

Malaysia

**Neutral** (no change)**Highlighted Companies****CCK Consolidated Holdings**  
ADD, TP RM0.84, RM0.56 close

While CCK Consolidated Holdings (CCK) has its own in-house poultry production (12.8% of 9M21 revenue), its main business is its retail operations (85.2% of 9M21 revenue), which comprises a network of 69 retail outlets across East Malaysia, retailing food products, including its in-house poultry goods.

**QL Resources**  
ADD, TP RM5.50, RM4.76 close

Given the 24.2% decline in its share price in the past 12 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
QL Resources	47.08	40.24	31.35
CCK Consolidated Holdings	13.82	10.21	8.70
P/BV (x)	Dec-21F	Dec-22F	Dec-23F
QL Resources	4.77	4.41	4.03
CCK Consolidated Holdings	1.13	1.04	0.96
Dividend Yield	Dec-21F	Dec-22F	Dec-23F
QL Resources	0.63%	0.80%	1.02%
CCK Consolidated Holdings	2.50%	3.39%	3.93%

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# Consumer Staples - Overall

## Potential impact of higher poultry prices

- The government recently announced efforts to combat high poultry prices by lowering maximum selling prices and allowing more APs to import chicken.
- This is negative for poultry stocks due to pricing competition from imported chicken, while caps to selling prices will lead to margin compression.
- Companies under our coverage (QL and CCK) with exposure to the poultry business are less unaffected due to having a more diversified supply chain.

**Government announces measures to taper high poultry prices**

In view of rising poultry prices (broiler and egg), the Malaysian government has announced measures to mitigate the impact on consumers. These include: i) maintaining the ceiling selling price of chicken eggs under the Malaysian Family Maximum Price Scheme (5 Feb to 5 Jun 2022), ii) lowering the ceiling selling price for whole chickens to RM8.90/kg (from RM9.10/kg), iii) allowing all approval permit (AP) holders to import whole chickens (vs. certain parts previously), and iv) opening up APs for hypermarkets to import chicken. It also plans to provide subsidies for poultry producers to lower farm selling prices.

**Negative in our view, for Malaysia's poultry sector**

In our view, the rising poultry selling prices are due to: i) higher feed cost prices (corn and soybean meal price rose 30.9% yoy and 16.6% yoy respectively in 2021), ii) higher operating costs, mainly labour due to shortage of foreign workers, iii) lower production volume (impact of Covid-19), and iv) weakening of ringgit vs US\$. Based on our channel checks with poultry producers, the implementation of a ceiling selling price of whole chickens would lead to steep margin compression due to rising costs. Also, allowing imports of whole chickens from overseas (beyond a short-term period of 3 months) would have long-term consequences on the supply-demand dynamics of Malaysia's poultry market, as local poultry producers will have no choice but to cease operations due to their lower competitiveness.

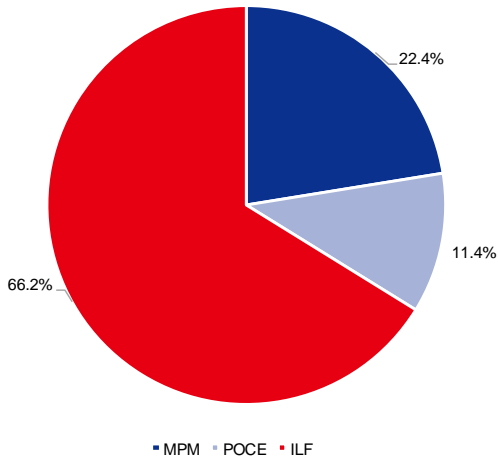
**QL and CCK are less affected than its peers by these measures**

Overall, we view this negatively for Malaysia's poultry industry as we foresee margin compression and lower sales volume of chicken from these near-term government measures. Under our coverage, stocks with exposure to the poultry business are QL and CCK. Despite near-term headwinds, we are of the view that both stocks will be less affected compared to its other peers. For QL, the impact of higher feed costs is mitigated by its feed raw material sourcing division (60% of QL's integrated livestock farming division), which practices a cost pass-through mechanism (higher profit from larger revenue base). In CCK's case, it has a 27.2% stake in Gold Coin Sarawak, its main feed cost supplier, while it can shift its poultry sales mix to chicken cuts, which have no selling price ceiling. On the issue of imported chicken, we believe that the government is likely to only allow temporary imports of whole chickens, until selling prices of local chickens decline.

