

| Malaysia

**Neutral** (no change)

**Highlighted Companies**
**Bonia Corporation**
**ADD, TP RM3.00, RM2.28 close**

We like Bonia for its robust earnings growth prospects, with a 3-year net profit CAGR of 45.5% (FY21-24F). This is driven by i) its ability to raise prices to aid margin expansion, ii) ongoing expansion strategy (digital and physical), and (iii) rebranding exercises to enhance its upmarket flagship brands.

**Mr D.I.Y. Group (M) Bhd**
**ADD, TP RM2.40, RM2.11 close**

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

**Senheng New Retail Bhd**
**ADD, TP RM0.80, RM0.60 close**

We expect Senheng's earnings outlook to remain upbeat on i) ongoing e-Rebate campaigns for electrical appliance purchases from the Malaysian government in 2022, ii) continuous store upgrade/expansion plan with more attractive in-store designs, and iii) rising "buy now, pay later" trend and easy payment schemes to help spur demand for Senheng's product portfolio.

**Summary Valuation Metrics**

P/E (x)	Dec-22F	Dec-23F	Dec-24F
Bonia Corporation	12.01	11.11	
Mr D.I.Y. Group (M) Bhd	26.42	21.48	18.90
Senheng New Retail Bhd	13.16	12.94	11.60
P/BV (x)	Dec-22F	Dec-23F	Dec-24F
Bonia Corporation	1.15	1.08	
Mr D.I.Y. Group (M) Bhd	9.21	7.39	6.03
Senheng New Retail Bhd	1.64	1.51	1.38
Dividend Yield	Dec-22F	Dec-23F	Dec-24F
Bonia Corporation	6.69%	7.24%	
Mr D.I.Y. Group (M) Bhd	1.07%	1.32%	1.50%
Senheng New Retail Bhd	2.28%	2.32%	2.59%

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# Retail

## Green shoots despite challenges ahead

- While RGM expects Malaysia's retail industry to grow by 13.1% yoy in 2022, the sector is not without its challenges, particularly in 2H22.
- RGM expects certain retail sub-sectors to see stronger qoq growth in 2Q22, while discretionary spending could be curtailed in 2H22.
- Despite our Neutral call on the consumer discretionary sector, we see value in discretionary stocks, i.e. Bonia, Mr DIY and Senheng.

### Malaysia's retail industry performance suffered in 2020 and 2021

On 19 Jul 2022, we hosted Mr Tan Hai Hsin, managing director of the Retail Group Malaysia (RGM), to share RGM's retail consumer outlook for 2H22. Malaysia's retail industry sales decreased 16.3%/2.3% yoy in 2020/2021. This was due to the impact of Covid-19 as well as the reimposition of several movement control orders (MCO). In 2020-21, all retail subsectors were affected, especially those heavily reliant on tourists, and entertainment-based retail stores. Several notable foreign retailers as well as local retailers ceased operations in Malaysia in 2020-21.

### A tale of two halves in 2022: retail growth rate to taper off in 2H22

In 2022, RGM expects Malaysia's retail industry to post a 13.1% yoy growth rate (Fig 2), driven by the easing of lockdown measures and higher consumer footfall. RGM projects a higher yoy growth rate in 1H22, boosted by Malaysia's retail sector in 2Q22 (+25.7% yoy - Fig 1), particularly for certain sub-sectors (i.e. department store-cum-supermarkets, fashion & fashion accessories, personal care stores and F&B sector - Fig 3), owing to higher sales during Hari Raya amid the lifting of movement restrictions. However, RGM expects Malaysia's retail sector to grow at a slower pace in 2H22 (3Q22: 3.4% yoy, 4Q22: 3.6% yoy), but remain in positive territory (Fig 1). According to RGM, the projected lower retail growth rate in 2H22 is primarily due to expectations of lower consumer discretionary spending power on 1) high inflation, 2) a rising interest rate hike cycle, and 3) challenges facing retailers and discretionary companies in 2H22.

