiary of higher retail spending.

Sector top picks are Berjaya Food, Bonia and QL Resources

We upgrade the consumer sector from Neutral to Overweight, supported by better earnings prospects and more appealing valuations. Our top picks in the sector are Berjaya Food (defensive play), Bonia (strong turnaround play) and QL (value play). Re-rating catalysts include stronger sales and lower input costs. Key downside risks: higher-than-expected rise in input costs and rapid resurgence of Covid-19 cases affecting consumer sentiment.

Highlighted Companies

Berjaya Food Berhad
ADD, TP RM4.40, RM3.24 close

We like Berjaya Food as both a defensive and a retail footfall recovery play. This is premised on Starbucks's strong brand equity, the acceleration of Starbucks store expansion and a strong turnaround of its KRR business to drive future growth.

Bonia Corporation
ADD, TP RM2.50, RM2.04 close

We expect Bonia to be a superior consumer recovery play, backed by its robust earnings growth prospects with a 3-year EPS CAGR of 23.7%. This is driven by i) its ability to raise product prices to aid in margin expansion, ii) its ongoing expansion strategy to increase its boutique store presence, and (iii) rebranding exercises to enhance its upmarket flagship brands.

QL Resources
ADD, TP RM5.50, RM4.95 close

Given the 20.7% decline in its share price in the past twelve months, we believe QL Resources has turned into an attractive proxy for the expected recovery in consumer spending in 1H22F.

Summary Valuation Metrics

P/E (x)	Dec-21F	Dec-22F	Dec-23F
Berjaya Food Berhad	17.55	14.01	13.37
Bonia Corporation	18.37	13.98	12.08
QL Resources	48.96	41.85	32.60
P/BV (x)	**Dec-21F**	**Dec-22F**	**Dec-23F**
Berjaya Food Berhad	3.17	2.97	2.78
Bonia Corporation	1.10	1.05	1.00
QL Resources	4.96	4.59	4.19
Dividend Yield	**Dec-21F**	**Dec-22F**	**Dec-23F**
Berjaya Food Berhad	0.93%	1.23%	1.23%
Bonia Corporation	2.59%	3.61%	4.17%
QL Resources	0.60%	0.76%	0.98%

Analyst(s)

Walter AW
T (60) 3 2635 9255
E walter.aw@cgs-cimb.com
KHOO Zhen Ye
T (60) 3 2635 9278
E zhenye.khoo@cgs-cimb.com

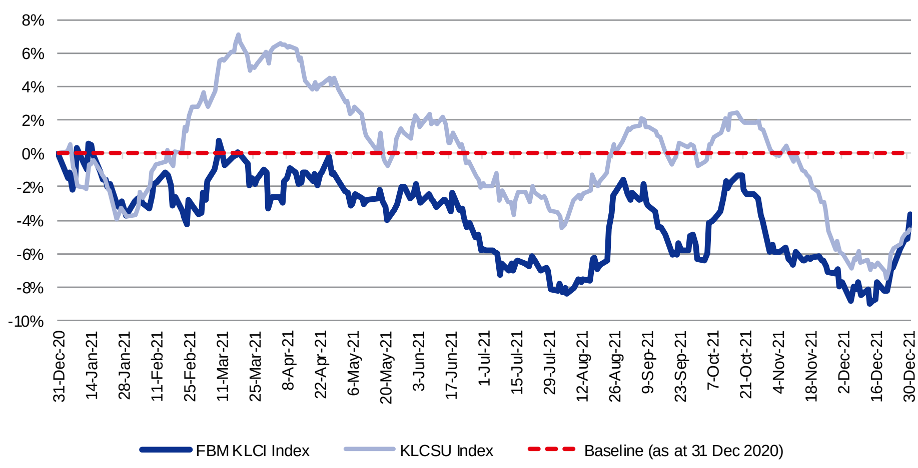
TABLE OF CONTENTS

2021 recap: A tough year

FBM Consumer Index underperformed FBM KLCI in 2021

The FBM Consumer Index recorded a negative 4.5% yoy growth in 2021, underperforming the FBM KLCI that recorded a 3.7% yoy declining growth. In 2021, optimism of a possible turnaround story for Malaysia's economy and the restoration of the consumer sector back to pre-Covid-19 levels faltered as the resurgence of new Covid-19 variants, such as Alpha and Delta, again led to tighter movement restrictions which affected business activities both locally and globally. Supply-demand dynamics became imbalanced with more factories and ports shutting down, resulting in a sharp rise in freight costs and soft commodity prices (input costs). This was further exacerbated by the supply crunch of shipping containers and lines (due to strict border controls) and a shortage of raw materials for soft commodities (owing to the reduced availability of workers).

Figure 2: FBM KLCI Index vs, KLCSU Index (relative comparison)



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 3: Expecting better recovery of KLCSU (consumer) index in 2022F, on par with CGS-CIMB's economic forecasts

Index	2014 % yoy	2015 % yoy	2016 % yoy	2017 % yoy	2018 % yoy	2019 % yoy	2020 % yoy	2021 % yoy
Bursa Malaysia Technology	10.4%	52.4%	-13.3%	89.7%	-29.9%	29.2%	83.9%	38.6%
Bursa Malaysia Industrial	-9.2%	21.6%	-7.3%	21.1%	-4.8%	-7.9%	16.1%	13.8%
Bursa Malaysia Transport	-2.3%	2.4%	0.2%	6.9%	-32.1%	4.6%	4.7%	8.3%
Bursa Malaysia Finance	-7.4%	-9.8%	1.6%	17.2%	2.6%	-10.6%	-1.0%	1.6%
FTSE Bursa Mal Fledgling	11.1%	18.2%	-4.5%	17.0%	-23.3%	6.7%	30.3%	1.4%
FBM Small Cap	-4.2%	6.0%	-7.7%	15.9%	-33.7%	25.4%	9.9%	1.3%
FBM Small Cap Shariah	-5.3%	9.5%	-9.4%	11.1%	-34.8%	26.9%	15.4%	0.5%
Bursa Malaysia Telecom	2.4%	-2.8%	-7.3%	-2.5%	-39.0%	12.1%	-2.0%	-2.5%
FTSE Bursa Malaysia KLCI	**-5.7%**	**-3.9%**	**-3.0%**	**9.4%**	**-5.9%**	**-6.0%**	**2.4%**	**-3.7%**
FBM Emas	-6.1%	-2.3%	-2.8%	12.9%	-10.9%	-1.8%	3.9%	-3.9%
Bursa Malaysia Property	-0.6%	-7.6%	-5.0%	8.8%	-28.6%	-5.2%	-11.5%	-4.2%
FBM Top 100	-6.2%	-2.9%	-2.5%	12.7%	-9.3%	-2.9%	3.5%	-4.2%
Bursa Malaysia Consumer	**-5.8%**	**5.8%**	**-2.1%**	**12.1%**	**1.6%**	**-0.3%**	**-7.6%**	**-4.5%**
Bursa Malaysia REIT	6.5%	-0.9%	11.2%	4.8%	-12.5%	4.1%	-13.4%	-5.0%
FBM Mid 70	-7.9%	0.5%	-0.8%	23.4%	-18.7%	8.7%	6.6%	-6.2%
FBM Emas Shariah	-4.2%	2.3%	-6.1%	10.7%	-13.5%	3.9%	10.1%	-6.8%
Bursa Malaysia Plantation	-11.8%	-3.4%	1.7%	2.0%	-12.7%	12.0%	-5.6%	-10.3%
FBM Hijrah Shariah	1.0%	-0.9%	-6.3%	8.2%	-9.8%	0.8%	8.5%	-10.5%
Bursa Malaysia Utilities	4.5%	1.5%	-5.0%	-2.1%	-5.4%	7.8%	-1.6%	-11.6%
Bursa Malaysia Construction	0.4%	-0.8%	3.0%	9.8%	-50.2%	34.3%	-10.8%	-17.6%
Bursa Malaysia Energy	-40.4%	-18.8%	-18.9%	32.5%	-36.6%	51.3%	-27.8%	-21.5%
Bursa Malaysia Healthcare	-1.1%	60.9%	-12.0%	18.5%	10.1%	-4.2%	185.6%	-34.6%
FBM Ace	-0.4%	13.0%	-25.2%	38.1%	-34.6%	21.1%	105.4%	-40.2%

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Consumer stocks under our coverage reported a 12.2% yoy increase in net profit growth in 9M21 due to outliers

Of the 18 stocks in our consumer sector universe, nine (50%) reported 9M21 earnings that were in line with our expectations, two (11%) reported 9M21 earnings that were above expectations, and seven (39%) reported 9M21 earnings that were below our expectations. Overall, this was an improvement from the 9M20 results in every consumer sub sector: i) consumer staples (+3.2% yoy); ii) consumer discretionary (+26.1% yoy); iii) breweries (+20.8% yoy) and tobacco (+16.9% yoy). This is within our expectations as the year 2020 was an exceptional year due to the nationwide implementation of the movement control order in a bid to contain the spread of Covid-19, leading to a significantly lower level of business and consumer spending in 2020, as compared to 2021.

The overall consumer sector recorded a 12.2% yoy increase in aggregate net profit in 9M21 due to outliers. On a subsector basis, the consumer discretionary subsector performed better on aggregate in 9M21, recording a 26.1% yoy increase in core net profit, predominantly driven by DKSH (95.2% yoy core net profit growth), Bonia Corporation (51.4% yoy core earnings growth) and BFood (>100% yoy core earnings growth). The consumer staples subsector's 9M21 core net profit growth stood at 3.2% yoy, primarily driven by Nestle (7.7% yoy core net profit growth) and MSM (161.4% yoy core net profit growth), offsetting losses from CCK Consolidated (29.6% yoy core net profit decline), Kawan Food (5.2% yoy core net profit decline), Power Root (70.2% yoy core net profit decline) and QL (24.9% core net profit decline).

Figure 4: CGS-CIMB Research's consumer sector 3Q21 results scorecard

	FYE	Period	Above, in line or below?	Core net profit (in RM m)		% change	Deviation in ann. Core net profit vs.		Comments
			(vs CGS-CIMB expectations)	9MCY21	9MCY20	Yoy	CGS-CIMB	Consensus	
Consumer staples									
CCK Consolidated	Dec	3QFY21	In line	17.6	25.0	-29.6%	-7.8%	-13.6%	Thanks to higher contribution from the retail and prawn segments
Fraser & Neave	Sep	4QFY21	In line	285.9	288.4	-0.9%	2.3%	4.6%	3Q21: Weaker qoq contribution from both Thailand and Malaysia operations
Kawan Food	Dec	3QFY21	In line	21.8	23.0	-5.2%	-7.4%	-13.2%	Thanks to higher sales to both local and export markets
MSM Malaysia	Dec	3QFY21	Below	27	-44	161.4%	-64.1%	-63.6%	Weaker-than-expected industrial and export volumes as a result of production disruptions
Nestle (Malaysia)	Dec	3QFY21	In line	458.5	425.6	7.7%	-0.4%	0.5%	Stronger qoq due to lower marketing cost and strong sales
Power Root Bhd	Mar	2QFY22	In line	9.5	31.9	-70.2%	-1.3%	-32.8%	Weaker export sales , surge in raw material costs and higher operating expenses
QL Resources	Mar	2QFY22	In line	123.2	164	-24.9%	-21.6%	-33.9%	Mainly thanks to better performance from MPM segment
				943.5	**913.9**	**3.2%**			
Consumer discretionary									
7-Eleven Malaysia	Dec	3QFY21	Below	24.2	38.4	-37.0%	-33.1%	26.4%	Weaker-than-expected contribution from the convenience store segment
Berjaya Food	Jun	1QFY22	In line	39.5	-13.4	394.8%	-27.8%	-17.9%	Mainly by positive double-digit SSSG and higher outlet count for Starbucks Malaysia
Bonia Corporation	Jun	1QFY22	Below	10.9	7.2	51.4%	-189.7%	-166.7%	Weaker-than-expected sales in 1QFY22 given store closure during FMCO for the first half of the quarter
DKSH Holdings	Dec	3QFY21	In line	60.9	31.2	95.2%	-1.0%	-3.2%	Driven by increased 9M21 revenue, underpinned by organic growth from existing clients
InNature Bhd	Dec	3QFY21	Below	7.2	13.3	-45.9%	-49.0%	-51.2%	Mainly due to to tight movement restrictions across all of its operating markets in 3QFY21
Mr D.I.Y Group	Dec	3QFY21	Below	295.9	232.0	27.5%	-17.5%	-23.8%	Weaker-than-expected sales amid temporary store closures
Mynews Holdings	Oct	3QFY21	Below	-32.8	-3.3	-893.9%	58.5%	152.0%	Due to more severe lockdowns in 3QFY21 which led to significantly weak footfall
Panasonic Manufacturing Malaysia	Mar	2QFY22	Below	64.3	67.3	-4.5%	-64.4%	-63.4%	Lower sales (domestic and export) and higher raw material costs
				470.1	**372.7**	**26.1%**			
Breweries									
Carlsberg Brewery (M)	Dec	3QFY21	Above	141.9	130.9	8.4%	14.5%	-12.5%	Higher-than-expected sales volume in 3Q21
Heineken Malaysia	Dec	3QFY21	Above	152.2	112.5	35.3%	-13.2%	-8.1%	Stronger-than-expected sales volume in 3Q21
				294.1	**243.4**	**20.8%**			
Tobacco									
British American Tobacco	Dec	3QFY21	In line	213.6	182.7	16.9%	-1.5%	3.3%	Low er operating expenses in the period (-15.5% yoy)
				213.6	**182.7**	**16.9%**			
Overall				**1921.3**	**1712.7**	**12.2%**			

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Our consumer sector universe outperformed our total stock coverage universe in 3Q21

In 3Q21, the aggregate core net profit growth for our consumer sector coverage stood at 12.2% yoy, better than the core net profit decline of 0.4% for our total stock universe (implying relative core net profit growth of 12.6% yoy for the consumer sector vs. the CGS-CIMB Research coverage universe). We kept our Neutral recommendation on the consumer sector during the same period, as we believe the lofty P/E valuations of several consumer stocks (particularly large-cap consumer staples stocks) were already reflecting the earnings outperformance.

Figure 5: CGS-CIMB Research – Malaysia consumer sector recommendation and earnings performance against our expectations

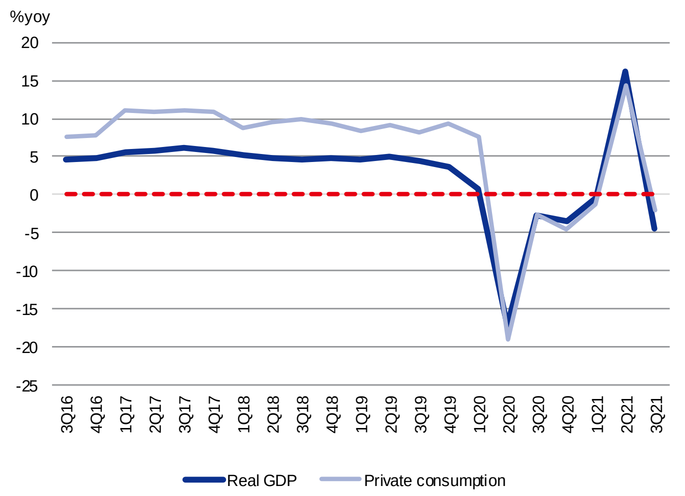
	4Q19	1Q20	2Q20	3Q20	4Q20	1Q21	2Q21	3Q21
Results vs expectations	In line	In line	In line	Below	Above	In line	In line	In line
Recommendation	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral	Neutral

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Weak macroeconomic performance in 2021

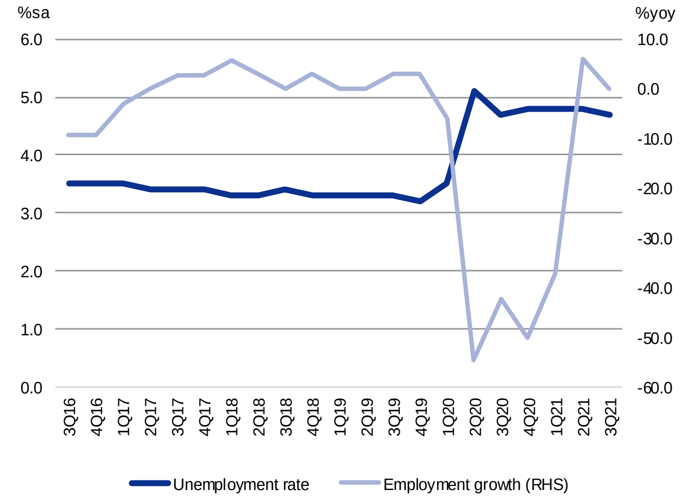
Weak Malaysian macroeconomic performance for 2021 can be shown via data i) real gross domestic production (GDP) growth; ii) private consumption growth; iii) consumer sentiment index, and iv) business condition index. Private consumption growth has been the primary driver of Malaysia's GDP growth. In 2Q21, Malaysia real GDP and private consumption growth recorded significant growth of 16.1% yoy and 14.3% yoy respectively, attributable to i) better labour market conditions (indicating higher consumer spending power); ii) accommodative interest rates; iii) favourable commodity prices; as well as iv) ongoing economic stimulus packages and assistance. However, we observed a sharp fall in both real GDP and private consumption growth in 3Q21 which, in our opinion, could have been due to the resurgence of new Covid-19 variants causing the re-imposition of tighter lockdown measures (lower economic activities globally) and higher inflation/freight rates/raw material costs domestically and globally, leading to lower purchasing power for Malaysian consumers.

Figure 6: Malaysia's real GDP and private consumption growth



SOURCES: CGS-CIMB RESEARCH, CEIC DATA

Figure 7: Malaysia's unemployment rate vs. employment growth

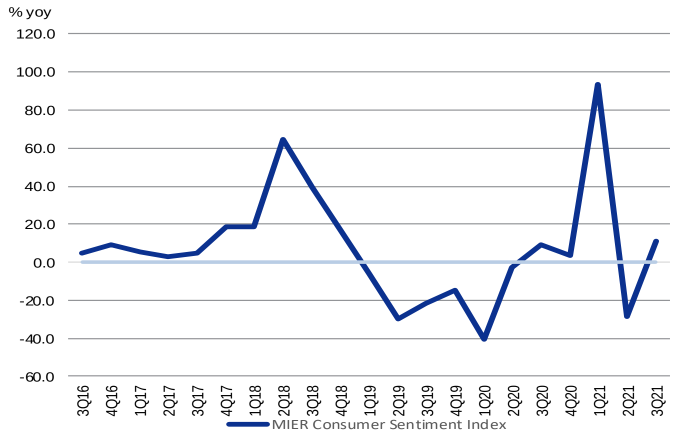


SOURCES: CGS-CIMB RESEARCH, CEIC DATA

Following the 3Q21's pandemic-induced contraction, we are of the view that the economy gained back some of its growth momentum in the final quarter of 2021, on the back of the success in pandemic containment and gradual lifting of restriction measures. On the other hand, we observed that the unemployment rate stayed flat at 4.5% at the start of 4Q21 with the labour market still suffering from prolonged economic uncertainty and job mismatches. However, we foresee improved labour market conditions in 2022, with Retail Group Malaysia (RGM) expecting retail sales to record positive growth of 18.3% in 4Q21 (indicating higher consumer spending).

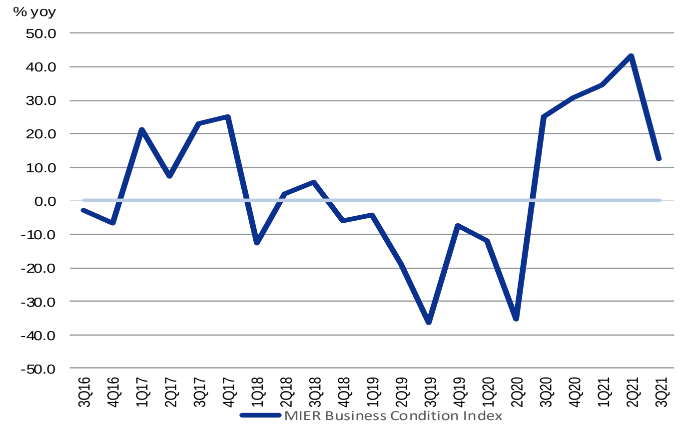
The Consumer Sentiment Index and Business Condition Index showed slow yoy growth in 3Q21, but would likely improve throughout the first half of 2022 (1H22) driven by more business activities (increasing consumer footfall leading to more spending) and stabilised commodity prices (fair input costs). Thus, we are of the view that 2022F will be a better year for both the Malaysian economy and the consumer sector.

