DOWNGRADE

Malaysia

Neutral *(previously Overweight)*

Highlighted Companies

Farm Fresh Berhad
ADD, TP RM1.83, RM1.59 close

We like Farm Fresh Berhad (FFB) as Malaysia's largest vertically integrated producer of dairy products based on fresh milk. We project a 3-year FY22-25F EPS CAGR of 22.6%, driven by: i) capacity expansion, ii) venture into new markets and iii) launch of new diary-based products.

Mr D.I.Y. Group (M) Bhd
ADD, TP RM2.40, RM2.04 close

Mr. DIY is a likely beneficiary of the down-trading trend due to rising inflationary pressures. Mr. DIY provides home improvement products for do-it-yourself projects. As of 1Q22, Mr. DIY owns and operates 947 stores across all retail formats.

QL Resources
ADD, TP RM5.60, RM5.26 close

We like QL Resources for its diversified business model, and as it is a strong proxy for consumer spending recovery and ESG-related business (POCE). We project QL to record a 3-year EPS CAGR of 22.4% (FY22-25F) on stronger performance across all its divisions.

Summary Valuation Metrics

P/E (x)	Dec-22F	Dec-23F	Dec-24F
Farm Fresh Berhad	29.87	24.43	19.62
Mr D.I.Y. Group (M) Bhd	25.54	20.77	18.27
QL Resources	47.10	35.93	31.26
P/BV (x)	**Dec-22F**	**Dec-23F**	**Dec-24F**
Farm Fresh Berhad	4.45	3.91	3.41
Mr D.I.Y. Group (M) Bhd	8.91	7.15	5.83
QL Resources	4.91	4.53	4.17
Dividend Yield	**Dec-22F**	**Dec-23F**	**Dec-24F**
Farm Fresh Berhad	0.84%	1.02%	1.27%
Mr D.I.Y. Group (M) Bhd	1.11%	1.36%	1.55%
QL Resources	0.83%	1.09%	1.25%

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Consumer Staples - Overall

Seeking resiliency amidst high inflation

- We downgrade the consumer sector to Neutral as we expect weakness in consumer spending and further margin pressure for consumer companies.
- In 2H22F, we believe that consumers are likely to focus their spending on daily necessities rather than discretionary items.
- In view of this, we prefer staples (QL, FFB, and KFB), while we think MR DIY as a 'value retailer' could be a beneficiary of further consumer downtrading.

Headwinds ahead for Malaysia's consumer sector

We downgrade Malaysia's consumer sector to a Neutral from Overweight. We expect the weak macroeconomic outlook (spike in inflation, interest rate hikes and cuts in subsidies) to erode consumer spending ability, resulting in slower demand for consumer goods, mainly discretionary items. In addition to margin compression and rising cost pressures, we expect consumer names to face a more subdued operating environment.

Weaker sales and margin compression expected

In 2H22F, we expect consumer companies to see margin pressure (2-3% pts) from higher operating expenses (labour, utilities, etc.), weaker ringgit and higher input costs. While most consumer companies under our coverage can raise product prices to offset higher input costs, we think there is limited room as further selling price hikes could come at the expense of sales volumes. Hence, we expect consumer companies to absorb some of the higher costs in a bid to support sales volume, resulting in margin compression.

Demand normalisation with consumers prioritising daily necessities

Amid an erosion in spending power, consumers are likely to prioritise spending on daily necessities, while the demand for discretionary goods should weaken. In 2H22, we expect consumer spending to normalise from a high base in 1H22. Note that strong sales enjoyed by consumer names (mainly discretionary ones) were driven by pent-up demand and 'revenge spending', following the easing of lockdown measures and festive celebrations not subject to Covid-19 restrictions (unlike previous two years).

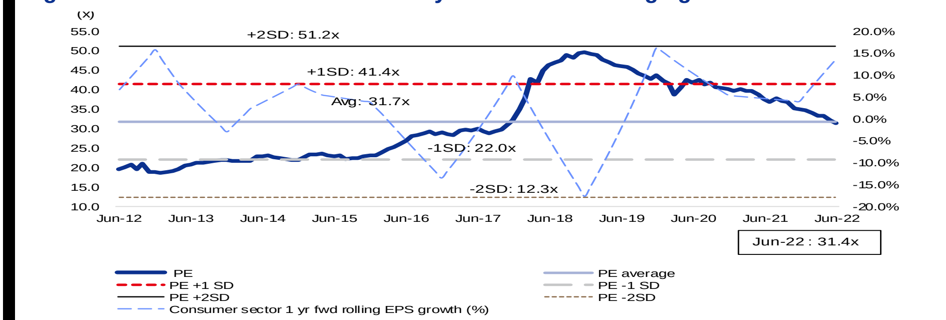
Weaker discretionary spending concerns largely priced-in

While we expect a weaker outlook from 2H22F onwards, we are still projecting an 8.9% yoy EPS growth in CY22F, attributed to a high base in 1H22F (+11 to +13% yoy). In our view, the weaker earnings prospects ahead are largely priced in, as the sector (excluding MR DIY) is trading at 31.4x 1-year forward P/E, a 2.5% discount to its 10-year historical mean of 32.2x. While the discretionary sub-sector (excluding MR DIY) is trading at 15.2x 1-year forward P/E (below its 10-year mean of 19.7x), the mean P/E is affected by a high base due to the distortion from the Covid-19 period (weaker earnings and/or losses).

Prefer staples to discretionary; adopt stock-selective approach

Nevertheless, we foresee pockets of opportunity in the sector. In our coverage, we like QL, Farm Fresh and Kawan Food as we believe the demand for their items is inelastic and will be boosted by higher in-home food consumption. In the discretionary space, we like Mr DIY as a key beneficiary of consumer downtrading given its market position as a 'value retailer'. We downgrade three discretionary stocks (7-11, Berjaya Food and DKSH) to Hold (Page 25-30) as we expect these companies to be hurt by weak consumer spending.

Figure 1: P/E vs. consumer sector's 1-year forward earnings growth



SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

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Figure 2: 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) CY22F	Core P/E (x) CY23F	3-year EPS CAGR (%)	P/BV (x) CY22F	P/BV (x) CY23F	Recurring ROE (%) CY22F	Recurring ROE (%) CY23F	EV/EBITDA (x) CY22F	EV/EBITDA (x) CY23F	Dividend Yield (%) CY22F	Dividend Yield (%) CY23F
Consumer Staples																
Nestle (Malaysia)	NESZ MK	Hold	132.10	135.00	7,002	52.3	42.3	11.1%	52.6	52.0	101.2%	123.5%	27.4	25.4	1.9%	2.3%
Fraser & Neave Holdings	FNH MK	Add	21.10	25.60	1,749	18.1	16.7	3.4%	2.5	2.3	14.3%	14.3%	10.4	9.7	3.1%	3.4%
QL Resources	QLG MK	Add	5.26	5.60	2,893	47.1	35.9	23.8%	4.9	4.5	11.0%	13.2%	19.8	16.7	0.8%	1.1%
Power Root Bhd	PWRT MK	Hold	1.69	1.65	150	24.2	20.5	14.3%	2.7	2.6	11.4%	13.0%	14.0	12.4	4.1%	4.7%
Kawan Food	KFB MK	Add	1.64	2.50	133	15.9	13.1	17.0%	1.5	1.4	9.8%	11.0%	8.1	6.7	2.1%	2.4%
MSM Malaysia Holdings	MSM MK	Reduce	0.88	0.62	140	na	291.2	-55.9%	0.4	0.4	-3.2%	0.1%	40.8	10.6	0.0%	0.2%
CCK Consolidated Holdings	CCK MK	Add	0.56	0.81	78	10.4	9.0	14.1%	1.0	0.9	10.6%	10.9%	4.1	3.6	3.1%	3.4%
Farm Fresh Berhad	FFB MK	Add	1.59	1.83	668	29.9	24.4	18.4%	4.4	3.9	17.1%	17.1%	21.7	17.8	0.9%	1.0%
Weighted Subsector Average						**43.8**	**38.4**	**12.7%**	**30.5**	**30.0**	**60.9%**	**73.7%**	**22.7**	**20.3**	**1.8%**	**2.1%**
Consumer Discretionary																
7-Eleven Malaysia Holdings	SEM MK	Hold	1.41	1.48	359	20.0	21.0	8.3%	13.8	10.9	82.2%	57.9%	5.3	5.1	3.1%	2.9%
Berjaya Food Berhad	BFD MK	Hold	4.00	4.15	323	15.8	17.3	3.1%	3.7	3.5	25.0%	21.0%	4.6	4.4	4.5%	4.0%
Bonia Corporation	BON MK	Add	1.80	3.00	82	9.5	8.8	23.7%	0.9	0.9	9.9%	10.0%	3.8	3.6	4.3%	4.6%
DKSH Holdings (Malaysia)	DKSH MK	Hold	4.30	4.60	153	8.2	8.5	-3.8%	0.8	0.8	11.1%	9.6%	4.5	4.3	2.4%	2.3%
Lee Swee Kiat Group	LSKG MK	Add	0.70	1.63	25	8.3	5.5	27.2%	1.5	1.3	19.6%	25.0%	3.5	2.2	4.7%	7.1%
Mynews Holdings Berhad	MNHB MK	Reduce	0.40	0.33	62	na	na	na	1.3	1.4	-12.6%	-4.8%	11.0	6.4	0.0%	0.0%
Panasonic Manufacturing Malaysia Berhad	PMM MK	Hold	26.60	28.40	365	20.6	14.1	24.5%	2.0	1.9	9.8%	14.0%	9.0	6.5	4.7%	5.9%
InNature Bhd	INNATURE MK	Hold	0.48	0.62	77	15.4	14.0	18.0%	2.3	2.2	15.9%	16.1%	7.0	6.3	4.7%	5.0%
Mr D.I.Y. Group (M) Bhd	MRDIY MK	Add	2.04	2.40	4,346	25.5	20.8	13.6%	8.9	7.1	39.8%	38.2%	13.2	11.1	1.7%	2.0%
Beshom Holdings Bhd	BESHOM MK	Add	1.50	1.93	102	11.3	8.6	25.7%	1.4	1.3	12.7%	15.7%	6.4	5.0	7.2%	8.4%
Senheng New Retail Bhd	5305 MK	Add	0.60	0.80	202	13.0	12.8	4.0%	1.6	1.5	17.9%	12.1%	4.6	4.4	2.4%	2.3%
Weighted Subsector Average						**22.6**	**18.9**	**13.0%**	**7.6**	**6.2**	**36.5%**	**33.9%**	**11.2**	**9.4**	**2.3%**	**2.6%**
Weighted Average						**37.0**	**32.1**	**12.8%**	**23.1**	**22.3**	**53.0%**	**60.8%**	**19.0**	**16.8**	**2.0%**	**2.3%**
Simple Average						**21.6**	**32.8**	**10.7%**	**6.9**	**6.5**	**23.2%**	**24.6%**	**12.1**	**9.1**	**2.9%**	**3.3%**

SOURCES: CGS-CIMB ESTIMATES, BLOOMBERG

A multitude of challenges facing consumer companies in 2H22F

YTD performance

YTD, stocks under the CGS-CIMB consumer sector coverage (-4.8%), as well as KL Consumer Product Index (-4.5%), have outperformed the FBM Kuala Lumpur Composite Index (-9.4%). On a subsector basis, staples have declined by 0.2%, while the discretionary subsector has declined by 17.9%.

Among the top performers within our coverage are: i) Berjaya Food (+83.8%), and ii) Bonia Corporation (+86.5%). This is mainly driven by a recovery in consumer footfall, leading to higher sales volume and an increase in profit margins (more profitable sales mix and higher economies of scale). Power Root's share price is also up 22.1% YTD, due to a recovery in export sales, while domestic demand has been boosted by the easing of lockdown measures.

Among the underperforming shares are: i) Mynews (-52.1%), ii) MSM Malaysia Holdings (-31.3%), and iii) Senheng (-30.4%), due to the following company-specific reasons.

1) Mynews: Consecutive losses over the past nine quarters, owing to: i) prolonged gestation period for its CU outlets, ii) higher deprecation and financing costs, and iii) continous losses from its food processing centre.
2) MSM Holdings: Consecutive losses for the past three quarters, owing to higher raw sugar and refining costs, as well as lower utilisation rates due to annual plant shudown at its Johor refinery. One of its two boilers in the Johor refinery is undergoing repair works, effectively capping its utilisation rate at c.30% for FY22F.
3) Senheng: Senheng's share price has underperformed since its IPO (25 Jan 2022), mainly due to weak consumer sentiment. In addition, Senheng's 1Q22 results were also below expectations, owing to higher-than-expected operating costs and lower-than-expected sales volume.

Figure 3: Consumer sector YTD performance

Company	Bloomberg Ticker	Share price (RM)	Current TP (RM)	Previous TP (RM)	Current recom.	Previous recom.	Market cap Year-to-date (YTD)
Consumer Staples							
Nestle (Malaysia)	NESZ MK	132.10	135.00	No changes	Hold	Hold	-1.6%
Fraser & Neave Holdings	FNH MK	21.10	25.60	No changes	Add	Add	-14.7%
QL Resources	QLG MK	5.26	5.60	No changes	Add	Add	15.1%
Power Root Bhd	PWRT MK	1.69	1.65	No changes	Hold	Hold	22.1%
Kawan Food	KFB MK	1.64	2.50	No changes	Add	Add	-0.2%
MSM Malaysia Holdings	MSM MK	0.88	0.62	No changes	Reduce	Reduce	-31.3%
CCK Consolidated Holdings	CCK MK	0.56	0.81	No changes	Add	Add	-0.4%
Farm Fresh Berhad (**)	FFB MK	1.59	1.83	No changes	Add	Add	-7.6%
CGS-CIMB Consumer Staples - Overall (Weighted average ex. FFB)							**-0.5%**
Consumer Discretionary							
7-Eleven Malaysia Holdings	**SEM MK**	**1.41**	**1.48**	**1.83**	**Hold**	**Add**	**-6.0%**
Berjaya Food Berhad	**BFD MK**	**4.00**	**4.15**	**5.50**	**Hold**	**Add**	**83.8%**
Bonia Corporation	BON MK	1.80	3.00	No changes	Add	Add	86.5%
DKSH Holdings (Malaysia)	**DKSH MK**	**4.30**	**4.60**	**6.20**	**Hold**	**Add**	**-10.4%**
Lee Swee Kiat Group	LSKG MK	0.70	1.63	No changes	Add	Add	-15.2%
Mynews Holdings Berhad	MNHB MK	0.40	0.33	No changes	Reduce	Reduce	-52.1%
Panasonic Manufacturing Malaysia Berhad	PMM MK	26.60	28.40	No changes	Hold	Hold	-8.0%
InNature Bhd	INNATURE MK	0.48	0.62	No changes	Hold	Hold	-28.9%
Mr D.I.Y. Group (M) Bhd	MRDIY MK	2.04	2.40	No changes	Add	Add	-15.2%
Beshom Holdings Bhd	BESHOM MK	1.50	1.93	No changes	Add	Add	-17.6%
Senheng New Retail Bhd (**)	5305 MK	0.60	0.80	No changes	Add	Add	-30.4%
CGS-CIMB Consumer Discretionary - Overall (Weighted average ex. Senheng)							**-17.9%**
CGS-CIMB Consumer sector overall (Weighted average ex. FFB and Senheng)							**-4.8%**
KLCSU Index							**-4.5%**
FBM KLCI							**-9.4%**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Operating environment to turn more subdued on expectations of lower consumer spending, posing earnings risks in 2H22

On the back of expectations of a weaker economic outlook, we expect the operating environment for the consumer sector to turn more subdued in 2H22F. In particular, we have identified two key factors that will severely affect consumer spending:

i) **The interest rate hike cycle** that could see the end-2022F overnight policy rate (OPR) increase to 2.50% (+50bp in 2H22F) (CGS-CIMB economic research estimate) to reduce consumer disposable income after taking into account higher interest rate charges on mortgages and credit card debts, potentially causing consumers to spend more selectively, favouring staple goods over discretionary items.

Figure 4: Sensitivity analysis (Loan repayment and interest rates hikes)

Assuming loan amount of RM100,000.00

	Current OPR base rate / Interest rate per year	**Changes in interest rates**							
Annual interest rates	**2.00%**	**2.25% (+25 bp)**	Chg (%)	**2.50% (+50 bp)**	Chg (%)	**2.75% (+75 bp)**	Chg (%)	**3.00% (+100 bp)**	Chg (%)
Monthy loan repayment (RM, assuming loan term of 108 months/9 years)	1012.5	1023.7	1.1%	1035.0	2.2%	1046.3	3.3%	1057.7	4.5%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

ii) **Higher cost of living due to greater inflationary pressure** across goods and services putting downward pressure on consumer purchasing power in 2H22F. This is due to industry wide price increases implemented due to higher input costs and operating expenses. In addition, the removal of subsidies, such as for cooking oil, and higher ceiling prices for poultry products will further exacerbate the situation.

In our view, consumers may opt to cut back on discretionary items spending in view of lower spending power. In our view, consumers may focus their spending on consumer staple items such as daily necessities, as well as increase in-home food consumption.