### Challenges ahead for Malaysia's retail companies

In 2H22, RGM expects demand for essential goods and services to be stable, while discretionary spending could be curtailed amidst weaker consumer purchasing power due to rising inflationary pressures, interest rate hikes, and subsidy cuts. Meanwhile, the labour shortage has hampered store expansion plans and limited operating hours. We think that sales demand for discretionary companies in 2H22 could be dampened by intensifying competition and a slow recovery in foreign tourist arrivals (2m foreign visitors between 1 April 2022 and 30 June 2022 vs. 26.1m in 2019). In addition, elevated raw material prices (higher input cost) and rising operating costs (due to the minimum wage hike and higher rent) could put further cost pressures on retailers, which could erode margins. As such, RGM noticed more closures of retail outlets in Malaysia since early 2022.

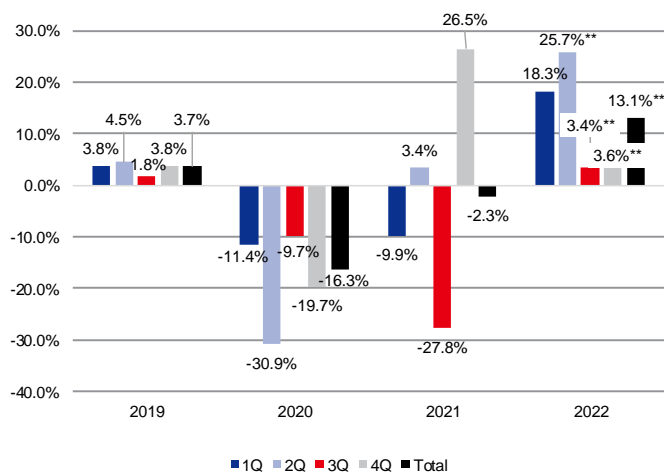
### Rising trend in Malaysia's retail sector

RGM has seen several key market trends in Malaysia's retail industry: i) Larger size store formats for convenience stores and rise in new entrants among "value retailers" and foreign retailers. ii) E-commerce is unlikely to replace physical shopping. Online shopping activities have declined by an estimated 70-80% since early 2022 but adoption of an omnichannel strategy is a key differentiating factor. iii) Retail winners are those with a strong business model, operations and customer service. iv) Rise in thematic-based retailing (particularly for F&B) given the prominence of social media platforms as effective promotional tools.

### Pockets of opportunity in the discretionary space; maintain Neutral

Considering the weaker consumer spending in 2H22F, we believe that dimmer earnings prospects are largely priced in. The 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 off a higher base due to distortion during the Covid-19 period (weaker earnings and/or losses). Nevertheless, we see opportunities in the sector. In our coverage universe, we like 1) Bonia for its strong earnings growth profile and attractive dividends, 2) Mr DIY as it is a key beneficiary of consumers downtrading given its market position as a "value retailer", and 3) Senheng, a potential beneficiary of Malaysia's ongoing e-Rebate campaigns for electrical appliance purchases and rising trend of "Buy Now, Pay Later" programmes. Higher-than-expected retail spending and lower-than-expected operating costs are key upside risks. Key downside risks include lacklustre consumer sentiment and a sharp rise in operating costs.

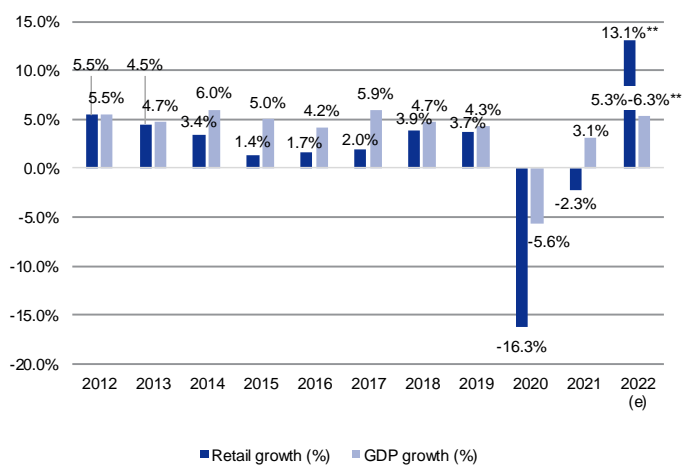
Figure 1: Malaysia's retail quarterly growth rates in 2019-22



\*\* denotes forecasted data by RGM.

