

SECTOR UPDATE

Consumer – Malaysia

Catalysts Abound Amid Undemanding Valuations

Sector valuations are undemanding, trading close to -1SD of its five-year mean. Overall consumer confidence appears to be holding up despite the recent Omicron wave and is poised to improve further as the country transitions into an endemic phase. The sector also offers defensive shelter amid market uncertainty. We maintain OVERWEIGHT on the sector. Our top picks for the sector are BAT, Heineken and Mr DIY.

WHAT'S NEW

- Safe haven in the lead-up to a General Election, including breweries.** In a potential lead-up to a General Election (GE) in Malaysia, we look back at the past five GEs in Malaysia and the corresponding share price performance of consumer companies relative to the FBMKLCI Index over a three-month period before and after the GE. All consumer sub-sectors largely outperformed (with the exception of BAT: -0.3%) the FBMKLCI, in particular the retail sub-sector (+14.7%). Notably, the brewery sub-sector has also outperformed by 5.2%, dispelling the notion that anti-alcohol political messaging weighs on the sub-sector. In contrast, subsequent to the past five GEs, performance for the consumer sector was mixed. It is possible that the flight to safety reverses in an increased risk-on environment following a GE.
- Undemanding valuations.** Sector valuations are currently trading at a forward PE of 28.9x. This is close to -1SD of its five-year mean of 28.7x. This is amid 2022 and 2023 offering earnings growths of 12.6% and 18.0% yoy respectively. In addition, 2022 earnings growth has been slightly tempered by the prosperity tax. Possible earnings downside arising from higher commodities prices and operating cost filtering through, especially to the F&B subsector, it could be offset by recovery in the other remaining subsectors surprising on the upside with the reopening of the economy and borders.

ACTION

- Maintain OVERWEIGHT as valuations are undemanding amid multiple catalysts.** Top picks: BAT, Heineken and Mr. DIY. We expect valuations to improve gradually alongside visibility for earnings delivery over 2022. Gradual reopening of the economy and borders should gradually restore consumer confidence and sentiment. Further tangible and visible easing of pandemic-related restrictions, such as entertainment outlets resuming operations, large-scale social events being held and quarantine of tourist arrivals being scaled back could provide further aid to sentiment. Multiple catalysts for improved sentiment, undemanding valuations and a defensive shelter to possible risk-off scenarios ahead underscore an OVERWEIGHT call on the sector.
- Our top pick for the sector is BAT** for the legalisation of nicotine vaping. It also offers an appealing and sustainable dividend yield of 7.6-9.4% for 2022-24. Meanwhile, it trades at an undemanding valuation close to -2SD to its five-year historical mean. We also like Heineken as a reopening beneficiary and attractive valuations, and Mr DIY for its: a) aggressive store expansion, b) earnings-fuelled growth, c) sticky demand for its non-discretionary products, and d) operational excellence. Lastly, Rhone Ma, an animal health solutions company, is venturing into the dairy business. The potential of its venture does not seem to have been fully priced with its valuations trading close to its 5-year mean PE.

PEER COMPARISON

Company	Tickers	Rec	Price 6 Apr (RM)	Target Price (RM)	Market Cap (RMm)	P/E (x)		P/BV (x)		Yield (%)	
						FY22F	FY23F	FY21F	FY22F	FY23F	FY22F
Nestle	NESZ MK	HOLD	135.50	131.00	31,611	52.0	44.2	51.6	1.8	2.2	
Mr DIY	MRDIY MK	BUY	3.40	4.85	21,978	32.0	28.3	14.2	1.4	1.8	
QL Resources	QLG MK	BUY	5.21	5.40	11,438	48.3	44.6	4.7	0.9	1.0	
F&N Holdings	FNH MK	HOLD	21.62	26.10	9,096	22.5	17.0	2.6	2.5	3.3	
Heineken (M)	HEIM MK	BUY	22.56	27.70	6,368	23.5	20.2	16.9	4.2	4.9	
Carlsberg	CAB MK	BUY	21.82	24.70	6,109	25.4	21.9	31.6	3.9	4.6	
Farm Fresh	FFB MK	BUY*	1.66	1.60	3,140	38.2	31.8	5.0	0.2	0.8	
British American Tobacco	ROTH MK	BUY	12.56	18.20	3,917	13.2	11.2	9.3	7.6	8.9	
MyNews	MNHB MK	HOLD	0.70	0.80	607	nm	29.0	2.0	0.0	0.8	
Average					11,364	31.9	27.6	15.3	2.5	3.1	