Escalating input costs, exacerbated by Russia-Ukraine conflict might put a dent on margins

We are of the view that the protracted Russia-Ukraine conflict, supply chain disruptions from China's Covid-19 lockdown measures, rising protectionist trade policies (e.g. India restricting sugar exports from 1 Jun 2022 onwards), and prolonged shortage of labour hampering production, as well as the weaker ringgit, would cause raw material prices to stay elevated in 2H22F. Based on Bloomberg data in terms of soft commodity prices, corn prices increased the most, with a 26.7% gain YTD, followed by wheat, soybean, milk powder and rice, which recorded price increases of 25.4%, 23.2%, 22.8% and 13.9% YTD, respectively, despite multiple yoy price increases already over FY19-21 (Fig 5).

Figure 5: Soft and energy-related commodities

	Jun-22	yoy%	mom%	May-22	YTD%	2021	yoy%	2020	yoy%	2019	yoy%	2018	Related companies
Soft commodities													
Wheat (US$/bu)	967.0	45.6%	-11.1%	1087.5	25.4%	771.0	20.0%	642.5	15.0%	558.8	11.0%	503.3	F&N, Nestle, Kawan
Sugar (US$/lb)	18.9	7.1%	-2.6%	19.4	0.4%	18.8	21.3%	15.5	15.4%	13.4	11.5%	12.1	PR, F&N, Nestle
Coffee (US$/lb)	234.4	46.7%	1.1%	231.9	3.7%	226.1	77.2%	127.6	-1.3%	129.3	27.1%	101.7	PR, Bfood, F&N, Nestle
Corn (US$/bu)	751.0	3.9%	-0.2%	752.3	26.7%	592.8	22.5%	484.0	24.9%	387.5	3.3%	375.0	CCK, QL, Nestle, F&N
Soybean (US$/bu)	1675.0	14.3%	-0.6%	1685.0	23.2%	1360.0	3.3%	1316.3	39.4%	944.0	6.2%	889.0	CCK, QL, Nestle, F&N
Cocoa (US$/MT)	2332.0	-1.2%	-6.7%	2500.0	-8.2%	2539.0	-2.3%	2598.0	2.2%	2541.0	4.5%	2431.0	PR F&N, Nestle
Milk powder (US$/cwt)	22.7	33.2%	-10.1%	25.2	22.8%	18.4	15.5%	16.0	-7.8%	17.3	25.2%	13.8	PR, Bfood, F&N, Nestle
Rice (US$/cwt)	16.8	24.5%	-4.4%	17.5	13.9%	14.7	16.3%	12.7	-3.5%	13.1	19.9%	10.9	Kawan
Crude Plam Oil (RM/MT)	5080.0	29.7%	-24.0%	6680.0	-1.9%	5180.0	36.7%	3788.0	25.2%	3025.5	55.0%	1952.5	F&N, Nestle, Kawan
Energy-related commodities													
Brent crude oil (US$/bbl)	114.9	52.9%	-6.7%	123.2	47.4%	77.9	50.6%	51.7	-21.7%	66.0	21.9%	54.2	
Coal (US$/MT)	414.0	202.2%	-1.0%	418.0	158.8%	160.0	97.3%	81.1	18.8%	68.3	-36.2%	107.0	
Natural gas (US$/MMBtu)	5.6	49.8%	-32.3%	8.3	48.2%	3.8	48.4%	2.6	16.2%	2.2	-26.8%	3.0	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG
*Jun-22 prices as of 30 June 2022, May-22 as of 31 May 2022

In our view, consumer companies will have no choice but to raise their selling prices to pass on these cost increases. In 1H22, we believe that consumer companies have been able to mitigate some of the cost increases via hedging activities undertaken previously (3 to 6 months typically). Heading into 2H22F, we believe that consumer companies are unlikely to hedge raw material costs given the volatility in prices, while bulk of hedging tenures have likely ended.

Operating cost likely to increase due to minimum wage hike, rising cost of expansion and persistent labour shortages

We also expect consumer companies under our coverage to record higher operating costs in 2H22F, owing to five key factors:

i) the 25% increase in minimum wage to RM1,500/month from 1 May 2022 (e.g. 7-Eleven Malaysia may incur an additional c.RM24m p.a. in staff costs due to the minimum wage hike) where;

ii) persistent shortage of labour potentially resulting in higher wages as competition for workers intensifies and likely subpar production levels due to manpower shortage leading to diseconomies of scale. Consequently, we think the above pose key risks to margins of consumer companies under our coverage in 2H22F;

iii) rising building material prices on higher energy prices (e.g. coal, crude oil, natural gas) [Fig 6] would put pressure on retailers' store expansion plans (especially for Mynews, Senheng, 7-Eleven Malaysia) due to higher construction, renovation, and labour costs;

iv) retailers are also very selective and cautious in progressively operating more of their stores on a 24-hour basis into 2H22F (Berjaya Food, 7-Eleven Malaysia, Mynews, QL's Family Mart) in strategic areas with higher footfall to avoid incurring higher operating costs (requiring more labour and working shifts) without capturing the incremental sales growth required to offset the rising operating costs; and

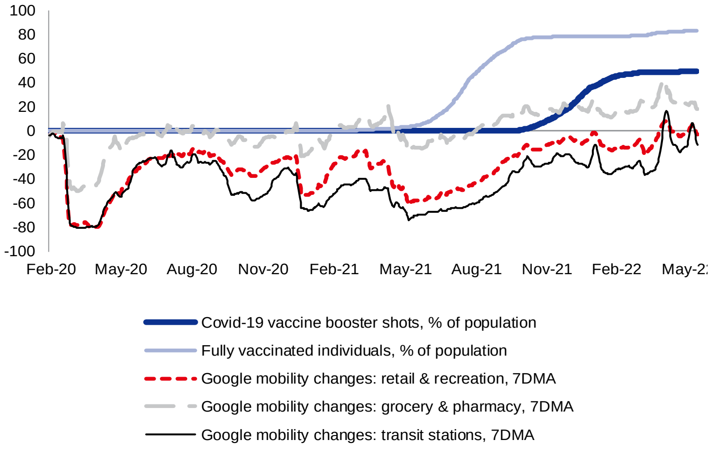
v) potentially higher marketing and advertising expenses to compete for a bigger share of the consumer wallet on intensifying competition (especially for convenience store players) as compared to minimal marketing expenses during the pandemic period (2020-2021) due to lockdown measures.

Figure 6: Building materials price indexes at selected areas in Malaysia with the highest price index increases in May 22 and its year-over-year growth

Building material indexes	May-21	May-22	YoY Growth
Cement	103.6	121.9	17.7%
Steel	101.9	133.3	30.8%
Aggregates	108.8	129.1	18.7%
Sand	126.0	144.7	14.8%
Bricks and wall	94.6	104.8	10.8%
Timber	100.0	115.8	15.8%
Roofing Materials	106.0	121.7	14.8%
Ceiling Materials	98.3	113.0	15.0%
Steel & Metal Sections	116.4	157.3	35.1%
Plumbing Materials	106.3	121.7	14.5%
Floor & wall tiles	115.7	139.6	20.7%
Sanitary Fittings	127.0	152.4	20.0%
Glass	100.8	124.5	23.5%
Paints	101.8	109.6	7.7%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, DOSM

Figure 7: Malaysia's vaccination rate and google mobility changes for retail & recreation, grocery & pharmacy and transit stations



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, GOOGLE MOBILITY DATA

Margin pressure from both higher input and operating costs

With the rising input costs and expected higher operating expenses (labour, utilities, etc.), we are cognisant that both consumer staple and discretionary companies under our coverage are actively reviewing their pricing strategies. In our view, consumer companies will have no choice but to raise selling prices to pass on the rise in input costs and higher operating costs. However, we believe that this could come at the expense of sales volume in the event that selling price hikes are steep. Note that most consumer companies have already implemented price hikes throughout 4Q21-2Q22 to pass on cost increases.

However, we do not discount the possibility that certain consumer companies may opt to only pass on partially the cost increases to support sales volume. This is at the expense of margins as we believe that the quantum of cost increases are unable to be fully mitigated by higher economies of scale or focusing on cost efficiency.

Normalisation of demand post pent-up demand and ‘revenge spending’ activities

We believe consumer demand will start to normalise in 2H22F after consumer companies under our coverage, especially discretionary ones like Bonia and Berjaya Food (BFood), experienced a surge in sales and core net profit (Fig 9 & 10) post easing of lockdown measures and reopening of state borders since Oct 21, on pent-up demand, ‘revenge spending’ and festive celebration activities (e.g. Chinese New Year and Hari Raya) in 1H22, as indicated by the strong MIER Consumer Sentiment Index reading of 108.9 in 1Q22 which breached the optimism threshold (Fig 17).

While we expect the upcoming earnings season (for the Apr-Jun quarter) in Aug 22 to still be strong, supported by the abolishment of movement restriction measures and reopening of international borders post 1 Apr 2022, as well as Hari Raya festive sales, we expect sales demand in 2H22F to gradually dwindle thereafter on rising cost of living and demand normalisation (c.9 months after Malaysia first reopened its economy). According to data from Google Mobility, footfall across key areas such as retail & recreation, grocery & pharmacy and transit stations showed signs of easing towards the end of 2Q22 (Fig 7), suggesting consumer demand could possibly taper off from 2H22F onwards.

Consumer spending to be underpinned by cash aid and subsidies, but focused on essential items

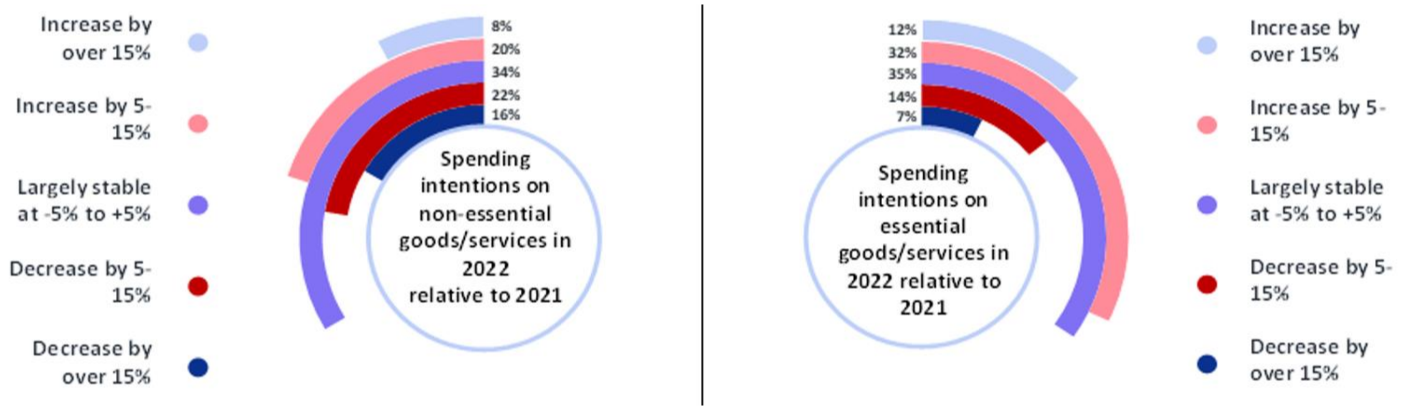
Cash handouts, ceiling price caps and existing subsidies to ease cost of living, which could support consumer demand

Overall, we believe that consumer spending will be curtailed by lower affordability owing to inflationary pressures as well as tightening of global monetary policy. Although conducive factors, such as ongoing subsidies, ceiling price caps and hike in minimum wage, will aid in offsetting this impact, we believe that consumers will still be feeling the inflationary pinch. As a result, consumer companies may face a double whammy in terms of weak demand and escalating costs.

Consumer spending likely to lean more towards essential goods and services (vs. non-essentials)

With their spending capabilities curtailed, we believe consumers would prioritise daily necessities (essential goods and services) at the expense of discretionary items in 2H22F. Our view is corroborated by data from our recent 2022 CGS-CIMB Retail Investors' Sentiment Survey (1,068 participants) carried out in Jun 2022 (Fig 8), with 44% of those surveyed planning to increase their spending allocations on essential items and services (staples) by 5% or more (Fig 8, right side) while 38% indicated plans to decrease their spending on discretionary items (Fig 8, left side). In addition, our survey shows that categories in which respondents expect to increase their spending relative to 2021 were groceries and foods consumed at home (68% of responses), restaurant and eating out (61%), transport and fuel (60%), healthcare (45%), tourism and hotels (38% of responses) and home improvement and appliances (36%). Thus, we expect consumers to still have the capacity to spend, but will be more selective in their purchases in 2H22F.

Figure 8: 2022 CGS-CIMB Retail Investors' Sentiment Survey – data suggests more participants are likely to increase spending in essential items as compared to non-essential items in 2022



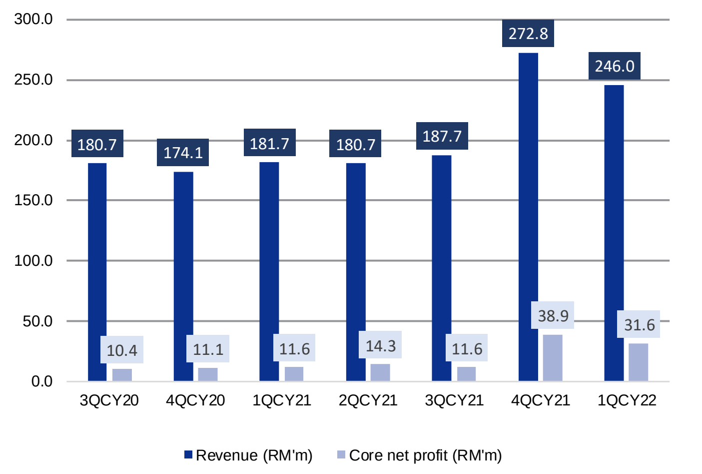
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Expecting more cautious demand for discretionary items from 2H22F onwards post the pent-up demand in 1H22

Recall that demand for discretionary items rebounded very strongly after the easing of movement and dine-in restrictions and states' borders were opened from Oct 21 onwards. This can be seen from the robust recovery recorded by both Berjaya Food (BFood) and Bonia (Fig 9 & 10) since 4Q22 (in terms of revenue and core net profit). Despite surging Omicron cases in Feb 22, both BFood's and Bonia's 1QCY22 results remained healthy and better than during the period of imposition of lockdown measures (1Q21-3Q21), and we expect both to post stronger qoq growth in 2QCY22 on Hari Raya festive celebrations and reopening of Malaysia's international borders.

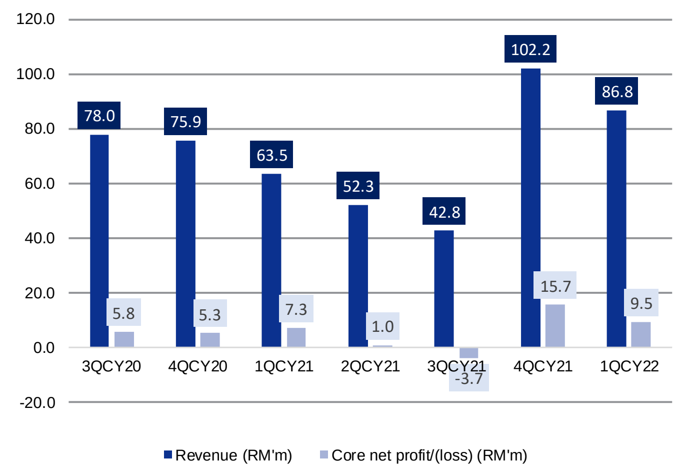
Nonetheless, we expect consumer discretionary spending to face potential headwinds as consumers prioritise essential items/staple products on higher cost of living and demand normalisation going into 2H22F. We have also largely accounted for potential earnings risks on rising inflationary pressure in our FY22-24F EPS forecasts for BFood, Bonia and Senheng as well.

Figure 9: BFood's quarterly trend (FYE June)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 10: Bonia's quarterly trend (FYE June)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Strong brand equity, easy payment scheme and 'buy now, pay later' options to partially support demand for selected discretionary companies

Within our discretionary space, we like Bonia (Add, TP: RM3.00, CP: RM1.80) given its positioning as a 'masstige' brand product that offers both quality and premium with much better affordability than the luxury brand products, thus potentially benefitting from the consumer downtrading trend. In addition, we also expect Senheng's (Add, TP: RM0.80, CP: RM0.595) sales demand to be supported by two-ongoing e-Rebate campaigns by the Malaysian government in 2022: i) Sustainability Achieved Via Energy Efficiency (SAVE) 3.0, and ii) Malaysia Family Flood Relief Program, that granted up to RM400, and a one-off RM500 voucher, respectively, for electrical appliance purchases. Besides, we believe the introduction of more easy payment plans and 'buy now, pay later' purchase options across its product portfolio (e.g. Bonia and Senheng) could allow consumers to buy goods without huge upfront costs, easing concerns over affordability in the near-to-medium term.

Downtrading on the cards

With lower spending ability and inflationary pressures, we believe consumers may opt to downtrade their purchases and activities. This includes:

i) **purchasing discretionary items with lower priced points -** We view Mr D.I.Y.'s (MDGM) to be a key beneficiary of consumer downtrading activities, as the price differential between MDGM's products and those of its peers is still sizeable, keeping its products attractively priced. MDGM is able to do so as it has economies of scale (from its total store count of 947 outlets) and operating efficiency to source products in bulk.

ii) **Higher demand for key items used in in-home food consumption –** We believe consumer staple stocks will benefit from higher in-home food consumption. We believe consumers will reduce out-of-home food consumption due to higher price points. We expect consumer staple stocks such as QL, Nestle, Kawan Food, and Farm Fresh to benefit.