SOURCES: CGS-CIMB RESEARCH, RGM

Figure 2: Malaysia's retail industry annual growth rate in 2012-22



\*\* denotes forecasted data by RGM.

SOURCES: CGS-CIMB RESEARCH, RGM

Figure 3: Retail and F&B sub-sector growth rates in 2020-22

Retail sector	2020	2021	2022	
			1Q	2Q**
<b>Sub-sector</b>				
Department store cum supermarket	-18.7%	-7.8%	18.3%	41.8%
Department store	-38.3%	-11.7%	39.1%	14.1%
Supermarket and hypermarket	-12.0%	-10.4%	-7.6%	-3.5%
Mini-market, convenience store & coop	14.8%	3.3%	7.6%	6.8%
Fashion & fashion accessories	-37.9%	-3.7%	52.1%	58.9%
Children & baby products	-20.2%	-9.8%	2.5%	41.2%
Pharmacy	-11.8%	0.8%	15.5%	21.3%
Personal care store	-11.8%	-37.3%	5.6%	52.3%
Furniture & furnishing, home improvement & E&E	0.4%	9.8%	4.7%	41.7%
Other specialty stores	-11.7%	-19.5%	-3.9%	13.3%
<b>F&amp;B sector</b>				
<b>Sub-sector</b>				
Cafe & restaurant	-12.8%	14.3%	21.1%	37.2%
Take-away, kiosk and stall	-18.3%	5.2%	5.6%	13.0%