**We still keep our Add calls on QL and CCK; Neutral on the sector**

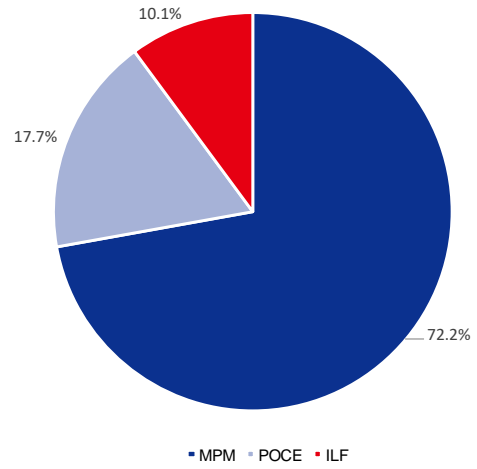
We keep our Add calls on QL and CCK and retain our Neutral call on the overall consumer sector. For QL, we believe its stock earnings have bottomed in 9MFY3/22, while all its divisions should benefit from the reopening of the economy. In CCK's case, the stock remains grossly undervalued (its CY22F P/E is at a 71.1% discount to the overall consumer sector's CY22F P/E of 35.3x) and perceived as a poultry stock, despite 85.2% of 9M21 revenue derived from its retail division (69 retail outlets nationwide). Key downside/upside risks to our Neutral view on the consumer sector: i) weaker/stronger-than-expected sales volume, ii) higher/lower-than-expected raw material prices and iii) another lockdown in Malaysia/further easing of social distancing measures in Malaysia.

Figure 1: QL's revenue breakdown by segment (1HFY22)



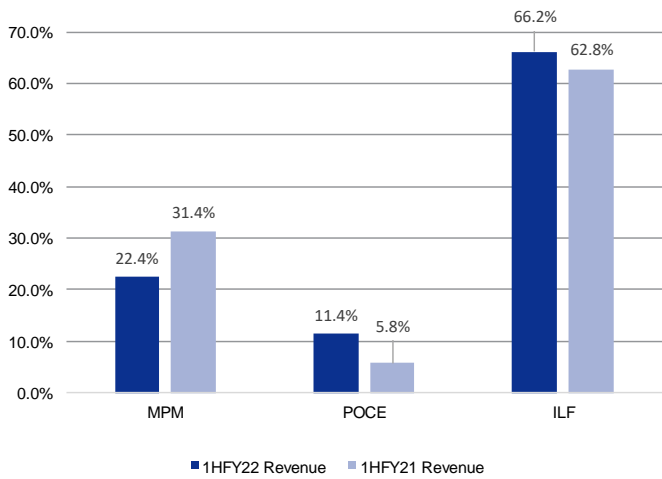
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 2: QL's PBT breakdown by segment (1HFY22)



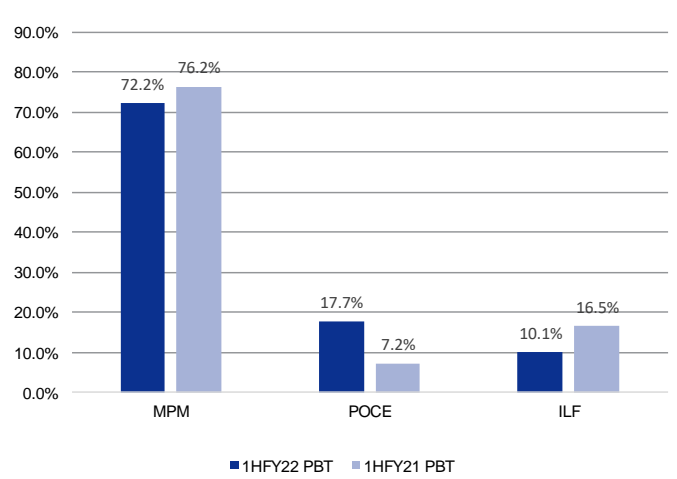
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 3: QL's revenue breakdown by segment (1HFY22 vs. 1HFY21)