Figure 8: MIER Consumer Sentiment Index



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 9: MIER Business Condition Index



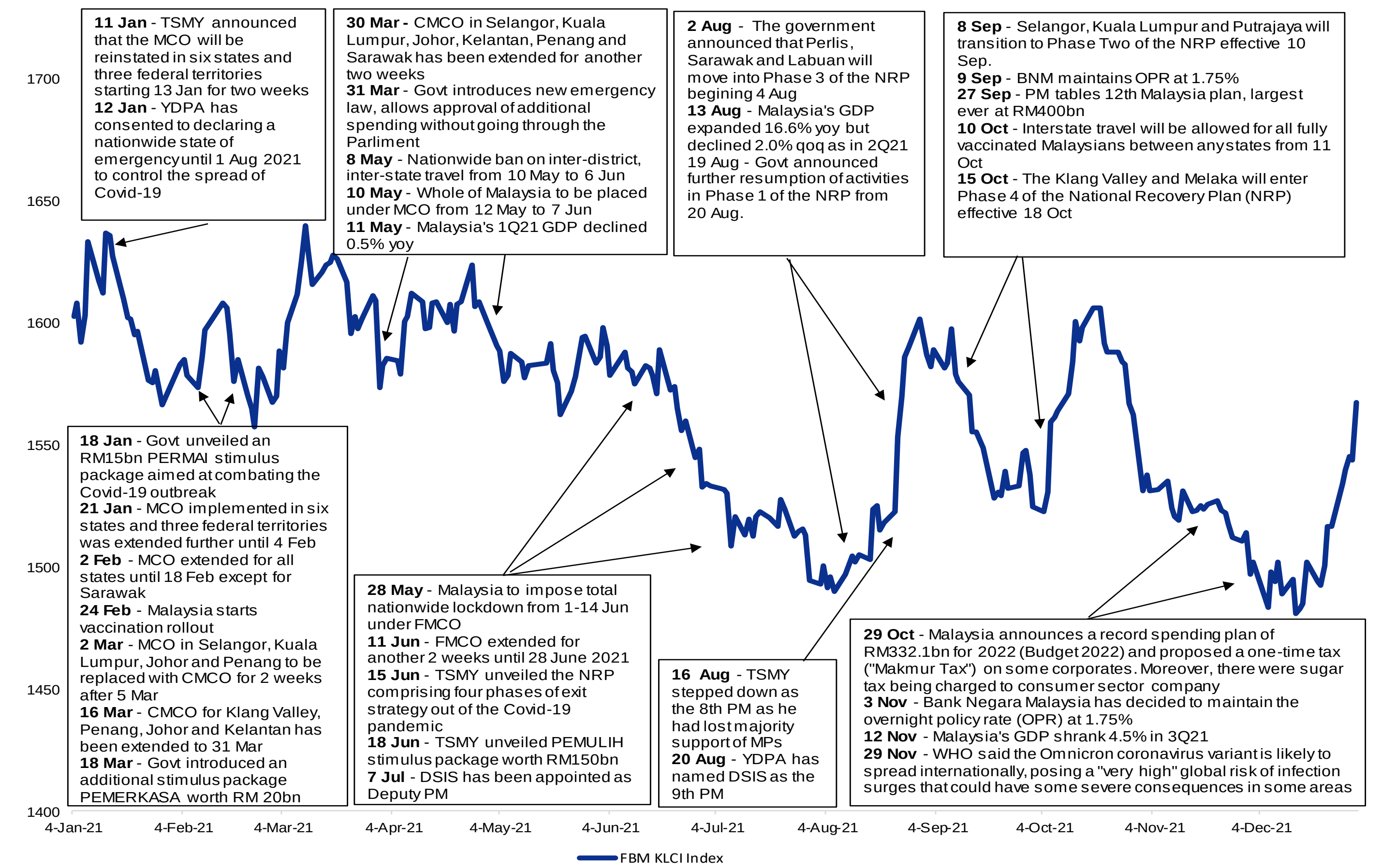
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Key events in 2021

The FBM KLCI and FBM Consumer Index fell by 3.7% and 4.5% respectively in 2021 as the market was hit by a series of negative newsflows (events):

- Declaration of state of emergency in Jan to combat Covid-19;
- Reinstatement of various Movement Control Orders (MCO) in Jan-Aug 2021;
- Increase in Covid-19 cases, peaking at 24,599 on 26 Aug 2021;
- Slow vaccination progress in 1H21;
- Political turmoil (change of prime minister on 21 Aug);
- Higher tax measures announced in Budget 2022, such as excise tax on sugar;
- Supply chain disruptions (high input costs for raw materials/feed; shortage of supply with some factories unable to operate during the MCO; and high freight costs due to shortage of containers); and
- Resurgence of new Covid-19 variant (Omicron, which is more contagious) in Nov 2021.

Figure 10: Key Malaysian market events in 2021



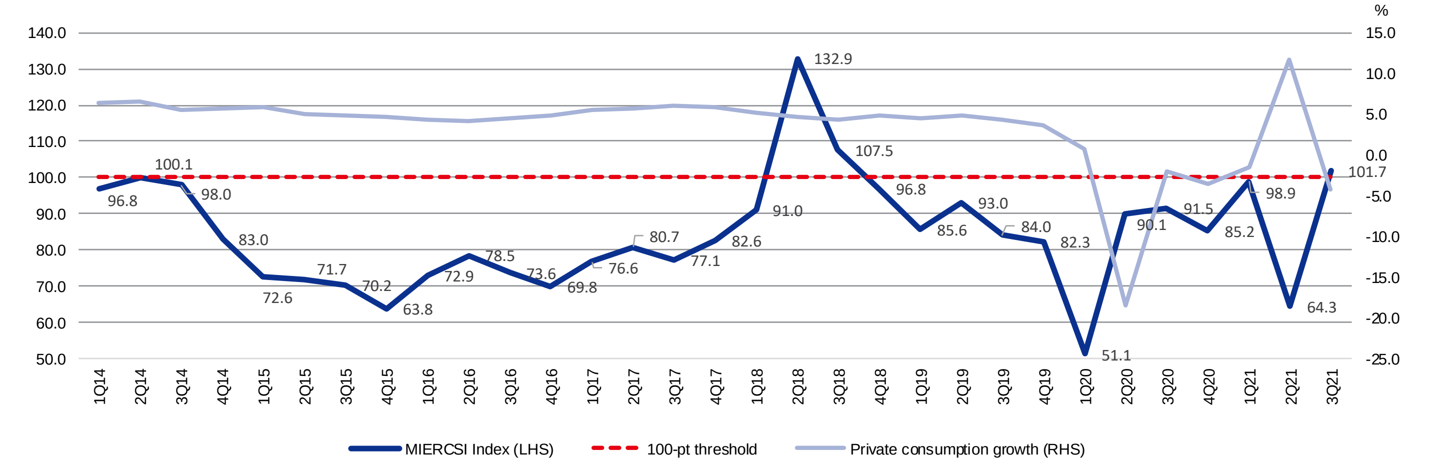
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

More positive macroeconomic outlook in 2022F

Consumer sentiment expected to be more upbeat in FY22F

We are of the view that Malaysian consumer confidence will improve in 2022F. This is on the basis of i) high vaccination rates in the country, allowing economic activities to resume promptly post lifting of lockdown measures on 11 Oct 2021 when interstate travel was allowed; ii) significant improvement in global trade; iii) gradual recovery in business operations; and iv) stabilised commodity prices. This is supported by the surge in the MIER Consumer Sentiment Index (CSI) which hit its highest level since 4Q18 at 101.7 points in 3Q21 (Figure 11).

Figure 11: MIER CSI Index vs. private consumption growth. 3QFY21 CSI bounced back to pre-pandemic levels at its highest level of 101.7 points since 3Q18



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

On top of that, Malaysia was ranked 13th out of about 120 countries by the Nikkei Covid-19 Recovery Index as of 31 Dec 2021 (Figure 12) and is consistently within the top 10 out of 184 countries of the Global Covid-19 Recovery Index (GCI). We believe this lends further support to positive recovery prospects in consumer spending, in tandem with the reopening of the economy as confidence improves. From 3 Jan 2022 onwards, all states in Malaysia had also moved into Phase 4 (final phase) of the National Recovery Plan, which allows most, if not all, economic sectors to operate at full capacity, except social activities and events still subject to social-distancing measures at 50% capacity. Also, Malaysia reopened its borders with Singapore and Thailand, as well as introduced an international travel bubble to Pulau Langkawi, gradually paving the way for the return of foreign tourists and investors.

Figure 12: Selected countries of the Nikkei Covid-19 Recovery Index (As of 31 Dec 2021) – Malaysia ranked 13th out of about 120 countries it tracks

Rank	Country/region	Total score
3	Taiwan	75.5
5	China	74.5
7	South Korea	70.5
12	Japan	67.5
13	**Malaysia**	**66.5**
22	Cambodia	63.0
23	Singapore	62.0
30	Thailand	60.5
37	India	59.0
53	Indonesia	54.0
59	Philippines	53.0
59	UK	53.0
70	Germany	51.0
87	US	46.5
90	Myanmar	44.5
118	Vietnam	35.0

SOURCES: CGS-CIMB RESEARCH, NIKKEI

CGS-CIMB estimates GDP and private consumption growth of 5.6% yoy and 6.5% yoy respectively in 2022F

Our CGS-CIMB Economist team expects Malaysia's real GDP and private consumption to grow by 5.6% and 6.5% respectively, in 2022F on the back of i) higher consumer spending; ii) pickup in production and construction activities; iii) improved labour market conditions (indicating higher disposable income); and iv) strong external demand. Although all these would support a recovery, the growth outlook remains subject to both the stability in global financial markets and gradual easing of supply chain disruptions. In terms of FTSE Bursa Malaysia indices, we expect a better recovery in the FBM Consumer Index, in tandem with higher real GDP and private consumption growth in 2022F.

Figure 13: CGS-CIMB economic forecasts

CGS-CIMB Economic forecasts	2015 % yoy	2016 % yoy	2017 % yoy	2018 % yoy	2019 % yoy	2020 % yoy	2021F % yoy	2022F % yoy
Real GDP	**5.1%**	**4.5%**	**5.8%**	**4.8%**	**4.4%**	**-5.6%**	**3.5%**	**5.6%**
By expenditure								
Domestic demand	5.1%	4.3%	6.5%	5.6%	4.3%	-5.8%	2.0%	6.4%
Private consumption	**6.0%**	**5.9%**	**6.9%**	**8.0%**	**7.7%**	**-4.3%**	**2.4%**	**6.5%**
Public consumption	0.0%	1.1%	5.7%	3.4%	1.8%	3.9%	7.9%	3.7%
Private investment	6.3%	4.5%	9.0%	4.3%	1.6%	-11.9%	1.4%	4.5%
Public investment	-1.1%	-1.0%	0.3%	-5.0%	-10.7%	-21.3%	-15.1%	20.7%
Net exports	-3.7%	0.4%	-3.9%	6.2%	11.2%	-13.0%	-4.6%	5.4%
Exports	0.3%	1.3%	8.7%	1.9%	-1.0%	-8.9%	15.3%	10.2%
Imports	0.8%	1.4%	10.2%	1.5%	-2.4%	-8.4%	17.6%	10.7%

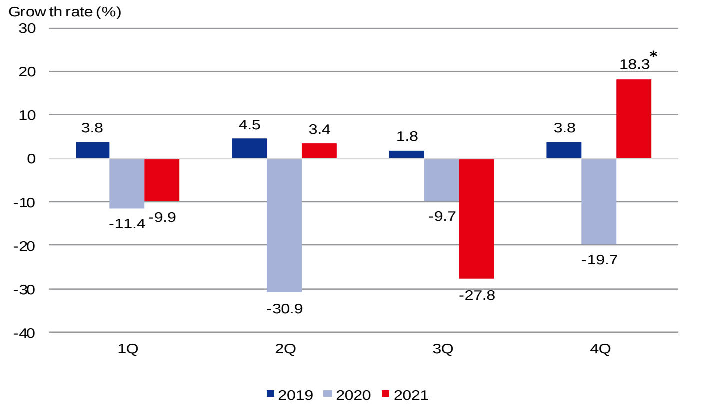
SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

RGM expects retail growth of 6.0% in 2022F

Retail Group Malaysia (RGM) has been working closely with the Malaysia Retailers Association (MRA) to compile and publish quarterly retail reports. Based on their findings, 3Q21 saw the worst growth rate of 27.8% decline for the year due to the re-imposition of lockdown measures. However, RGM is optimistic that 4Q21 retail growth rate numbers will be much better; it has forecast 18.3% growth amid higher vaccination rates and the government unlikely to implement any strict nationwide lockdowns in the future. We believe these will stimulate higher consumer spending and footfall, leading to strong expected consumption volume in 2022F.

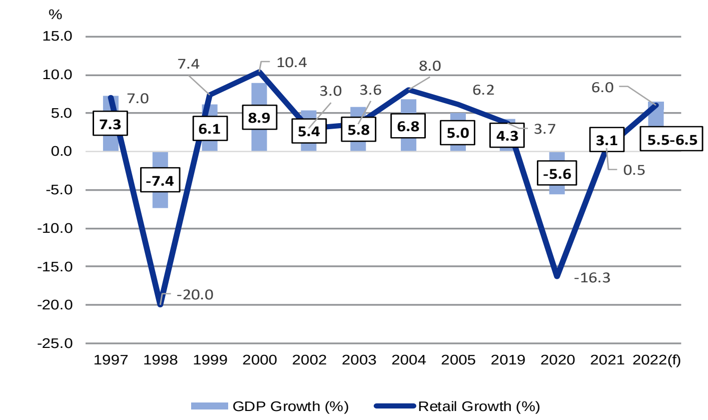
Mr Tan Hai Hsin, the managing director from RGM, further reiterated that Covid-19 pandemic had been a game changer for the industry; it has redefined how retailers and shoppers transact in the market digitally and physically. He believes this transformation will have further matured in 2022, indicating a better outlook for Malaysia's retail industry, with a 6.0% growth rate projected for 2022F.

Figure 14: Malaysia's retail quarterly sales growth rates (%)



SOURCES: CGS-CIMB RESEARCH, RGM DATA

Figure 15: Malaysia retail sales growth rates



SOURCES: CGS-CIMB RESEARCH, RGM DATA

Various incentives from government stimulus packages and healthy savings to underpin better consumer spending

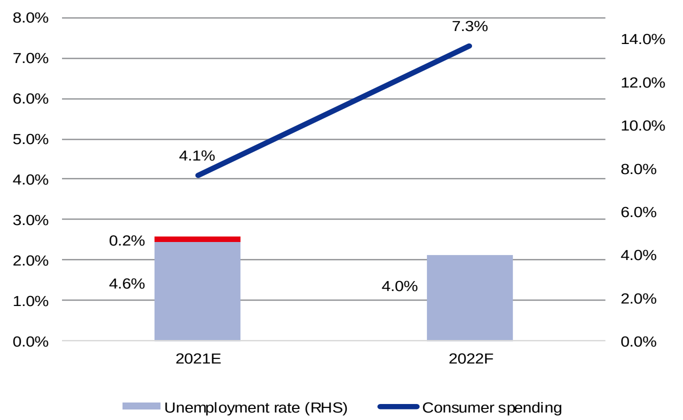
Moving forward, the Ministry of Finance (MOF) expects purchasing power of Malaysian consumers to grow faster at 7.3% in 2022F (compared with 4.1% in 2021E) in tandem with i) the expected improvement in labour market conditions (Figure 17), especially a lower unemployment rate upon economic reopening (2021E: 4.6-4.8% vs 2022F: 4.0%); ii) favourable commodity prices; iii) larger social assistance in Budget 2022 (with the Malaysian government's various stimulus packages worth of about RM530bn); and iv) higher excess savings (Figure 18) despite the Covid-19 pandemic-stricken economy in 2020-21.

Figure 16: Government stimulus packages (2020 vs 2021)

2020	
Stimulus package	**Estimated value (RM bn)**
Prihatin	150
Prihatin SME+	110
Perjana	35
Kita Prihatin	10
2021	
Stimulus package	**Estimated value (RM bn)**
Permai	15
Pemulih	150
Pemerkasa	20
Pemerkasa+	40
Total (2020 and 2021)	530

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 17: Consumer spending and unemployment rate projections (MOF estimates)

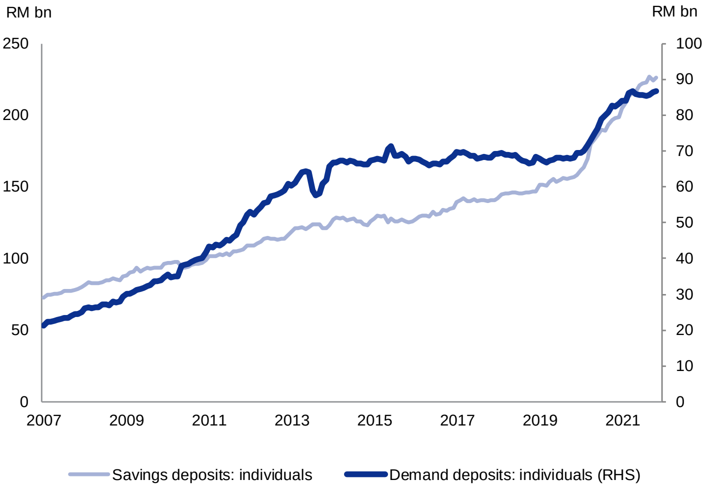


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Some notable supportive policies in Budget 2022 to the consumer sector are the bigger targeted cash handouts of RM8.2bn, an allocation of RM31.0bn worth of subsidies and aid to alleviate the cost of living, and the RM4.8bn job guarantee programme. We think the continued cash handouts for targeted households and individuals will provide temporary relief. We are less optimistic about the labour market conditions as a long recovery in some services sectors, such as tourism, retail and aviation, could mean slow hiring.

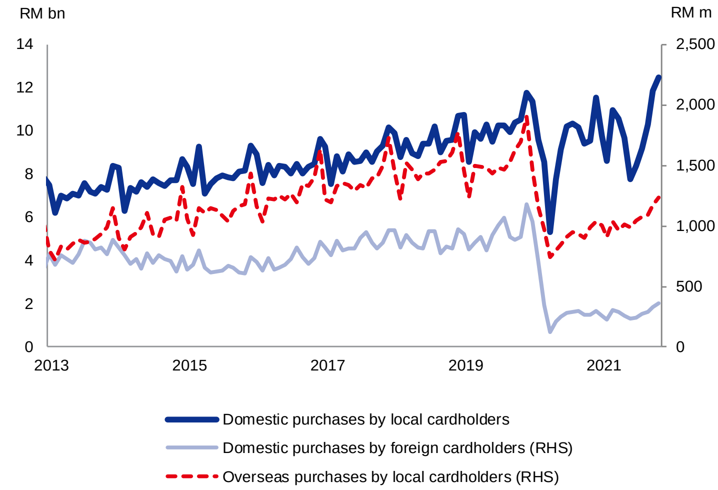
However, we believe these should help to combat against the higher inflation (i.e. higher food, energy and goods' prices) in 2022F and could provide an additional confidence boost to consumer spending driven by pent-up demand and higher restocking activities, in our view. This is corroborated by the spike in domestic purchases via credit card from Nov 2021 (Figure 19), where we observed a return to normalcy of economic activities and consumer footfall. We expect this trend to continue in 2022F which augur well for the consumer sector.

Figure 18: Excess savings by Malaysian individuals remain healthy, we expect spending to recover strongly on pent-up demand when confidence improves



SOURCES: CGS-CIMB RESEARCH, CEIC

Figure 19: Domestic purchases using credit card in Malaysia showing uptrend and a spike in Nov 2021, suggesting higher spending upon reopening from 11 Oct 2021 onwards



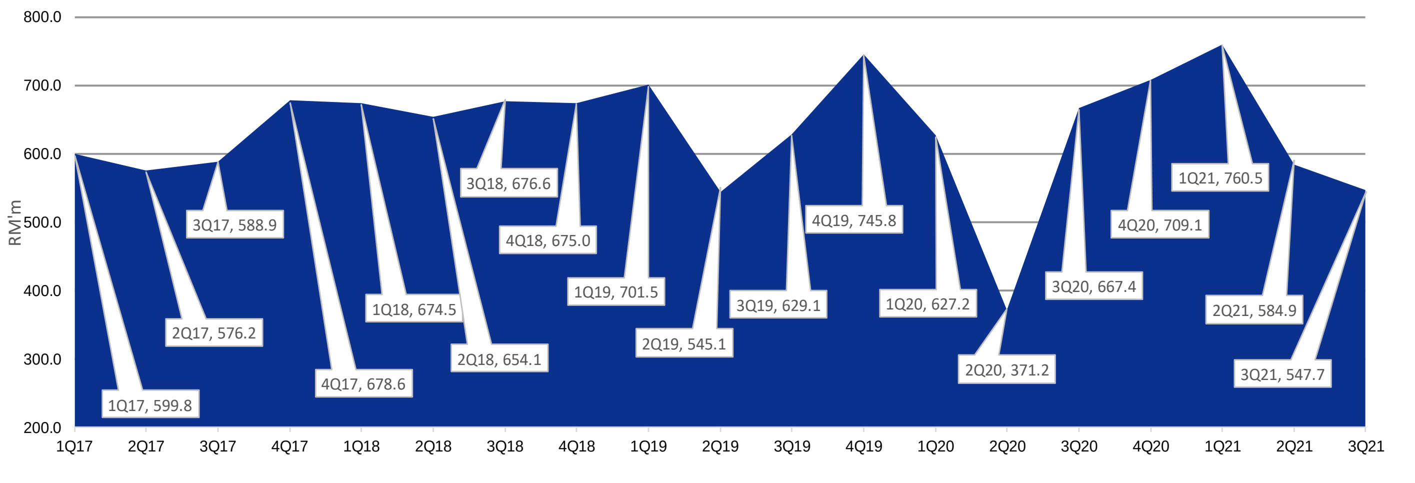
SOURCES: CGS-CIMB RESEARCH, CEIC

Better times ahead in 2022F for consumer sector

Stronger earnings ahead from a low base in 2020/21

We are optimistic of a stronger earnings prospects for the consumer sector in 2022F, albeit coming from a lower base in 2020/2021. This is mainly premised on: i) stronger sales growth on reopening as businesses are allowed to operate at full capacity to better capture customer demand, ii) higher economies of scale as production level increases, and iii) margin expansion on higher average selling prices once elevated raw material prices subside. The low base effect in 2021 was the result of lockdown measures, bans on inter-state travel, strict dine-in restrictions, and limited consumer mobility, especially in 3QCY21 (due to full movement control order) amid high Covid-19 cases, which severely affected earnings (Figure 20).

Figure 20: Cumulative quarterly earnings of consumer companies under our coverage (1Q17-3Q21)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Expecting double-digit sector's CNP growth rate in 2022F

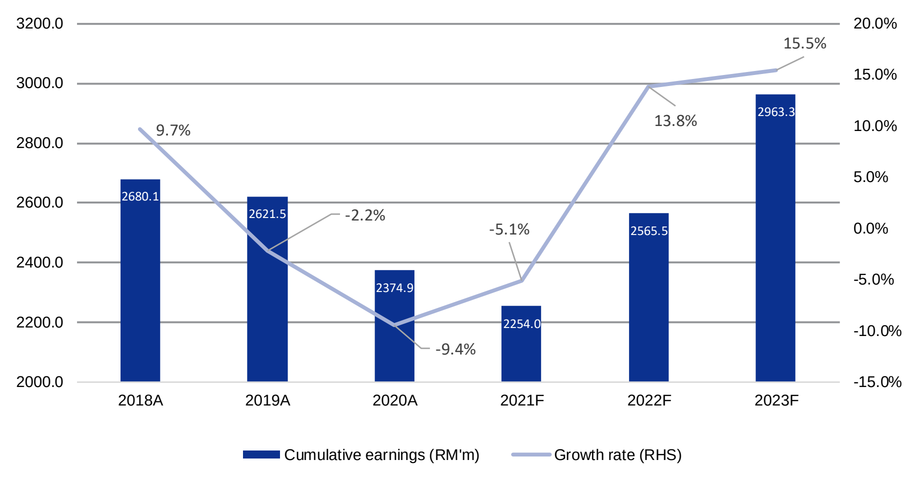
We now expect cumulative CNP of the consumer companies under our coverage to grow at a healthy double-digit rate of 13.8-15.5% in 2022-23F, after experiencing sluggish growth for the past years including the pandemic period of 2020/21. The higher CNP growth (even vs. pre-pandemic period) should also support a higher valuation for the sector (i.e. +1 s.d. above 10-year mean), in our view. This is predicated on the sector coming out stronger post lifting of lockdown measures, which should aid recovery in sales and EBITDA margins as consumer spending increases due to pent-up demand, higher economies of scale, product price hikes as well adopting leaner operating models.

