

# Stronger prospects likely for retail trade

## F&B, tobacco stores to continue upward trend

### CONSUMER

**PETALING JAYA:** MIDF Research has maintained its positive outlook on Malaysia's consumer sector as it foresees stronger prospects for the remainder of the year.

According to the research firm, retail trade for non-specialised stores including food and beverage (F&B) and tobacco is expected to continue its upward trend this year.

The Statistics Department recorded a 10% growth year-on-year (y-o-y) for the F&B and tobacco stores, while non-specialised stores saw a growth of 8.4% y-o-y.

"This was supported by the resilient demand to purchase staple-related products, normalising out-of-home consumption following the reopening of borders," it said.

It added that retailers like Aeon Co (M) Bhd and Padini Holdings Bhd were examples of stores that would benefit from the upward trend.

MIDF Research said with the anticipated arrival of more tourists, stores like Family Mart under QL Resources Bhd and Fraser & Neave Holdings Bhd (F&N) could see an uptick in sales.

"We favour QL Resources, which is supported by consistent demand for marine and livestock products.

"We also like F&N because the company is likely to benefit from the rising demand for ready-to-drink beverages, which is being fuelled by an increase in tourist traffic," it said.

Additionally, MIDF Research said its positive outlook is also underpinned by the strengthening of the ringgit in July.

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MIDF Research

The average exchange rate was at RM4.59 against the greenback in the month as compared to June when it was at RM4.63.

"Looking ahead, our economists anticipate a stronger ringgit, with an average of RM4.43 for 2023, and reaching RM4.20 by the end of 2023.

"As such, the stronger ringgit will benefit consumer-staple companies that source commodities in US dollars, potentially lowering their raw material costs."

On issue of prices of commodities, MIDF Research said despite an increase in prices for wheat and crude palm oil (CPO) in July following Russia's exit from Black Sea grains exports deal, both saw a decline from their two-year price peaks, along with raw sugar prices which fell in July.

"This normalisation of global commodity prices suggests a potential future reduction in raw material costs for food producers, hence supporting profit margins.

"As such, food producers like Hup Seng Industries Bhd and Nestle (M) Bhd are likely to benefit from this trend," MIDF

Research stated in its report.

On elevated cocoa prices due to unusual production and limited supply from West Africa, MIDF Research said this will still be manageable for food producers with a strong brand presence.

"They have a greater ability to pass on the increased cocoa prices to customers, given the resilient demand for cocoa-related products," it said.

Meanwhile, the research house remains cautious on elevated commodity prices for animal feed in the future despite soybean meal and corn prices having dropped from their two-year peak levels.

"This concern arises due to expectations of lower production caused by extreme weather, leading to lower yield, along with Russia's withdrawal from the Black Sea deal, which could trigger global food security issues for corn and soybeans," it said.

"Ongoing price ceilings for chicken and eggs, along with continuous government subsidies, are expected to limit profit margins," MIDF Research forecast.