SOURCES: CGS-CIMB RESEARCH, RGM

Figure 4: 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
<b>Consumer Staples</b>																
Nestle (Malaysia)	NESZ MK	Hold	133.60	135.00	7,037	52.9	42.8	11.1%	53.2	52.6	101.2%	123.5%	27.5	25.6	1.9%	2.3%
Fraser & Neave Holdings	FNH MK	Add	20.60	25.60	1,697	17.7	16.3	3.4%	2.4	2.3	14.3%	14.3%	10.1	9.3	3.2%	3.4%
QL Resources	QLG MK	Add	5.20	5.60	2,843	46.6	35.5	23.8%	4.9	4.5	11.0%	13.2%	19.5	16.5	0.9%	1.1%
Power Root Bhd	PWRT MK	Hold	1.81	1.65	169	25.9	22.0	14.3%	2.9	2.8	11.4%	13.0%	15.0	13.3	3.8%	4.3%
Kawan Food	KFB MK	Add	1.86	2.50	150	18.0	14.9	17.0%	1.7	1.6	9.8%	11.0%	9.2	7.6	1.9%	2.2%
MSM Malaysia Holdings	MSM MK	Reduce	0.92	0.62	144	na	302.8	-55.9%	0.4	0.4	-3.2%	0.1%	41.4	10.8	0.0%	0.2%
CCK Consolidated Holdings	CCK MK	Add	0.57	0.81	79	10.6	9.1	14.1%	1.0	1.0	10.6%	10.9%	4.2	3.6	3.1%	3.4%
Farm Fresh Berhad	FFB MK	Add	1.64	1.83	684	30.8	25.2	18.4%	4.6	4.0	17.1%	17.1%	22.2	18.2	0.8%	1.0%
<b>Weighted Subsector Average</b>						<b>44.0</b>	<b>38.9</b>	<b>12.6%</b>	<b>31.0</b>	<b>30.5</b>	<b>61.2%</b>	<b>74.0%</b>	<b>22.8</b>	<b>20.3</b>	<b>1.8%</b>	<b>2.1%</b>
<b>Consumer Discretionary</b>																
7-Eleven Malaysia Holdings	SEM MK	Hold	1.56	1.48	395	22.1	23.3	8.3%	15.2	12.1	82.2%	57.9%	5.7	5.6	2.8%	2.6%
Berjaya Food Berhad	BFD MK	Hold	3.72	4.15	296	14.7	16.1	3.1%	3.5	3.3	25.0%	21.0%	4.2	4.0	4.8%	4.3%
Bonia Corporation	BON MK	Add	2.13	3.00	96	11.2	10.4	23.7%	1.1	1.0	9.9%	10.0%	4.5	4.2	3.6%	3.9%
DKSH Holdings (Malaysia)	DKSH MK	Hold	4.15	4.60	147	7.9	8.2	-3.8%	0.8	0.8	11.1%	9.6%	4.3	4.2	2.5%	2.4%
Lee Swee Kiat Group	LSKG MK	Add	0.69	1.63	25	8.2	5.5	27.2%	1.5	1.3	19.6%	25.0%	3.5	2.1	4.8%	7.2%
Mynews Holdings Berhad	MNHB MK	Reduce	0.38	0.33	57	na	na	na	1.3	1.3	-12.6%	-4.8%	10.6	6.2	0.0%	0.0%
Panasonic Manufacturing Malaysia Berhad	PMM MK	Hold	25.90	28.40	353	20.1	13.7	24.5%	1.9	1.9	9.8%	14.0%	8.6	6.1	4.8%	6.1%
InNature Bhd	INNATURE MK	Hold	0.47	0.50	75	15.7	15.2	12.8%	2.3	2.2	15.3%	14.6%	7.0	6.6	4.6%	4.6%
Mr D.I.Y. Group (M) Bhd	MRDIY MK	Add	2.10	2.40	4,447	26.3	21.4	13.4%	9.2	7.4	39.9%	38.2%	13.6	11.4	1.7%	2.0%
Beshom Holdings Bhd	BESHOM MK	Add	1.50	1.93	101	11.3	8.6	25.7%	1.4	1.3	12.7%	15.7%	6.4	4.9	7.2%	8.4%
Senheng New Retail Bhd	5305 MK	Add	0.60	0.80	202	13.2	12.9	4.0%	1.6	1.5	17.9%	12.1%	4.6	4.5	2.3%	2.3%
<b>Weighted Subsector Average</b>						<b>23.3</b>	<b>19.5</b>	<b>12.8%</b>	<b>8.0</b>	<b>6.5</b>	<b>37.0%</b>	<b>34.2%</b>	<b>11.4</b>	<b>9.6</b>	<b>2.3%</b>	<b>2.6%</b>
<b>Weighted Average</b>						<b>37.3</b>	<b>32.6</b>	<b>12.7%</b>	<b>23.5</b>	<b>22.6</b>	<b>53.3%</b>	<b>61.0%</b>	<b>19.1</b>	<b>16.8</b>	<b>1.9%</b>	<b>2.3%</b>
<b>Simple Average</b>						<b>22.1</b>	<b>33.8</b>	<b>10.4%</b>	<b>7.1</b>	<b>6.7</b>	<b>23.2%</b>	<b>24.5%</b>	<b>12.2</b>	<b>9.3</b>	<b>2.8%</b>	<b>3.2%</b>

SOURCES: CGS-CIMB ESTIMATES, BLOOMBERG



## ESG in a nutshell

Within our consumer sector coverage, including staples and discretionary, only **F&N, DKSH, Mr D.I.Y.** and **InNature** 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 June 22 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

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.

### Implications

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 adopt 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

All the consumer companies are mostly focusing on their Environment aspects except for **InNature** which has noticeable Social and Governance initiatives in place.

### Implications

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 campaign, refillable stations to reduce wastage, and 'My Vote My Right 18' campaign in support of UNDI18. In addition, 80% of its key senior management are women.

### Trends

Major improvements from year-to-year could be derived from continuous Environmental aspects and a more proactive approach in consumer companies' Social compliance and Governance efforts.

### Implications

In our view, the energy efficiency and waste management programmes followed by all the companies 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

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Add	68.4%	0.8%
Hold	24.6%	0.0%
Reduce	7.0%	0.2%

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