Figure 21: Consumer sector's core net profit growth rate table (calendarised)

Year	2018A	2019A	2020A	2021F	2022F	2023F
Cumulative earnings (RM'm)	2680.1	2621.5	2374.9	2254.0	2565.5	2963.3
Growth rate (RHS)	9.7%	-2.2%	-9.4%	-5.1%	13.8%	15.5%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

Figure 22: Consumer sector's core net profit growth rate chart (calendarised)



SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

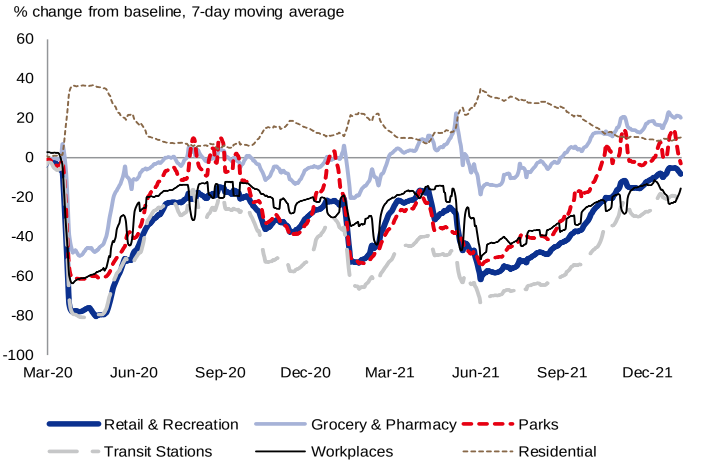
Pent-up demand, aided by festivities and better consumer footfall

According to Google's Covid-19 Community Mobility Data, the mobility trends of various places in Malaysia have been on an upward trajectory since the relaxation of lockdown measures and lifting of interstate travel ban on 11 Oct 2021 (Figure

23 & 24). We gather that the latest retail and recreation mobility has almost recovered to more than 90% of pre-pandemic levels while the grocer and pharmacy mobility has outperformed (20% above the pre-pandemic baseline). We expect these promising trends to continue into 2022F on full reopening of economic activities. This should result in strong pent-up demand in view of the fact that consumers are now able to celebrate major festivities with minimal restrictions and higher consumer footfall to augur well for future sales demand moving forward. While mobility at workplaces and transit stations still lag by c.20% below the pre-pandemic baseline given the work-from-home trend, we expect the gradual phases of return to office policy in 2022F to result in the trend rising above the baseline; this should benefit convenience stores and retailers that are dependent on office crowd.

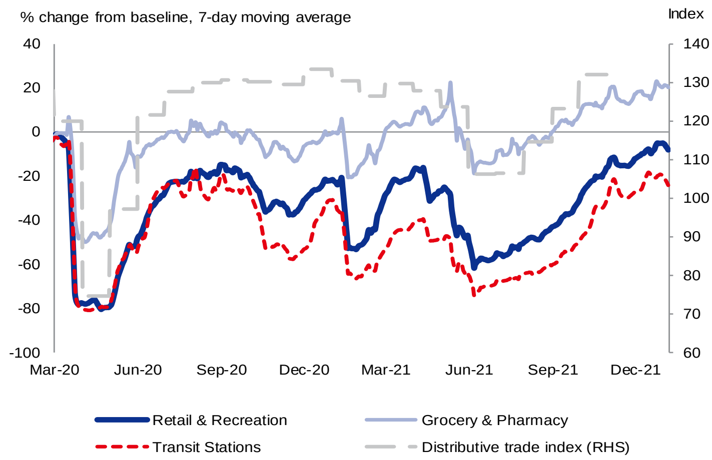
The mobility trends are also in line with the top three retail sub-sectors that potentially recorded the highest estimated growth rates in 4Q21 (Figure 25) which are i) fashion and fashion accessories (+50.4% yoy): **(Focus Stock: Bonia (BON MK, ADD, TP:RM2.50, RM2.04 close))**, ii) department store-cum-supermarkets (+35.9%): **(Focus stocks: Mr D.I.Y(MRDIY MK, ADD, RM4.20, RM3.68 close))**, and iii) personal care stores (+16.5%): **(Focus stocks: InNature (INNATURE MK, ADD, TP:RM0.84, RM0.695 close)** and **7-Eleven's Caring Pharmacy (SEM MK, ADD, TP1.80, RM1.45 close)).** In the food and beverage segment (F&B), RGM expects higher consumer footfall to drive the café and restaurant sub-segment to grow 20.7% yoy, while the take-away, kiosk and stall sub-segment likely rose 20.5% yoy in 4Q21: **(Focus Stock: Berjaya Food (BFD MK, ADD, TP: RM4.40, RM3.24 close)**, and **MyNews (MNHB MK, ADD, TP:1.18, RM0.81 close))**

Figure 23: Mobility trends in Malaysia showing promising upward movements since relaxation of lockdown measures



SOURCES: CGS-CIMB RESEARCH, GOOLGE MOBILITY

Figure 24: Spending set to rise on improving mobility at key target areas (Retail, Convenience Store, Groceries, Pharmacy, Shopping malls, public transport hubs)



SOURCES: CGS-CIMB RESEARCH, GOOGLE MOBILITY

Figure 25: Growth Rates (Year 2020 & 2021)

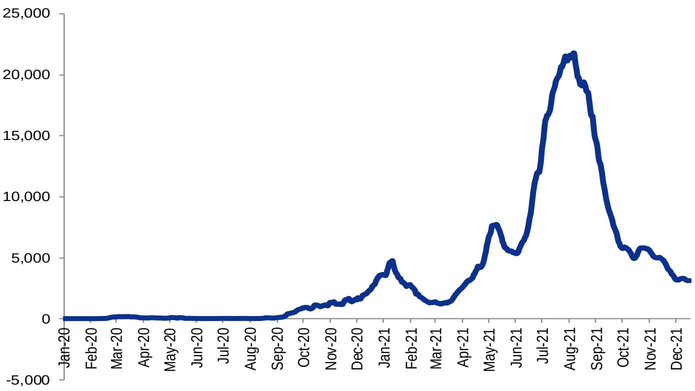
	2020	2021			
Retail Sub-Sector		**1Q**	**2Q**	**3Q**	**4Q***
Department store cum supermarket	-18.7	-14.5	-6.5	-41.9	35.9
Department store cum supermarket	-38.3	-24.3	18.2	-43.6	-2.6
Supermarket and hypermarket	-12	-11.9	-12.3	-12.5	0.9
Mini-market, convenience store & coop	14.8	3.7	2.6	2.6	8.8
Fashion & fashion accessories	-37.9	-23.4	17.6	-63.6	50.4
Children & baby products	-20.2	-12.2	-17.4	-48.4	12.8
Pharmacy	-11.8	-6.2	10	-10.3	10
Personal care store	-11.8	-17.7	-36.1	-51.7	16.5
Furniture & furnishing, home improvement & E&E	0.4	35.3	-1.1	-28.5	9.7
Other specialty stores	-11.7	-0.1	-41.4	-20.7	-15.6
F&B Sub-Sector					
Café & restaurant	-12.8	-6.2	-10.9	-0.8	20.7
Take-away, kiosk and stall	-18.3	-9.5	37.5	-11.1	20.5

SOURCES: CGS-CIMB RESEARCH, RETAIL GROUP MALAYSIA
*ESTIMATES

Re-imposition of lockdowns unlikely moving forward in view of the high vaccination rate in the country

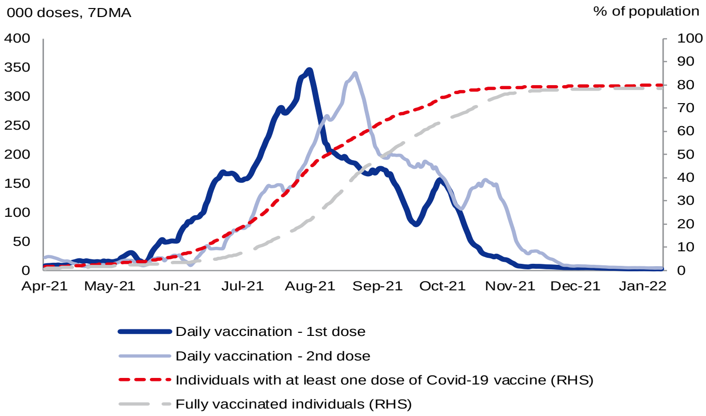
Thanks to Malaysia's high mass vaccination rates (Figure 27), its Covid-19 cases have declined significantly from a 7-day daily average peak of c.22k cases on 31 Aug 2021 to c.3k as of 25 Jan 2022 (Figure 26). As of 21 Feb 2022, the rates of vaccination for the total population in Malaysia stood at 78.8% with adults at 97.5% and adolescents at 90.0%. We also believe the roll-out of the children's coronavirus vaccination programme in 2022F would help the government to better transition into the endemic phase, where we could see the return of larger-scale social events and increased economic activities driving higher consumer spending, benefitting the overall consumer sector. Even with the emergence of the Omicron variant, we believe the situation is under control thus far, with the third or booster dose programme on track and covering 43.1% of the total population and 59.8% of adults as of 21 Feb 2022, significantly lessen the severity of Covid-19. Therefore, we think the likelihood of renewed lockdowns is minimal moving forward in 2022F.

Figure 26: Malaysia's 7-day average Covid-19 cases have declined significantly from its peak in Aug 21 to May 21's level



SOURCES: CGS-CIMB RESEARCH, CEIC

Figure 27: As at 21 Feb 2022, Malaysia has vaccinated c.78.8% of its population including c.97.5% of all adults and c.90.0% of adolescents



SOURCES: CGS-CIMB RESEARCH, CEIC

HORECA sales to return

The Malaysian distributive trade index (Figure 24) has been rising in tandem with the improving mobility trends at retail and recreational areas, suggesting the recovery in consumer footfall should bode well for the hotel, restaurant, café (HORECA) segment sales. This is mainly driven by: i) strong return of dine-in crowd on relaxed restrictions for in-store capacity, ii) rise in domestic tourism at tourist hotspots, and iii) solid rebound in mall traffic back to pre-pandemic levels. We are of the view that the return of HORECA sales will benefit food and beverage (F&B) manufacturers and retailers' earnings outlook in 2022F.

Labour shortage issue to ease from 2QCY22 onwards

Due to the ban on foreign worker recruitment in Malaysia since the start of the Covid-19 pandemic in the country, we understand from companies under our coverage that they are facing labour shortages. The situation was further exacerbated by existing migrant workers returning to their home countries, with no new workers to replace them. As a result, we understand that companies have had to lower their production output in light of the smaller workforce, while the need to hire local labour or retain existing ones have led to cost escalations (estimated to rise by 15-20%). While this might increase the operating costs of the companies in the near term, it is still at a manageable level given that labour costs typically constitute less than 15-20% of total cost as compared to raw material costs (70-80% of total cost of goods sold). Nonetheless, we believe that the labour crunch situation will gradually improve from 2QCY22 onwards premised on the reopening of online applications for the recruitment of foreign workers in the plantation sector starting 28 Jan 2022, and for all other sectors from 15 Feb 2022, according to human resources minister Datuk Seri Saravanan Murugan. Hence, we are of the view that a gradual improvement in the labour shortage situation could ease the rising labour wages.

Minimum wage hike may further boost consumer spending

A potential 25% hike in minimum wage from RM1,200 to RM1,500 in 2022F could further boost consumer spending, as more cash is transferred into the hands of the masses, in our view. This comes as Malaysian Human Resources Minister Datuk Seri M. Saravanan and the Malaysian Trades Union Congress (MTUC) expect the raise in wages to be implemented in 2022F, which is set to benefit approximately 2.25m individuals. For instance, Aeon Co (M) Bhd and Aeon BiG Sdn Bhd have raised the minimum wage for their Grade G employees to RM1,500 per month from RM1,200 effective 1 Jan 2022. We expect more companies to follow suit progressively in 2022F. This may increase the purchasing power of consumers and hence consumption moving forward, benefitting the overall consumer sector. Recall that the previous revision in minimum wage occurred on 1 Feb 2020, when the minimum wage was raised by RM100 to RM1,200 per month. We understand that the minimum wage is typically increased every two years.

Increase in production volume

We are of the view that production volume will increase to cater for the increase in customers' pent-up demand in 2022F. From our channel checks, companies under our coverage are seeing strong stock replenishment from their customers post reopening of economic activities since Oct 21, along with year-end 2021 festive season and Chinese New Year in 2022. We gather that the majority of the consumer companies' factories are now able to run at 100% workforce capacity with utilisation rate almost back to pre-pandemic levels to catch up with production delays and fulfil backlog orders. This will lead to higher economies of scale and greater productivity in 2022F, which should be a boon to profit margins. Recall that factories and offices were only allowed to operate at 50-60% capacity due to the lockdown measures in 2021.

Demand for consumer products in Malaysia is defensive

We believe the various product price hikes in the consumer sector are not likely to dent sales demand too much given that the products are often necessities, such as staple foods, energy drinks and beverages, and household products that consumers use on a daily basis. While consumers might not get the best bang for their buck, we think this would not stop them from purchasing these daily essentials. All in, we expect purchases to still be made, even if the price increases are here to stay after the elevated raw material prices ease, hence providing an opportunity for margin expansion for consumer companies.

Rising input costs still a concern but still manageable, in our view

Cost push inflation is a major concern in CY2022F

As of CY21, the global supply chain disruptions amidst a strong rebound in the global economic recovery have sent the average selling prices (ASP) soaring for coffee (+42% yoy), Malaysian CPO (+61% yoy), brent crude oil (+64% yoy), corn (+59% yoy), soybean (+44% yoy), sugar (+37% yoy), and wheat (+21% yoy). This is primarily the result of shortages of soft commodities owing to depleting inventories and a labour crunch that led to insufficient workers to grow and harvest the crops, leading to lower production volume against higher demand.

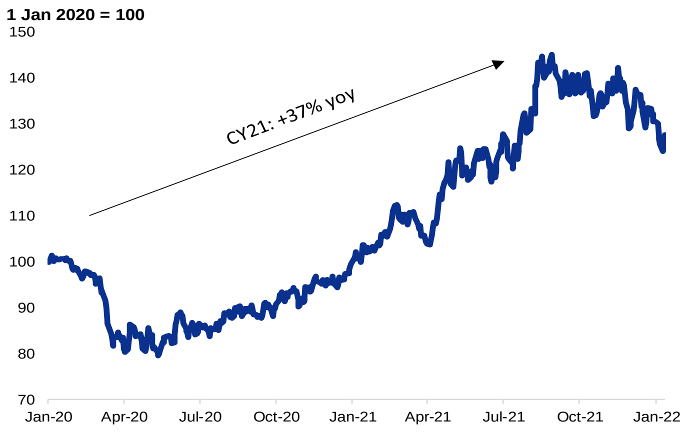
This is further compounded by elevated freight and container rates which rose in the range of 58%-296% yoy in CY21 due to the reduced availability of containers and shipping lines amidst surging demand; this increased the cost of both importing raw material supplies and exporting products to customers for companies under our coverage. However, we expect the high freight charges and raw material prices to only last till 1HCY22F before easing in 2HCY22F, as the global supply chain and labour shortage situations revert to normal.

Ability to pass on higher costs to customers a plus point

According to our channel checks, some of the consumer staples, retailers and brewers under our coverage were able to raise product prices in 4QCY21 (e.g. **QL, CCK, Nestle, DKSH**) while the majority plan to implement product price hikes progressively from 1QCY22F onwards **(**e.g. **Innature, Power Root, Panasonic Malaysia**). Retailers such as **Mynews, 7-Eleven,** and **Mr DIY** normally have a cost plus pricing model which should enable them to pass on the rising costs to consumers with ease as their customers are normally willing to pay a premium for convenience.

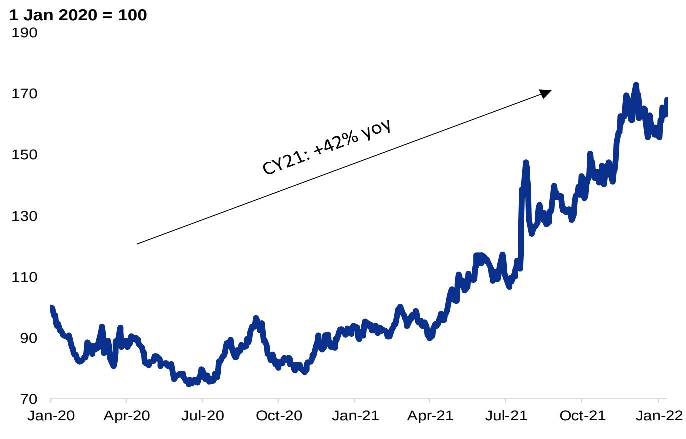
We are positive on this as it could expand margins and support future sales. We are not too concerned on the potential reduction in demand due to higher pricing as this is an industry-wide phenomenon and most competitors have followed suit as well. In addition, the consumer companies under our coverage are selling products, which we deem as daily necessities, and at the same time, having strong brand equity that enable them to garner higher pricing power. Given the larger social assistance packages from Budget 2022, higher savings and improving labour market, we expect Malaysian consumers' purchasing power to remain steady. That said, earnings could still be at risk should the raw material prices increase further. Nonetheless, we believe this impact could be further mitigated by: i) a recovery in demand leading to higher economies of scale, ii) continuous cost rationalisation measures and iii) active hedging policies.

Figure 28: Sugar price



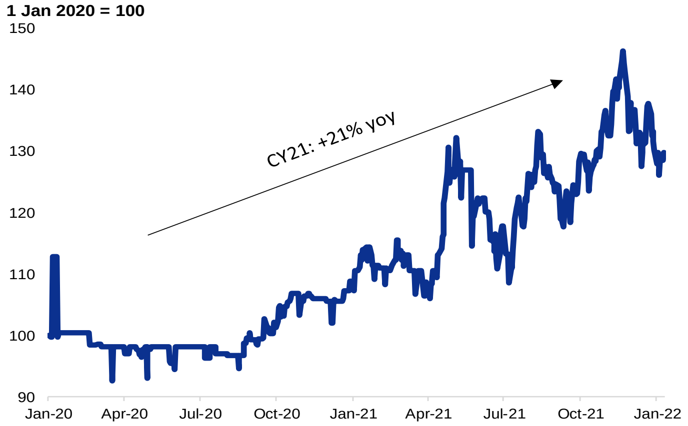
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 29: Coffee price (Arabica coffee)



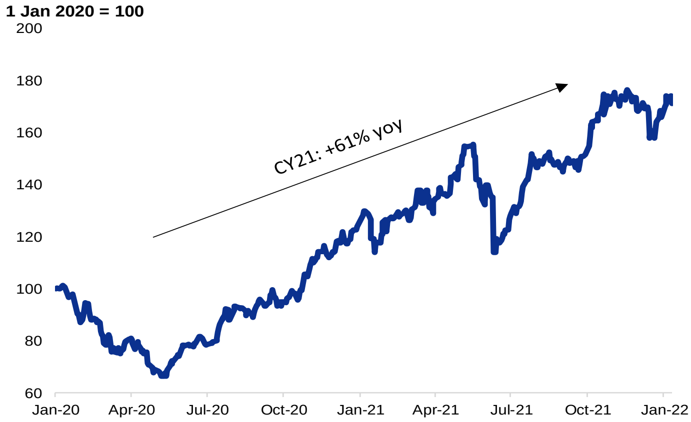
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 30: Wheat price



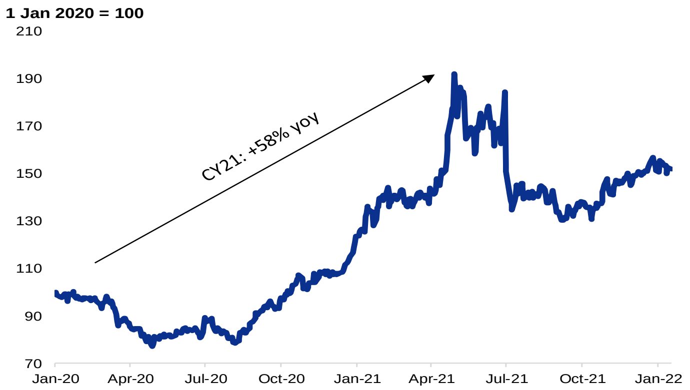
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 31: Malaysian CPO price



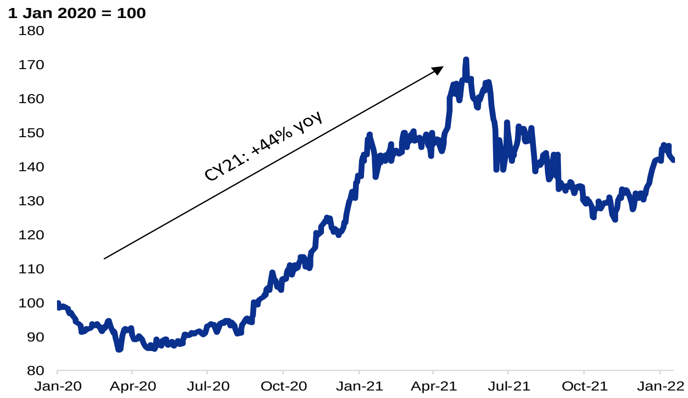
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 32: Corn prices