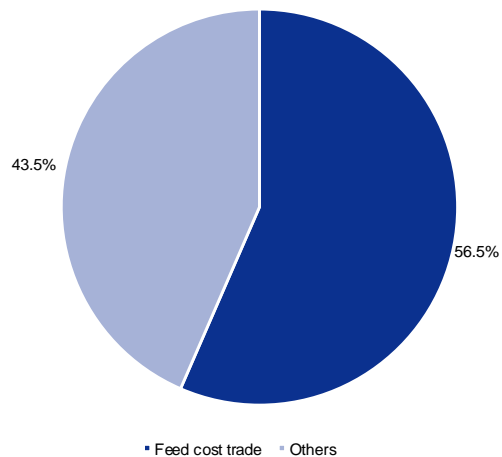
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 4: QL's PBT breakdown by segment (1HFY22 vs. 1HFY21)



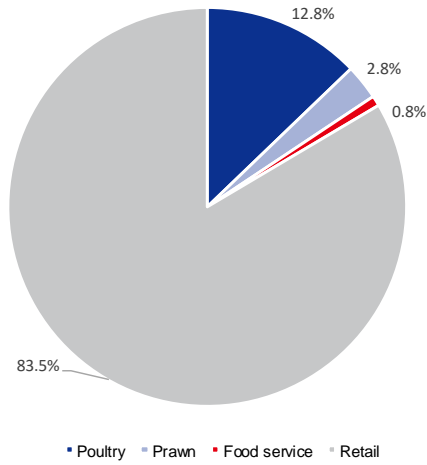
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 5: QL's ILF segment breakdown



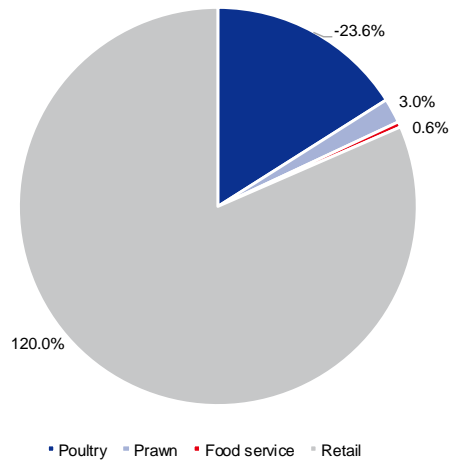
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 6: CCK's revenue breakdown by segment (9MFY21)



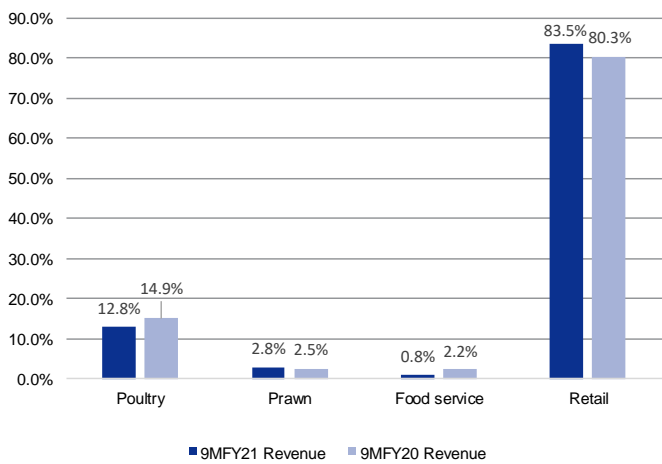
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 7: CCK's profit breakdown by segment (9MFY21)