Macro factors affecting the consumer sector in 2H22

Expecting higher inflation going forward for 2H22F

In our view, inflation is a rising challenge for 2H22F globally, mainly driven by: i) significant rise in interest rates given the prior low interest rate policy to stimulate growth and indirectly leading to inflation due to excess money injection (supply) to the market, ii) global supply chain disruption due to China's re-imposition of Covid-19-related lockdown measures and the Russia-Ukraine war that raised production costs and raw material prices, and iii) multiple selling price hikes by companies to pass on the surge in costs to consumers.

Based on the latest data available from CEIC, Malaysia's headline inflation accelerated to 2.8% yoy in May 2022, which exceeded our house forecast of 2.6% yoy (Fig 11). The May 2022 yoy inflation was higher than inflation prints in May 2018, May 2019 and May 2020, mainly due to the factors mentioned previously. May 2021 recorded the highest headline CPI growth yoy in Apr-May we think this was caused by the low-base from the Covid-19 impact in Mar 2020 (Fig 12).

Figure 11: Malaysia's headline CPI for May 22

	Actual	Forecast	
	May-22	CGS-CIMB	Bloomberg median consensus
Headline CPI (% yoy)	2.8	2.6	2.7

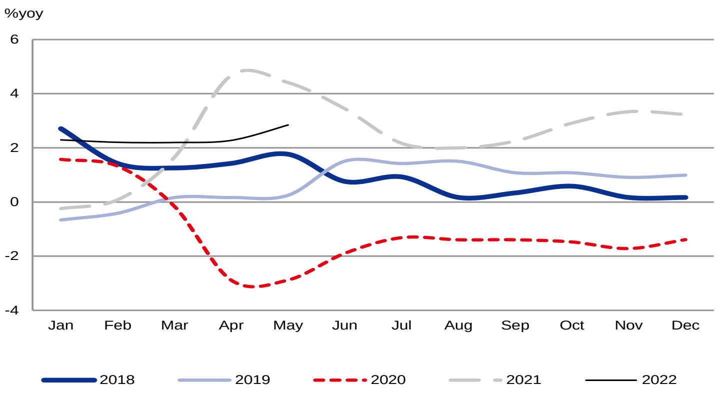
SOURCES: CGS-CIMB RESEARCH ESTIMATES, BLOOMBERG

According to our in-house CGS-CIMB economic forecasts, Malaysia's headline inflation is expected to average 3.1% in 2022F and 3.2% in 2023F, higher than the 2021 average of 2.5%, given the rising inflationary pressures from 2H22F onwards amid the government's decision to remove subsidy for bottled cooking oil and raise ceiling prices for chicken and eggs (Fig 20). This could be offset by the continued subsidies for fuel, electricity and certain food items, as well as caps on price increases for other non-durable goods. On a yoy basis, we see higher headline inflation in 2H22F as the low base effect dissipates.

Lower unemployment rates and increase in minimum wage mainly benefits the lower income group

According to the Department of Statistics Malaysia (DoSM), Malaysia's unemployment rate dipped to 3.9% in Apr 2022 from 4.1% a month earlier (Fig 13). This is mainly thanks to reopening of the country's borders and economic sectors in tandem with its transition to the endemic phase of Covid-19 from 1 Apr 2022 onwards. Coupled with the implementation of a 25% increase in new minimum wage to RM1,500/month for employment from 1 May 2022 onwards, we believe that this will likely benefit the lower income group (10% of total Malaysia population). In our view, spending by consumers in this income group will mainly revolve around staple items due to their limited spending power.

Figure 12: Headline inflation in Malaysia (% yoy)



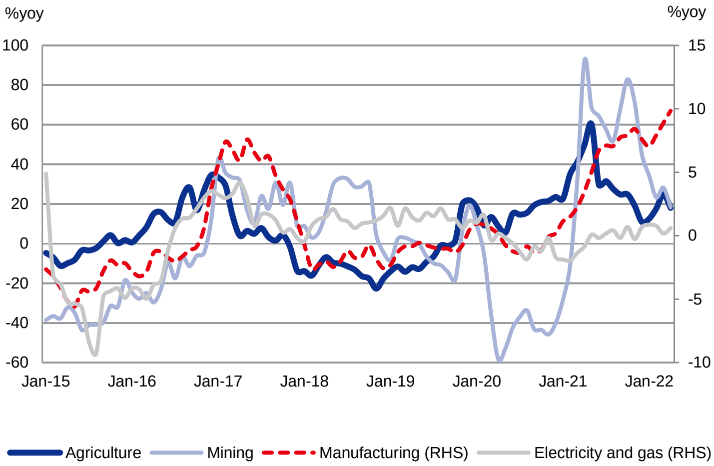
SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 13: Unemployment rate in Malaysia (%)

SOURCES: CEIC, CGS-CIMB RESEARCH

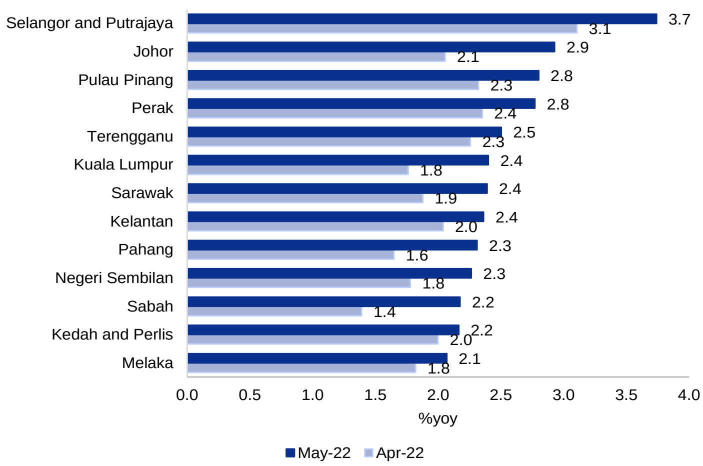
In addition, the manufacturing producer price inflation continued to rise at 9.8% yoy in May 2022 (Fig 14). We attribute this to rising production costs due to the surge in raw material prices, owing to global supply chain disruptions and the Russia-Ukraine war. This has led to consumer companies raising their product prices to pass on the costs to end-consumers, especially in the food and beverage segments due to the spike in commodity prices. In fact, with the breakdown of current geographical inflation data in Malaysia, we note that all states in Malaysia recorded higher yoy growth in inflation in Apr 22 and May 22 (Fig 15).

Figure 14: Manufacturing producer price inflation continued to rise in May



SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 15: Inflation is highest in Selangor and Putrajaya



SOURCES: CEIC, CGS-CIMB RESEARCH

Current consumer price index (CPI) may not be reflective of consumers' rising cost of living

Although overall CPI in Malaysia grew by 2.8% yoy in May, which may be considered relatively low compared to global benchmarks. In our view, the current inflation rate is not reflective of the rising cost of living consumers are experiencing on the ground, as we dissect into individual components of the CPI data. For example, food prices (account for 30% of the consumer basket), have seen some of the sharpest increases in May 2022 with 5.2% yoy inflation growth, outpacing the overall CPI growth of 2.8% yoy (Fig 16). This is followed by utility prices (housing, water, electricity, gas and other fuels) and transportation costs (fuel-related costs) which account for 24% and 15% of the consumer basket with 1.2% and 3.9% yoy inflation growth in May 2022 respectively. In our view, Malaysia's low overall CPI is attributable to low commercial fuel prices (subsidies provided by the government).

Figure 16: Malaysia's Consumer Price Index (CPI)

	Weight	Mar-22	Apr-22	May-22	5M22	Mar-22	Apr-22	May-22
	%		%yoy				%mom	
CPI	100.0	2.2	2.3	2.8	2.4	0.3	0.2	0.6
Food & Non-Alcoholic Beverages	29.5	4.0	4.1	5.2	4.2	0.3	0.4	0.9
Alcoholic Beverages & Tobacco	2.4	0.5	0.5	0.4	0.4	0.2	0.1	0.0
Clothing & Footwear	3.2	-0.3	-0.2	0.0	-0.2	-0.1	0.0	0.1
Housing, Water, Electricity, Gas & Other Fuels	23.8	0.9	0.8	1.2	0.9	0.1	0.0	0.3
Furnishings, Household Equipment & Routine Household Maintenance	4.1	3.0	2.7	2.9	3.0	0.4	0.1	0.5
Health	1.9	0.2	0.2	0.4	0.3	-0.2	0.1	0.2
Transport	14.6	2.6	3.0	3.9	3.9	1.1	0.4	1.1
Communication	4.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Recreation Services & Culture	4.8	1.1	1.3	1.8	1.4	-0.2	0.4	0.3
Education	1.3	0.9	1.0	1.0	0.9	0.1	0.2	0.0
Restaurants & Hotels	2.9	2.9	3.2	3.7	2.9	0.4	0.4	0.6
Miscellaneous Goods & Services	6.7	1.9	1.8	1.9	1.5	0.6	0.0	0.1
Core CPI	73.7	2.0	2.1	2.4	2.0	0.3	0.2	0.4

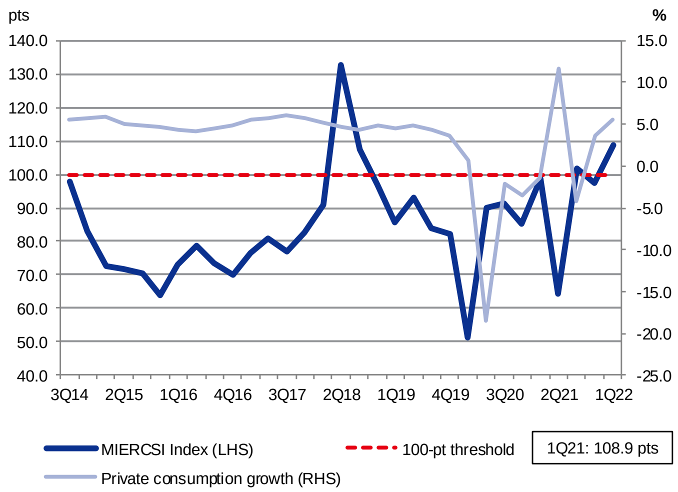
SOURCES: CEIC, DOSM, CGS-CIMB RESEARCH

Consumer sentiment index likely to show weakness 2H22F

In 1Q22, the Malaysian Institute of Economic Research's (MIER) Consumer Sentiment Index (CSI) rose 11.7 points qoq to 108.9. This is higher than the 100-point optimism level since two quarters ago thanks to Malaysia's transition into the endemic phase of Covid-19 and the re-opening of international borders. While we anticipate 2Q22 CSI to remain strong, mainly driven by festivals, we believe that it is likely to trend lower in 2H22F, due to demand normalisation, lower spending power and price hikes.

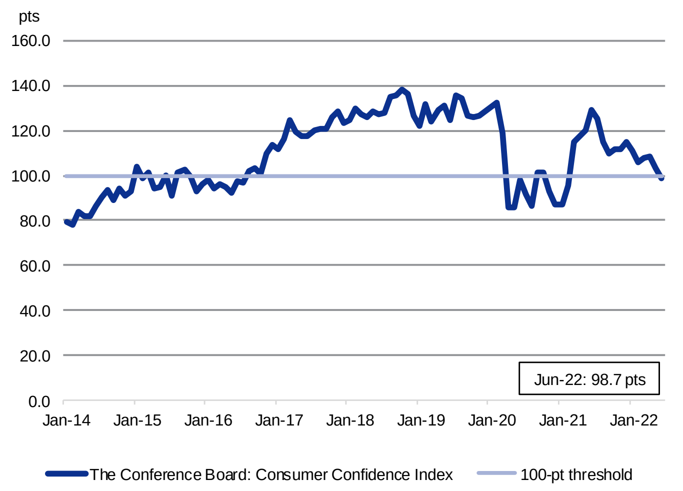
In the US, consumer confidence fell sharply in Jun 2022 as inflation concerns and worries of weaker economic growth in the second half of 2022 took centre stage. The Conference Board said last Tuesday that its consumer confidence index dropped 4.5 points to a reading of 98.7 in Jun-22.

Figure 17: MIER Consumer Sentiment Index and Private Consumption Growth



SOURCES: CEIC, CGS-CIMB RESEARCH

Figure 18: US consumer confidence: The conference board

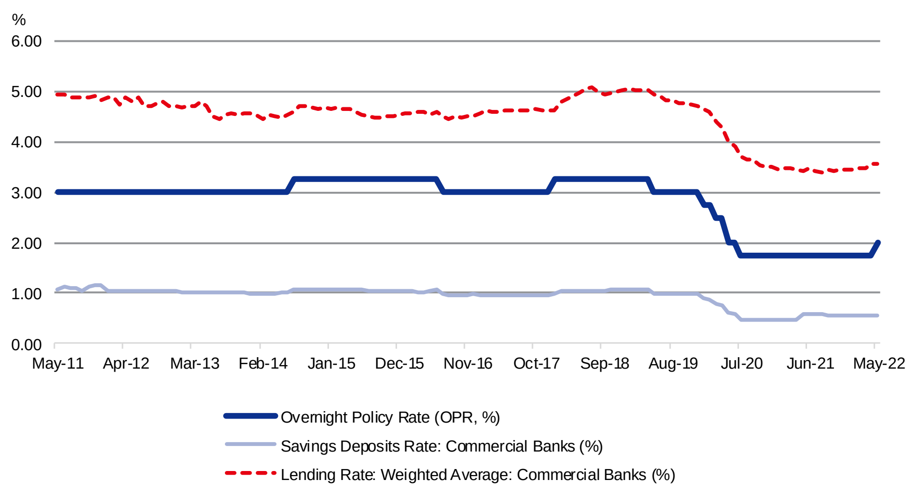


SOURCES: CEIC, CGS-CIMB RESEARCH

Potential interest rate hikes to tighten money circulation, affecting end-consumers

Bank Negara Malaysia (BNM)'s Overnight Policy Rate (OPR) currently stands at 2.00%, following a 0.25% hike on 11 May 22 from a record-low OPR of 1.75% since 7 Jul 2020 during the Covid-19 pandemic.

Figure 19: Overnight Policy, Savings and Lending rates



SOURCES: CEIC, CGS-CIMB RESEARCH

With rising inflation globally, many countries have raised their interest rates, with more hikes likely going forward. Our house economists are projecting that BNM will deliver another 25bp overnight policy rate (OPR) hike at its next scheduled Monetary Policy Committee (MPC) meeting on 5-6 Jul, followed by another 25bp hike in the 7-8 Sep MPC meeting. The end-2022F OPR is forecast to be 2.50%.

In our view, the potential interest rate hikes will tighten money supply, which will consequently help curb the expected inflationary pressures going forward. On the flip side, this should result in slower economic activity, weaker consumer spending and higher unemployment rates in 2H22F and 2023F.

Lower subsidies and higher ceiling prices for staples

In order to aid consumers in combating inflation, the Malaysian government has been providing subsidies. This includes implementing fixed rates on petrol prices (RON 95), capping selling prices on poultry products as well as providing cash handouts, especially to lower income households. However, the government has recently started allowing price increases, partly reflecting the rise in operating costs and input prices. These include:

- higher ceiling prices for standard chicken (whole bird) and eggs – (5.6% increment to RM9.40 per kg starting 1 Jul 2022);
- Removal of subsidies for bottled cooking in 2kg, 3kg and 5kg packs.

On the other hand, the government has increased the allocation for the Bantuan Keluarga Malaysia (BKM) cash handouts to help lower income families combat the rising cost of living. In our view, the quantum of cash handouts provided are unlikely to be sufficient to offset the rise in total cost of living, leading to lower consumer spending power.

Figure 20: Ceiling prices of selected food items

Ceiling prices of selected food items	Previous	New (from 1 July 2022)	Difference
Standard chicken	RM8.90	RM9.40	5.6%
Grade A eggs	RM0.43	RM0.45	4.7%
Grade B eggs	RM0.41	RM0.43	4.9%
Grade C eggs	RM0.39	RM0.41	5.1%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, MALAYSIA AGRICULTURE AND FOOD INDUSTRIES

Figure 21: Additional BKM handouts of RM50-100 for eligible recipients under Phase 2

	Households earnings ≤RM5,000 per month	Senior citizens earning ≤RM5,000 per month (single/ without spouse)	Individuals earning ≤RM2,500 per month	Total
Eligible recipients	4.0m	1.2m	3.4m	8.6m
Original payout under Phase 2	RM100-RM400	RM150	-	RM1.11bn
Additional payout	RM100	RM50	RM50	RM0.63bn
Total payout under Phase 2	RM200-RM500	RM200	RM50	RM1.74bn
Total allocation	RM1.33bn	RM0.24bn	RM0.17bn	

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, MOF

Figure 22: Extra BKM handouts of RM50-100 to ease cost of living for the B40 group

Bantuan Keluarga Malaysia (BKM) for Year 2022		Number of children		
		0	1-2	≥3
Households				
1	Households with an income of ≤RM2,500 per month	RM1,000+RM100	RM1,500+RM100	RM2,000+RM100
1-a	Households with an income of ≤RM2,500 per month, who are single parents	RM1,500+RM100	RM2,000+RM100	RM2,500+RM100
1-b	Households with an income of ≤RM2,500 per month, who are senior citizen parents	RM1,300+RM100	RM1,800+RM100	RM2,300+RM100
2	Households with an income of RM2,501-RM5,000 per month	RM400+RM100	RM600+RM100	RM800+RM100
2-a	Households with an income of RM2,501-RM5,000 per month, who are single parents	RM900+RM100	RM1,100+RM100	RM1,300+RM100
2-b	Households with an income of RM2,501-RM5,000 per month, who are senior citizen parents	RM700+RM100	RM900+RM100	RM1,100+RM100
Individuals				
	Senior citizens (aged ≥60 years) who are single or without a spouse, with an income of ≤RM5,000 per month	RM600+RM50	-	-
	Individuals (aged 21-59y years) with an income of ≤RM2,500	RM350+RM50	-	-

Cash assistance payout

Phase 1: 28 Mar 2022 - 8 Apr 2022
Phase 2: 27 Jun 2022 - 5 Jul 2022
Phase 3: Sep 2022
Phase 4: Dec 2022

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, MOF

The depreciation of ringgit would make imports more expensive, fueling imported inflation

Over the past one month, we have noticed a weakening of the ringgit against the US dollar by 2-3% as compared to the rate in Jul 2020 due to investors factoring in larger rate hikes by the US Federal Reserve. In our view, consumer spending power will also depreciate in tandem with the weakening ringgit given that imported raw materials and goods are more expensive now.