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 33: Soybean prices

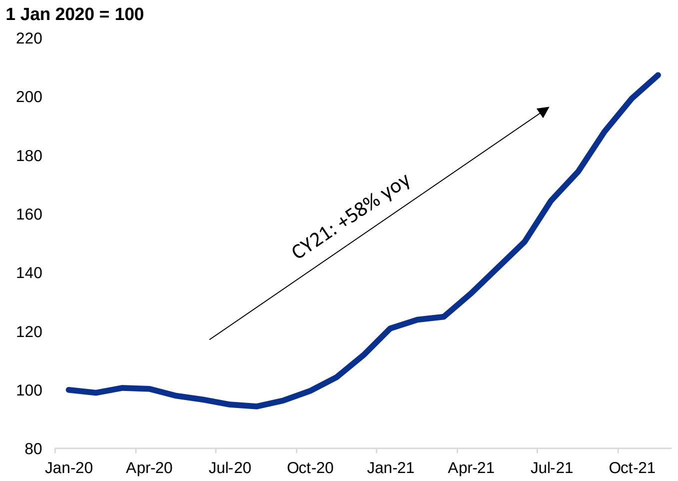


SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 34: Brent crude oil price

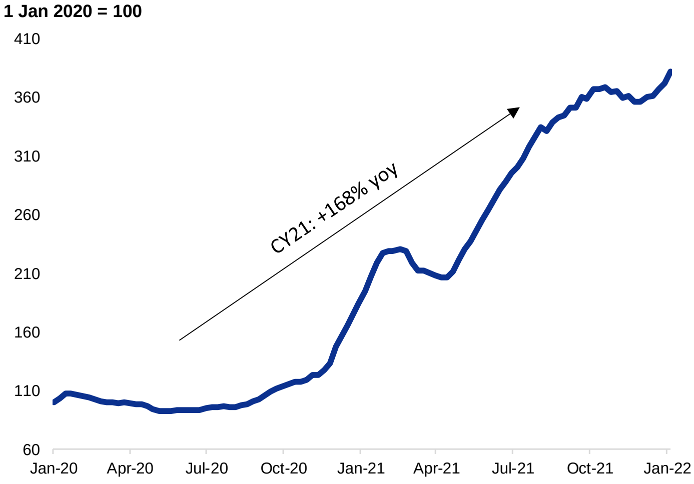
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 35: CTS Average Global Container Price Index



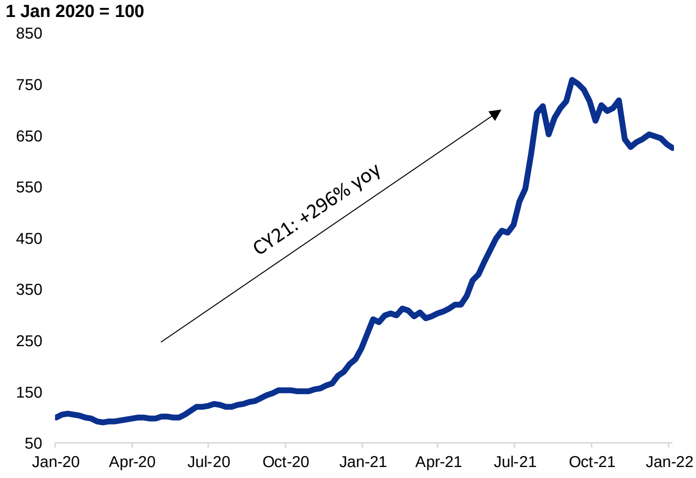
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 36: Shanghai Shipping Exchange China (Export) Containerized Freight Index



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 37: Freightos Index Global



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

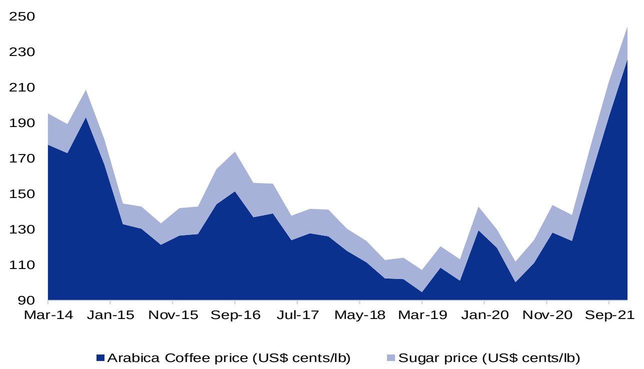
Correlation between high raw material prices and financial trend not that prominent

We conducted a proprietary analysis on the impact of higher raw material on profitability of consumer companies under our coverage. Based on the graphs below, we can conclude that the correlation between higher raw material prices and decline in margins is not high. This is given that any hike in raw material prices does not necessarily translate to lower margins for consumer stocks. In our view, this is given that EBITDA margin trend is more affected by other more deciding factors, such as tough operating environments due to pandemic-induced reduction in demand and increased competition as well as unfavourable policies.

We believe the stronger economic growth and higher employment rate ahead would lead to higher purchasing power, allowing consumer companies to raise their average selling prices (ASP) to partially pass on the higher input costs to customers. However, we believe the higher ASP will bode well for sales and earnings, especially of the food manufacturers and F&B players as majority of them generally have active hedging policies that enable them to capture the rise in ASPs, expanding their margins.

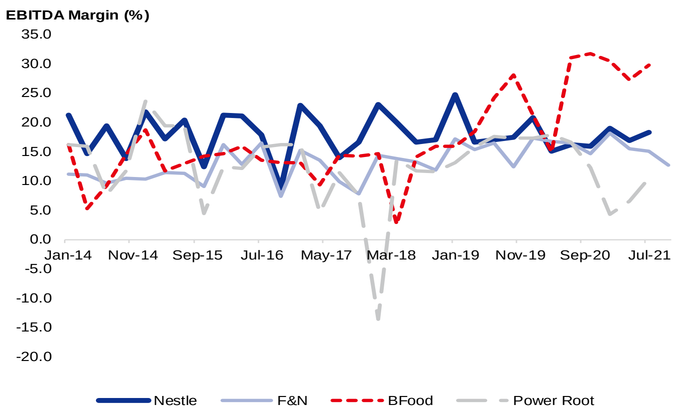
While the sharp rise in freight charges might have affected the retailers and convenience store chains that typically have a heavy reliance on imports of products, we expect higher-margin products and cost plus pricing model to partly allay the concerns of high logistics costs. Other mitigating measures undertaken are cost rationalisation initiatives (e.g. reduced marketing expenses, leaner cost structures and reduction in manpower) to reduce operating expenses to protect margins.

Figure 38: Quarterly price trend for Arabica coffee and sugar (2014-2021)



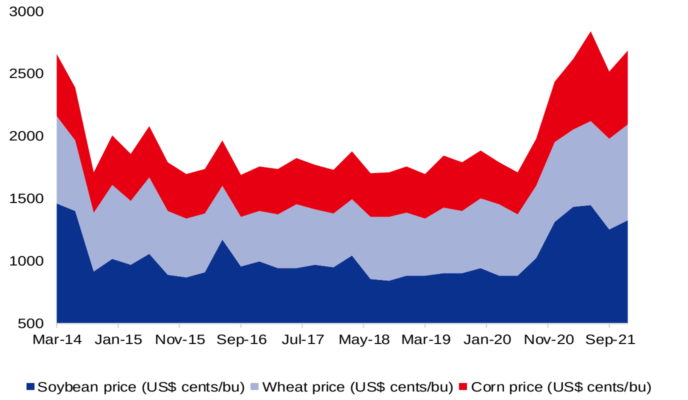
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 39: Quarterly trend of EBITDA margin of F&B players (2014-2021) based on latest available published financial data



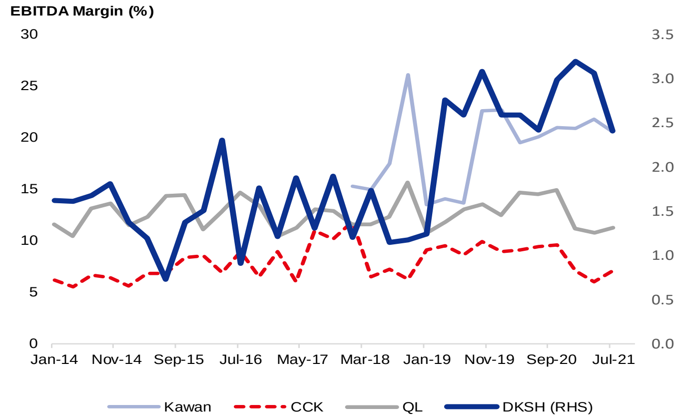
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 40: Quarterly price trend for soybean, wheat and corn (2014-2021)



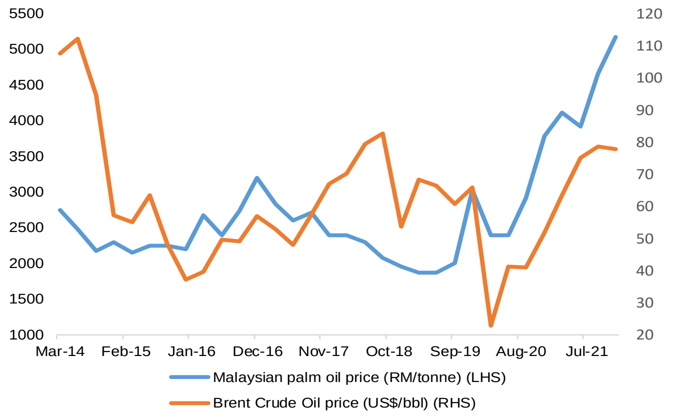
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 41: Quarterly trend of EBITDA margin of food producers and distributors (2014-2021) based on latest available published financial data



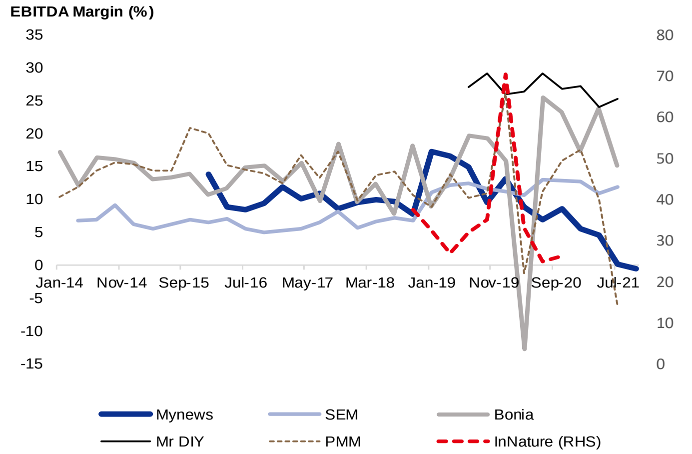
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 42: Quarterly price trend for Malaysian CPO and Brent Crude Oil (2014-2021)



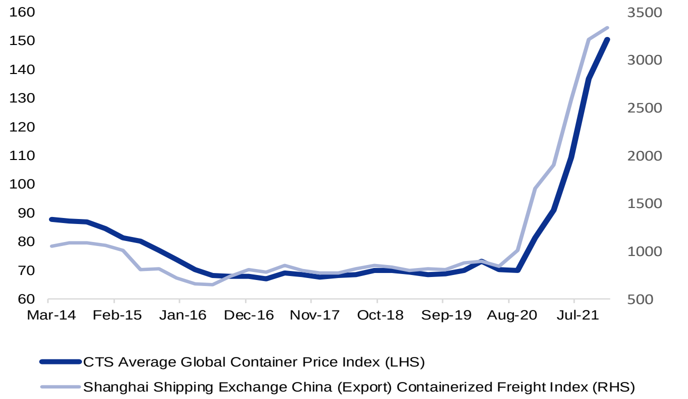
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 43: Quarterly trend of EBITDA margin of retailers (2014-2021) based on latest available published financial data



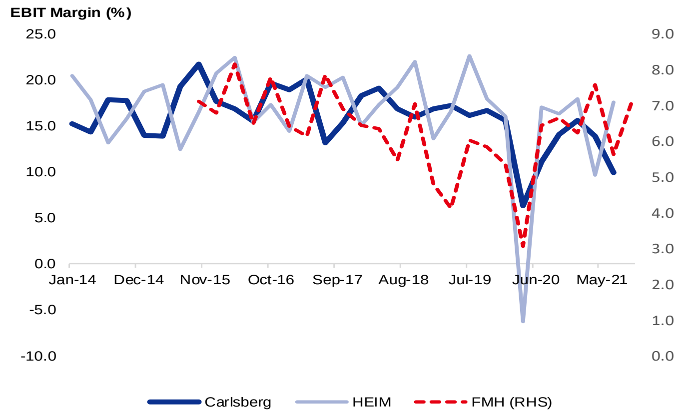
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 44: Quarterly price trend for Container and Shipping Index (2014-2021)



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 45: Quarterly trend of EBIT margin (2014-2021) based on latest available published financial data



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Raw material prices unlikely to sustain at these levels (higher production volume and less supply disruption)

We expect the elevated raw material prices to ease gradually in 2HCY22F once the supplies revert to normal. As the shortage of labour starts to ease with more availability of workers to grow and harvest crops and companies' production ramps up, the increase in supply will start to put downward pressure on raw material prices. Besides, companies could also opt to delay or postpone as well as optimise their purchases if the raw material prices remain high.

Hedging activities

In addition, we expect margin compression from higher raw material prices to be also shielded by hedging activities. Based on our channel checks, consumer companies tend to hedge their forex and/or raw material requirements to overcome any volatility. The hedging tenure usually ranges from three months to a year, and could be up to 50% of their raw material requirements. We expect these hedging activities to aid in mitigating the impact of rising raw material prices going forward, to ensure that their cost structures remain intact.

Buoyed by higher economies of scale

We are also positive on the gradual lifting of lockdown measures (implemented in various stages across 2021) in recent months. This could help alleviate bottlenecks in operations faced previously due to disruptions (i.e. lockdown measures such as social distancing, 50% workforce, etc.) which resulted in most consumer companies were running at lower utilisation rates during 2020-2021. Moving forward, we expect the higher utilisation rate of production operations given that 100% workforce capacity is now allowed (as vaccination across most consumer companies are almost close to 100%). We expect this to translate into better economies of scale, thanks to higher production volume to cater for the increase in the demand for goods.

Banking on a leaner cost structure

Based on our channel checks, consumer companies have also focused on lowering their overheads and closing non-performing stores since the start of Covid-19 (Mar 20). These efforts include: i) optimising headcount, ii) implementing more effective marketing efforts (shift towards digital marketing), iii) reduce wastage, and iv) retailers adopting a smaller store format strategy (less operating cost) at prime locations (higher footfall) with their new store expansion or via relocation. In our view, this is expected to benefit consumer companies in expanding their profit margin, leading to better profitability once sales recover post lifting of lockdown measures.

Incentives by government to poultry players to mitigate higher input costs and price control scheme

Particularly for poultry players, we expect higher input costs and the ongoing price control scheme (5 Feb until 5 June 2022) to be mitigated by government initiatives to provide incentives and subsidies to poultry players. These include the recent announcement by the government that it will provide a subsidy of 60 sen per kilogramme (kg) to poultry farmers (taking into account the farm-level price of live chickens at RM5.90 per kg and the retail price of standard chicken at RM8.90 per kg) and a five sen subsidy for each egg from all categories until 4 June 2022. We expect this subsidy to help poultry players in absorbing higher input cost pressures (such as bran prices which have increased by 30-40% in the past three months).

Valuation and recommendation

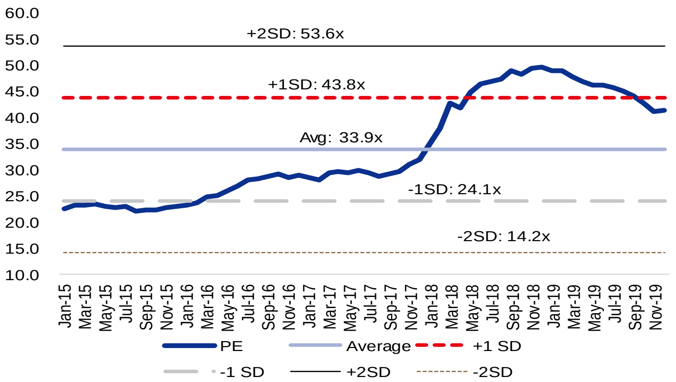
Upgrading the consumer sector to an Overweight

We upgrade the overall consumer sector to an Overweight from a Neutral previously. This is backed by our view that sector earnings likely bottomed in 4QCY21 (to be announced in 1QCY22F), which will be driven by topline growth as well as margin expansion going forward. Margin expansion should come from consumer companies' efforts to raise selling prices as well as from higher economies of scale. On top of that, we believe that supportive macro-economic factors (higher retail sales, GDP growth and higher private consumption) as well as positive government incentives during Budget-22 will spur consumer spending.

Overall sector valuations have turned more appealing

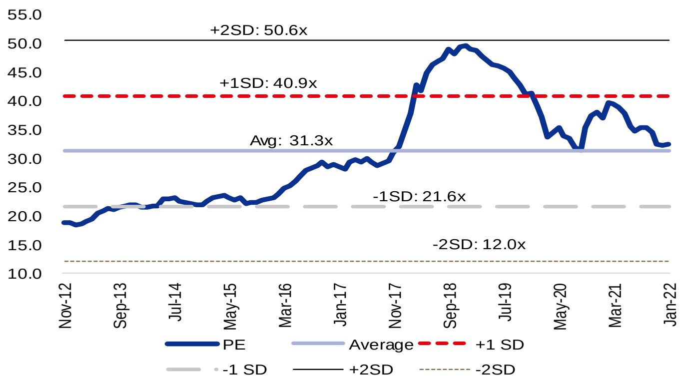
At this juncture, CGS-CIMB's overall consumer sector (excluding **MR DIY**) is trading at a weighted 12-month forward P/E of 30.7x, which is at a 25% discount to the sector's +1 s.d. above 10-year mean of 40.9x. This is also below its 10-year historical mean of 31.3x, which we believe is unjustified. In our view, the overall consumer sector deserves to trade higher, at least at +1 s.d. from its 10-year mean (40.9x) owing to demanding P/E valuations commanded by big-cap consumer staples stocks such as **Nestle**, **QL Resources** and **MR DIY** as well as expectations of stronger earnings recovery for the sector ahead. In our view, these stocks trade at premium valuations due to the attractiveness of these stocks in terms of: i) scarcity premium, ii) defensive nature of business, and iii) resilient demand for their products. Also, consumer staple stocks in Malaysia are prominent because their products are sold under established and well-known brand names (dominant in their respective market categories).

Figure 46: Overall consumer sector valuation during pre-pandemic period (2015-2019)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 47: Overall consumer sector valuation (10-year)

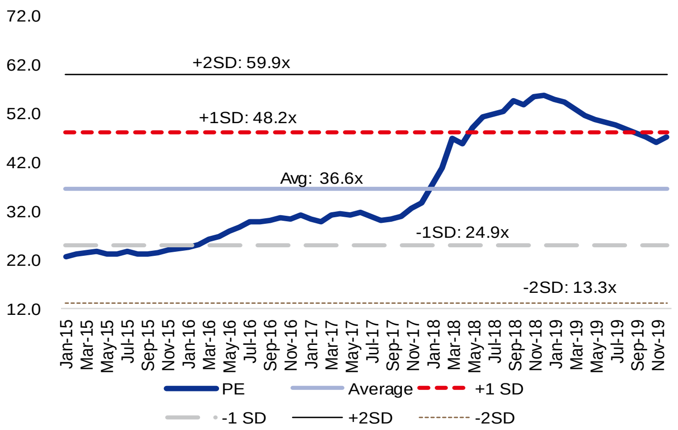


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Discretionary stocks remain appealing on potential upward re-rating, and yet to factor in a recovery

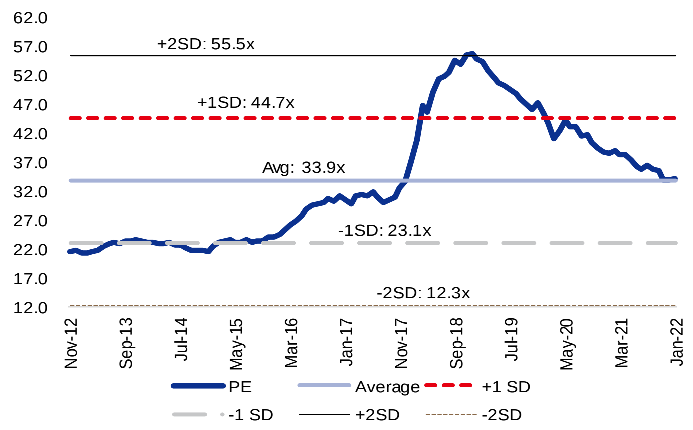
The overall consumer discretionary sector is currently trading at 29.7x 12-month forward P/E due to the inclusion of **MR DIY** (listed on Oct 2020). Stripping out **MR DIY**, the sector is just trading at 17x 12-month forward P/E, which is at a 23% discount to its 5-year mean of 22.1x. This allows the sector to re-rate higher with MR DIY as the torchbearer. In our view, current valuations have yet to account for the expected recovery in upcoming earnings thanks to better footfall recovery and higher consumer spending. We expect valuations of discretionary consumer stocks to recover post the release of upcoming quarterly results.