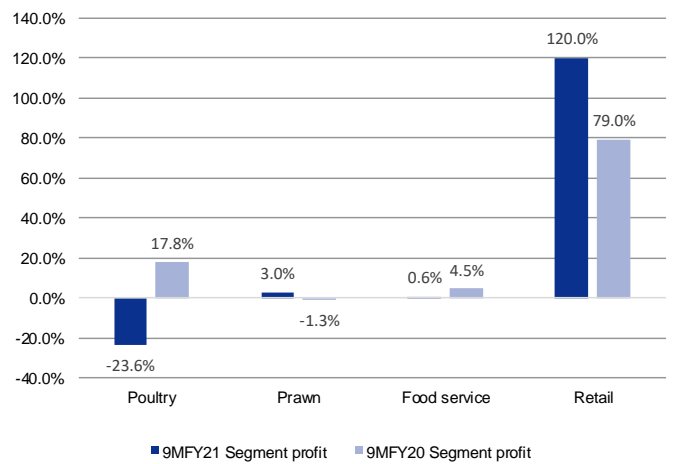
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 8: CCK's revenue breakdown by segment (9MFY21 vs. 9MFY20)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 9: CCK's profit breakdown by segment (9MFY21 vs. 9MFY20)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 10: Corn price (in RM/bu)



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 11: Soybean price (in RM/bu)



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

**Figure 12: CPO price (in RM/tonne)**



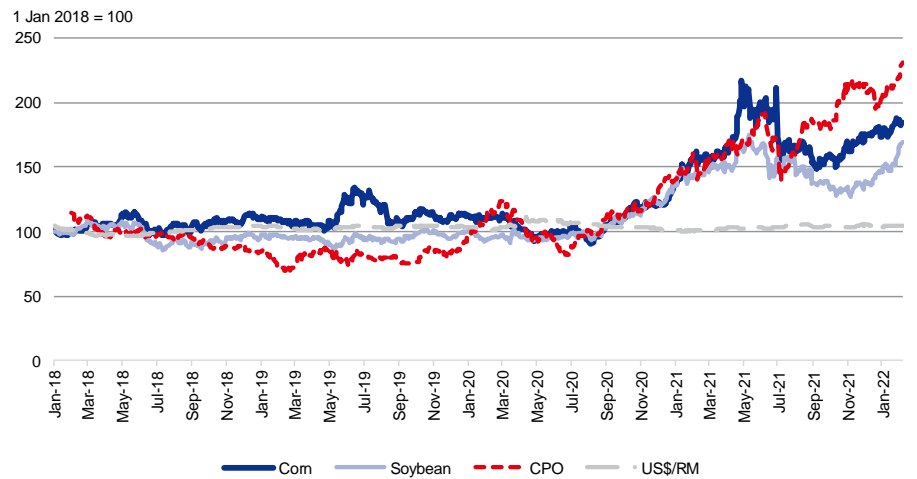
SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