Figure 23: Relative performance (US$/RM pair)

SOURCES: CGS-CIMB RESEARCH, BLOOMBERG

Summary of macro outlook (positive and negatives)

Figure 24: Macro outlook summary affecting consumer sector for 2H22F (Positive and negative)

Macro outlook summary affecting consumer sector for 2H22F (Positive and negative)

Positive	Negative
Reopening of Malaysia borders to stimulate economic growth	Global supply chain disruption
High employment rate	Russia-Ukraine war
Fuel subsidies of RM37.3bn	Selling price hikes by companies
	CPI may not be reflective of consumer's rising cost of living
	Higher ceiling prices on chicken and eggs at RM9.40 per kg starting 1 Jul 2022
	No change on electric and water tariffs in Peninsular Malaysia as at 24 June 2022
	Removal of bottled cooking oil subsidies
	CSI may decline in 2H22
	Potential interest rate hike in 2H22
	Consumer purchasing power reduced as Ringgit weakens

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Valuation and recommendation

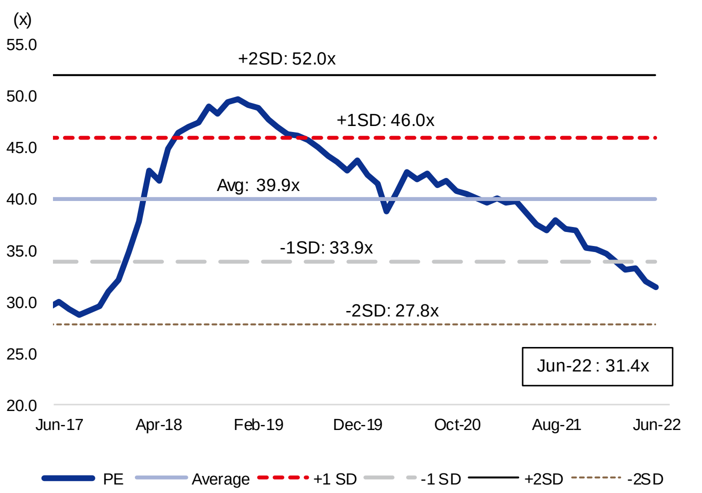
Downgrade to NEUTRAL on weaker overall outlook in 2H22F

We downgrade the overall consumer sector to **NEUTRAL** from OVERWEIGHT previously, in view of the potential demand headwinds from consumers' lower purchasing power (lower sales demand) amid a rising inflationary environment in 2H22F, as well as rising input costs and higher operating expenses resulting in margin compression for consumer companies under our coverage. While we take comfort in the ability of consumer companies under our coverage to further raise selling prices, we do not expect them to be able to fully pass on the higher costs, as they used to previously, as we expect weakening consumer spending power in 2H22F, and that this could come at the expense of sales volume.

We believe sector has partially priced in the weaker outlook in 2H22F

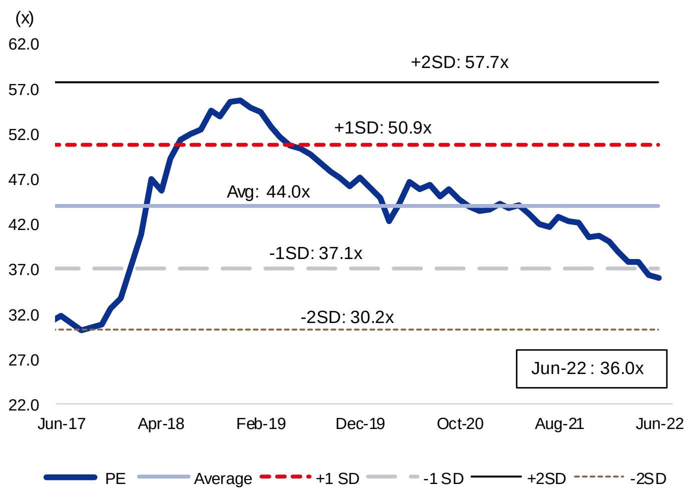
At this juncture, the overall consumer sector (excl. MR DIY) is trading at 31.4x 1-year forward P/E, which is a discount of 2.5% to its 10-year historical mean of 32.2x. In our view, the overall sector's current discount suggests investors have partially priced in the weaker operating environment for consumer stocks. On a sub-sector basis, the staple subsector is trading at 36.0x 1-year forward P/E, which is trading near to its 10-year mean of 35.0x. This could suggest that investors favour staples stock owing to inelastic demand of its products as well as expectations of more in-home food consumption. On the other hand, the discretionary sub-sector (excluding MR DIY) is trading at 15.2x 1-year forward P/E, 1 s.d. below its 10-year historical mean of 19.7x. We believe that the historical mean P/E is of a high base due to distortion from impact of Covid-19 (leading to weaker earnings and/or losses for retail stocks in (2020-1H21).

Figure 25: Overall consumer average P/E (5-year excluding MRDIY)



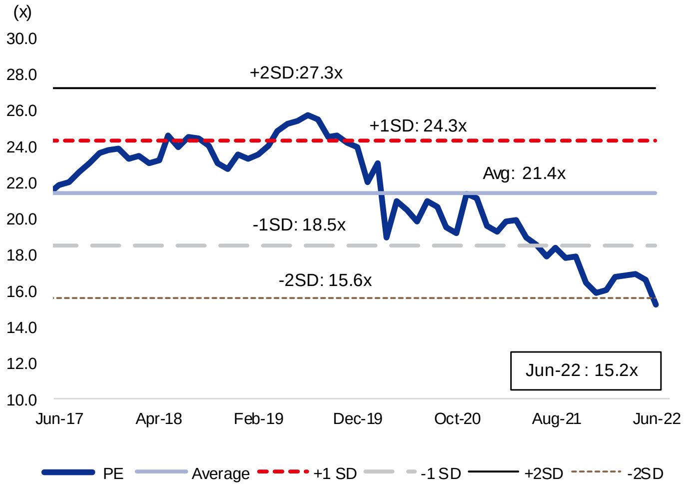
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 26: Consumer staples average P/E



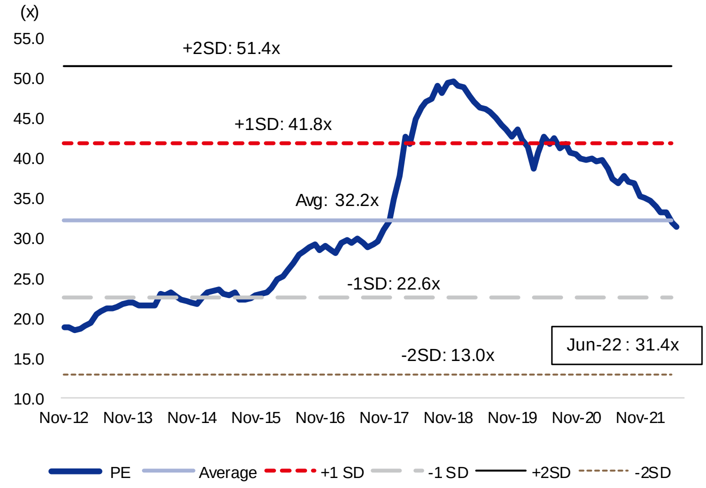
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 27: Consumer discretionary average P/E (5-year excluding MYDIY)



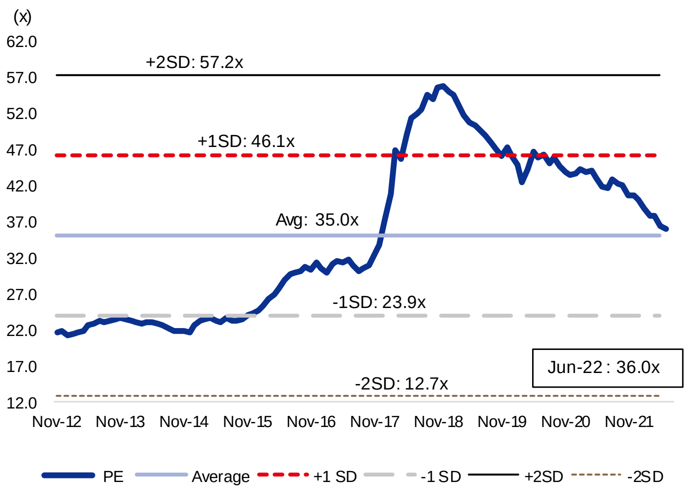
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 28: Overall consumer average P/E (10-year excluding MRDIY)



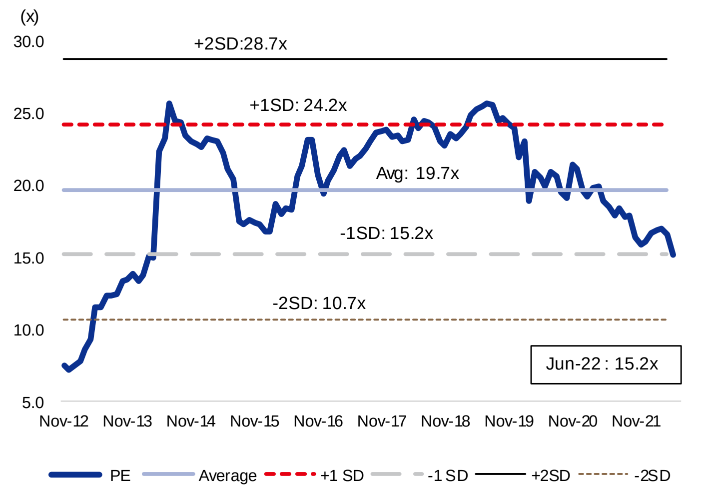
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 29: Consumer staples average P/E (10-year)



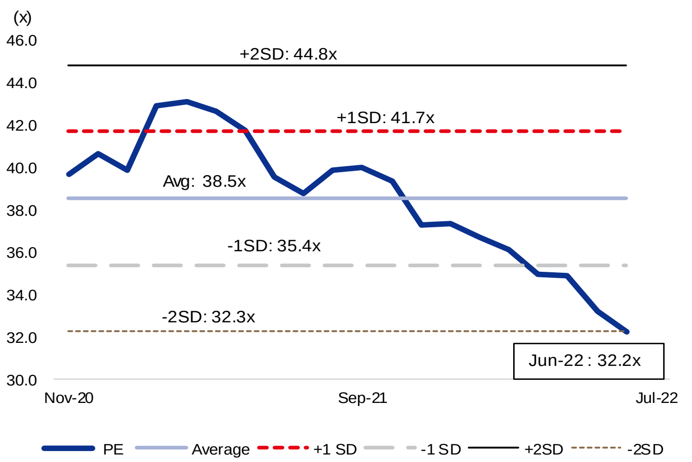
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 30: Consumer discretionary average P/E (10-year excluding MYDIY)



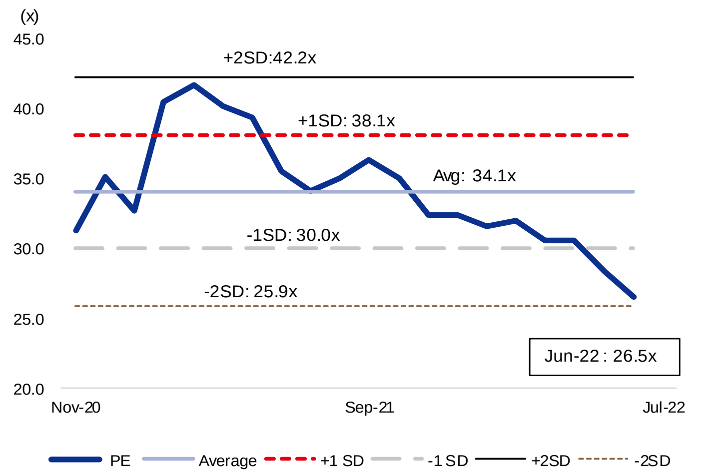
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 31: Overall consumer average P/E (including MRDIY post its listing)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 32: Consumer discretionary average P/E (including MYDIY post its listing)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS, BLOOMBERG

Downgrading three discretionary stocks to Hold

In this report, we are downgrading three consumer discretionary stocks to Hold from Add (which are Berjaya Food, 7-eleven and DKSH), as we cut our earnings (Figure 33) forecasts for these stocks and peg them to lower P/E multiples to account for weaker operating environment, amid lower consumer spending.

Figure 33: Summary of stock recommendations

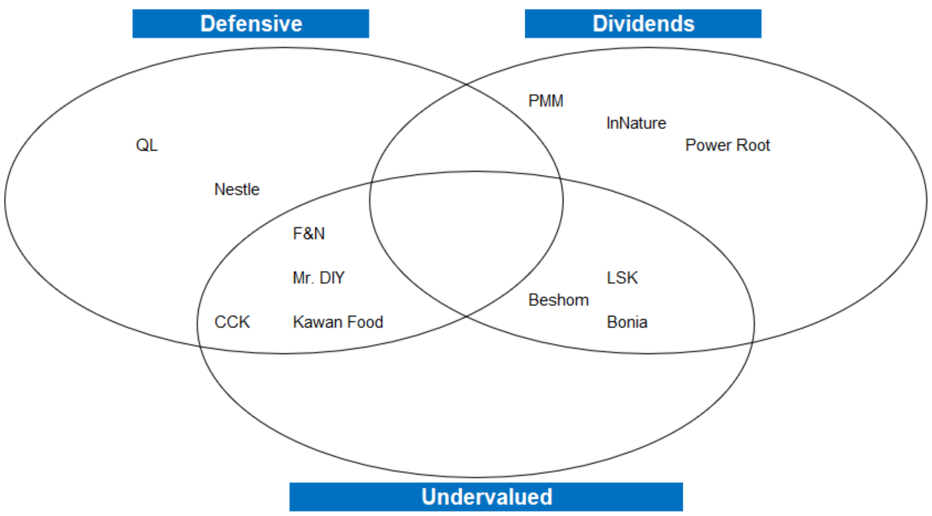
Stock	Bloomberg ticker	Current Recommendation	Previous Recommendation	New TP (RM)	Previous TP (RM)	Current Valuation	Previous Valuation	EPS changes (%) for FY22-24F
Berjaya Food	BFD MK	Hold	Add	4.15	5.50	18x CY23F P/E (CGS-CIMB consumer discretionary 10-year mean - exclude MR DIY and 7-Eleven Malaysia)	19x CY23F P/E (30% discount to its average P/E since listing in 2011)	-3.6% to -27.9%
7-Eleven Malaysia	SEM MK	Hold	Add	1.48	1.83	22x CY23F P/E (1 s.d. below its 5-year mean)	22x CY23F P/E (1 s.d. below its 5-year mean)	-10.3% to -25.7%
DKSH (Malaysia)	DKSH MK	Hold	Add	4.60	6.20	9x CY23F P/E (10% discount to its 10-year mean)	10x CY23F P/E (10-year mean)	-11.7% to -27.8%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

We prefer defensive consumer stocks and potential beneficiary of consumer downtrading in 2H22F

Nevertheless, we still foresee pockets of opportunity in the sector, with specific stock selection. We advocate investors looking at staple names with these criteria: i) inelastic demand for their products (daily necessities), ii) have strong brand equity, and iii) diversified sales channel (both exports and local). Among our coverage, we like QL, Farm Fresh and Kawan Food. In the discretionary space, we like MR DIY as a key beneficiary of consumer downtrading given its attractively priced products compared to its peers (has economies of scale and operating efficiency from large network size). We also believe that MR DIY's current valuation has turned attractive, with the recent 14.5% decline in share price (vs. KLCI that is down 8.0% in the same period) in the past six months (currently trading at 19.5x CY23F P/E).

Figure 34: Defensive, dividends and undervalued picks of our coverage



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Consumer names that offer appealing dividend yields against the rising interest rate hike cycle and high inflation

Apart from valuation and defensive plays in the consumer sector under our coverage, we have also identified a few key consumer companies that have attractive dividend yields. Among consumer names under our coverage, the top five stocks with highest dividends yields (based on CY22F) are **Beshom (7.2%)**,

Lee Swee Kiat (4.7%), **Panasonic Manufacturing Malaysia (4.7%)**, **InNature (4.7%)**, **Berjaya Food (4.5%)** and **Bonia (4.3%)**. This is mainly backed by their strong cash generating ability on low capex outlay and higher dividend payout ratios. Among these five names, we have Add calls on **Beshom, Lee Swee Kiat** and **Bonia**. We have Hold calls on **Panasonic Manufacturing Malaysia, Berjaya Food** and **InNature (see fig 35)**.