Figure 48: Consumer staple sector valuation during pre-pandemic period (2015-2019)



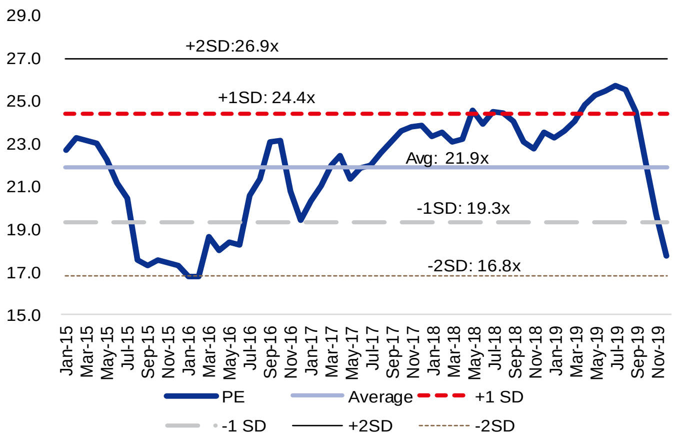
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 49: Consumer staple valuation (10-year)



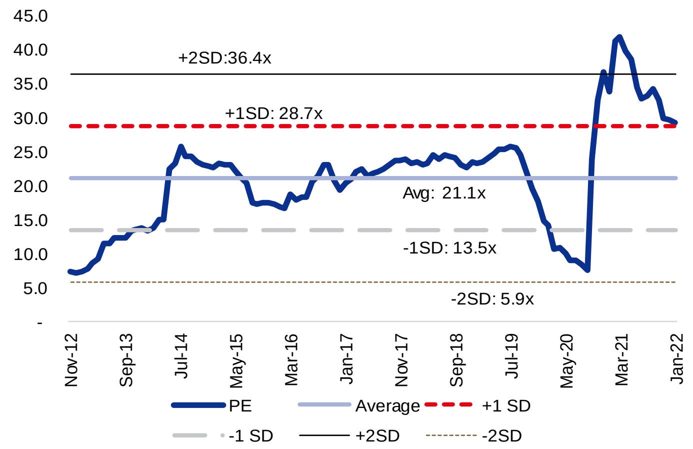
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 50: Consumer discretionary sector valuation during pre-pandemic period (2015-2019)



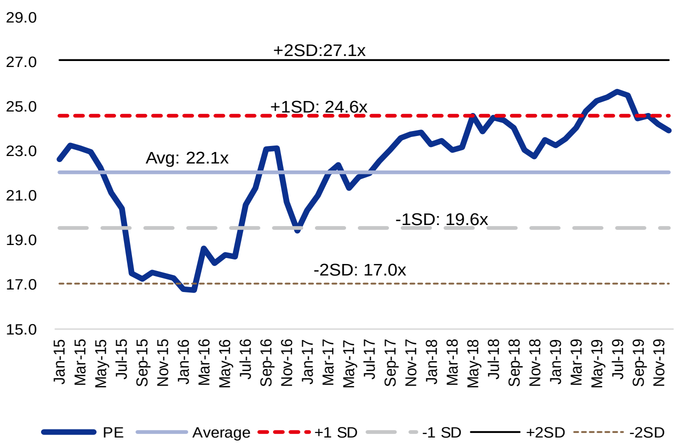
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 51: Consumer discretionary valuation (10-year)



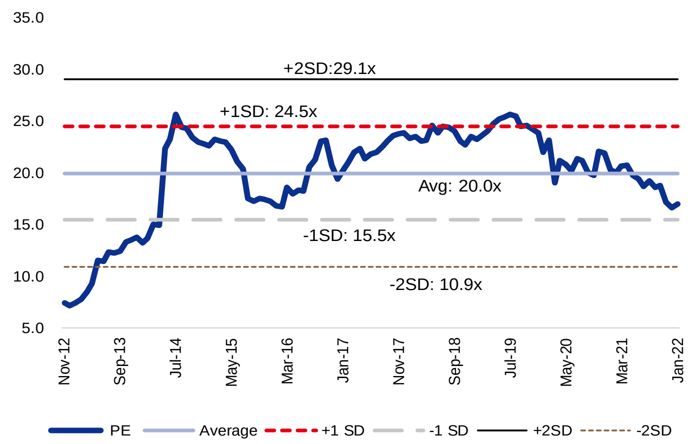
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 52: Consumer discretionary sector valuation (excluded MR DIY) during pre-pandemic period (2015-2019)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 53: Consumer discretionary sector valuation (excluded MR DIY) (10-year)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Under our coverage, there are consumer names that offer attractive dividend yield

Apart from valuation and earnings growth play in the consumer sector, we have also identified a few key consumer names that have appealing and steady dividend yield in CY22F such as **Panasonic Manufacturing Malaysia** (c.7%), **Power Root** (c.4.4%), **Bonia** (c.3.9%), **InNature** (3.7%), and **CCK Consolidated** (c.3.3%). This is backed by their strong cash generating ability and higher dividend pay-out ratio. While we have a Hold call on both Panasonic Manufacturing Malaysia and Power Root given its challenges in managing input costs and bottlenecks, and tough business environment (i.e. sugar tax) respectively, their respective higher dividend yield than peers with slight valuation discount could provide support.

Figure 54: Dividend yield (%) of consumer companies under our coverage

Company	Dividend Yield		
	Dec-21F	Dec-22F	Dec-23F
Panasonic Manufacturing Malaysia	5.2%	6.9%	6.9%
Power Root	3.3%	4.4%	5.2%
Bonia	2.8%	3.9%	4.5%
InNature	2.8%	3.7%	4.1%
CCK Consolidated	2.4%	3.3%	3.8%
F&N	2.8%	3.0%	2.4%
Kawan Food	2.3%	2.6%	3.1%
7-Eleven Malaysia	1.3%	2.2%	2.5%
Nestle	1.9%	2.0%	2.4%
DKSH (Malaysia)	1.9%	1.9%	1.9%
Berjaya Food	1.7%	1.7%	1.7%
Mynews Holdings	0.6%	1.0%	1.8%
QL Resources	0.8%	1.0%	0.3%
MR DIY	0.8%	0.9%	1.1%

SOURCES: CGS-CIMB RESEARCH **ESTIMATES**, COMPANY REPORTS

Our top picks are Berjaya Food, Bonia and QL

In the consumer sector, we have three top picks which are **Berjaya Food, Bonia and QL**.

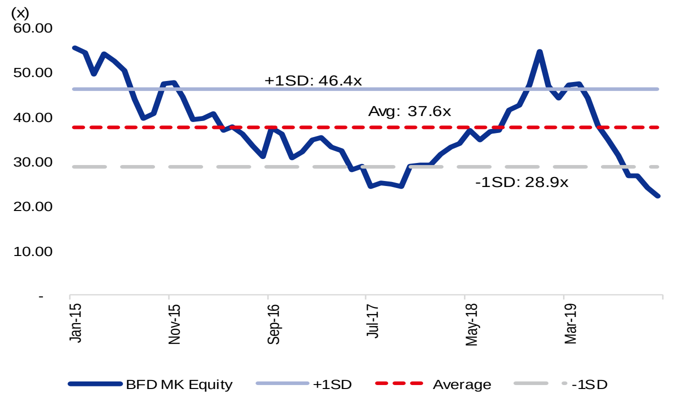
Berjaya Food Berhad (BFD MK, Add, TP: RM4.40, RM3.24 close) – We view BFD as a strong proxy for the recovery in consumer activities. In its latest 2QFY6/22 results, the group's core net profit surged by almost three-fold to a new high of RM38.6m, more than doubling its 1HFY6/22 earnings to RM50.5m (+105% yoy). This was mainly driven by strong double-digit same-store-sales growth (SSSG) for both Starbucks Malaysia (c.50%) and Kenny Rogers Roasters (KRR) (+60%) – the latter turned profitable in 2QFY6/22 – as well as continuous active promotions and product innovations which drove topline growth, post reopening of the economy from 11 Oct 2021 onwards.

Moving forward, we expect earnings momentum in 2HFY6/22 for the group to be robust on the back of the Chinese New Year festive sales and Hari Raya Aidilfitri celebrations as well as its accelerated store expansion plan. This is mainly premised on i) higher average transaction size at drive-through Starbucks stores (c.61 stores out of 347), coupled with price hikes for its venti-sized drinks and sales of higher-margin merchandises, which should aid in margin expansion, ii) menu enhancements by introducing fried chicken at its KRR restaurants, which appears to more popular among Malaysian consumers, iii) a leaner operating model which should continue to drive profitability, and iv) a robust recovery in consumer footfall.

Total store count for Starbucks and KRR Malaysia was 347 and 69, respectively, as at end-2QFY22 as the group managed to open 12 net new Starbucks stores in 2QFY22, (1QFY22: 4 net new stores); it is on track to meet its target of 35-40 new Starbucks outlets in FY22F. We reiterate our Add call with a TP of RM4.40 (19x CY23F P/E, a 30% discount to its average P/E since listing in 2011). We like BFD:

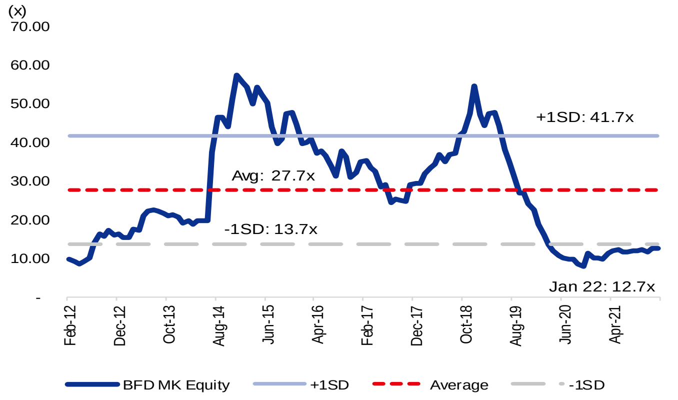
i) for Starbucks's sturdy brand equity, ii) as a strong consumer recovery play, and iii) for its robust earnings growth profile.

Figure 55: BFood valuation during pre-pandemic period (2015-2019)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 56: BFood valuation (10-year)

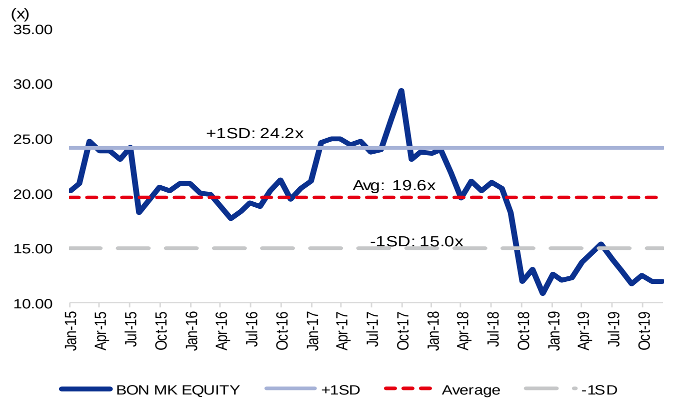


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Bonia Corporation (BON MK, Add, TP: RM2.50 RM2.04 close) – We expect Bonia to be a superior consumer recovery play upon full reopening of economic activities since 11 Oct 2021 where interstate travel is allowed, leading to higher retail footfall for its wide network of c.555 retail outlets in the SEA region. In our view, Bonia could see a strong potential turnaround from 2QFY22 onwards. This is primarily premised on i) a strong recovery in mall traffic post the lifting of the movement restriction order, which will lead to an increase in footfall to its outlets, driving higher sales, ii) product price hikes across Bonia (44% of its FY6/21 revenue) and Braun Buffel (32% of its FY6/21 revenue) which more than offset the rise in raw material prices and should aid in margin expansion, iii) higher economies of scale, and iv) better overall cost controls.

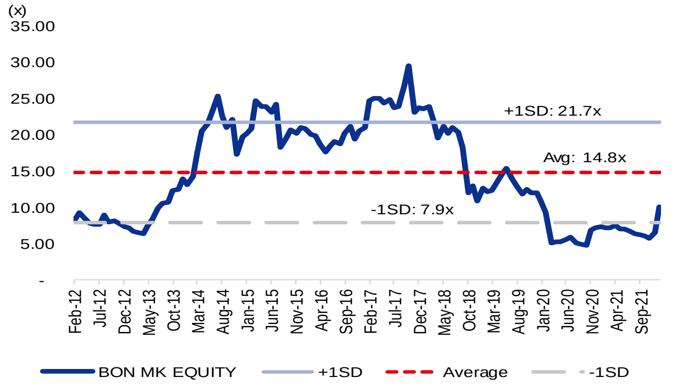
Bonia is also in the midst of a corporate exercise to spin of SBG Group (Sembonia). We are positive on this demerger as we estimate it to be earnings accretive and will unlock market value via the appreciation of its flagship brands – Bonia and Braun Buffel. Moving forward, we believe Bonia's ongoing strategies could bear fruit in the medium to long term: i) enhanced location mapping and outlet designs to elevate its brand equity as well opening more boutique stores across the county; rebranding exercise and expansion of its product offerings to increase its relevance, and iii) doubling down on its digital presence and analytics to optimise sales growth. As such, we reiterate our Add call with a TP of RM2.50, based on 15x CY23F P/E (10-year historical mean) as we expect stronger earnings prospects for Bonia (3-year EPS CAGR of 23.7%). Note that our 15x P/E is at a discount of about 47.7% to the Malaysian consumer discretionary sector's 28.7x.

Figure 57: Bonia valuation during pre-pandemic period (2015-2019)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 58: Bonia valuation (10-year)

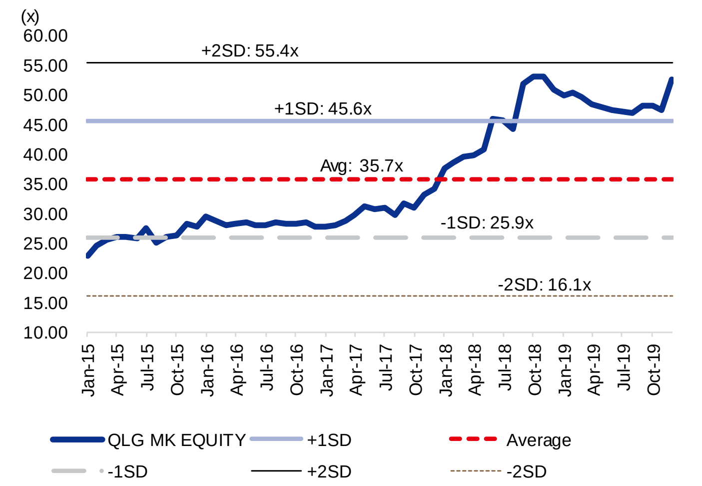


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

QL Resources (QLG MK, Add, TP: RM5.50, RM4.95 close) - In our view, QL should trade at higher levels given its diversified business model and as it is a strong proxy for the recovery in consumer activities from 2HFY3/22F onwards. We believe that the worst is over in 1HFY3/22 for QL, which could record stronger results ahead. This is mainly driven by: i) higher poultry prices to pass on the recent rise in raw material costs (which led to margin compression in 1HFY3/22), ii) higher contribution from its MPM operations (lifting of lockdown restrictions leading to stronger consumer demand and higher production output), and iii) better economies of scale.

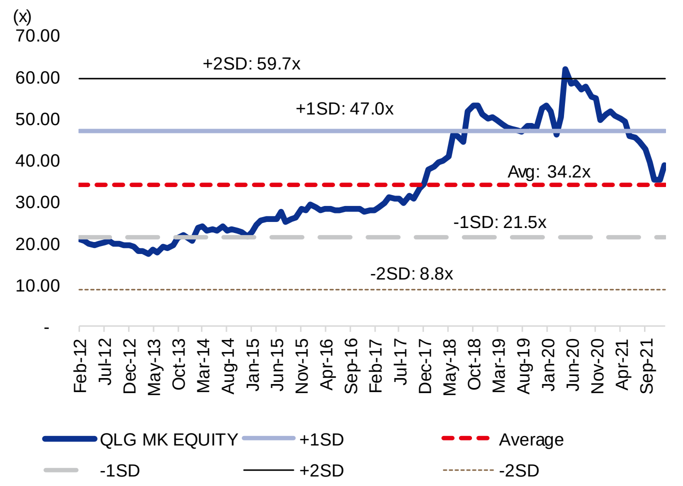
We also expect higher contribution from its Family Mart business, as QL expects to grow its total store count by 24.4% to 300 by end-FY22F. We also expect consumer footfall to improve in tandem with the lifting of lockdown measures. Given the share price decline of 24.2% yoy in the past twelve months, we believe that QL Resources' valuations have turned appealing. This is given that the stock is now trading slightly above its 5-year mean P/E of 28x, while at a 16.4% discount to the consumer staples' CY23F average P/E of 33.5x.

Figure 59: QL valuation during pre-pandemic period (2015-2019)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 60: QL valuation (10-year)



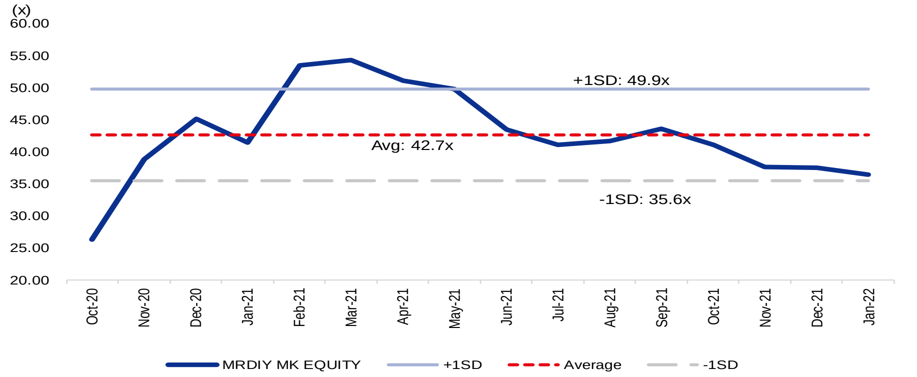
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Other Add calls under our coverage include:

Mr DIY Group (M) Bhd (MRDIY MK, Add, TP: RM4.20, RM3.68 close) – Mr. DIY Group (MDGM) continues to be Malaysia's largest home improvement retailer by store count with a total of c.841 outlets, majority of which are under its flagship brand – MR DIY (more than 80% of total outlets); it also has other brands, such as MR DOLLAR (c.47 stores), MR TOY (c.46 stores).

It plans to continue the expansion of its store network in 2022, with a target of c.180 new stores primarily across two main store formats – MR DIY and MR DIY Express. The MR DIY Express store format has a smaller size and a faster payback period. MDGM aims to utilise this store format to penetrate new catchment areas such as smaller towns and rural areas. Moving forward, we expect stronger qoq earnings growth as movement restrictions ease significantly, lifting of store operating hour limitations which should lead to higher productivity, strong recovery in retail footfall to its outlets as well as an accelerated store expansion plan to drive future growth. On the other hand, MDGM is mitigating the impact of volatile freight charges and rising raw material prices by undertaking an active management of its product prices from 2QCY22 onwards. This includes price increases as its products are relatively price elastic and ensuring its margins remain favourable. We reiterate our Add call with a TP of RM4.20, based on 40x CY23F P/E. This is at a 15% premium to the weighted average CY23F P/E of the Malaysian consumer sector (ex-MDGM), which we believe is warranted given the defensive nature of MDGM's business and solid execution track record in the retail sector.

Figure 61: MR DIY valuation since listing

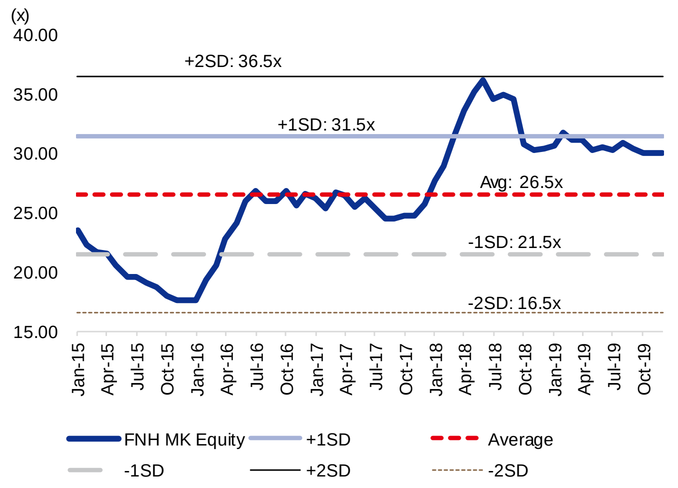


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Fraser & Neave Holdings (F&N) (FNH MK, Add, TP: RM29.80, RM24.02 close) – We see F&N as a recovery play in the HORECA sales and export demand. Recall that FY9/21 revenue rose 3.6% yoy on higher contribution from both Thailand (+4.4% yoy) and Malaysia operations (+2.6% yoy) while FY6/21 EBITDA margins declined 1.5% pts yoy to 14.7%, due to higher input costs. However, FY6/21 core net profit rose 2.6% yoy, due to a lower tax rate (-4% pts yoy). On a qoq basis, 4QFY9/21 revenue and core net profit declined 15.4% and 25.4% respectively. This was due to lower qoq contribution from Thailand and Malaysia, lower economies of scale and higher commodity prices.

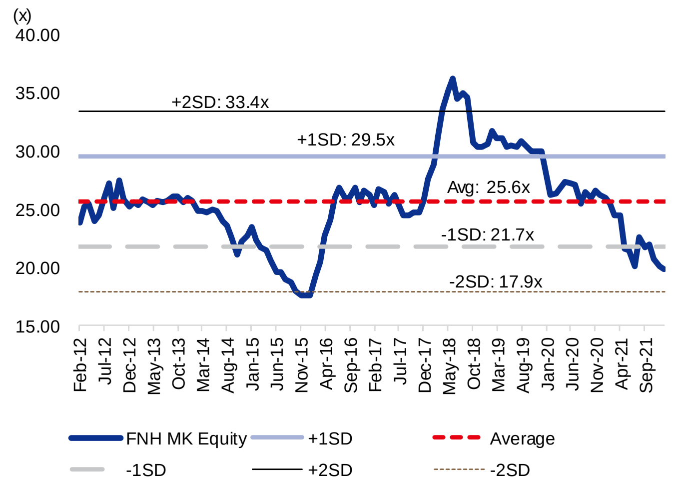
Nonetheless, we believe the worst is over and project F&N to post 3%/9% yoy core net profit growth in FY22F/FY23F, driven by i) higher utilisation at its factories, ii) a recovery in business activities in F&N's key markets (Thailand, Malaysia), especially in the HORECA segment (estimated 30-35% of total FY21 sales), iii) reopening of Thai borders for tourism from 1 Nov 2021, and iv) better overall cost control. F&N has also highlighted plans to raise its selling prices in phases, to pass on bulk of the rise in raw material prices, which should protect margins. We retain our Add call with a DCF-based TP of RM29.8, backed by: i) attractive valuation (CY22F P/E trades at 27.8% discount to its 5-year mean P/E of 26.5x, ii) a strong balance sheet (net cash of RM554m at end-FY9/21), and iii) ongoing recovery in HORECA sales (30% of total sales).