**Figure 13: US\$/RM currency cross pair**



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

**Figure 14: Relative price performance (corn, soybean, CPO and US\$/RM) since Jan 2018**



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Figure 15: Sector comparison (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) CY21F	Core P/E (x) CY22F	3-year EPS CAGR (%)	P/BV (x) CY21F	P/BV (x) CY22F	Recurring ROE (%) CY21F	Recurring ROE (%) CY22F	EV/EBITDA (x) CY21F	EV/EBITDA (x) CY22F	Dividend Yield (%) CY21F	Dividend Yield (%) CY22F
<b>Consumer Staples</b>																
Nestle (Malaysia)	NESZ MK	Hold	133.20	136.60	7,471	50.9	49.4	11.7%	54.9	53.7	110.7%	109.8%	31.1	27.9	2.0%	2.0%
Fraser & Neave Holdings	FNH MK	Add	24.46	29.80	2,146	20.2	19.3	-19.1%	3.0	2.8	15.6%	15.2%	12.8	11.5	2.7%	2.7%
<b>QL Resources</b>	<b>QLG MK</b>	<b>Add</b>	<b>4.78</b>	<b>5.50</b>	<b>2,783</b>	<b>51.3</b>	<b>40.4</b>	<b>15.9%</b>	<b>4.8</b>	<b>4.4</b>	<b>9.7%</b>	<b>11.4%</b>	<b>20.5</b>	<b>18.3</b>	<b>0.6%</b>	<b>0.8%</b>
Power Root Bhd	PWRT MK	Hold	1.33	1.40	133	26.8	23.3	-5.1%	2.1	2.1	8.0%	9.1%	14.6	13.0	3.7%	4.1%
Kawan Food	KFB MK	Add	1.51	2.70	130	17.3	14.4	18.2%	1.5	1.4	9.0%	10.0%	8.8	7.6	2.4%	2.6%
MSM Malaysia Holdings	MSM MK	Add	1.19	1.57	200	15.2	9.0	4.5%	0.5	0.5	3.5%	5.7%	8.1	6.5	3.4%	5.6%
<b>CCK Consolidated Holdings</b>	<b>CCK MK</b>	<b>Add</b>	<b>0.56</b>	<b>0.84</b>	<b>84</b>	<b>13.8</b>	<b>10.2</b>	<b>-1.4%</b>	<b>1.1</b>	<b>1.0</b>	<b>8.5%</b>	<b>10.6%</b>	<b>6.1</b>	<b>4.8</b>	<b>2.6%</b>	<b>3.4%</b>
<b>Weighted Subsector Average</b>						<b>44.5</b>	<b>41.0</b>	<b>7.2%</b>	<b>33.2</b>	<b>32.4</b>	<b>68.8%</b>	<b>68.7%</b>	<b>24.9</b>	<b>22.3</b>	<b>1.8%</b>	<b>1.9%</b>
<b>Consumer Discretionary</b>																
7-Eleven Malaysia Holdings	SEM MK	Add	1.48	1.80	399	45.0	27.1	-1.8%	20.4	15.7	51.0%	65.4%	7.4	6.0	1.4%	2.2%
Berjaya Food Berhad	BFD MK	Add	2.06	3.25	178	13.5	12.5	na	2.0	1.9	15.7%	15.9%	3.8	3.1	5.2%	5.6%
Bonia Corporation	BON MK	Add	1.46	1.00	70	19.9	15.7	23.7%	0.8	0.8	4.0%	5.0%	4.7	5.0	1.0%	0.7%
DKSH Holdings (Malaysia)	DKSH MK	Add	4.75	6.20	179	9.6	8.9	22.7%	1.0	0.9	11.4%	11.0%	6.2	5.0	2.2%	2.1%
Lee Swee Kiat Group	LSKG MK	Add	0.81	1.84	31	16.1	7.9	36.1%	2.0	1.7	13.5%	23.3%	8.9	4.5	2.9%	5.7%
Mynews Holdings Berhad	MNHB MK	Add	0.83	1.18	135	na	37.8	25.9%	2.5	2.4	-12.6%	6.4%	26.0	8.1	0.1%	0.7%
Panasonic Manufacturing Malaysia Berhad	PMM MK	Hold	28.82	31.20	419	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	0.67	0.84	113	33.1	17.5	12.5%	3.2	3.0	10.1%	17.8%	13.1	8.5	1.5%	2.9%
Mr D.I.Y. Group (M) Bhd	MRDIY MK	Add	3.51	4.40	5,273	50.9	36.5	27.2%	19.4	14.7	43.7%	45.8%	26.6	20.2	0.8%	1.1%
<b>Weighted Subsector Average</b>						<b>45.0</b>	<b>32.9</b>	<b>22.9%</b>	<b>16.6</b>	<b>12.7</b>	<b>38.2%</b>	<b>41.4%</b>	<b>22.9</b>	<b>17.2</b>	<b>1.3%</b>	<b>1.7%</b>
<b>Sin (Brewers &amp; Tobacco)</b>																
British American Tobacco	ROTH MK	Reduce	12.40	10.44	847	12.2	13.1	2.3%	9.2	9.1	76.9%	70.1%	8.9	9.6	8.0%	7.5%
Carlsberg Brewery (M)	CAB MK	Add	20.00	26.00	1,463	29.4	22.3	21.4%	32.4	32.4	118.7%	145.6%	20.2	15.1	3.1%	4.5%
Heineken Malaysia Bhd	HEIM MK	Add	20.36	26.70	1,471	29.7	22.1	22.3%	17.6	17.6	60.1%	79.5%	17.6	13.0	3.4%	4.5%
<b>Weighted Subsector Average</b>						<b>25.7</b>	<b>20.2</b>	<b>17.5%</b>	<b>21.5</b>	<b>21.4</b>	<b>86.6%</b>	<b>103.0%</b>	<b>16.6</b>	<b>13.0</b>	<b>4.3%</b>	<b>5.2%</b>
<b>Weighted Average</b>						<b>41.6</b>	<b>35.3</b>	<b>13.4%</b>	<b>26.5</b>	<b>25.0</b>	<b>62.8%</b>	<b>66.3%</b>	<b>23.0</b>	<b>19.3</b>	<b>2.1%</b>	<b>2.4%</b>
<b>Simple Average</b>						<b>28.5</b>	<b>22.8</b>	<b>12.5%</b>	<b>11.0</b>	<b>10.2</b>	<b>32.1%</b>	<b>37.1%</b>	<b>14.6</b>	<b>11.3</b>	<b>2.6%</b>	<b>3.3%</b>