Figure 35: Dividend yield comparison across consumer sector (Highest to lowest)

Company	Bloomberg Ticker	Recom.	Share price (local curr)	Target Price (local curr)	(Staples / Discretionary)	Net cash (RM m)	Dividend Yield (%) CY22F	CY23F
Beshom Holdings Bhd	BESHOM MK	Add	1.50	1.93	Discretionary	-883.75	7.2%	8.4%
Lee Swee Kiat Group	LSKG MK	Add	0.70	1.63	Discretionary	68.97	4.7%	7.1%
Panasonic Manufacturing Malaysia Berhad	PMM MK	Hold	26.60	28.40	Discretionary	-7.18	4.7%	5.9%
InNature Bhd	INNATURE MK	Hold	0.48	0.62	Discretionary	-157.29	4.7%	5.0%
Berjaya Food Berhad	BFD MK	Hold	4.00	4.15	Discretionary	13.26	4.5%	4.0%
Bonia Corporation	BON MK	Add	1.80	3.00	Discretionary	-455.91	4.3%	4.6%
Power Root Bhd	PWRT MK	Hold	1.69	1.65	Staples	17.81	4.1%	4.7%
Fraser & Neave Holdings	FNH MK	Add	21.10	25.60	Staples	4.81	3.1%	3.4%
CCK Consolidated Holdings	CCK MK	Add	0.56	0.81	Staples	-484.08	3.1%	3.4%
7-Eleven Malaysia Holdings	SEM MK	Hold	1.41	1.48	Discretionary	318.95	3.1%	2.9%
DKSH Holdings (Malaysia)	DKSH MK	Hold	4.30	4.60	Discretionary	-57.89	2.4%	2.3%
Senheng New Retail Bhd	5305 MK	Add	0.60	0.80	Discretionary	-611.30	2.4%	2.3%
Kawan Food	KFB MK	Add	1.64	2.50	Staples	49.75	2.1%	2.4%
Nestle (Malaysia)	NESZ MK	Hold	132.10	135.00	Staples	54.74	1.9%	2.3%
Mr D.I.Y. Group (M) Bhd	MRDIY MK	Add	2.04	2.40	Discretionary	24.10	1.7%	2.0%
QL Resources	QLG MK	Add	5.26	5.60	Staples	1.13	0.8%	1.1%
MSM Malaysia Holdings	MSM MK	Reduce	0.88	0.62	Staples	72.69	0.0%	0.2%
Mynews Holdings Berhad	MNHB MK	Reduce	0.40	0.33	Discretionary	-239.42	0.0%	0.0%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS
**DATA UPDATED AS AT 6 JULY 2022

Only MSM and DKSH are currently trading below NTA

As of 30 Jun 2022, most consumer companies under our coverage are trading above their respective NTA (Fig 36; as at end-1Q22). This is backed by their strong brand equity with a long-term operating track record, defensive product portfolios and higher earnings growth. However, two companies are currently trading below their NTA (i.e. MSM and DKSH). While trading below NTA could suggest they are undervalued, we are cognisant that MSM has been loss-making for three consecutive quarters and its outlook remains bleak while DKSH has a thin-margin business model making it more prone to a slowdown in consumer spending.

Figure 36: NTA relative performance (consumer staples) as of their respective latest quarterly published audited financial statements

Company	NTA/share (RM)	Share price (local curr)	P/NTA multiple	Above / Below NTA
Consumer Staples				
Nestle (Malaysia)	2.08	132.70	63.90	Above
Fraser & Neave Holdings	7.64	21.00	2.75	Above
QL Resources	1.06	5.32	5.02	Above
Power Root Bhd	0.64	1.68	2.64	Above
Kawan Food	1.02	1.66	1.63	Above
MSM Malaysia Holdings	2.33	0.89	0.38	Below
CCK Consolidated Holdings	0.51	0.56	1.09	Above
Farm Fresh Berhad	0.32	1.57	4.94	Above

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Figure 37: NTA relative performance (consumer discretionary) as of their respective latest quarterly published audited financial statements

Company	NTA/share (RM)	Share price (local curr)	P/NTA multiple	Above / Below NTA
Consumer Discretionary				
7-Eleven Malaysia Holdings	0.10	1.41	13.89	Above
Berjaya Food Berhad	1.25	4.07	3.26	Above
Bonia Corporation	1.65	1.82	1.11	Above
DKSH Holdings (Malaysia)	4.90	4.31	0.88	Below
Lee Swee Kiat Group	0.34	0.71	2.04	Above
Mynews Holdings Berhad	0.33	0.41	1.24	Above
Panasonic Manufacturing Malays	12.60	26.66	2.12	Above
InNature Bhd	0.20	0.50	2.55	Above
Mr D.I.Y. Group (M) Bhd	0.20	2.00	10.06	Above
Beshom Holdings Bhd	1.07	1.49	1.40	Above
Senheng New Retail Bhd	0.32	0.63	1.95	Above

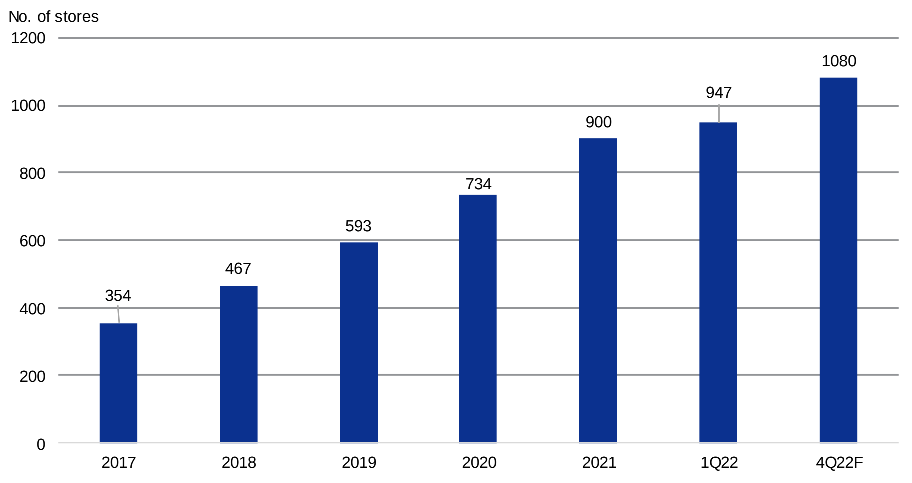
SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Our top picks: MR DIY, QL Resources, Kawan Food, Farm Fresh, and Bonia

MR DIY (Reiterate Add; TP: RM2.40; CP: RM2.04)

Mr D.I.Y. Group (MDGM) is set to benefit from the strong recovery in consumer footfall and average sales per store in 2H22F, in our view. This is helped by the full operations of all outlets since 2Q22, which were impacted by a rise in Covid-19 cases in 1Q22 (SSSG: -10.9%). We also expect MDGM to benefit from selling price hikes (margin expansion), as it has made price adjustments since 2Q22 to pass on higher input costs and freight costs. Note that MDGM held a "Price Lock" campaign in 1Q22 leading to lower margins. We view MDGM as a key beneficiary of consumer downtrading activities due to the ongoing inflationary pressures. This is given that MDGM's products are priced very attractively as it has the economies of scale (from its total store count of 947 outlets) and operating efficiency to source products in a more economical way. MDGM's FY22-24F EPS growth will likely also be driven by its store expansion plans. It aims to open 180 new stores in 2022F (+20% growth), after hitting net 47 new stores in 1Q22. Reiterate Add, with an unchanged TP of RM2.40. This is pegged to unchanged 36x CY23F P/E, in line with our current target CY23F P/E for the overall consumer sector.

Figure 38: MRDIY's rising number of stores

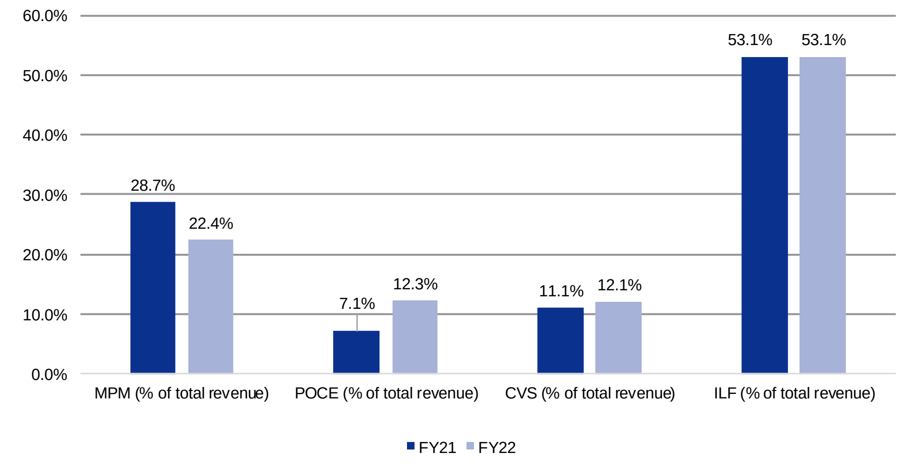


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

QL Resources (Reiterate Add; TP: RM5.60; CP: RM5.26)

We like QL Resources for its diversified business model and as a strong proxy for consumer spending recovery and ESG-related business (POCE). We believe that the worst is over in FY3/22 (net profit declined 6.7% yoy), with QL expects to see strong demand for its products across the board from 2Q22F onwards. This is mainly driven by a pick-up in economic activities, leading to stronger performance ahead, especially from its marine product manufacturing (MPM), integrated livestock farming (ILF) and convenience store chain (CVS) segments. Going forward, we expect QL's CVS segment to post higher contributions due to: i) higher sales from a recovery in consumer footfall, ii) longer operating hours (no lockdown measures), and iii) store network expansion plans. Note that QL aims to reach 600 Family Mart stores in the next five years (from 291 outlets currently). We project QL to record a 3-year EPS CAGR of 22.4% (FY22-25F). We reiterate our Add call on QL, with an unchanged TP of RM5.60 (38x CY23F P/E, in-line with +1 s.d. of its 5-year historical mean)

Figure 39: QL's segmental revenue breakdown (% of total revenue)

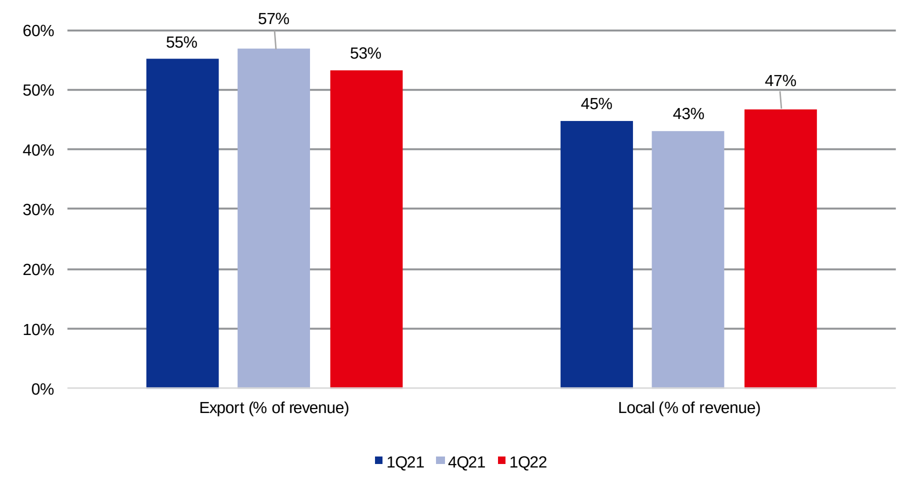


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Kawan Food (Reiterate Add; TP: RM2.50; CP: RM1.64)

We expect Kawan to see higher sales mainly on the export front, backed by: i) higher demand from new and existing customers (easing of freight-related issues since end-1Q22), and ii) ongoing efforts to secure more new clients. We expect Kawan to mitigate rising input costs, backed by: i) an increase in production volume (from higher economies of scale), ii) better cost control, and iii) selling price hikes implemented in 1Q22. Going forward, Kawan stated that is not discounting further selling price hikes, given that its raw material prices remain elevated. Kawan also expects to ramp up its production volume, as it has applied to the government for 400 new foreign workers to alleviate its labour shortage issues. We reiterate our Add call, with an unchanged TP of RM2.50, based on 20x CY23 P/E (in line with its current 5-year historical mean). We continue to like Kawan for: i) its undemanding valuation (trading at 13.4x CY23F P/E, a 60% discount to the overall consumer sector's average CY23F P/E of 33.6x), ii) its robust 3-year (FY21-24F) EPS CAGR of 18.5%, and iii) its strong balance sheet (net cash of RM69m as at end-1Q22).

Figure 40: Kawan's sales breakdown in terms of export vs. local sales (% of revenue)

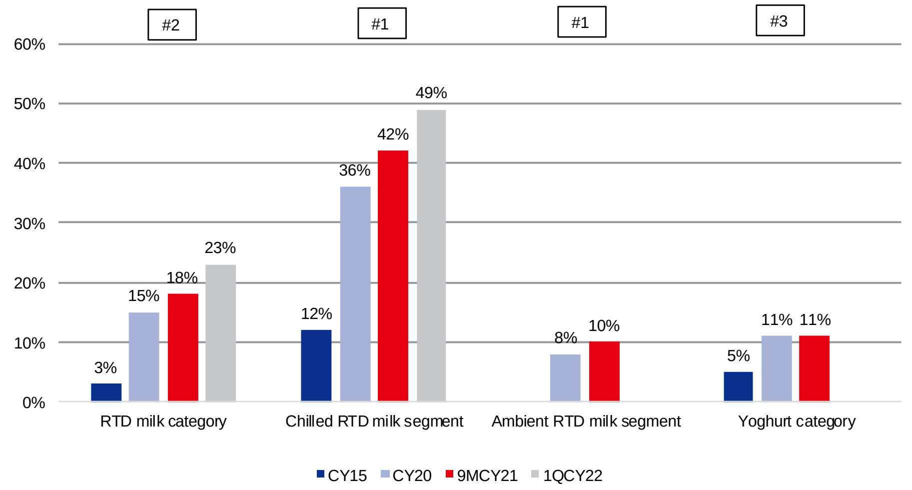


SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Farm Fresh Berhad (Reiterate Add; TP: RM1.83; CP: RM1.59)

We like Farm Fresh Berhad (FFB) as Malaysia's largest vertically integrated producer of dairy products based on fresh milk. Based on research by Kantar (global data analytics and brand consulting company), Farm Fresh is ranked 2nd in terms of market share (sales volume) in Malaysia's (23%) ready-to-drink (RTD) milk category and 1st in the chilled segment. We view FFB as a strong proxy towards rising fresh milk consumption in the Asian region, backed by its strong R&D culture and growing product portfolio. We believe its capacity expansion plans across its integrated supply chain will allow FFB to cater to demand growth from current operating markets and ventures into new markets. We are not overly concerned about rising input costs as we believe FFB's commanding share in the local market (especially in chilled category) and superior product quality allow it to raise selling prices to pass on these cost increases. FFB should see higher sales volume going forward from the recent re-launch of the school milk programme in Malaysia, launch of more new products and expansion to new markets (Philippines, Hong Kong and Indonesia). Overall, we project a 3-year FY22-25F EPS CAGR of 22.6%, backed by: i) higher demand for milk, ii) expansion to new markets, and iii) capacity expansion. We make no changes to our Add rating and TP of RM1.83 (28x CY23F P/E, in line with the target CY23 P/E of domestic peers involved in dairy-based beverages).

Figure 41: FFB's market share across various dairy categories in Malaysia



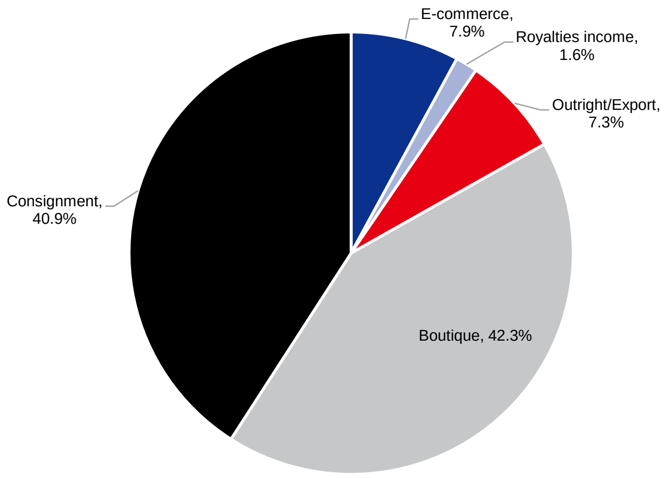
Note:
1. FFB is the second-largest player (#2) in the RTD milk category in Malaysia.
2. In the fresh milk sub-segment of Chilled RTD milk, FFB is the market leader (#1) that manufactures Chilled RTD milk products using fresh milk. The market share is at 54% for CY20.
3. In the fresh milk sub-segment of Ambient RTD milk, FFB is the market leader (#1) that manufactures Ambient RTD milk products using fresh milk. The market share is at 48% for CY20.
4. FFB is the third-largest player (#3) in the yoghurt category in Malaysia.