Figure 62: F&N valuation during pre-pandemic period (2015-2019)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

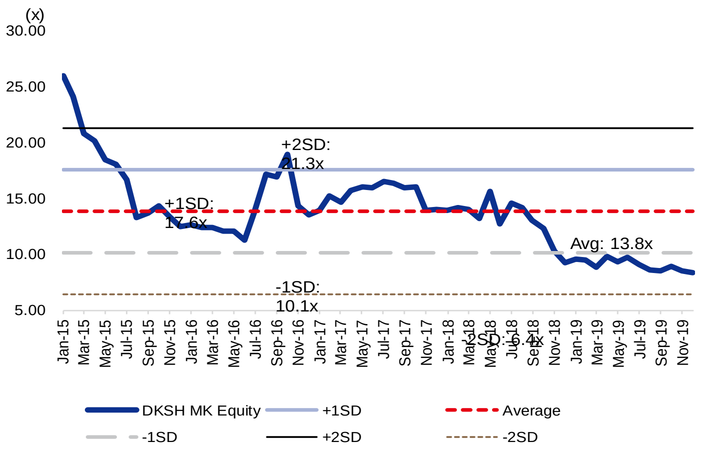
Figure 63: F&N valuation (10-year)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

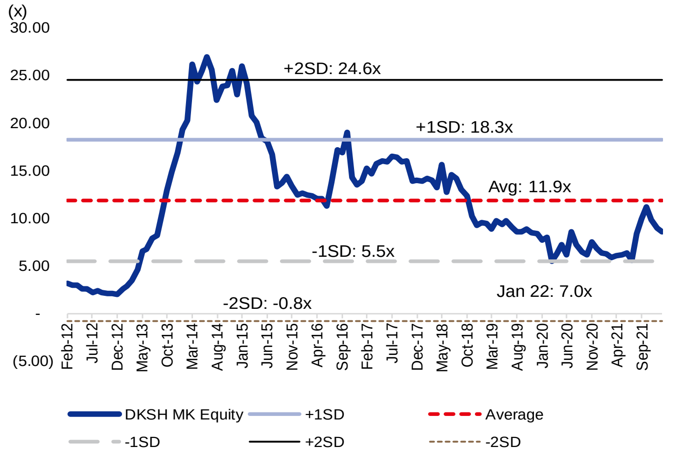
DKSH Holdings (Malaysia) (DKSH MK, Add, TP: RM6.20, RM5.29 close) – We view DKSH as both a defensive and recovery play, with an attractive 3-year core EPS CAGR of 22% for FY20-23F. In 9MFY21, the group recorded a surge in core net profit (+61.4% yoy) despite facing the Covid-19 pandemic and intermittent lockdown measures, illustrating its defensive product portfolio and extensive distribution channels. Moving forward, we expect the group to record stronger quarterly results from 4QFY21F onwards. This is primarily premised on i) recovery of hotels, restaurants, and cafes (HORECA) sales post the lifting of movement restrictions; this should bode well for the group's marketing and distribution (M&D) segment (55% of 9MFY21 total revenue), ii) higher operating efficiencies and higher sales contribution from its in-house brands (i.e. SCS and Buttercup), which enjoy better margins and should aid with margin expansion, as well as its ability to increase its average selling prices owing to its strong brand equity, which should help it to offset rising raw material costs, iii) higher economies of scale, (iv) recovery in footfall and patient volume for public and private hospitals and clinics, coupled with the imminent return of foreign medical tourists as borders reopen; this should drive its logistics segments (43% of 9MFY21 total revenue), and (v) higher retail footfall which bodes well for with sales of its Famous Amos cookie retail chain. As such, we reiterate our Add call with a TP of RM6.20, based on 10x CY23F P/E (its 10-year historical mean). The group is now trading at about 8.5x CY23F P/E, a 14% discount to its 10-year historical mean.

Figure 64: DKSH (M) valuation during pre-pandemic period (2015-2019)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 65: DKSH (M) valuation (10-year)

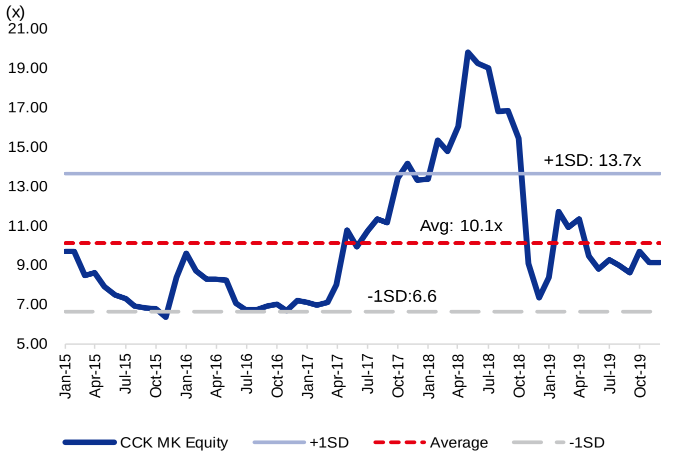


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

CCK Consolidated Holdings (CCK MK, Add, TP: RM0.84, RM0.58 close) – We estimate that CCK is the largest producer of poultry products in the Malaysian state of Sarawak and operates 69 retail stores in East Malaysia. From 4Q21F onwards, we expect to see stronger results, premised on: i) sales recovery, as lockdown measures implemented in previous quarters are lifted, ii) gradual price increases to pass on cost increases, and iii) higher economies of scale. Despite higher feedstock costs, we believe CCK's main drivers for FY22F core net profit are driven by higher sales contribution from each segment riding on demand recovery and higher selling prices.

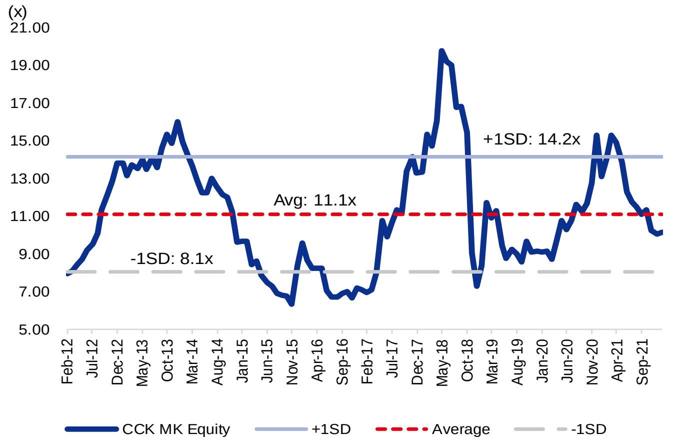
Besides, we gather from CCK that it aims to continue opening new outlets in FY22F (5-6 annually), including larger-scale retail outlets (CCK Local supermarkets) with a bigger floor space and more SKUs, after adding five new retail outlets (7.8% growth) in 9M21. This will also lead to a higher take-up for its in-house poultry products (poultry goods and prawns) as an estimated 60% of its retail sales are from in-house products. We reiterate our Add call on CCK with a TP of RM0.84 (13x CY23F P/E, in line with its 5-year historical mean). In addition to its current attractive valuation (8.2x CY23F P/E, 36.9% discount to its 5-year mean), we like CCK for: i) the defensive nature of its retail business, ii) its captive market in East Malaysia, and iii) inelastic demand for poultry products in Malaysia.

Figure 66: CCK valuation during pre-pandemic period (2015-2019)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 67: CCK valuation (10-year)

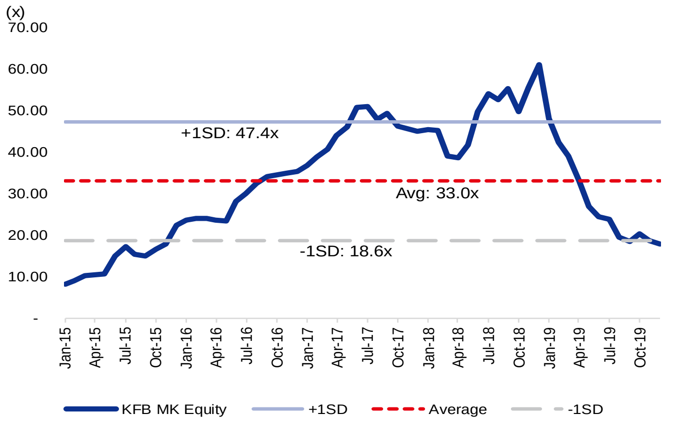


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Kawan Food (KFB MK, Add, TP: RM2.70, RM1.67 close) – A recovery in export demand post reopening of economic activities in its key export markets and increased domestic sales should lead to better earnings prospects for Kawan in FY22F, in our view. We estimate that Kawan is among the largest producers of frozen bread (i.e. frozen roti paratha) globally. In 9M21, 44% of its sales were derived from exports. We understand that Kawan aims to raise its domestic selling prices by 10-15% from Feb 2022 onwards to pass on the costs of higher raw material prices and to launch more new higher-margin products in the local market in the near term. Meanwhile, we gathered from Kawan that it has gradually raised its export selling prices since the start of 4Q21 and secured new customers – one each in the US, South America and Europe (sales contribution expected to kick in from 1Q22F onwards).

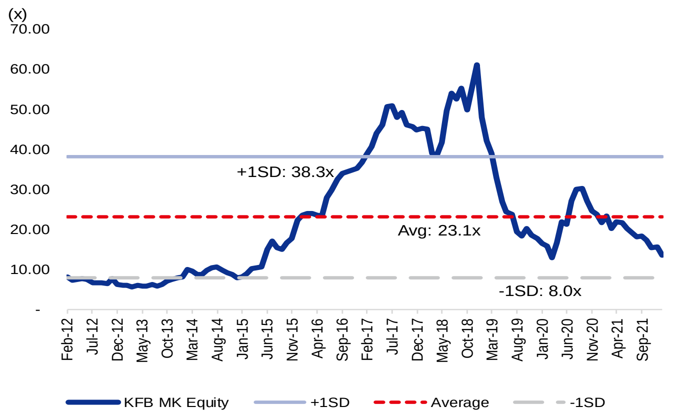
Thus, we expect stronger results from 4Q21F, backed by: i) higher sales, both domestically and from exports, ii) ongoing price hikes, and iii) an increase in production volume with its ongoing efforts to hire more workers – it aims to increase its workforce by 95.6-117% by 1Q22, lifting its permanent workforce to 450-500 from 230 workers currently. We keep our Add call with a TP of RM2.70 (21x CY23F P/E, in line with its 5-year historical mean). We continue to like Kawan, in view of its undemanding valuations (currently trading at 12.9x CY23F P/E), 3-year (FY20-23F) EPS CAGR of 20.1%, and a strong balance sheet (net cash of RM16.5m as at end-3Q21).

Figure 68: Kawan Food during pre-pandemic period (2015-2019)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 69: Kawan Food valuation (10-year)

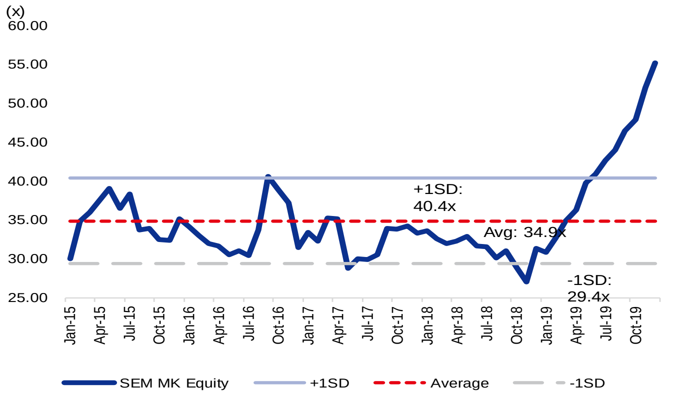


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

7-Eleven Malaysia Holdings (SEM MK, Add, TP: RM1.80, RM1.45 close) – We like SEM as a strong recovery play in the convenience store segment (c.64% of 9M21 revenue) with over 2,400 stores and its exposure to the healthcare industry's robust demand via Caring Pharmacy Group (c.36% of 9M21 revenue) with over 182 pharmacy retail outlets in Malaysia as of 3QFY21. We also see exciting earnings prospects moving forward for SEM from FY22F onwards, banking on multi-year growth opportunities for its pharmaceutical segment (9M21 revenue grew 133% yoy), both under organic and inorganic approach, with the resumption of aggressive store expansion. We do not rule out the possibility of Caring looking out for further acquisition targets. SEM also has publicly announced its plans to venture into Indonesia's pharmacy retail market via a JV under the brand name "Wellings" possibly in 2QFY22F.

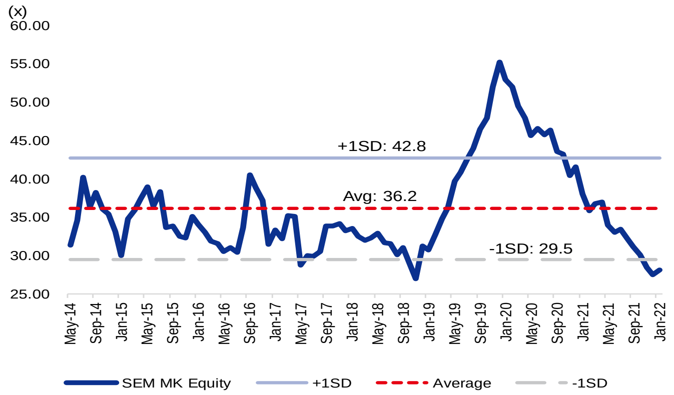
In addition, we expect its core CVS segment to see a healthy recovery from 4Q21F onwards after a decline in 3Q21 SSSG (-20.9% yoy) due to movement restrictions. This is backed by: i) longer operating hours with most stores open 24 hours (vs. 13 hours/17 hours in 3Q21/2Q21) since the lifting of lockdown measures, ii) continuous improvement in its assortment strategy to achieve a favourable sales mix as we expect higher sales volume for higher-margin fresh food services, beverages and food (from c.47% of 3Q21 sales to c.55-60%) on the back of increased footfall and return-to-office policies, and iii) introduction of new store formats (i.e. "7 Café" focusing on food service and outlets with higher fresh food selection) in a bid to widen its customer base. As such, we reiterate our Add call and TP of RM1.80 (29x CY23F P/E, in line with its 5-year mean) given its pharmaceutical segment's solid earnings growth prospects and projected recovery in its convenience store business.

Figure 70: 7-Eleven Malaysia valuation during pre-pandemic period (2015-2019)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 71: 7-Eleven Malaysia valuation (since listing)

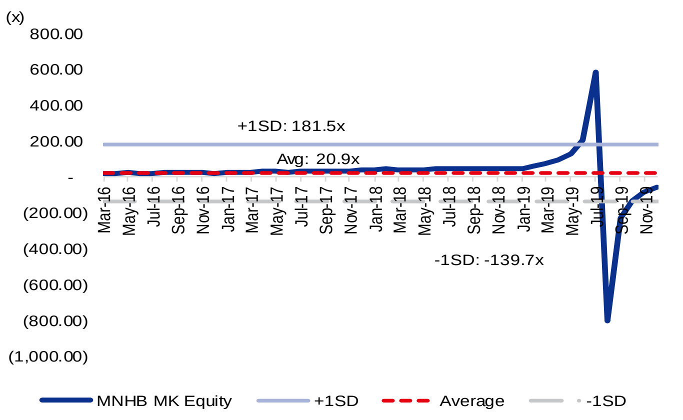


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Mynews Holdings Berhad (MNHB MK, Add, TP: RM1.18, RM0.81 close) – We are positive on Mynews as a potential turnaround story in FY22F given the accelerated expansion of CU stores and a recovery in retail footfall post lifting of lockdown measures from 11 Oct 2021 onwards, where interstate travel is allowed and longer operating hours for its stores. We gathered from MyNews that it has closed 54 non-performing MyNEWS stores and opened 46 new outlets in FY21 in a bid to consolidate its store base (net 534 outlets as of FY10/21), which led to lower selling and distribution expenses (-3.0% yoy) in FY21. In our view, Mynews is on track to meet its target of 150 CU stores by end-FY22F, given that it has opened 41 stores to date and secured over 80 new locations. With our estimated higher average basket size of over RM15-20 (myNEWS: c.RM11) and a larger c.60% sales contribution from higher-margin food items (myNEWS: c.3-5%) at CU outlets, we believe its earnings prospects are bright. This could also ramp-up the group's food processing centre (FPC) utilisation rate from the current c.45% to the breakeven point of c.70% in 2HFY22F given a more profitable sales mix, in our view.

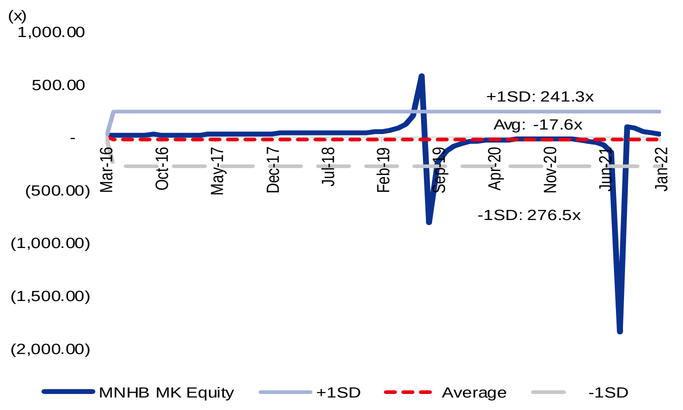
Mynews also aims to continuously roll out new product innovations and novel food offerings to drive footfall to its stores and sales of higher-margin products (i.e. RTE and counter food), especially Korean-inspired products in its CU stores, riding on the widespread popularity of South Korean culture and food in Malaysia. We are also optimistic on Mynews's improved store design to appeal to its targeted younger demographics as well as the new concept store of myNEWS SUPERVALUE to widen its customer base. All in, we maintain our Add call with an unchanged TP of RM1.18 (29x CY23F P/E, in line with its pre-pandemic P/E).

Figure 72: MyNews valuation during pre-pandemic period (2015-2019)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 73: MyNews valuation since listing

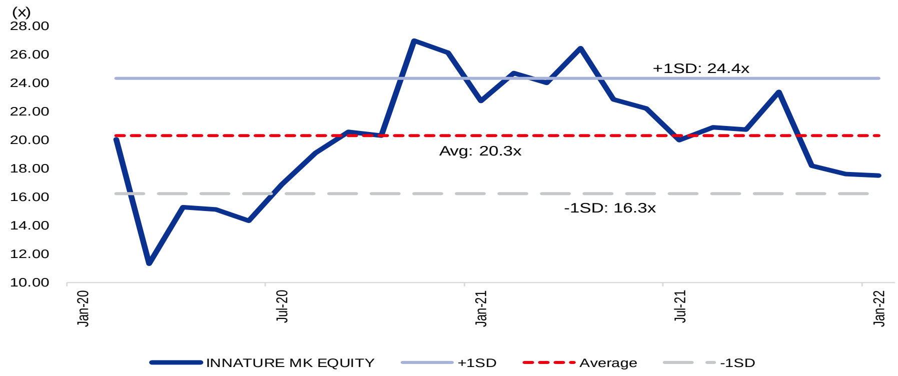


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

InNature Berhad (INNATURE MK, Add, TP: RM0.84, RM0.695 close**)** – We like InNature as both a recovery play in the retail space and a leading ESG play in Malaysia. We understand that InNature is one of the few major cosmetics and personal care (CPC) retailers in Malaysia that remain profitable in 2020-2021 (during Covid-19 pandemic), thanks to its early investments in expanding its omnichannel presence that managed to shore up its online sales significantly, which partially offset the fall in physical in-store sales. We are now expecting a stronger earnings momentum from 4Q21F onwards, mainly driven by i) strong recovery in mall traffic, which should lead to higher consumer football to its outlets post reopening since 11 Oct 2021, ii) potential price hikes in FY22F, coupled with better overall cost control through shuttering of non-performing stores and better rental rebates, iii) full operating hours for its stores in its three operating countries, as well as iv) ability to capitalise on major festive and holiday sales.

Given the strong brand equity of The Body Shop (TBS) and its sizeable loyal customer base (c.273k 'Love Your Body' members) who are mostly in the mid-to-high income segment, we believe InNature has the ability to pass on the higher input costs with ease as we estimate more than 60-70% of sales are made by repeat customers. We maintain our Add call with a TP of RM0.84 (20x CY23F P/E). We believe its current valuation has turned attractive, trading at slightly above 17x CY23F P/E, which it at c.25% discount to InNature's historical average of 22.6x since listing. Note that our 20x CY23F P/E is derived from ascribing a 10% ESG premium on top of the small-cap consumer discretionary sector P/E of 18x for InNature, in view of its strong track record across all of its ESG aspects and continuous efforts in integrating ESG initiatives in its operations.

Figure 74: InNature valuation since listing



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

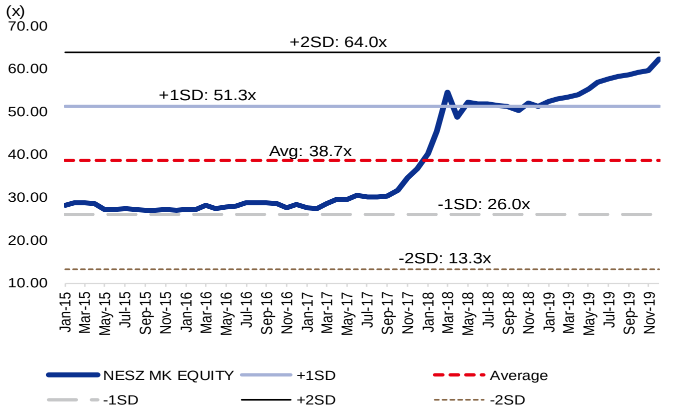
Hold calls on Nestle, Power Root and Panasonic Manufacturing Malaysia Berhad

Nestle (Malaysia) (NESZ MK, Hold, TP: RM135.0, RM135.5 close) – Nestle shared that the higher commodity costs and additional operating cost led to its core net profit rising by a smaller quantum (+2.9% yoy) compared to the 5.9% growth in its FY21 topline. According to Nestle, its margins were negatively affected by the surge in commodity prices (milk, palm oil etc), especially in 2H21. On the other hand, it has incurred a total of RM93m in Covid-19 related costs in FY21 in addition to expenses related to the flood situation in Dec 21 (4Q21).

Going forward, Nestle is confident of driving higher sales volume. Aside from a continuous emphasis on product innovations (leading to more upcoming new product launches), it expects to increase its marketing activities to promote its products. This is particularly for new high potential product segments, such as plant-based food and drink. As a result of rising input costs, Nestle is expecting a certain level of margin compression in the short term. However, it is confident of mitigating the bulk of its impact via i) ongoing hedging activities, ii) better cost control efforts, and iii) gradual price increases. We believe that Nestle has selectively raised its selling prices since end-4Q21 and is looking to increase the profitability of its sales mix by launching more seasonal and/or products at higher price points. Meanwhile, e-commerce made up around 5% of its FY21 revenue, based on our estimates. Nestle expects e-commerce sales to continue to rise with ongoing marketing activities.

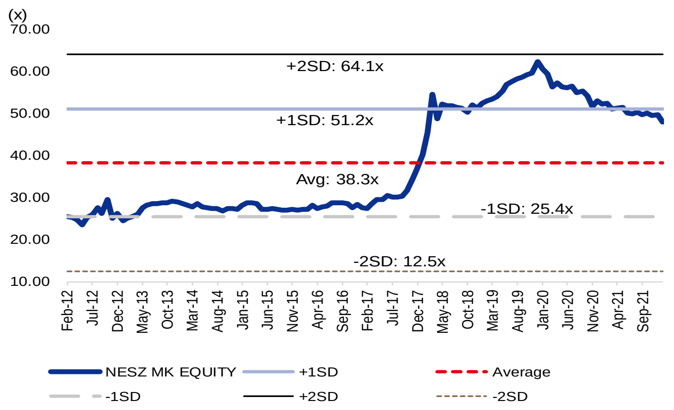
We reiterate our Hold call with a DCF-based TP of RM135.00 (WACC: 4.6%, LTG: 3%). While we like Nestle for its strong fundamentals and inelastic demand for its products, we believe that current valuations (its CY23F P/E is at a 23% premium to the consumer staples sector's weighted average CY23F P/E of 36.7x) have accounted for these factors.