SOURCES: CGS-CIMB, BLOOMBERG



## 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 among 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 ranking, and only a handful appears 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 past two years. The consumer companies mostly highlight Environmental efforts in their ESG initiatives and improvements are still underway for the Social and Governance aspects.

<p><b>Keep your eye on</b></p> <p>As most of the consumer name under our coverage are FMCG companies (<b>Nestle, F&amp;N, Power Root, DKSH, CCK, Kawan Food and QL</b>) and retailers in the food and beverage (<b>BFood, MyNews, 7-Eleven Malaysia</b>) and household &amp; personal care (<b>InNature, Bonia, Panasonic Malaysia and Mr DIY</b>) industries, the product and food quality, safety and waste management in terms of food and packaging are of utmost importance.</p>	<p><b>Implications</b></p> <p>FMCG companies produce a lot of packaging waste, generated from consumer-packaged goods product sales. Thus, companies are being pressured to adopt environmentally-friendly packaging. F&amp;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.</p>
<p><b>ESG highlights</b></p> <p>All the consumer companies are mostly focusing on Environmental aspects, except for InNature, which has noticeable Social and Governance initiatives in place.</p>	<p><b>Implications</b></p> <p>While we commend 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 the lead in balancing across all ESG aspects, which reach a wide range of stakeholders with extensive collaboration and in-house programmes, such as annual beach clean-ups, 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 comprising women, just to name a few.</p>
<p><b>Trends</b></p> <p>Major improvements from year-to-year could be derived from continuous environmental aspects and more proactive approaches in consumer companies' social compliance and governance efforts.</p>	<p><b>Implications</b></p> <p>We have not factored in premiums/discounts for ESG in our fundamental valuations for most of the companies under coverage except for InNature. However, we are of the view that the energy efficiency and waste management programmes followed by all of the companies will pose an upside risk to margins. Any re-rating to valuations from an ESG standpoint might come from further improvements in their Social and Governance efforts, as well as more transparent data and metrics being publicly published.</p>

SOURCES: CGS-CIMB RESEARCH, REFINITIV

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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, **CENDEL** – Excellent, Certified, **CHAYO** – Very Good, n/a, **CHG** – Very Good, n/a, **CK** – Excellent, n/a, **COM7** – Excellent, Certified, **CPALL** – Excellent, Certified,

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

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### 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.