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Bonia (Reiterate Add; TP: RM3.00; CP: RM1.80)

We view Bonia as a strong proxy for a recovery in consumer discretionary spending in Malaysia, with rising consumer footfall and opening of the country's borders (higher tourist footfall). We expect Bonia to continue benefitting from its effective brand-building exercises through social media platforms and more appealing physical outlets' in-store designs, as well as its innovative product designs across both its Bonia and Braun Buffel segments. In terms of store expansion plans, Bonia aims to open four to six new boutique-style outlets in the next two years in high footfall locations, as well as expand its online marketplace presence into new overseas markets by collaborating with synergistic third-party partners. In addition, Bonia has also recently embarked on social commerce (i.e. TikTok) as an alternative sales channel, and is focused on building up its content and followers on the platform. This includes conducting more marketing events and collaborations with social media influencers. Current valuations looks attractive at 12.8x CY23F P/E (a 63.4% discount to the weighted average P/E of 35x for the Malaysian consumer sector, ex-MDGM). We make no changes to our Add call on Bonia, with an unchanged TP of RM3.00 (15x CY23F P/E, 10-year historical mean).

Figure 42: Bonia's estimated revenue breakdown by sales channel (1HFY6/22)



SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Upside risks to our recommendation

- We believe that any sharp fall in raw material prices on easing of supply chain disruptions and normalisation of demand-supply dynamics would help to alleviate some cost pressures on consumer companies, hence potentially allowing for some margin expansion.
- A faster-than-expected return of foreign labour to alleviate operational pressures enabling production levels to return to optimal levels, resulting in better economies of scale for consumer companies.
- Better-than-expected consumer sentiment and purchasing power on higher subsidies and cash handout assistance by the Malaysian government, easing of inflationary pressures on lower commodity prices. This might bode well with future sales demand for consumer companies under our coverage.

Downside risks to our recommendation

- In our view, the potential resurgence of Covid-19 cases in Malaysia will lead to downside risks to our earnings forecasts for consumer stocks. This is due to lower-than-expected demand and footfall for consumer items and at retailers' retail network, as well as weaker consumer sentiment.
- We are of the view that any sharp increases in raw material prices (above 20% in three months) to an extent that it significantly affects consumer affordability as companies further raise selling prices amid an inflationary environment will lead to lower demand for products of consumer companies due to weaker purchasing power, which is negative for consumer stocks.
- We believe that a persistent shortage of labour could be a key risk for consumer companies, given the delay in hiring of foreign workers from abroad and rising competition for domestic workers. If consumer companies are not able to hire sufficient workers, this will lead to lower production level and/or lower sales.

Peer comparison table

Figure 43: 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 (%)	
						CY22F	CY23F		CY22F	CY23F	CY22F	CY23F	CY22F	CY23F	CY22F	CY23F
Consumer Staples																
Nestle (Malaysia)	NESZ MK	Hold	132.10	135.00	7,002	52.3	42.3	11.1%	52.6	52.0	101.2%	123.5%	27.4	25.4	1.9%	2.3%
Fraser & Neave Holdings	FNH MK	Add	21.10	25.60	1,749	18.1	16.7	3.4%	2.5	2.3	14.3%	14.3%	10.4	9.7	3.1%	3.4%
QL Resources	QLG MK	Add	5.26	5.60	2,893	47.1	35.9	23.8%	4.9	4.5	11.0%	13.2%	19.8	16.7	0.8%	1.1%
Power Root Bhd	PWRT MK	Hold	1.69	1.65	150	24.2	20.5	14.3%	2.7	2.6	11.4%	13.0%	14.0	12.4	4.1%	4.7%
Kawan Food	KFB MK	Add	1.64	2.50	133	15.9	13.1	17.0%	1.5	1.4	9.8%	11.0%	8.1	6.7	2.1%	2.4%
MSM Malaysia Holdings	MSM MK	Reduce	0.88	0.62	140	na	291.2	-55.9%	0.4	0.4	-3.2%	0.1%	40.8	10.6	0.0%	0.2%
CCK Consolidated Holdings	CCK MK	Add	0.56	0.81	78	10.4	9.0	14.1%	1.0	0.9	10.6%	10.9%	4.1	3.6	3.1%	3.4%
Farm Fresh Berhad	FFB MK	Add	1.59	1.83	668	29.9	24.4	18.4%	4.4	3.9	17.1%	17.1%	21.7	17.8	0.9%	1.0%
Weighted Subsector Average						**43.8**	**38.4**	**12.7%**	**30.5**	**30.0**	**60.9%**	**73.7%**	**22.7**	**20.3**	**1.8%**	**2.1%**
Consumer Discretionary																
7-Eleven Malaysia Holdings	SEM MK	Hold	1.41	1.48	359	20.0	21.0	8.3%	13.8	10.9	82.2%	57.9%	5.3	5.1	3.1%	2.9%
Berjaya Food Berhad	BFD MK	Hold	4.00	4.15	323	15.8	17.3	3.1%	3.7	3.5	25.0%	21.0%	4.6	4.4	4.5%	4.0%
Bonia Corporation	BON MK	Add	1.80	3.00	82	9.5	8.8	23.7%	0.9	0.9	9.9%	10.0%	3.8	3.6	4.3%	4.6%
DKSH Holdings (Malaysia)	DKSH MK	Hold	4.30	4.60	153	8.2	8.5	-3.8%	0.8	0.8	11.1%	9.6%	4.5	4.3	2.4%	2.3%
Lee Swee Kiat Group	LSKG MK	Add	0.70	1.63	25	8.3	5.5	27.2%	1.5	1.3	19.6%	25.0%	3.5	2.2	4.7%	7.1%
Mynews Holdings Berhad	MNHB MK	Reduce	0.40	0.33	62	na	na	na	1.3	1.4	-12.6%	-4.8%	11.0	6.4	0.0%	0.0%
Panasonic Manufacturing Malaysia Berhad	PMM MK	Hold	26.60	28.40	365	20.6	14.1	24.5%	2.0	1.9	9.8%	14.0%	9.0	6.5	4.7%	5.9%
InNature Bhd	INNATURE MK	Hold	0.48	0.62	77	15.4	14.0	18.0%	2.3	2.2	15.9%	16.1%	7.0	6.3	4.7%	5.0%
Mr D.I.Y. Group (M) Bhd	MRDIY MK	Add	2.04	2.40	4,346	25.5	20.8	13.6%	8.9	7.1	39.8%	38.2%	13.2	11.1	1.7%	2.0%
Beshom Holdings Bhd	BESHOM MK	Add	1.50	1.93	102	11.3	8.6	25.7%	1.4	1.3	12.7%	15.7%	6.4	5.0	7.2%	8.4%
Senheng New Retail Bhd	5305 MK	Add	0.60	0.80	202	13.0	12.8	4.0%	1.6	1.5	17.9%	12.1%	4.6	4.4	2.4%	2.3%
Weighted Subsector Average						**22.6**	**18.9**	**13.0%**	**7.6**	**6.2**	**36.5%**	**33.9%**	**11.2**	**9.4**	**2.3%**	**2.6%**
Weighted Average						**37.0**	**32.1**	**12.8%**	**23.1**	**22.3**	**53.0%**	**60.8%**	**19.0**	**16.8**	**2.0%**	**2.3%**
Simple Average						**21.6**	**32.8**	**10.7%**	**6.9**	**6.5**	**23.2%**	**24.6%**	**12.1**	**9.1**	**2.9%**	**3.3%**

SOURCES: CGS-CIMB ESTIMATES, BLOOMBERG

ESG in a nutshell

ESG

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 scores, 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 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 scores. 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 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.	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 the publishing of more transparent data and metrics, in our view.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

7-Eleven Malaysia Holdings

A weaker operating environment ahead

- We downgrade 7-Eleven to Hold due to i) a more subdued operating environment, and ii) margin pressure from higher input and operating costs.
- We cut our FY22-24F EPS forecasts by 10.3-25.7% to reflect our lower revenue and margin assumptions as pent-up demand dissipates.
- We lower our TP to RM1.48 (22x CY23F P/E, 1 s.d. below its 5-year mean of 31.1x) as we cut our FY22-24F EPS forecasts.

Malaysia

HOLD *(previously ADD)*

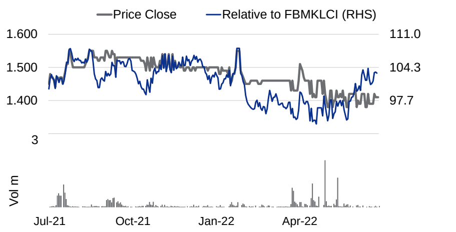
Consensus ratings*:	Buy 6	Hold 0	Sell 0

Current price:	RM1.41
Target price:	RM1.48
Previous target:	RM1.83
Up/downside:	4.6%
CGS-CIMB / Consensus:	-21.4%
Reuters:	SEVE.KL
Bloomberg:	SEM MK
Market cap:	US$359.4m
	RM1,588m
Average daily turnover:	US$0.05m
	RM0.19m
Current shares o/s:	1,233m
Free float:	49.0%

Source: Bloomberg

Key changes in this note

- FY22-24F EPS forecasts cut by 10.3-25.7% on lower revenue and margin assumptions.
- Downgrade to Hold from Add.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-0.7	-1.4	-2.8
Relative (%)	5.6	8.8	3.1

Major shareholders	% held
Berjaya Retail	51.0
Genesis Investment	6.8
Smallcap world fund	6.2

Project lower sales growth in 2H22F

We lower our revenue forecasts for FY22-24F by 3.0-5.3% as we anticipate slower sales growth in 2H22F, due to i) weaker spending on discretionary items owing to rising interest rates, a spike in inflation and cuts in subsidies, ii) heightened competition in the convenience store (CVS) and pharmacy retail chain space as peers ramp up their expansion plans (average 60-100 new stores p.a. for CVS peers vs. 7-Eleven's target of 100 7-café openings p.a.) amid intense pricing competition, and iii) as we expect pent-up demand to dissipate nine months post reopening in Oct 21.

Higher input costs to put downward pressure on margins

We expect the soft commodity prices to stay elevated in 2H22F (e.g. corn, wheat, soybean, milk powder, rice and palm oil), which could escalate input costs for 7-Eleven as 70% of its fresh food items are produced in-house for its CVS division. Coupled with the ongoing price competition in the pharmaceutical segment and increased competition in the CVS segment (especially in the fresh food segment as competitors aggressively roll-out new products and increasing marketing efforts), we believe there is limited room for price hikes to pass on the higher costs to consumers to preserve market share. As a result, we expect this to result in gross margin compression for 7-Eleven going forward.

Operating costs to remain elevated on minimum wage hike

According to our channel checks, the 25% increase in minimum wage to RM1,500/month from 1 May 2022 could increase 7-Eleven's operating costs by c.RM24m p.a. (affecting 6k out of its 8k workforce). A persistent shortage of labour could also lead to sub-par fresh-food production levels (lack of manpower), leading to diseconomies of scale. Meanwhile, a spike in building material prices could derail its expansion plans, resulting in higher renovation, construction as well as labour costs. As such, we expect higher operating costs (longer payback period for new store openings) from 2H22F onwards.

Downgrade to Hold with a lower TP of RM1.48

In view of a weaker operating environment and our earnings cut on lower revenue and margin assumptions, we downgrade our recommendation on 7-Eleven to a Hold from Add with a lower TP of RM1.48 (22x CY23F P/E, 1 s.d. below its 5-year mean P/E of 31.1x, to account for its low liquidity and higher gearing profile against peers amid rising interest rates). However, we believe its share price will be supported by its market-leading position in both the CVS and pharmaceutical space (c.2,437 7-Eleven and c.199 Caring Pharmacy stores as of 31 March 2022). Lower-than-expected footfall and higher-than-expected operating costs to be key risks.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (RMm)	2,539	2,809	3,013	3,237	3,315
Operating EBITDA (RMm)	327.5	351.9	399.2	396.0	393.8
Net Profit (RMm)	29.77	43.64	87.09	82.71	84.59
Core EPS (RM)	0.052	0.050	0.071	0.067	0.069
Core EPS Growth	8.9%	(4.7%)	42.2%	(5.0%)	2.3%
FD Core P/E (x)	27.06	28.40	19.97	21.03	20.56
DPS (RM)	0.031	0.030	0.042	0.040	0.041
Dividend Yield	2.19%	2.14%	3.00%	2.85%	2.92%
EV/EBITDA (x)	7.00	6.51	5.47	5.15	4.83
P/FCFE (x)	6.29	16.82	10.89	9.00	9.33
Net Gearing	285%	602%	351%	188%	85%
P/BV (x)	26.05	19.00	13.76	10.91	9.00
ROE	76.2%	77.4%	79.9%	57.9%	48.0%
% Change In Core EPS Estimates			(10.3%)	(19.2%)	(25.7%)
CGS-CIMB/Consensus EPS (x)			0.91	0.80	0.74

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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A weaker operating environment ahead

Upside and downside risks

Upside risks: stronger-than-expected recovery in footfall and sales post the lifting of movement restrictions and higher-than-expected operating margin.

Downside risks: i) re-imposition of movement restrictions due to a surge in Covid-19 cases, ii) poor cost control, and iii) weaker-than-expected consumer footfall leading to lower sales demand

Figure 1: Earnings revision

RM m	FY21	FY22F			FY23F			FY24F		
		Old	New	%chg	Old	New	%chg	Old	New	%chg
Revenue	2809.1	3106.0	3013.0	-3.0%	3413.6	3237.0	-5.2%	3499.6	3314.8	-5.3%
EBITDA	351.9	416.2	399.2	-4.1%	428.2	396.0	-7.5%	441.4	393.8	-10.8%
Core pretax profit	95.3	164.5	147.6	-10.3%	174.8	142.5	-18.5%	186.7	138.7	-25.7%
Core net profit	61.2	97.1	87.1	-10.3%	102.4	82.7	-19.2%	113.9	84.6	-25.7%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

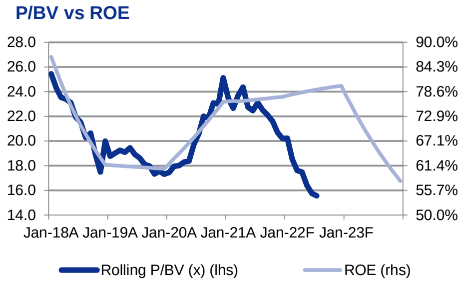
ESG in a nutshell

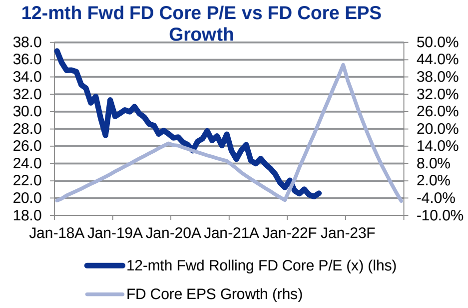
7-Eleven Malaysia (SEM) is the largest convenience store operator in Malaysia. It is also involved in the chain pharmacy business after the acquisition of Caring Group in 2QFY20. SEM's sustainability initiatives are spearheaded by its sustainability working group, consisting of the heads of departments of both its convenience store and pharmacy divisions. Among its key materiality matters based on its assessment includes: i) branding and reputation, ii) customer satisfaction, iii) technology and innovation, iv) product quality and compliance, and v) talent development.