Figure 75: Nestle valuation during pre-pandemic period (2015-2019)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 76: Nestle valuation (10-year)



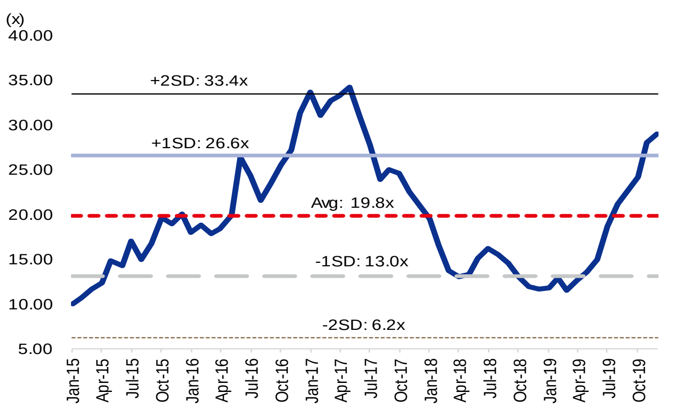
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Power Root Berhad (PWRT MK, Hold, TP: RM1.40, RM1.32 close**)** – In the short term, we believe that the implementation of price hikes of an average of c.9-10% for its products in Malaysia (60% of 1HFY22 sales) and c.5% for other regions and pent-up demand should bode well for 2HFY22. In addition, we gather that the group has locked in coffee prices at a favourable rate until Oct 22 which should help to alleviate some cost pressure. Prices remain unchanged for the Middle East market given the subdued recovery prospects owing to unfavourable policies.

We gather that PWRT's plants are now running at full workforce capacity and utilisation rates have almost returned to pre-pandemic levels (>90%) in order to catch up with production delays and fulfil backlog orders as well as pent-up demand upon the reopening of economic activities on 11 Oct 2021. The group is also seeing strong replenishments from its customers in 2HFY22F on the back of the year-end festive season and Chinese New Year. We believe that customers are front-loading purchases ahead of the price hikes. We understand that the rise in domestic sales (1HFY3/22: +19.4% yoy) was fuelled by the expanding convenience and fixed-price shops (e.g. Mr Dollar, 99speedmart, Eco-Shop) which will continue to be one of its main sales growth drivers, in our view.

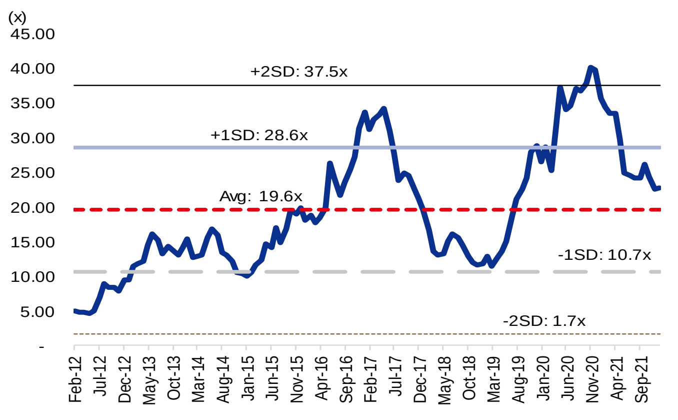
In response to the excise duty (RM0.47 per 100g on pre-mixed beverages with sugar content of more than 33.3g per 100g) effective 1 Apr 2022, the group has reformularised up to 95% of its pre-mixed beverages (c.75% of sales) to lower the sugar content to pre-tax levels instead of raising prices, which will be rolled out in Mar 22. However, we expect the slight change in taste could put demand at risk, particularly after the front-loading of purchases. We retain our Hold call with an unchanged TP of RM1.40 (20x CY23F P/E, 5-year mean P/E).

Figure 77: Power Root valuation during pre-pandemic period (2015-2019)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 78: Power Root valuation (10-year)

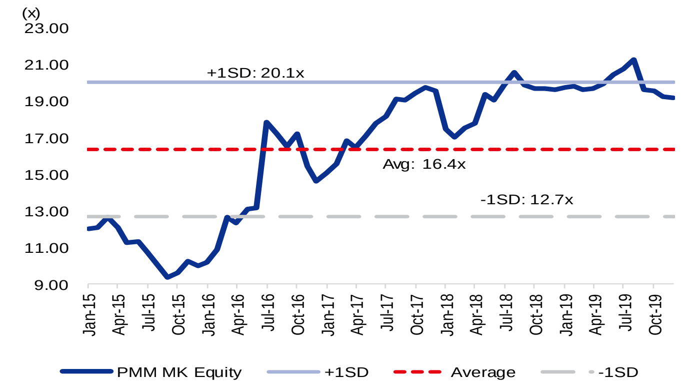


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Panasonic Manufacturing Malaysia Berhad (PMM MK, Hold, TP: RM31.20, RM28.80 close**)** – PMM's management disclosed that the recent flood incident affected its SA2 plant, leading to a two-week (18-31 Dec 2021) production halt for its fan products and vacuum cleaners (combined 60% of 1HFY3/22 sales; Figure 2), which is a negative surprise. About 15% of PMM's suppliers were also hit by the flood, affecting their deliveries to both of PMM's plants in 1QCY22, leading to lower, albeit still manageable, production levels. However, we take comfort that PMM is taking proactive measures to alleviate the shortfall in component parts via i) resourcing from other suppliers, and ii) requesting suppliers' sub-con to support orders. While the group's current production level for fans (40%) and vacuum cleaners (80%) is not at optimum levels due to the flood, we expect production to ramp up by Mar 22 as the shortage issue eases. PMM's SA1 plant remains fully operational as it was spared from the flood. We also gather that the financial impact from the flood could be mitigated by insurance.

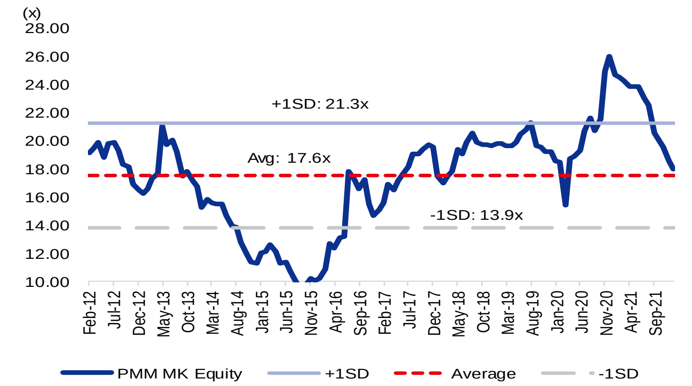
We are positive that PMM raised selling prices (c.5-10%) for its fan products (50% of 1HFY22 sales) effective Jan 22, which will be followed by other products in Apr 22. The group has also embarked on cost rationalisation initiatives, such as reduction in headcount and marketing expenses. Thus, we believe that PMM will post better 2HFY3/22 results, supported by: i) recovery in sales upon reopening of economic activities since 11 Oct 2021, ii) plants ramping up to catch up with production delays and fulfilling backlog orders, iii) higher economies of scale, and iv) product price hikes. However, we retain our Hold call on the stock with a TP of RM31.20 (15x CY23F P/E – its 5-year average). We like PMM for its attractive dividend yield of 7% for FY23-24F and its strong brand equity.

Figure 79: Panasonic Manufacturing Malaysia during pre-pandemic period (2015-2019)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 80: Panasonic Manufacturing Malaysia valuation (10-year)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Downside risks to our Overweight recommendation

- In our view, implementing another lockdown in Malaysia will lead to downside risks to our earnings forecasts for consumer stocks. This is due to lower-than-expected demand for consumer items as well as weaker consumer sentiment.
- We also believe that any sharp surge in input prices (above 20% in three months) to an extent that it significantly affects affordability would be negative for consumer stocks. This will lead to lower demand for products of consumer companies due to weaker affordability.
- We believe that lower availability of labour could be an issue for consumer companies, given the ongoing ban on hiring of foreign workers from abroad. If consumer companies are not able to hire sufficient workers, this will lead to lower production output and/or lower sales.

Peer comparison table

Figure 81: Sector Comparisons (CGS-CIMB's Malaysia consumer sector coverage)

Company	Bloomberg Ticker	Recom.	Share price (local curr)	Target Price (local curr)	Market Cap (US$ m)	Core P/E (x)		3-year EPS CAGR (%)	P/BV (x)		Recurring ROE (%)		EV/EBITDA (x)		Dividend Yield (%)	
						CY21F	CY22F		CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F
Consumer Staples																
Nestle (Malaysia)	NESZ MK	Hold	135.50	135.00	7,593	54.9	53.7	9.6%	54.5	54.0	102.1%	101.2%	32.4	29.7	1.8%	1.8%
Fraser & Neave Holdings	FNH MK	Add	24.02	29.80	2,105	19.8	18.9	4.8%	3.0	2.8	15.6%	15.2%	12.6	11.3	2.7%	2.8%
QL Resources	QLG MK	Add	4.95	5.50	2,879	53.2	41.8	15.9%	5.0	4.6	9.7%	11.4%	21.2	18.9	0.6%	0.8%
Power Root Bhd	PWRT MK	Hold	1.32	1.40	132	26.6	23.1	-5.1%	2.1	2.1	8.0%	9.1%	14.4	12.9	3.7%	4.2%
Kawan Food	KFB MK	Add	1.67	2.70	143	19.1	15.9	18.2%	1.7	1.6	9.0%	10.0%	9.8	8.5	2.1%	2.4%
MSM Malaysia Holdings	MSM MK	Reduce	0.89	0.93	149	23.7	14.4	37.1%	0.4	0.4	1.6%	2.6%	5.8	7.0	3.0%	3.5%
CCK Consolidated Holdings	CCK MK	Add	0.58	0.84	87	14.3	10.6	15.8%	1.2	1.1	8.5%	10.6%	6.3	4.9	2.5%	3.3%
Weighted Subsector Average						**47.6**	**44.0**	**10.5%**	**33.3**	**32.8**	**64.2%**	**64.0%**	**25.8**	**23.5**	**1.7%**	**1.8%**
Consumer Discretionary																
7-Eleven Malaysia Holdings	SEM MK	Add	1.45	1.80	390	44.1	26.5	22.5%	20.0	15.3	51.0%	65.4%	7.3	5.9	1.4%	2.3%
Berjaya Food Berhad	BFD MK	Add	3.24	4.40	279	17.5	14.0	5.8%	3.2	3.0	18.9%	21.9%	5.1	3.9	4.0%	5.0%
Bonia Corporation	BON MK	Add	2.04	2.50	98	20.9	14.0	23.7%	1.1	1.0	5.4%	7.7%	6.2	5.1	1.5%	2.6%
DKSH Holdings (Malaysia)	DKSH MK	Add	5.29	6.20	199	10.7	9.9	22.7%	1.1	1.0	11.4%	11.0%	6.6	5.5	1.9%	1.9%
Lee Swee Kiat Group	LSKG MK	Add	0.83	1.63	32	13.6	9.9	40.8%	2.1	1.8	16.1%	19.6%	6.3	4.7	3.0%	4.0%
Mynews Holdings Berhad	MNHB MK	Add	0.81	1.18	132	na	36.9	25.9%	2.4	2.3	-12.6%	6.4%	25.4	7.9	0.1%	0.7%
Panasonic Manufacturing Malaysia Berhad	PMM MK	Hold	28.80	31.20	418	24.5	18.5	2.6%	2.2	2.3	8.9%	12.2%	12.7	9.8	5.3%	6.5%
InNature Bhd	NATURE MK	Add	0.70	0.84	117	32.7	18.1	12.8%	3.5	3.3	10.9%	18.9%	11.0	9.0	2.9%	3.9%
Mr D.I.Y. Group (M) Bhd	MRDIY MK	Add	3.68	4.20	5,525	53.7	41.4	24.6%	20.1	15.6	42.7%	42.5%	28.0	22.1	0.8%	1.0%
Weighted Subsector Average						**46.9**	**36.3**	**22.3%**	**16.9**	**13.2**	**37.3%**	**38.7%**	**23.8**	**18.5**	**1.3%**	**1.6%**
Weighted Average						**47.3**	**41.3**	**14.7%**	**27.5**	**25.9**	**54.6%**	**55.0%**	**25.1**	**21.8**	**1.6%**	**1.8%**
Simple Average						**30.8**	**24.9**	**17.3%**	**9.6**	**8.8**	**22.7%**	**26.0%**	**14.5**	**11.6**	**2.2%**	**2.8%**

SOURCES: CGS-CIMB ESTIMATES, BLOOMBERG, PRICES AS ON 23RD FEB 2022

ESG in a nutshell

Among our overall consumer sector coverage, including staples and discretionary, only **F&N, DKSH** and **Mr D.I.Y.** are constituents of the FTSE4Good Bursa Malaysia Index and FTSE4Good Bursa Malaysia Shariah Index, as well as ranked in the top 25% (including **Nestle**) of ESG ratings amongst public-listed companies in FBM EMAS that have been assessed by FTSE Russell (based on the latest Dec 21 review). Meanwhile, most of the consumer companies have relatively decent ESG scoring although there are differences in the rankings, and only a handful appear to have no ESG score; we attribute this to the level of ESG disclosures made by each company as some of them only started to publish more in-depth sustainability reports over the last two years. The consumer companies mostly highlight Environmental efforts in their ESG initiatives and improvements are still underway for the Social and Governance aspects.

Keep your eye on	Implications
As most of the consumer names under our coverage are FMCG companies **(Nestle, F&N, Power Root, DKSH, CCK, Kawan Food and QL)** and retailers in the food and beverage **(BFood, MyNews, 7-Eleven Malaysia)** and household & personal care **(InNature, Bonia, Panasonic Malaysia and Mr DIY)** industries, the product and food quality, safety and waste management in terms of food and packaging are of utmost importance.	FMCG companies produce a lot of packaging waste generated from the sales of consumer-packaged goods. Thus, companies are being pressured to adopt environmentally-friendly packaging. F&B retailers have to put in place food waste management and safety measures in their operational process to minimise wastage and, at the same time ensure product quality. On the back of eco-conscious and cruelty-free products, natural ingredients in food and personal-care products pose an upside risk to sales and social reputation.
ESG highlights	**Implications**
All of the consumer companies are mostly focusing on their Environment aspects except for **InNature** which has noticeable Social and Governance initiatives in place.	While we commend on the Environmental efforts of the consumer companies, as they continuously incorporate energy-efficiency initiatives, water, food and packaging waste management processes in their production operations and product quality control programmes to ensure product safety and quality, the lack of Social and Governance metrics has been a dampener to their ESG scoring. In addition, we note that some consumer names have scarce tangible operational data across ESG metrics, making it harder to track and ascribe an ESG grading on them. However, **InNature** has taken a lead in balancing across all ESG aspects that reach a wide range of stakeholders with extensive collaboration and in-house programmes, such as annual beach clean-up, bring back our bottles campaigns, refillable stations to reduce wastage, and 'My Vote My Right 18' campaign in support of UNDI18 as well as 80% of its key senior management are women, just to name a few.
Trends	**Implications**
Major improvements from year-to-year could be derived from continuous Environmental aspects and more proactive approach in consumer companies' Social compliance and Governance efforts.	Besides **InNature**, we have yet factored in a premium/discount for ESG in our fundamental valuations for most of the companies under coverage. However, we are of the view that the energy efficiency and waste management programmes followed by all of the companies will pose upside risks to margins. Any re-rating to valuation from an ESG standpoint might come from further improvements in their Social and Governance efforts, as well as publishing of more transparent data and metrics, in our view.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

DISCLAIMER

The content of this report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by and belongs to CGS-CIMB. Reports relating to a specific geographical area are produced and distributed by the corresponding CGS-CIMB entity as listed in the table below.

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation.

By accepting this report, the recipient hereof represents and warrants that he is entitled to receive such report in accordance with the restrictions set forth below and agrees to be bound by the limitations contained herein (including the "Restrictions on Distributions" set out below). Any failure to comply with these limitations may constitute a violation of law. This publication is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of CGS-CIMB.

The information contained in this research report is prepared from data believed to be correct and reliable at the time of issue of this report. CGS-CIMB may or may not issue regular reports on the subject matter of this report at any frequency and may cease to do so or change the periodicity of reports at any time. CGS-CIMB has no obligation to update this report in the event of a material change to the information contained in this report. CGS-CIMB does not accept any obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant, (ii) ensure that the content of this report constitutes all the information a prospective investor may require, (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, CGS-CIMB, its affiliates and related persons including China Galaxy International Financial Holdings Limited ("CGIFHL") and CIMB Group Sdn. Bhd. ("CIMBG") and their respective related corporations (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof. In particular, CGS-CIMB disclaims all responsibility and liability for the views and opinions set out in this report.

Unless otherwise specified, this report is based upon sources which CGS-CIMB considers to be reasonable. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research.

Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of CGS-CIMB or any of its affiliates (including CGIFHL, CIMBG and their respective related corporations) to any person to buy or sell any investments.

CGS-CIMB, its affiliates and related corporations (including CGIFHL, CIMBG and their respective related corporations) and/or their respective directors, associates, connected parties and/or employees may own or have positions in securities of the company(ies) covered in this research report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities. Further, CGS-CIMB, its affiliates and their respective related corporations (including CGIFHL, CIMBG and their respective related corporations) do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in securities of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

CGS-CIMB or its affiliates (including CGIFHL, CIMBG and their respective related corporations) may enter into an agreement with the company(ies) covered in this report relating to the production of research reports. CGS-CIMB may disclose the contents of this report to the company(ies) covered by it and may have amended the contents of this report following such disclosure.

The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously. No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report. The analyst(s) who prepared this research report is prohibited from receiving any compensation, incentive or bonus based on specific investment banking transactions or for providing a specific recommendation for, or view of, a particular company. Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations and the research personnel involved in the preparation of this report may also participate in the solicitation of the businesses as described above. In reviewing this research report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request.

Reports relating to a specific geographical area are produced by the corresponding CGS-CIMB entity as listed in the table below. The term "CGS-CIMB" shall denote, where appropriate, the relevant entity distributing or disseminating the report in the particular jurisdiction referenced below, or, in every other case except as otherwise stated herein, CGS-CIMB Securities International Pte. Ltd. and its affiliates, subsidiaries and related corporations.

Country	CGS-CIMB Entity	Regulated by
Hong Kong	CGS-CIMB Securities (Hong Kong) Limited	Securities and Futures Commission Hong Kong
India	CGS-CIMB Securities (India) Private Limited	Securities and Exchange Board of India (SEBI)
Indonesia	PT CGS-CIMB Sekuritas Indonesia	Financial Services Authority of Indonesia
Malaysia	CGS-CIMB Securities Sdn. Bhd.	Securities Commission Malaysia
Singapore	CGS-CIMB Securities (Singapore) Pte. Ltd.	Monetary Authority of Singapore
South Korea	CGS-CIMB Securities (Hong Kong) Limited, Korea Branch	Financial Services Commission and Financial Supervisory Service
Thailand	CGS-CIMB Securities (Thailand) Co. Ltd.	Securities and Exchange Commission Thailand

Other Significant Financial Interests:

(i) As of January 31, 2022 CGS-CIMB has a proprietary position in the securities (which may include but not be limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies covered or recommended in this report:

(a) Carlsberg Brewery (M), CCK Consolidated Holdings, Fraser & Neave Holdings, Heineken Malaysia Bhd, Mynews Holdings Berhad, Nestle (Malaysia)

(ii) Analyst Disclosure: As of February 24, 2022, the analyst(s) who prepared this report, and the associate(s), has / have an interest in the securities (which may include but not be limited to shares, warrants, call warrants and/or any other derivatives) in the following company or companies covered or recommended in this report:

(a) -

This report does not purport to contain all the information that a prospective investor may require. Neither CGS-CIMB nor any of its affiliates (including CGIFHL, CIMBG and their related corporations) make any guarantee, representation or warranty, express or implied, as to the adequacy, accuracy, completeness, reliability or fairness of any such information and opinion contained in this report. Neither CGS-CIMB nor any of its affiliates nor their related persons (including CGIFHL, CIMBG and their related corporations) shall be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

This report is general in nature and has been prepared for information purposes only. It is intended for circulation amongst CGS-CIMB's clients generally and does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. The information and opinions in this report are not and should not be construed or considered as an offer, recommendation or solicitation to buy or sell the subject securities, related investments or other financial instruments or any derivative instrument, or any rights pertaining thereto.

Investors are advised to make their own independent evaluation of the information contained in this research report, consider their own individual investment objectives, financial situation and particular needs and consult their own professional and financial advisers as to the legal, business, financial, tax and other aspects before participating in any transaction in respect of the securities of company(ies) covered in this research report.

The securities of such company(ies) may not be eligible for sale in all jurisdictions or to all categories of investors.

Restrictions on Distributions

Australia: Despite anything in this report to the contrary, this research is provided in Australia by CGS-CIMB Securities (Singapore) Pte. Ltd. and CGS-CIMB Securities (Hong Kong) Limited. This research is only available in Australia to persons who are "wholesale clients" (within the meaning of the Corporations Act 2001 (Cth) and is supplied solely for the use of such wholesale clients and shall not be distributed or passed on to any other person. You represent and warrant that if you are in Australia, you are a "wholesale client". This research is of a general nature only and has been prepared without taking into account the objectives, financial situation or needs of the individual recipient. CGS-CIMB Securities (Singapore) Pte. Ltd. and CGS-CIMB Securities (Hong Kong) Limited do not hold, and are not required to hold an Australian financial services license. CGS-CIMB Securities (Singapore) Pte. Ltd. and CGS-CIMB Securities (Hong Kong) Limited rely on "passporting" exemptions for entities appropriately licensed by the Monetary Authority of Singapore (under ASIC Class Order 03/1102) and the Securities and Futures Commission in Hong Kong (under ASIC Class Order 03/1103).

Canada: This research report has not been prepared in accordance with the disclosure requirements of Dealer Member Rule 3400 – Research Restrictions and Disclosure Requirements of the Investment Industry Regulatory Organization of Canada. For any research report distributed by CIBC, further disclosures related to CIBC conflicts of interest can be found at https://researchcentral.cibcwm.com .

