

Strong Employee Share Encourages Consumer Spending: Positive On The Sector

The **Department of Statistics Malaysia** reported that the employee share expanded to 77.4% in 2021. The salary beneficiaries to employment ratio set a new high at 64.5%. The greater proportion of employees than own-account (self-employed) workers in Malaysia's labor market implies that a substantial workforce receives guaranteed income. Thus, the consistent amount of money that is deposited into bank accounts on a weekly or monthly basis provides financial security for the workers and their family.

Improved median monthly salary ahead supported by the increased minimum wage to RM1,500 per month. DOSM stated that the median monthly salary and wage for 2021 improved +9.1%yoy to RM2,250, but was still below the prepandemic (2019) level of RM2,442. In 2021, Malaysia's real wage growth expanded by +6.6%yoy while CPI increased by +2.5%yoy. Going forward, our in-house economist predicts that Malaysia's nominal wage growth will perform better in 2022.

This is supported by a stronger-than-anticipated macroeconomic recovery and the implementation of a higher minimum wage of RM1,500 per month beginning in May-22. When real wage growth expanded, consumers have more income

available for spending on both necessities and discretionary products. As a result, research house MIDF, thinks that an increase in consumer spending on products will lead to an increase in product demand and ultimately higher corporate sales. All local-focused staple foods producers and retailers that fall within our coverage will benefit from this.

The demand for staple foods is particularly inelastic and resilient as consumers typically considered staple items as primary and essential for life and are unwilling to delete them from their budget. Among the Malaysian consumer companies, strong demand for staple food producers with well-known brands includes Nestle (NEUTRAL, TP: RM137.80), QL Resources (BUY, TP: RM5.62), F&N (BUY, TP: RM29.70), and Spritzer (BUY, TP: RM2.54). The topline of these major

players have constantly increased despite multiple price changes to pass on costs, reflecting that sales volume and consumer sentiment is still robust. In contrast, the demand for Leong Hup International (NEUTRAL, TP: RM0.47) is constrained due to the prolonged export ban for chicken in Malaysia. This has an impact on the company's earnings because it exports most its chicken to other countries.

Minimal impact on consumer durable and export-oriented companies. Based on a recent study by the Malaysian Institute of Economic Research (MIER), consumers are becoming more cautious when making big purchases of durable goods due to the current inflationary environment. Hence, MIDF is cautious that the demand will remain weak for major ndurables such as furniture and consumer electronics – including Panasonic Manufacturing Malaysia (SELL, TP:

RM21.20), which offers a limited number of household electrical products. Nevertheless, MIDF believes that the positive real wage growth in Malaysia will have little impact on export-oriented companies like Rhong Khen International (NEUTRAL, TP: RM1.23) and Asia File (BUY, TP: RM1.96).

MIDF maintains postive on the consumer sector supported by the strengthening labor market which could boosts consumer spending, stable commodity prices, and the upcoming festive season which could increase sales.

Stock picks, QL Resources (BUY, TP: RM5.62) underpinned by its diversified revenue base across four divisions, which protects against any downside risk. MIDF also favours F&N (BUY, RM29.70) for its consistent product innovation to satisfy consumer demand and taste as well as the recent proposed acquisition of Permai Damai and Cocoland (which could support its future earnings growth). Buy for AEON (BUY, TP: RM1.87) due to its seamless adoption of the online-merge-offline (OMO) strategy and its initiative to offer private label products to consumers at a lower price compared to brand names.

Downside risks are a sharp increase in commodity prices, which compressed the margin, weaker-than-expected

consumer sentiments for both staple and discretionary products, and stronger-than-expected USD that increased the production cost, because most of the commodities were bought in USD.

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