Consumer sector

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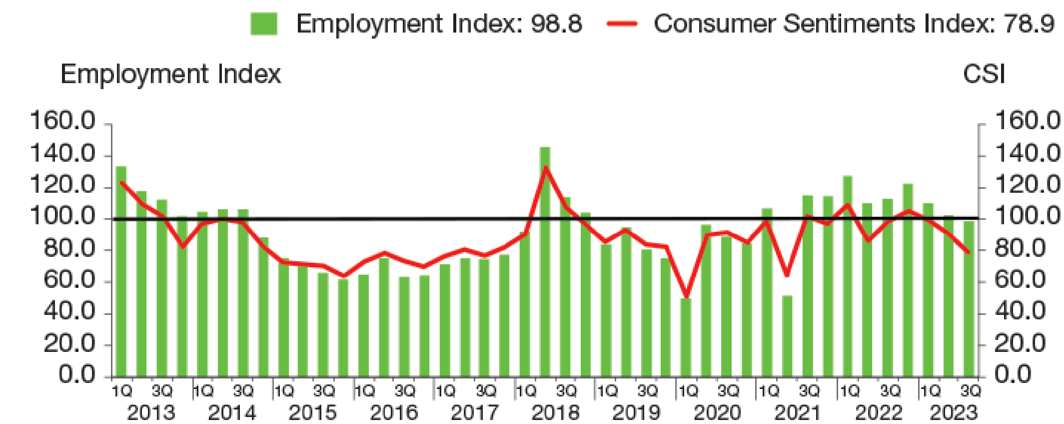
Bracing for further headwinds

- **Review**. Inflationary pressure continues to beset the consumer sector in 2H23, despite the overnight policy rate turns stable in recent MPC meetings. Retail sales growth continues to ease to 3.9% yoy in October 2023; the slowest pace of gain since December 2021. While unemployment rate held steady, we gather that Malaysian Institute of Economic Research (MIER) consumer sentiment index continues to taper towards 78.9 in 3Q23 which highlights concerns over the stagnating wages will keep the battle with inflation at an uphill task.

- Still, the Bursa Malaysia Consumer Product and Services Index witnessed 3.8% improvement in 2H23, possibly driven by multiple year end festive occasions. To cap off, the aforementioned index slipped 5.6% yoy in 2023 to close at 553.68 pts, mainly dragged down by weakness in 1H23 following a series of interest rate hikes by Bank Negara.

MIER Consumer Sentiment Index (Qurterly)



Source: Malaysian Institute of Economic Research

Malaysia Historical Monthly Retail Sales Growth

Source: Trading Economics

- **Outlook**. Going into 1H24, we anticipate challenges persist with introduction of several taxes, higher sales tax and subsidy rationalisation program (although the latter may only take place towards 2H24 and is expected to be implemented in stages). We opine the RM10.0bn Rahmah cash handout and lump-sum cash incentives for civil servants and government retirees allocated under 2024 Budget may not be sufficient to cushion the prospect of weaker domestic spending. With the introduction of EPF Account 3, this may provide some alleviation, but potentially at the cost of longer-term consequences.

- Consumers will have to bear with the prospects of higher cost of living, moving into 2024 and the process of adapting is expected to be gradual. All, however, was not bleak as the expectations of improved tourist spending will continue to provide upliftment towards retail sales growth. For now, we expect retail sales growth continue demonstrating improvement, but at a slower pace.

- **Valuation & Recommendation**. While challenges persist, our coverage with the top pick would be **CCK Consolidated Holdings Berhad (BUY, RM0.96)**, riding onto the floating of poultry prices, coupled with undemanding valuations. Sector wise, the average forward PE for the consumer is at 17.6x and 15.1x for 2024F and 2025F which is fair against 1Y average of 16.5x.

- **Key Risk**. i) Increasing raw materials, ii) weak consumer sentiment, iii) changes in government policies.

- **Summary.** The consumer product sector is expected to brace for further headwinds. Despite the prospects of interest rate cuts in US, we expect Bank Nagara to keep OPR steady in 1H24. Still, festive seasons at the start of the year may keep growth at sustained levels, while the rising tourist arrivals which is near towards pre-pandemic levels may mitigate these challenges. In summary, we hold a **Neutral** stance on the consumer product sector in 1H24.

Top Picks

Company	Price (RM) as at 31Dec23	P/E (x) 2023	2024F	2025F	Dividend Yield (%)	Target Price (RM)	Potental Upside
Padini Holdings Bhd#	3.51	10.37	12.98	12.30	2.85	3.92	11.7%
CCK Consolidated Bhd	0.83	7.52	6.83	6.76	4.82	0.98	18.1%
QL Resources Bhd#*	5.71	33.79	31.55	30.37	1.10	6.57	15.1%
Aeon Co (M) Bhd*	1.09	13.46	12.49	11.60	3.85	1.26	15.6%
Leong Hup International Bhd*	0.56	6.81	7.53	6.98	4.11	0.80	42.9%

 # Padini Holdings Bhd and QL Resources Bhd data based on FYE Jun and FYE Mar respectively

** Denotes Bloomberg consensus data*

Source: Apex Securities Bhd, Bloomberg