Keep your eye on	Implications
As the largest convenience store operator and the master franchisee of 7-Eleven stores in Malaysia, branding and reputation is one of the key aspects to keep an eye on as any deterioration in branding and perception could significantly jeopardise its operations.	Various factors come into play relating to its branding and reputation, including product quality and safety. Food and consumable items sold at its convenience stores are all ensured to be compliant with all the regulatory standards, while pharmaceutical products are all screened through its listing committee which ensures products are well within the highest regulatory standards.
ESG highlights	**Implications**
SEM is rated in the top 51-75% by ESG ratings among public-listed companies in the FBM EMAS that have been assessed by FTSE Russell.	We believe that SEM's ESG ratings could improve as it increases it disclosures on ESG matters. Nonetheless, we cannot ascertain the correlation between ESG ratings and share price performance vs. peers.
Trends	**Implications**
As SEM increases its fresh food offerings in stores, food quality and safety will become more prominent. SEM has set up 7E Quality and Food Safety Standards, and conducts audits on a yearly basis via a dedicated quality assurance team.	Its target in 2020 was to audit a total of 1,000 stores, including 415 fresh food stores which it defines as high-risk stores. It exceeded its target by auditing 1,063 stores, including 100% of its fresh food store base, ensuring that their food quality and safety meet its standards.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS





Profit & Loss

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	**2,539**	**2,809**	**3,013**	**3,237**	**3,315**
Gross Profit	**722**	**760**	**952**	**1,023**	**1,047**
Operating EBITDA	**328**	**352**	**399**	**396**	**394**
Depreciation And Amortisation	-183	-198	-210	-213	-217
Operating EBIT	**144**	**154**	**189**	**183**	**176**
Financial Income/(Expense)	-53	-59	-42	-40	-38
Pretax Income/(Loss) from Assoc.	-1	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	**92**	**95**	**148**	**142**	**139**
Exceptional Items					
Pre-tax Profit	**91**	**95**	**148**	**142**	**139**
Taxation	-27	-34	-61	-56	-54
Exceptional Income - post-tax	-34	-18	0	0	0
Profit After Tax	**30**	**44**	**87**	**87**	**85**
Minority Interests	0	0	0	-4	0
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**30**	**44**	**87**	**83**	**85**
Recurring Net Profit	64	61	87	83	85
Fully Diluted Recurring Net Profit	**64**	**61**	**87**	**83**	**85**

Cash Flow

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	327.5	351.9	399.2	396.0	393.8
Cash Flow from Invt. & Assoc.					
Change In Working Capital	113.3	(8.6)	(17.2)	12.9	4.5
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(116.2)	(27.1)	0.0	0.0	0.0
Net Interest (Paid)/Received	(54.3)	(61.2)	(43.2)	(43.2)	(43.2)
Tax Paid	(33.0)	(34.1)	(60.5)	(55.6)	(54.1)
Cashflow From Operations	**237.3**	**221.0**	**278.3**	**310.2**	**301.0**
Capex	(66.6)	(120.0)	(120.0)	(120.0)	(120.0)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(270.2)	2.4	1.4	3.1	5.4
Cash Flow From Investing	**(336.8)**	**(117.6)**	**(118.6)**	**(116.9)**	**(114.6)**
Debt Raised/(repaid)	375.7	0.0	0.0	0.0	0.0
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(26.5)	(37.2)	(52.3)	(49.6)	(50.8)
Preferred Dividends					
Other Financing Cashflow	(157.6)	0.0	0.0	0.0	0.0
Cash Flow From Financing	**191.6**	**(37.2)**	**(52.3)**	**(49.6)**	**(50.8)**
Total Cash Generated	92.2	66.2	107.5	143.7	135.7
Free Cashflow To Equity	**276.3**	**103.4**	**159.7**	**193.3**	**186.4**
Free Cashflow To Firm	**(45.2)**	**164.6**	**202.9**	**236.5**	**229.6**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS… cont'd

Balance Sheet

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	180	88	195	339	475
Total Debtors	91	127	150	156	159
Inventories	289	369	392	421	431
Total Other Current Assets	0	0	0	0	0
Total Current Assets	**559**	**584**	**737**	**916**	**1,065**
Fixed Assets	1,019	1,018	928	835	737
Total Investments	8	8	8	8	8
Intangible Assets	439	439	439	439	439
Total Other Non-Current Assets	0	0	0	0	0
Total Non-current Assets	**1,466**	**1,465**	**1,375**	**1,282**	**1,184**
Short-term Debt	201	201	201	201	201
Current Portion of Long-Term Debt	106	106	106	106	106
Total Creditors	579	672	701	753	771
Other Current Liabilities	12	12	12	12	12
Total Current Liabilities	**899**	**991**	**1,020**	**1,072**	**1,090**
Total Long-term Debt	332	332	332	332	332
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	558	558	558	558	558
Total Non-current Liabilities	**889**	**889**	**889**	**889**	**889**
Total Provisions	77	77	77	77	77
Total Liabilities	**1,865**	**1,957**	**1,986**	**2,038**	**2,056**
Shareholders' Equity	67	92	126	159	193
Minority Interests	94				
Total Equity	**161**	**92**	**126**	**159**	**193**

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	7.5%	10.6%	7.3%	7.4%	2.4%
Operating EBITDA Growth	18.1%	7.5%	13.4%	(0.8%)	(0.6%)
Operating EBITDA Margin	12.9%	12.5%	13.3%	12.2%	11.9%
Net Cash Per Share (RM)	-0.37	-0.45	-0.36	-0.24	-0.13
BVPS (RM)	0.05	0.07	0.10	0.13	0.16
Gross Interest Cover	2.66	2.52	4.39	4.23	4.09
Effective Tax Rate	30.0%	35.7%	41.0%	39.0%	39.0%
Net Dividend Payout Ratio	59.1%	60.7%	60.0%	60.0%	60.0%
Accounts Receivables Days	11.59	13.21	15.02	15.86	16.28
Inventory Days	53.00	58.58	67.34	66.95	68.72
Accounts Payables Days	84.69	84.60	91.00	88.09	90.43
ROIC (%)	14.2%	(3.1%)	(8.7%)	(8.9%)	(9.5%)
ROCE (%)	24.1%	18.8%	23.4%	21.9%	20.6%
Return On Average Assets	6.03%	2.28%	3.01%	2.95%	2.81%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Number of stores	2,567.0	2,697.0	2,797.0	2,897.0	2,997.0
Revenue per outlet	0.8	0.8	0.8	0.8	0.8

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Malaysia

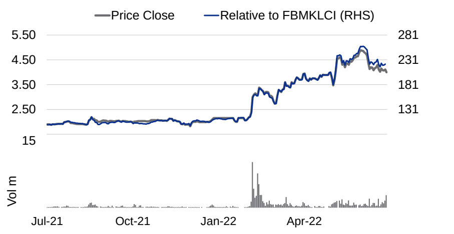
HOLD *(previously ADD)*

Consensus ratings*:	Buy 5 Hold 1 Sell 0
Current price:	RM4.00
Target price:	RM4.15
Previous target:	RM5.50
Up/downside:	3.9%
CGS-CIMB / Consensus:	-19.3%
Reuters:	BJFO.KL
Bloomberg:	BFD MK
Market cap:	US$323.8m
	RM1,431m
Average daily turnover:	US$0.56m
	RM2.60m
Current shares o/s:	389.5m
Free float:	33.1%

**Source: Bloomberg*

Key changes in this note

- FY23-24F core net profit forecasts cut by 19.2-25.2% on lower revenue and margin assumptions.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-13.8	7.5	110.5
Relative (%)	-7.5	17.7	116.4

Major shareholders	% held
Tan Sri Dato Seri Vincent Tan	66.9
KWAP	3.6

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Berjaya Food Berhad

Prone to lower consumer spending power

- We downgrade BFood from Add to Hold due to i) consumer weaker buying power in 2H22F, and ii) narrower margins on higher input and operating cost.
- We cut our FY23-24F core net profit (CNP) forecasts by 19.2-25.2% to reflect lower revenue and margin assumptions as 'revenge spending' slows.
- Our lower TP of RM4.15 is now based on 18x CY23F P/E, in line with our consumer discretionary 10-year mean.

Expecting lower sales volume in 2H22

We cut our FY23-24F revenue forecasts by 5.1-7.3% as we anticipate slower sales growth in 2H22F. This is due to 1) consumers' weaker buying power amidst a rising interest rate environment, higher inflation and subsidy cuts, ii) intensified competition in the food & beverage retail chain space (competitors embarking on aggressive expansion) with ongoing price wars, iii) footfall normalising and pent-up demand dissipating nine months post reopening in Oct 21, and iv) increase in home food consumption as consumers turn to staple foods and reduce out-of-home spending amidst high inflation.

Lower average transaction size to weigh on margins

BFood's sales and core net profit surged in 2Q-3QFY6/22, driven by pent-up demand and 'revenge spending' on easing of lockdown measures since 4QCY21. PBT margin also doubled yoy in 2Q-3QFY6/22 despite rising input costs with no product price increases, mainly due to higher average transaction sizes on robust footfall recovery at its Starbucks outlets. We expect BFood to post strong 4QFY22 results thanks to Hari Raya festival and removal of movement restrictions. However, we think that 2H22F earnings growth outlook could be tepid on margin compression as its transaction sizes normalise in 2H22F, leading to lower economies of scale.

Operating expenses and input costs could be elevated in 2H22F

We gather from management that BFood raised baristas' monthly wages to RM1,800 (20% above the minimum wage of RM1,500 from 1 May 2022) to attract and retain its workforce, which would lead to higher operating costs. Furthermore, input costs are rising (e.g. milk, coffee, sugar etc.) due to elevated commodity prices, and we think BFood is likely to limit product price hikes in view of rising inflationary pressure. While BFood aims to mitigate the higher costs via higher transaction volume, we believe the lower sales volume in 2H22F and higher cost structure to pressure margins in FY23-24F.

Downgrade to Hold with a lower TP of RM4.15

We downgrade BFood from Add to Hold in view of the weaker operating outlook and cut our FY23-24F CNP forecasts by 19.2-25.2%. Our lower TP of RM4.15 is now based on 18x FY23F P/E (previously 19x), in line with our consumer discretionary 10-year mean). The lower P/E multiple is to account for weakening consumer sentiment. However, we believe that its share price is supported by its strong 'Starbucks' brand equity and extensive retail presence in Malaysia. Lower-than-expected sales volume is a key risk.

Financial Summary	Jun-20A	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Revenue (RMm)	633	717	930	972	1,020
Operating EBITDA (RMm)	26.0	233.4	355.1	348.6	338.6
Net Profit (RMm)	(137.5)	53.9	106.2	90.8	89.7
Core EPS (RM)	-0.35	0.14	0.27	0.23	0.23
Core EPS Growth	(587%)		97%	(15%)	(1%)
FD Core P/E (x)	NA	28.90	14.67	17.16	17.37
DPS (RM)	0.020	0.020	0.040	0.040	0.040
Dividend Yield	0.50%	0.50%	1.00%	1.00%	1.00%
EV/EBITDA (x)	70.99	7.79	4.81	4.50	4.23
P/FCFE (x)	12.94	45.74	8.89	9.37	9.55
Net Gearing	85.1%	70.1%	38.2%	3.6%	(26.6%)
P/BV (x)	4.67	4.20	3.86	3.62	3.41
ROE	(39.3%)	15.3%	27.4%	21.8%	20.2%
% Change In Core EPS Estimates			(3.6%)	(22.1%)	(27.9%)
CGS-CIMB/Consensus EPS (x)			0.93	0.81	0.75

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Prone to lower consumer spending power

Upside and downside risks

Upside risks: i) Stronger-than-expected SSSG across Starbucks Malaysia and Kenny Rogers ROASTERS (KRR) operations, and ii) higher-than-expected margin expansion.

Downside risks: i) reimposition of lockdown measures following newer variants of Covid-19, ii) sharp increase in operational costs and raw material prices, and iii) weaker-than-expected consumer spending on rising inflationary pressure, which could lead to lower sales demand for BFood's products.

Figure 1: Earnings revision

RM m	FY21	FY22F			FY23F			FY24F		
		Old	New	*%chg*	Old	New	*%chg*	Old	New	*%chg*
Revenue	717.3	929.7	929.7	*0.0%*	1024.8	972.4	*-5.1%*	1100.4	1019.8	*-7.3%*
EBITDA	233.4	355.1	355.1	*0.0%*	384.7	348.6	*-9.4%*	387.2	338.6	*-12.6%*
Core pretax profit	80.9	175.0	175.0	*0.0%*	185.2	149.1	*-19.5%*	190.5	141.8	*-25.6%*
Core net profit	53.9	106.2	106.2	*0.0%*	112.4	90.8	*-19.2%*	119.9	89.7	*-25.2%*

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

ESG in a nutshell

ESG in BFood (standardise mentions. Front page is BFood so pls stick with it throughout document) is overseen by a sustainability working group (SWG), consisting of representatives from all departments and led by a designated SWG head. Its sustainability reporting is guided by the Bursa Securities Sustainability Reporting Guide. Product quality and safety, supply chain management, and employee health and safety are among the key material matters for BFood.

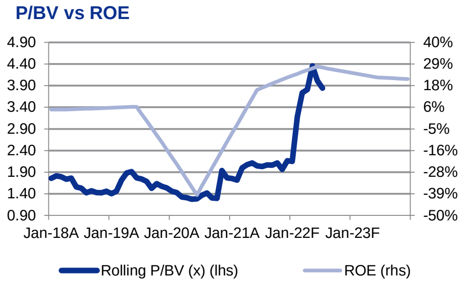
Keep your eye on	Implications
Being a major F&B retailer, product and service quality, safety and waste are key issues to watch as BFood increases its store footprint across all its major brands.	Although BFood's largest operations, Starbucks, is an international brand and relies heavily on raw materials procured overseas, BFood strives to maximise locally-produced content to support the local economy and build the local supply chain, where possible. BFood also has structured training programmes for all its retail staff members to ensure proper and safe food preparation and standardised quality of service across its stores. All food and beverage offerings for its outlets adhere to various regulations, including halal requirements by the local authorities.

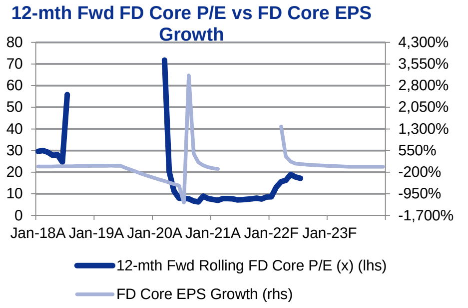
ESG highlights	Implications
BFood is the only sizeable pure-play F&B retailer listed on Bursa Malaysia and thus, does not have comparable peers from an ESG standpoint.	ESG data across data providers is relatively scarce for BFood. As of Aug 2021, BFood is also not part of the FTSE Russell Bursa Malaysia FTSE4Good Index, which screens companies according to transparent and defined ESG criteria.

Trends	Implications
Waste management is a key trend to look out for with BFood, as it is one of the largest physical F&B retailers in Malaysia.	We note that BFood has implemented various initiatives to reduce waste and the environmental impact of its outlets over the years. In FY21, 70% of its Starbucks outlets have switched to energy-efficient LED lighting and 20% of its Starbucks outlets have switched to more efficient inverter air-conditioners. We gather from its FY21 annual report that more energy-efficient implementations will be done in tandem with store refurbishments. BFood's Starbucks operations also reduced the usage of disposable paper bags by 21% yoy in FY21.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS





Profit & Loss

(RMm)	Jun-20A	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Total Net Revenues	**632.9**	**717.3**	**929.7**	**972.4**	**1,019.8**
Gross Profit	**264.8**	**344.3**	**492.7**	**491.1**	**499.7**
Operating EBITDA	**26.0**	**233.4**	**355.1**	**348.6**	**338.6**
Depreciation And Amortisation	(118.1)	(123.5)	(166.1)	(187.3)	(186.3)
Operating EBIT	**(92.1)**	**109.9**	**189.0**	**161.3**	**152.3**
Financial Income/(Expense)	(34.2)	(29.0)	(14.0)	(12.2)	(10.5)
Pretax Income/(Loss) from Assoc.	0.0	0.0	0.0	0.0	0.0
Non-Operating Income/(Expense)	0.0	0.0	0.0	0.0	0.0
Profit Before Tax (pre-EI)	**(126.4)**	**80.9**	**175.0**	**149.1**	**141.8**
Exceptional Items					
Pre-tax Profit	**(126.4)**	**80.9**	**175.0**	**149.1**	**141.8**
Taxation	(11.6)	(28.4)	(70.3)	(59.9)	(53.8)
Exceptional Income - post-tax					
Profit After Tax	**(138.0)**	**52.5**	**104.7**	**89.2**	**88.0**
Minority Interests	0.5	1.4	1.5	1.6	1.7
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	**(137.5)**	**53.9**	**106.2**	**90.8**	**89.7**
Recurring Net Profit	(137.5)	53.9	106.2	90.8	89.7
Fully Diluted Recurring Net Profit	**(137.5)**	**53.9**	**106.2**	**90.8**	**89.7**

Cash Flow

(RMm)	Jun-20A	Jun-21A	Jun-22F	Jun-23F	Jun-24F
EBITDA	26.0	233.4	355.1	348.6	338.6
Cash Flow from Invt. & Assoc.					
Change In Working Capital	314.0	(60.3)	(10.9)	4.4	3.5
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	118.1	124.1	166.9	188.0	186.9
Other Operating Cashflow	(257.1)	(77.2)	(166.5)	(187.6)	(186.6)
Net Interest (Paid)/Received	(34.4)	(29.1)	(14.1)	(12.3)	(10.6)
Tax Paid	(11.6)	(28.4)	(70.3)	(59.9)	(53.8)
Cashflow From Operations	**154.9**	**162.5**	**260.3**	**281.2**	**278.1**
Capex	(52.0)	(30.5)	(80.0)	(80.0)	(80.0)
Disposals Of FAs/subsidiaries	0.1	0.3	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	(3.7)	(2.4)	0.1	0.1	0.1
Cash Flow From Investing	**(55.7)**	**(32.6)**	**(79.9)**	**(79.9)**	**(79.9)**
Debt Raised/(repaid)	21.2	(95.8)	(5.0)	(35.0)	(35.0)
Proceeds From Issue Of Shares	0.1	2.2	0.0	0.0	0.0
Shares Repurchased					
Dividends Paid	(10.7)	(7.1)	(74.1)	(63.3)	(62.6)
Preferred Dividends					
Other Financing Cashflow	(105.2)	(30.4)	0.0	0.0	0.0
Cash Flow From Financing	**(94.6)**	**(131.1)**	**(79.1)**	**(98.3)**	**(97.6)**
Total Cash Generated	4.6	(1.2)	101.2	103.0	100.6
Free Cashflow To Equity	**120.5**	**34.1**	**175.3**	**166.3**	**163.1**
Free Cashflow To Firm	**133.7**	**159.0**	**194.4**	**213.6**	**208.7**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS… cont'd

Balance Sheet

(RMm)	Jun-20A	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Total Cash And Equivalents	27	27	128	231	331
Total Debtors	24	23	36	37	39
Inventories	43	46	48	53	57
Total Other Current Assets	10	2	2	2	2
Total Current Assets	**104**	**98**	**214**	**323**	**429**
Fixed Assets	632	595	507	400	293
Total Investments	0	0	0	0	0
Intangible Assets	458	458	458	458	458
Total Other Non-Current Assets	31	26	26	26	26
Total Non-current Assets	**1,121**	**1,078**	**991**	**883**	**777**
Short-term Debt	191	171	166	161	156
Current Portion of Long-Term Debt					
Total Creditors	128	104	108	119	128
Other Current Liabilities	139	120	120	120	120
Total Current Liabilities	**458**	**395**	**393**	**399**	**404**
Total Long-term Debt	120	115	115	85	55
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	311	295	295	295	295
Total Non-current Liabilities	**431**	**411**	**411**	**381**	**351**
Total Provisions	2	0	0	0	0
Total Liabilities	**891**	**806**	**804**	**780**	**755**
Shareholders' Equity	334	371	403	430	457
Minority Interests	0	-1	-3	-4	-6
Total Equity	**334**	**370**	**401**	**426**	**451**