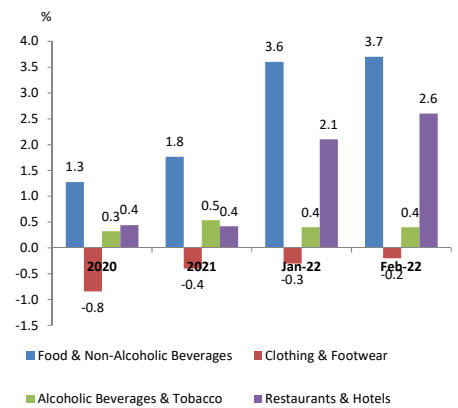
Source: Bloomberg, UOB Kay Hian

* BUY on weakness

OVERWEIGHT

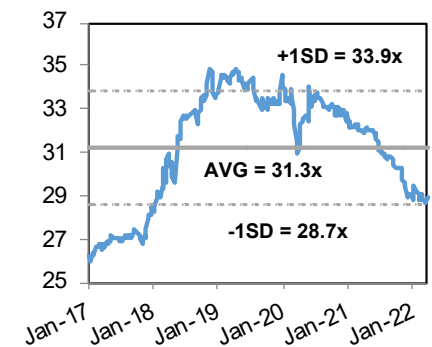
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PRICE INFLATION ACROSS KEY CATEGORIES



Source: Department of Statistics Malaysia

SECTOR VALUATIONS



Source: Bloomberg, UOB Kay Hian

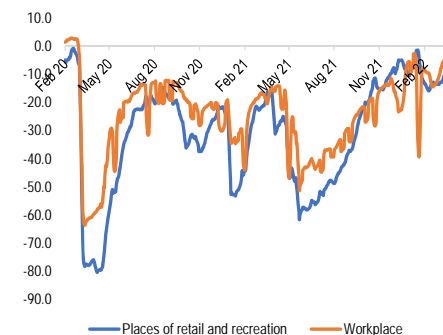
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ESSENTIALS

- Commodity prices remain elevated.** Across the board, commodities prices continue to remain elevated off a multitude of factors, ranging from an energy crunch to supply chain bottlenecks. Commodities prices are significantly higher (10-50%) than 2021's average across the board (with the exception of cocoa and sugar) for all commodities that we track. F&B companies have raised ASPs in response. This is applicable across the board as well with the Department of Statistics Malaysia revealing price inflation ytd accelerating for food & non-alcoholic beverages and restaurant & hotel categories from 2021. However, there is possible downside given the challenges to pass through costs in the current tough operating environment. Interest in the F&B sub-sector could remain subdued in the interim as a result.
- Worst fears over Omicron wave have passed, with recent mobility improving.** Overall movement for 1Q22 was unrestrained and has improved to -10.3% of pre-COVID-19 levels (0.0% as the baseline) on a qoq basis from -15.2% despite the Omicron wave in Malaysia. Sentiment and fears over the Omicron wave have recovered from the lows seen in late Feb-22 at -16.0% of pre-COVID-19 levels. Latest mobility to places of retail is currently at -9.6%. Following the transition to the endemic phase combined with the reopened borders with Singapore and possible further relaxation of foreign tourist travel requirements, mobility should strengthen over the subsequent quarters. We believe mobility to places of retail and recreation could average between -5 to 10% for the year (2021: -33.8%), which bodes well for companies with large physical retail footprint.
- Minimum wage hike.** The government looks to increase the minimum wage to RM1,500 per month from RM1,200. At this juncture, only MyNews may be particularly susceptible to the stiff hike. We estimate that it could impact up to 10% of its FY23 earnings. That said, adjustments to current performance-based incentives or a cost pass-through of an average ASP hike of 1% could fully neutralise the minimum wage hike by our estimates.
- Nominal sector earnings impact from EPF withdrawal scheme.** Bank Negara Malaysia (BNM) expects Malaysia private consumption to surge the most in 15 years by 9.0% (UOB Economics Research: 6.5%, 2021: 1.9%). Meanwhile, the latest Employees Provident Fund (EPF) withdrawal scheme of RM10,000 (assuming <RM20b) is projected to add 0.7-0.9ppt to private consumption growth. The projected impact from the EPF withdrawal scheme on private consumption appears immaterial and therefore we do not foresee meaningful contributions to the consumer companies under our coverage.