China: For the purpose of this report, the People's Republic of China ("PRC") does not include the Hong Kong Special Administrative Region, the Macau Special Administrative Region or Taiwan. The distributor of this report has not been approved or licensed by the China Securities Regulatory Commission or any other relevant regulatory authority or governmental agency in the PRC. This report contains only marketing information. The distribution of this report is not an offer to buy or sell to any person within or outside PRC or a solicitation to any person within or outside of PRC to buy or sell any instruments described herein. This report is being issued outside the PRC to a limited number of institutional investors and may not be provided to any person other than the original recipient and may not be reproduced or used for any other purpose.

France: Only qualified investors within the meaning of French law shall have access to this report. This report shall not be considered as an offer to subscribe to, or used in connection with, any offer for subscription or sale or marketing or direct or indirect distribution of financial instruments and it is not intended as a solicitation for the purchase of any financial instrument.

Germany: This report is only directed at persons who are professional investors as defined in sec 31a(2) of the German Securities Trading Act (WpHG). This publication constitutes research of a non-binding nature on the market situation and the investment instruments cited here at the time of the publication of the information.

The current prices/yields in this issue are based upon closing prices from Bloomberg as of the day preceding publication. Please note that neither the German Federal Financial Supervisory Agency (BaFin), nor any other supervisory authority exercises any control over the content of this report.

Hong Kong: This report is issued and distributed in Hong Kong by CGS-CIMB Securities (Hong Kong) Limited ("CHK") which is licensed in Hong Kong by the Securities and Futures Commission for Type 1 (dealing in securities) and Type 4 (advising on securities) activities. Any investors wishing to purchase or otherwise deal in the securities covered in this report should contact the Head of Sales at CGS-CIMB Securities (Hong Kong) Limited. The views and opinions in this research report are our own as of the date hereof and are subject to change. If the Financial Services and Markets Act of the United Kingdom or the rules of the Financial Conduct Authority apply to a recipient, our obligations owed to such recipient therein are unaffected. CHK has no obligation to update its opinion or the information in this research report.

This publication is strictly confidential and is for private circulation only to clients of CHK.

CHK does not make a market on other securities mentioned in the report.

India: This report is issued and distributed in India by CGS-CIMB Securities (India) Private Limited ("CGS-CIMB India"). CGS-CIMB India is a subsidiary of CGS-CIMB Securities International Pte. Ltd. which in turn is a 50:50 joint venture company of CGIFHL and CIMBG. The details of the members of the group of companies of CGS-CIMB can be found at www.cgs-cimb.com, CGIFHL at www.chinastock.com.hk/en/ACG/ContactUs/index.aspx and CIMBG at www.cimb.com/en/who-we-are.html. CGS-CIMB India is registered with the National Stock Exchange of India Limited and BSE Limited as a trading and clearing member (Merchant Banking Number: INM000012037) under the Securities and Exchange Board of India (Stock Brokers and Sub-Brokers) Regulations, 1992. In accordance with the provisions of Regulation 4(g) of the Securities and Exchange Board of India (Investment Advisers) Regulations, 2013, CGS-CIMB India is not required to seek registration with the Securities and Exchange Board of India ("SEBI") as an Investment Adviser. CGS-CIMB India is registered with SEBI (SEBI Registration Number: INZ000209135) as a Research Analyst (INH000000669) pursuant to the SEBI (Research Analysts) Regulations, 2014 ("Regulations").

This report does not take into account the particular investment objectives, financial situations, or needs of the recipients. It is not intended for and does not deal with prohibitions on investment due to law/jurisdiction issues etc. which may exist for certain persons/entities. Recipients should rely on their own investigations and take their own professional advice before investment.

The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of CGS-CIMB India and they have received compensation based upon various factors, including quality, accuracy and value of research, firm profitability or revenues, client feedback and competitive factors. Research analysts', strategists' or economists' compensation is not linked to investment banking or capital markets transactions performed or proposed to be performed by CGS-CIMB India or its affiliates.

CGS-CIMB India does not have actual / beneficial ownership of 1% or more securities of the subject company in this research report, at the end of the month immediately preceding the date of publication of this research report. However, since affiliates of CGS-CIMB India are engaged in the financial services business, they might have in their normal course of business financial interests or actual / beneficial ownership of one per cent or more in various companies including the subject company in this research report.

CGS-CIMB India or its associates, may: (a) from time to time, have long or short position in, and buy or sell the securities of the subject company in this research report; or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company in this research report or act as an advisor or lender/borrower to such company or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

CGS-CIMB India, its associates and the analyst engaged in preparation of this research report have not received any compensation for investment banking, merchant banking or brokerage services from the subject company mentioned in the research report in the past 12 months.

CGS-CIMB India, its associates and the analyst engaged in preparation of this research report have not managed or co-managed public offering of securities for the subject company mentioned in the research report in the past 12 months. The analyst from CGS-CIMB India engaged in preparation of this research report or his/her relative (a) do not have any financial interests in the subject company mentioned in this research report; (b) do not own 1% or more of the equity securities of the subject company mentioned in the research report as of the last day of the month preceding the publication of the research report; (c) do not have any material conflict of interest at the time of publication of the research report

Indonesia: This report is issued and distributed by PT CGS-CIMB Sekuritas Indonesia ("CGS-CIMB Indonesia"). The views and opinions in this research report are our own as of the date hereof and are subject to change. CGS-CIMB Indonesia has no obligation to update its opinion or the information in this research report. This report is for private circulation only to clients of CGS-CIMB Indonesia. Neither this report nor any copy hereof may be distributed in Indonesia or to any Indonesian citizens wherever they are domiciled or to Indonesian residents except in compliance with applicable Indonesian capital market laws and regulations.

This research report is not an offer of securities in Indonesia. The securities referred to in this research report have not been registered with the Financial Services Authority (Otoritas Jasa Keuangan) pursuant to relevant capital market laws and regulations, and may not be offered or sold within the territory of the Republic of Indonesia or to Indonesian citizens through a public offering or in circumstances which constitute an offer within the meaning of the Indonesian capital market law and regulations.

Ireland: CGS-CIMB is not an investment firm authorised in the Republic of Ireland and no part of this document should be construed as CGS-CIMB acting as, or otherwise claiming or representing to be, an investment firm authorised in the Republic of Ireland.

Malaysia: This report is distributed in Malaysia by CGS-CIMB Securities Sdn. Bhd. ("CGS-CIMB Malaysia") solely for the benefit of and for the exclusive use of our clients. Recipients of this report are to contact CGS-CIMB Malaysia, at Level 29, Menara Bumiputra-Commerce, No. 11, Jalan Raja Laut, 50350 Kuala Lumpur, Malaysia, in respect of any matters arising from or in connection with this report. CGS-CIMB Malaysia has no obligation to update, revise or reaffirm its opinion or the information in this research reports after the date of this report.

New Zealand: In New Zealand, this report is for distribution only to persons who are wholesale clients pursuant to section 5C of the Financial Advisers Act 2008.

Singapore: This report is issued and distributed by CGS-CIMB Securities (Singapore) Pte Ltd ("CGS-CIMB Singapore"). CGS-CIMB Singapore is a capital markets services licensee under the Securities and Futures Act (Chapter 289). Accordingly, it is exempted from the requirement to hold a financial adviser's licence under the Financial Advisers Act, Cap 110 ("FAA") for advising on investment products, by issuing or promulgating research analyses or research reports, whether in electronic, print or other form. CGS-CIMB Singapore is subject to the applicable rules under the FAA unless it is able to avail itself to any prescribed exemptions.

Recipients of this report are to contact CGS-CIMB Singapore, 50 Raffles Place, #16-02 Singapore Land Tower, Singapore in respect of any matters arising from, or in connection with this report. CGS-CIMB Singapore has no obligation to update its opinion or the information in this research report. This publication is strictly confidential and is for private circulation only. If you have not been sent this report by CGS-CIMB Singapore directly, you may not rely, use or disclose to anyone else this report or its contents.

If the recipient of this research report is not an accredited investor, expert investor or institutional investor, CGS-CIMB Singapore accepts legal responsibility for the contents of the report without any disclaimer limiting or otherwise curtailing such legal responsibility. If the recipient is an accredited investor, expert investor or institutional investor, the recipient is deemed to acknowledge that CGS-CIMB Singapore is exempt from certain requirements under the FAA and its attendant regulations, and as such, is exempt from complying with the following:

(a) Section 25 of the FAA (obligation to disclose product information);

(b) Section 27 (duty not to make recommendation with respect to any investment product without having a reasonable basis where you may be reasonably expected to rely on the recommendation) of the FAA;

(c) MAS Notice on Information to Clients and Product Information Disclosure [Notice No. FAA-N03];

(d) MAS Notice on Recommendation on Investment Products [Notice No. FAA-N16];

(e) Section 36 (obligation on disclosure of interest in specified products), and

(f) any other laws, regulations, notices, directive, guidelines, circulars and practice notes which are relates to the above, to the extent permitted by applicable laws, as may be amended from time to time, and any other laws, regulations, notices, directive, guidelines, circulars, and practice notes as we may notify you from time to time. In addition, the recipient who is an accredited investor, expert investor or institutional investor acknowledges that as CGS-CIMB Singapore is exempt from Section 27 of the FAA, the recipient will also not be able to file a civil claim against CGS-CIMB Singapore for any loss or damage arising from the recipient's reliance on any recommendation made by CGS-CIMB Singapore which would otherwise be a right that is available to the recipient under Section 27 of the FAA .

CGS-CIMB Singapore, its affiliates and related corporations, their directors, associates, connected parties and/or employees may own or have positions in specified products of the company(ies) covered in this research report or any specified products related thereto and may from time to time add to or dispose of, or may be materially interested in, any such specified products. Further, CGS-CIMB Singapore, its affiliates and its related corporations do and seek to do business with the company(ies) covered in this research report and may from time to time act as market maker or have assumed an underwriting commitment in specified products of such company(ies), may sell them to or buy them from customers on a principal basis and may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) as well as solicit such investment, advisory or other services from any entity mentioned in this report.

As of February 23, 2022, CGS-CIMB Singapore does not have a proprietary position in the recommended specified products in this report.

CGS-CIMB Singapore does not make a market on other specified products mentioned in the report.

South Korea: This report is issued and distributed in South Korea by CGS-CIMB Securities (Hong Kong) Limited, Korea Branch ("CGS-CIMB Korea") which is licensed as a cash equity broker, and regulated by the Financial Services Commission and Financial Supervisory Service of Korea. In South Korea, this report is for distribution only to professional investors under Article 9(5) of the Financial Investment Services and Capital Market Act of Korea ("FSCMA").

Spain: This document is a research report and it is addressed to institutional investors only. The research report is of a general nature and not personalised and does not constitute investment advice so, as the case may be, the recipient must seek proper advice before adopting any investment decision. This document does not constitute a public offering of securities.

CGS-CIMB is not registered with the Spanish Comision Nacional del Mercado de Valores to provide investment services.

Sweden: This report contains only marketing information and has not been approved by the Swedish Financial Supervisory Authority. The distribution of this report is not an offer to sell to any person in Sweden or a solicitation to any person in Sweden to buy any instruments described herein and may not be forwarded to the public in Sweden.

Switzerland: This report has not been prepared in accordance with the recognized self-regulatory minimal standards for research reports of banks issued by the Swiss Bankers' Association (Directives on the Independence of Financial Research).

Thailand: This report is issued and distributed by CGS-CIMB Securities (Thailand) Co. Ltd. ("CGS-CIMB Thailand") based upon sources believed to be reliable (but their accuracy, completeness or correctness is not guaranteed). The statements or expressions of opinion herein were arrived at after due and careful consideration for use as information for investment. Such opinions are subject to change without notice and CGS-CIMB Thailand has no obligation to update its opinion or the information in this research report.

CGS-CIMB Thailand may act or acts as Market Maker, and issuer and offeror of Derivative Warrants and Structured Note which may have the following securities as its underlying securities. Investors should carefully read and study the details of the derivative warrants in the prospectus before making investment decisions.

AAV, ACE, ADVANC, AEONTS, AMATA, AOT, AP, BAM, BANPU, BBL, BCH, BCP, BCPG, BDMS, BEC, BEM, BGRIM, BH, BJC, BTS, CBG, CENTEL, CHG, CK, CKP, COM7, CPALL, CPF, CPN, CRC, DELTA, DOHOME, DTAC, EA, EGCO, ESSO, GLOBAL, GPSC, GULF, GUNKUL, HANA, HMPRO, ICHI, INTUCH, IRPC, IVL, JAS, JMART, JMT, KBANK, KCE, KKP, KTB, KTC, LH, MAJOR, MEGA, MINT, MTC, NRF, OR, ORI, OSP, PLANB, PRM, PSL, PTG, PTL, PTT, PTTEP, PTTGC, QH, RATCH, RBF, RS, SAWAD, SCB, SCC, SCGP, SINGER, SPALI, SPRC, STA, STEC, STGT, SUPER, SYNEX, TASCO, TCAP, THANI, TISCO, TKN, TOP, TQM, TRUE, TTB, TU, TVO, VGI, WHA

Corporate Governance Report:

The disclosure of the survey result of the Thai Institute of Directors Association ("IOD") regarding corporate governance is made pursuant to the policy of the Office of the Securities and Exchange Commission. The survey of the IOD is based on the information of a company listed on the Stock Exchange of Thailand and the Market for Alternative Investment disclosed to the public and able to be accessed by a general public investor. The result, therefore, is from the perspective of a third party. It is not an evaluation of operation and is not based on inside information.

The survey result is as of the date appearing in the Corporate Governance Report of Thai Listed Companies. As a result, the survey result may be changed after that date. CGS-CIMB Thailand does not confirm nor certify the accuracy of such survey result.

Score Range:	90 - 100	80 – 89	70 - 79	Below 70	No Survey Result
Description:	Excellent	Very Good	Good	N/A	N/A

United Arab Emirates: The distributor of this report has not been approved or licensed by the UAE Central Bank or any other relevant licensing authorities or governmental agencies in the United Arab Emirates. This report is strictly private and confidential and has not been reviewed by, deposited or registered with UAE Central Bank or any other licensing authority or governmental agencies in the United Arab Emirates. This report is being issued outside the United Arab Emirates to a limited number of institutional investors and must not be provided to any person other than the original recipient and may not be reproduced or used for any other purpose. Further, the information contained in this report is not intended to lead to the sale of investments under any subscription agreement or the conclusion of any other contract of whatsoever nature within the territory of the United Arab Emirates.

United Kingdom and European Economic Area (EEA): In the United Kingdom and European Economic Area, this material is also being distributed by CGS-CIMB Securities (UK) Limited ("CGS-CIMB UK"). CGS-CIMB UK is authorized and regulated by the Financial Conduct Authority and its registered office is at 53 New Broad Street, London EC2M 1JJ. The material distributed by CGS-CIMB UK has been prepared in accordance with CGS-CIMB's policies for managing conflicts of interest arising as a result of publication and distribution of this material. This material is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of CGS-CIMB UK; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the "Order"), (c) fall within Article 49(2)(a) to (d) ("high net worth companies, unincorporated associations etc") of the Order; (d) are outside the United Kingdom subject to relevant regulation in each jurisdiction, material(all such persons together being referred to as "relevant persons"). This material is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

This material is categorised as non-independent for the purposes of CGS-CIMB UK and therefore does not provide an impartial or objective assessment of the subject matter and does not constitute independent research. Consequently, this material has not been prepared in accordance with legal requirements designed to promote the independence of research and will not be subject to any prohibition on dealing ahead of the dissemination of research. Therefore, this material is considered a marketing communication.

United States: This research report is distributed in the United States of America by CGS-CIMB Securities (USA) Inc, a U.S. registered broker-dealer and an affiliate of CGS-CIMB Securities Sdn. Bhd., CGS-CIMB Securities (Singapore) Pte Ltd, PT CGS-CIMB Sekuritas Indonesia, CGS-CIMB Securities (Thailand) Co. Ltd, CGS-CIMB Securities (Hong Kong) Limited and CGS-CIMB Securities (India) Private Limited, and is distributed solely to persons who qualify as "U.S. Institutional Investors" as defined in Rule 15a-6 under the Securities and Exchange Act of 1934. This communication is only for Institutional Investors whose ordinary business activities involve investing in shares, bonds, and associated securities and/or derivative securities and who have professional experience in such investments. Any person who is not a U.S. Institutional Investor or Major Institutional Investor must not rely on this communication. The delivery of this research report to any person in the United States of America is not a recommendation to effect any transactions in the securities discussed herein, or an endorsement of any opinion expressed herein. CGS-CIMB Securities (USA) Inc, is a FINRA/SIPC member and takes responsibility for the content of this report. For further information or to place an order in any of the above-mentioned securities please contact a registered representative of CGS-CIMB Securities (USA) Inc.

CGS-CIMB Securities (USA) Inc. does not make a market on other securities mentioned in the report.

CGS-CIMB Securities (USA) Inc. has not managed or co-managed a public offering of any of the securities mentioned in the past 12 months.

CGS-CIMB Securities (USA) Inc. has not received compensation for investment banking services from any of the company mentioned in the past 12 months.

CGS-CIMB Securities (USA) Inc. neither expects to receive nor intends to seek compensation for investment banking services from any of the company mentioned within the next 3 months.

United States Third-Party Disclaimer: If this report is distributed in the United States of America by Raymond James & Associates, Inc ("RJA"), this report is third-party research prepared for and distributed in the United States of America by RJA pursuant to an arrangement between RJA and CGS-CIMB Securities International Pte. Ltd. ("CGS-CIMB"). CGS-CIMB is not an affiliate of RJA. This report is distributed solely to persons who qualify as "U.S. Institutional Investors" or as "Major U.S. Institutional Investors" as defined in Rule 15a-6 under the Securities and Exchange Act of 1934, as amended. This communication is only for U.S. Institutional Investors or Major U.S. Institutional Investor whose ordinary business activities involve investing in shares, bonds, and associated securities and/or derivative securities and who have professional experience in such investments. Any person who is not a U.S. Institutional Investor or Major U.S. Institutional Investor must not rely on this communication. The delivery of this report to any person in the U.S. is not a recommendation to effect any transactions in the securities discussed herein, or an endorsement of any opinion expressed herein. If you are receiving this report in the U.S from RJA, a FINRA/SIPC member, it takes responsibility for the content of this report. For further information or to place an order in any of the above-mentioned securities please contact a registered representative of CGS-CIMB Securities (USA) Inc. or RJA. https://raymondjames.com/InternationalEquityDisclosures

Other jurisdictions: In any other jurisdictions, except if otherwise restricted by laws or regulations, this report is only for distribution to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions.

Distribution of stock ratings and investment banking clients for quarter ended on 31 December 2021 619 companies under coverage for quarter ended on 31 December 2021		
	Rating Distribution (%)	Investment Banking clients (%)
Add	71.1%	1.5%
Hold	21.8%	0.0%
Reduce	7.1%	0.0%

Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2021, Anti-Corruption 2021

ADVANC – Excellent, Certified, **AMATA** – Excellent, Certified, **ANAN** – Excellent, n/a, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Excellent, n/a, **AWC** – Excellent, Declared, **AU** – Good, n/a, **BAM** – Very Good, Certified, **BAY** – Excellent, Certified, **BBL** – Excellent, Certified, **BCH** – Very Good, Certified, **BCP** - Excellent, Certified, **BCPG** – Excellent, Certified, **BDMS** – Excellent, n/a, **BEAUTY** – Good, n/a, **BEM** – Excellent, n/a **BH** - Good, n/a, **BJC** – Very Good, n/a, **BLA** – Very Good, Certified, **BTS** - Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – n/a, n/a, **CENTEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified,

CPF – Excellent, Certified, **CPN** - Excellent, Certified, **CPNREIT** – n/a, n/a, **CRC** – Excellent, Declared, **DELTA** - Excellent, Certified, **DDD** – Excellent, n/a, **DIF** – n/a, n/a, **DOHOME** – Very Good, Declared, **DREIT** – n/a, n/a, **DTAC** – Excellent, Certified, **ECL** – Excellent, Certified, **EGCO** - Excellent, Certified, **EPG** – Excellent, Certified, **ERW** – Very Good, Certified, **GFPT** - Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Excellent, n/a, **HANA** - Excellent, Certified, **HMPRO** - Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Certified, **III** – Excellent, Declared, **INTUCH** - Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** - Excellent, Certified, **JASIF** – n/a, n/a, **JKN** – n/a, Certified, **JMT** – Very Good, n/a, **KBANK** - Excellent, Certified, **KCE** - Excellent, Certified, **KEX** – Very Good, Declared, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** - Excellent, Certified, **KTC** – Excellent, Certified, **LH** - Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MAKRO** – Excellent, Certified, **MC** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** - Excellent, Certified, **MTC** – Excellent, Certified, **NETBAY** – Very Good, n/a, **NRF** – Very Good, Declared, **OR** – Excellent, n/a, **ORI** – Excellent, Certified, **OSP** – Excellent, n/a, **PLANB** – Excellent, Certified, **PRINC** – Very Good, Certified, **PR9** – Excellent, Declared, **PSH** – Excellent, Certified, **PTT** - Excellent, Certified, **PTTEP** - Excellent, n/a, **PTTGC** - Excellent, Certified, **QH** – Excellent, Certified, **RAM** – n/a, n/a, **RBF** – Very Good, n/a, **RS** – Excellent, Declared, **RSP** – Good, n/a, **S** – Excellent, n/a, **SAK** – Very Good, Declared, **SAPPE** – Very Good, Certified, **SAWAD** – Very Good, n/a, **SCB** - Excellent, Certified, **SCC** – Excellent, Certified, **SCGP** – Excellent, Declared, **SECURE** – n/a, n/a, **SHR** – Excellent, n/a, **SIRI** – Excellent, Certified, **SPA** – Very Good, n/a, **SPALI** - Excellent, Certified, **SPRC** – Excellent, Certified, **SSP** - Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Very Good, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIDLOR** – n/a, Certified **TISCO** - Excellent, Certified, **TKN** – Very Good, n/a, **TOP** - Excellent, Certified, **TRUE** – Excellent, Certified, **TTB** - Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Certified, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – n/a, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

- CG Score 2021 from Thai Institute of Directors Association (IOD)

- Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of August 5, 2021) are categorised into: companies that have declared their intention to join CAC, and companies certified by CAC.

Recommendation Framework

Stock Ratings	Definition:
Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings	Definition:
Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings	Definition:
Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.

#03c