Key Ratios

	Jun-20A	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Revenue Growth	(19.8%)	13.3%	29.6%	4.6%	4.9%
Operating EBITDA Growth	(77%)	799%	52%	(2%)	(3%)
Operating EBITDA Margin	4.1%	32.5%	38.2%	35.8%	33.2%
Net Cash Per Share (RM)	-0.73	-0.67	-0.39	-0.04	0.31
BVPS (RM)	0.86	0.95	1.04	1.10	1.17
Gross Interest Cover	-2.68	3.78	13.44	13.10	14.42
Effective Tax Rate	0.0%	35.1%	40.2%	40.2%	37.9%
Net Dividend Payout Ratio	NA	69.6%	69.7%	69.7%	69.7%
Accounts Receivables Days	14.84	11.96	11.54	13.69	13.71
Inventory Days	39.68	43.43	39.25	38.15	38.62
Accounts Payables Days	121.4	113.7	88.6	85.8	86.9
ROIC (%)	(14.3%)	11.8%	20.4%	19.0%	20.7%
ROCE (%)	(14.1%)	16.9%	28.3%	23.8%	22.8%
Return On Average Assets	(9.97%)	6.79%	9.97%	8.42%	8.17%

Key Drivers

	Jun-20A	Jun-21A	Jun-22F	Jun-23F	Jun-24F
Starbucks SSSG (%)	-17.0%	10.0%	28.0%	0.5%	1.0%
KRR SSSG (%)	-20.0%	1.0%	25.0%	5.0%	5.0%

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

Malaysia

HOLD *(previously ADD)*

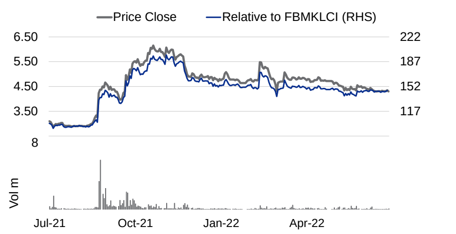
Consensus ratings*:	Buy 2	Hold 1	Sell 0

Current price:	RM4.30
Target price:	RM4.60
Previous target:	RM6.20
Up/downside:	7.0%
CGS-CIMB / Consensus:	-12.7%
Reuters:	DELM.KL
Bloomberg:	DKSH MK
Market cap:	US$153.4m
	RM677.9m
Average daily turnover:	US$0.08m
	RM0.35m
Current shares o/s:	157.7m
Free float:	17.9%

Source: Bloomberg

Key changes in this note

- FY22-24F EPS forecasts cut by 11.7-27.8% on lower revenue and margin assumptions.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	-4.2	-11.2	38.7
Relative (%)	2.1	-1	44.6

Major shareholders	% held
DKSH Resources Sdn Bhd	74.3
Lembaga Tabung Angkatan Tentera	4.8

DKSH Holdings (Malaysia)

Thin-margin business model at risk

- We downgrade DKSH from Add to Hold on grounds of its low-margin business profile making it more susceptible to slower consumer spending.
- We cut our FY22-24F EPS forecasts by 11.7-27.8% to reflect lower revenue and margin assumptions as pent-up demand tapers off.
- We lower our TP to RM4.60, based on lower 9x CY23F P/E (previously 10x), a 10% discount to its 10-year mean, as we cut our FY22-24F EPS forecasts.

Lowering our sales growth in 2H22F

We cut our FY22-24F revenue forecasts by 1.2-3.9% on slower sales growth in 2H22F. This is due to i) weaker consumer spending ability on discretionary items (affecting its marketing and distribution [M&D] division) caused by rising interest rate cycle, spike in inflation and subsidy cuts, ii) increased competition for its higher-margin in-house brands of butter (i.e. SCS and Buttercup) with ongoing price war, and iii) normalised consumer footfall and patient loads at private hospitals and clinics, as well as 'revenge spending' tapering off nine months post reopening in Oct 21, in our view.

Price hikes could dampen sales demand and affect thin margins

In our view, we expect soft commodity prices (e.g. cream, dairy milk, and palm oil) to stay elevated in 2H22, which could cause DKSH's input costs to rise, especially for its in-house butter brands. We expect DKSH to raise selling prices to pass on costs given Buttercup's strong market position (c.70-80% of the mélange market) and SCS's (c.30-35% of the butter market). However, this might come at the expense of sales volume due to the potentially lower consumer spending power amidst rising inflation. Hence, the resulting lower economies of scale could put downward pressure on its thin margins.

Internal cost efficiency project has reached tail end

We believe that there is limited scope for further operating efficiencies as its internal efficiency improvement project since 2019 and synergies with the integration of Auric Pacific were largely accounted for in FY20-21. We believe that its thin profit margin could be on the downtrend in FY22-24F due to 1) demand from the hotel, restaurant and café (HORECA) segment, patient footfall at private hospitals and clinics normalising in 2H22F as pent-up demand dissipates, and 2) possible demand headwinds from lower consumer spending in view of rising inflationary pressures.

Downgrade to Hold with a lower TP of RM4.60

We cut our FY22-24F EPS forecasts by 11.7-27.8% to reflect lower revenue and margin assumptions. We downgrade DKSH from Add to Hold with a lower TP of RM4.60, based on a lower 9x FY23F P/E (previously 10x), a 10% discount to its 10-year mean P/E of 10x. This is to account for the risk of weaker consumer sentiment in 2H22F and higher gearing profile against peers (0.59x net gearing as of 31 Mar 2022), which is a risk with rising interest rates in Malaysia. The share price is trading at an undemanding c.12.2% discount to its book value/share of RM4.90. Further margin compression is a key risk.

Financial Summary	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue (RMm)	6,356	6,738	7,014	7,072	7,082
Operating EBITDA (RMm)	168.4	205.0	202.1	202.4	194.3
Net Profit (RMm)	48.89	91.39	82.85	79.85	77.95
Core EPS (RM)	0.31	0.52	0.53	0.51	0.49
Core EPS Growth	346%	71%	1%	(4%)	(2%)
FD Core P/E (x)	14.07	8.23	8.18	8.49	8.70
DPS (RM)	0.10	0.10	0.10	0.10	0.11
Dividend Yield	2.33%	2.33%	2.33%	2.33%	2.56%
EV/EBITDA (x)	7.06	5.57	4.62	4.30	4.27
P/FCFE (x)	16.91	7.78	3.09	9.01	9.38
Net Gearing	76.5%	62.9%	31.8%	22.2%	16.3%
P/BV (x)	1.01	0.92	0.84	0.78	0.73
ROE	7.5%	11.7%	10.8%	9.6%	8.7%
% Change In Core EPS Estimates			(11.7%)	(18.0%)	(27.8%)
CGS-CIMB/Consensus EPS (x)			0.89	0.82	0.74

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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Thin-margin business model at risk

Upside risks and downside risks ›

Upside risks: i) stronger-than-expected recovery of sales post lifting of movement restrictions, ii) higher-than-expected operating margins on better operational efficiency, and iii) higher-than-expected consumer demand and sentiment.

Downside risks: i) reimposition of movement restrictions due to Covid-19 outbreak, ii) poor cost control, iii) weaker operating margins, and iv) a sharp decline in consumer sentiment, leading to lower sales demand.

Figure 1: Earnings revision

RM m	FY21	FY22F			FY23F			FY24F		
		Old	New	%chg	Old	New	%chg	Old	New	%chg
Revenue	6738.4	7100.3	7014.4	-1.2%	7224.2	7072.4	-2.1%	7369.7	7082.3	-3.9%
EBITDA	205.0	211.6	202.1	-4.5%	221.1	202.4	-8.5%	225.6	194.3	-13.9%
Core pretax profit	114.5	125.2	110.5	-11.7%	129.9	106.5	-18.0%	144.0	103.9	-27.8%
Core net profit	82.4	93.9	82.9	-11.7%	97.4	79.9	-18.0%	108.0	77.9	-27.8%

SOURCES: CGS-CIMB RESEARCH ESTIMATES, COMPANY REPORTS

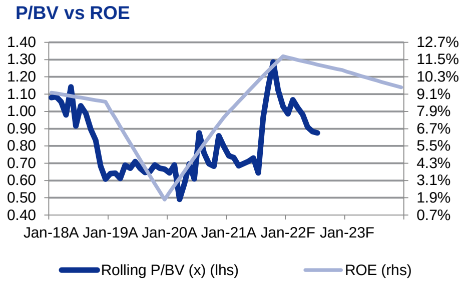
ESG in a nutshell

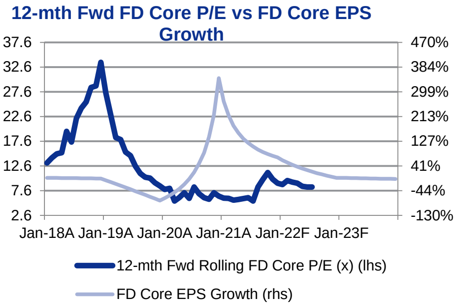
DKSH Holdings (Malaysia) (DKSH) is mainly involved in the offering of market expansion services, involving logistics, distribution, supply chain management and marketing, for a large number of brands in Malaysia. DKSH's sustainability initiatives are spearheaded by the sustainability committee, chaired by the vice president of Group Finance Process Transformation & Country Finance, Malaysia. Among the key materiality matters based on its assessment are: i) economic value, ii) anti-corruption, iii) labour standards, iv) recruitment, retention and development, v) customer health and safety, vi) marketing and labelling, and v) occupational health and safety.

Keep your eye on	Implications
As a market expansion services provider and a key supply chain partner for all of its clients, DKSH is responsible for adhering to sustainable practices that have been widely adopted by a large number of its clients. DKSH also engages with multiple downstream service providers and sales channels.	In addition to the key issue of reliability and efficiency for its supply chain management capabilities, DKSH is also committed to anti-corruption via its internal code of conduct practices. 100% of its employees and governance board members are made aware of its anti-corruption policies. The majority of its employees are also required to complete Code of Conduct training. It also ensures its anti-corruption values are extended to its downstream business partners and distribution channels, by conducting compliance assessments with its partners.
ESG highlights	**Implications**
DKSH was recently included in the FTSE4Good Bursa Malaysia Index, identifying it as one of the Malaysian public-listed companies that demonstrate strong ESG practices. DKSH is ranked among the top 25% in ESG ratings among public-listed companies that have been assessed by FTSE Russell.	We believe that DKSH's inclusion into the FTSE4Good Index, and its accompanying high ESG rating, indicates its improvements in adherence to ESG standards and ESG disclosure in its industry. Nonetheless, we are not able to ascertain the correlation between ESG ratings and share price performance.
Trends	**Implications**
On the environmental front, DKSH keeps track of the waste it recycles and disposes of, alongside the growth in its business. As a logistics and distribution provider, packaging waste, and transport efficiencies are key indicators to keep track of as its business grows.	DKSH implemented a software targeting transport network optimisation in 2019, enabling it to plan the efficient usage of its trucks (mostly diesel-powered). In 2020, it achieved a 5% cost reduction as it reduced the number of vehicles needed and time spent making deliveries.

SOURCES: CGS-CIMB RESEARCH, REFINITIV

BY THE NUMBERS





Profit & Loss

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Net Revenues	**6,356**	**6,738**	**7,014**	**7,072**	**7,082**
Gross Profit	**460**	**479**	**498**	**503**	**495**
Operating EBITDA	**168**	**205**	**202**	**202**	**194**
Depreciation And Amortisation	-61	-59	-59	-61	-59
Operating EBIT	**108**	**145**	**143**	**141**	**136**
Financial Income/(Expense)	-34	-27	-33	-35	-32
Pretax Income/(Loss) from Assoc.	0	0	0	0	0
Non-Operating Income/(Expense)	0	0	0	0	0
Profit Before Tax (pre-EI)	**74**	**118**	**110**	**106**	**104**
Exceptional Items	1	9	0	0	0
Pre-tax Profit	**75**	**127**	**110**	**106**	**104**
Taxation	-26	-36	-28	-27	-26
Exceptional Income - post-tax					
Profit After Tax	**49**	**91**	**83**	**80**	**78**
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax	0	0	0	0	0
Net Profit	**49**	**91**	**83**	**80**	**78**
Recurring Net Profit	48	82	83	80	78
Fully Diluted Recurring Net Profit	**48**	**82**	**83**	**80**	**78**

Cash Flow

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
EBITDA	168.4	205.0	202.1	202.4	194.3
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(110.0)	(19.9)	137.7	(5.6)	(19.3)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	46.2	0.0	0.0	0.0	0.0
Other Operating Cashflow					
Net Interest (Paid)/Received	(33.9)	(27.4)	(32.8)	(35.0)	(31.7)
Tax Paid	(23.4)	(35.6)	(27.6)	(26.6)	(26.0)
Cashflow From Operations	**47.2**	**122.1**	**279.4**	**135.2**	**117.3**
Capex	(11.0)	(10.0)	(10.0)	(10.0)	(15.0)
Disposals Of FAs/subsidiaries	0.2	0.0	0.0	0.0	0.0
Acq. Of Subsidiaries/investments	0.0	0.0	0.0	0.0	0.0
Other Investing Cashflow	0.0	0.0	0.0	0.0	0.0
Cash Flow From Investing	**(10.8)**	**(10.0)**	**(10.0)**	**(10.0)**	**(15.0)**
Debt Raised/(repaid)	3.7	(25.0)	(50.0)	(50.0)	(30.0)
Proceeds From Issue Of Shares	0.0	0.0	0.0	0.0	0.0
Shares Repurchased	0.0	0.0	0.0	0.0	0.0
Dividends Paid	0.0	(15.8)	(15.8)	(15.8)	(17.3)
Preferred Dividends	0.0	0.0	0.0	0.0	0.0
Other Financing Cashflow	0.0	0.0	0.0	0.0	0.0
Cash Flow From Financing	**3.7**	**(40.8)**	**(65.8)**	**(65.8)**	**(47.3)**
Total Cash Generated	40.1	71.4	203.6	59.5	55.0
Free Cashflow To Equity	**40.1**	**87.1**	**219.4**	**75.2**	**72.3**
Free Cashflow To Firm	**70.9**	**140.2**	**303.0**	**162.6**	**136.5**

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

BY THE NUMBERS… cont'd

Balance Sheet

(RMm)	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Total Cash And Equivalents	55	79	237	249	261
Total Debtors	1,365	1,385	1,441	1,453	1,475
Inventories	746	739	769	775	795
Total Other Current Assets	4	4	4	4	4
Total Current Assets	**2,170**	**2,206**	**2,451**	**2,481**	**2,534**
Fixed Assets	29	27	24	20	20
Total Investments	0	0	0	0	0
Intangible Assets	382	382	382	382	382
Total Other Non-Current Assets	122	122	122	122	122
Total Non-current Assets	**532**	**531**	**528**	**524**	**523**
Short-term Debt	83	83	83	83	83
Current Portion of Long-Term Debt					
Total Creditors	1,321	1,313	1,538	1,551	1,572
Other Current Liabilities	44	44	44	44	43
Total Current Liabilities	**1,448**	**1,440**	**1,665**	**1,677**	**1,698**
Total Long-term Debt	484	459	409	359	329
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	102	102	102	102	102
Total Non-current Liabilities	**586**	**561**	**511**	**461**	**431**
Total Provisions	0	0	0	0	0
Total Liabilities	**2,033**	**2,001**	**2,175**	**2,138**	**2,129**
Shareholders' Equity	669	736	803	867	928
Minority Interests	0	0	0	0	1
Total Equity	**669**	**736**	**803**	**867**	**929**

Key Ratios

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
Revenue Growth	(1.54%)	6.02%	4.10%	0.83%	0.14%
Operating EBITDA Growth	24.8%	21.7%	(1.4%)	0.1%	(4.0%)
Operating EBITDA Margin	2.65%	3.04%	2.88%	2.86%	2.74%
Net Cash Per Share (RM)	-3.24	-2.94	-1.62	-1.22	-0.96
BVPS (RM)	4.24	4.67	5.09	5.50	5.88
Gross Interest Cover	3.13	5.19	4.26	3.79	3.97
Effective Tax Rate	34.4%	28.0%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	32.7%	19.1%	19.0%	19.7%	22.3%
Accounts Receivables Days	79.70	74.47	73.52	74.69	75.65
Inventory Days	45.48	43.29	42.22	42.90	43.61
Accounts Payables Days	84.63	76.79	79.85	85.79	86.75
ROIC (%)	6.48%	8.51%	8.26%	9.15%	8.76%
ROCE (%)	9.1%	11.6%	11.2%	11.0%	10.4%
Return On Average Assets	2.72%	3.79%	3.76%	3.55%	3.36%

Key Drivers

	Dec-20A	Dec-21A	Dec-22F	Dec-23F	Dec-24F
SG&A (% of revenue)	4.3%	4.1%	4.1%	4.2%	4.2%
M&D segment yoy revenue growth	0.1	0.1	0.0	0.0	0.0
Logistics segment yoy revenue growth	(0.1)	0.0	0.0	0.0	0.0

SOURCES: CGS-CIMB RESEARCH, COMPANY REPORTS

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