ACTIVITY TO PLACES OF INTEREST VS PRE-COVID-19 (MALAYSIA)



Source: Google

ACTIVITY TO PLACES OF INTEREST VS PRE-COVID-19 (MALAYSIA)

	Retail and recreation	Workplace
1Q20	-21.6	-14.3
2Q20	-58.9	-41.1
3Q20	-19.7	-16.7
4Q20	-29.9	-21.7
1Q21	-34.2	-26.4
2Q21	-39.2	-29.6
3Q21	-46.5	-36.6
4Q21	-15.2	-19.5
1Q22	-10.3	-12.0

Source: Google

THREE MONTHS BEFORE AND AFTER RELATIVE SHARE PRICE TO GENERAL ELECTION VS FBMKLCI INDEX

	3 months before GE performance vs FBMKLCI				3 months after GE performance vs FBMKLCI			
	Staples	BAT	Breweries	Retail	Staples	BAT	Breweries	Retail
1999	-0.4%	9.9%	-0.1%	3.2%	-3.8%	-26.3%	-11.4%	0.9%
2004	-7.0%	-1.7%	-4.8%	48.2%	13.8%	17.3%	4.1%	9.9%
2008	12.2%	16.4%	8.2%	11.0%	17.3%	5.0%	5.7%	1.2%
2013	-0.1%	3.2%	15.8%	2.7%	2.9%	-3.1%	-3.2%	-1.1%
2018	12.0%	-29.5%	6.9%	8.6%	1.6%	-4.3%	-3.0%	-1.3%
Average	3.3%	-0.3%	5.2%	14.7%	6.4%	-2.3%	-1.5%	1.9%

Source: Bloomberg

Staples: Dutch Lady, F&N, Nestle and OL

Breweries: Heineken and Carlsberg

Retail: Padini and Aeon

CONSUMER COMPANIES' EXPOSURE TO COMMODITIES PRICES

Commodities	2021 Average	YTD Average	Last Close 5 Apr 22	vs 2021 (%)	vs YTD22 (%)	Key Companies (% of COGS)
Sugar (US\$/lb)	17.9	18.7	19.7	10.5	5.8	F&N (25%), Power Root (25%), Cocoland (30-40%)
Cocoa (US\$/MT)	2494	2582	2562	2.7	-0.8	Nestle
Robusta (US\$/MT)	1764	2269	2132	20.9	-6.0	Power Root (30%), Nestle
Milk (US\$/MT)	3300	3765	3765	14.1	0.0	F&N (45%), Dutch Lady
CPO (RM/MT)	4434	6157	6362	43.5	3.3	Nestle, Power Root
Wheat (US\$/MT)	701	913	1040	48.3	13.9	Kawan Food (up to 50%)*
Aluminium (US\$/MT)	2483	3257	3447	38.8	5.8	Breweries, F&N

Source: UOB Kay Hian

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