

6 October 2021

Consumer | Consumer Products

Consumer Products

Neutral (Maintained)

Ground Checks: Phases 2 & 3 Of The NRP

Stocks Covered 17
 Rating (Buy/Neutral/Sell): 8 / 9 / 0
 Last 12m Earnings Revision Trend: Negative

- Once again, we conducted ground checks** at several locations in the Klang Valley to get a feel of consumer sentiment since the start of Phase 2 of the National Recovery Programme (NRP). The view upheld in our previous sector notes: The impact of the lockdown in 3Q21 would not be as severe as seen during MCO 1.0 in 2020 and that consumer sentiment will see a sharp rebound due to pent-up demand. This report aims to see if that view still holds true. We maintain NEUTRAL on the consumer sector.
- Observations, in a nutshell.** Footfall has picked up encouragingly in most places we visited – which is expected – in view of the pent-up demand as we leave the most drawn-out lockdown since the start of the pandemic. Although residual fears from a still-high number of cases and a mutating Delta variant have resulted in a milder pick-up in footfall this time around, we saw consumer sentiment still considerably strong, especially for the F&B segment. Crowds at shopping malls were at c.50-70% of pre-pandemic levels, and we note the strong preference for open areas (eg parks and alfresco dining) as opposed to enclosed spaces like cinemas – which surprisingly saw scanty foot traffic. While businesses have mostly resumed operations, we also noticed the many shuttered lots, which are indicative of tough times for businesses.
- Expectations, moving forward.** The number of new COVID-19 cases in Malaysia has moderated to below 10,000 since 3 Oct after peaking at end August. While we expect there to be near-term earnings weakness due to business disruptions in 3Q21, as movement restrictions only began easing in September, we foresee a more palpable recovery in 4Q21 – this is because 90% of the adult population is expected to be fully vaccinated by then. The green light for interstate travel and year-end festivities should also entail a stronger consumer pattern, especially in view of the various stimulus measures and low interest rate environment.
- Top Picks.** For the recovery theme, we believe Mynews should benefit from the footfall normalisation upon the relaxation of movement restrictions – effectively boosting sales, and complementing its exciting new venture into the scalable CU business. Berjaya Food should also benefit handsomely from a return in foot traffic, atop an elevated base coming from its alternative sales channels. We also like Innature (INNATURE MK, NR) for its strong underlying fundamentals – with earnings growth to be underpinned by its regional expansion. For the bigger picture and sector in general, we favour Mr DIY for its gravity-defying growth anchored by its outlet expansion and effective business model of competitively priced products in widely accessible locations.
- Risks** include the rate of transmission of cases, strong/weak recovery in consumer sentiment, and the pace of economic recovery.

Top Picks

	Target Price
Mr DIY (MRDIY MK) – BUY	MYR4.41
Mynews (MNHB MK) – BUY	MYR1.22
Berjaya Food (BFD MK) – BUY	MYR2.50

Analysts

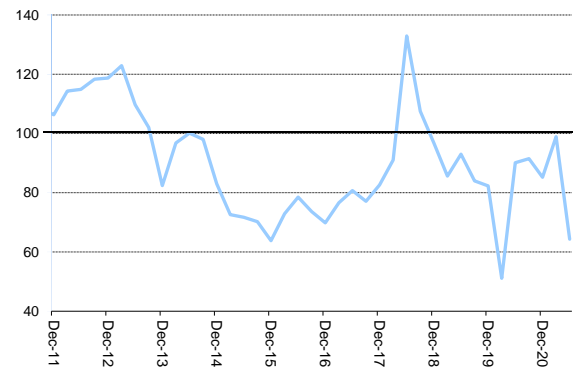
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MIER's Consumer Sentiment Index



Source: Malaysian Institute of Economic Research (MIER), RHB

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-21F	P/B (x) Dec-21F	ROAE (%) Dec-21F	Yield (%) Dec-21F
7-Eleven Malaysia	Buy	1.78	16.1	52.0	26.4	50.7	1.9
AEON Co M	Neutral	1.33	(11.6)	24.7	1.2	5.0	2.0
Berjaya Food	Buy	2.50	25.1	19.6	2.0	10.6	2.6
British American Tobacco	Neutral	15.00	7.3	14.8	10.6	72.0	6.7
Carlsberg Brewery	Neutral	22.20	1.3	30.6	39.3	129.3	3.2
Guan Chong	Buy	4.00	27.4	19.3	2.4	13.1	1.2
Heineken Malaysia	Neutral	24.00	5.3	33.6	19.6	58.6	2.9
Leong Hup International Sdn Bhd	Buy	0.87	34.8	12.3	1.3	10.7	2.4
Mr DIY Group	Buy	4.41	17.7	51.6	21.3	46.0	1.0
Mynews	Buy	1.22	38.3	na	2.5	(11.4)	0.2
Nestlé (M)	Neutral	128.00	(3.3)	47.6	54.7	116.0	2.1
NTPM	Neutral	0.53	8.2	12.2	1.1	9.2	-
Padini	Neutral	3.12	4.6	25.5	2.4	9.6	2.4
Power Root	Neutral	1.25	(7.1)	29.1	2.4	8.3	4.0
QL Resources	Neutral	5.76	12.7	38.1	3.8	11.3	0.9
SKP Resources	Buy	2.28	26.7	18.4	3.7	21.2	3.3
VS Industry	Buy	2.01	24.0	21.7	3.0	14.5	3.0

Source: Company data, RHB

What did we do? Coming out of the most drawn-out lockdown since the onslaught of the pandemic, we thought it apt to carry out ground checks at several locations to get a feel of consumer sentiment on the ground these past few weekends as we move past Phase 1 of the NRP in September.

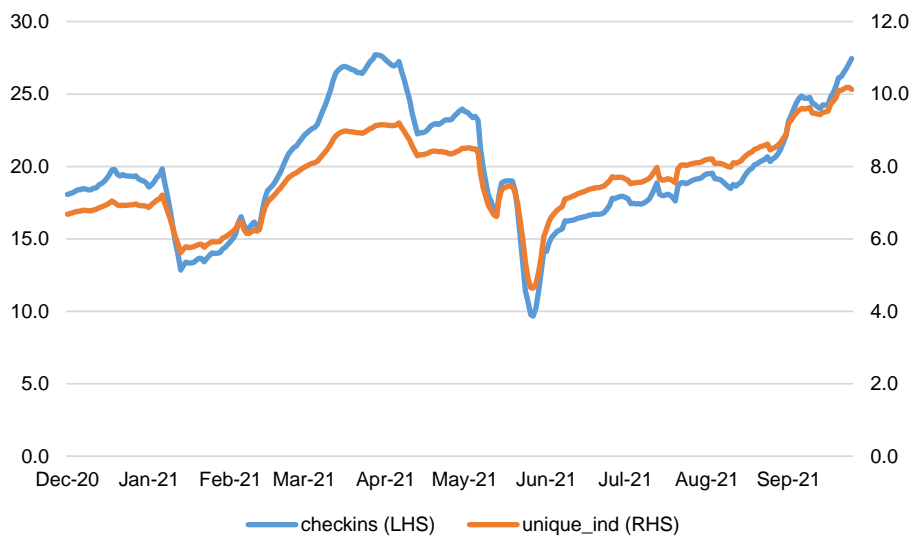
The locations we visited were limited to the Klang Valley due to the restrictions in place on interstate travel, but included parks, eateries, gyms, shopping malls, and night markets, among others. The view upheld in our previous sector notes has always been that the impact in 3Q21 due to the lockdown would not be as severe as seen during MCO 1.0 in 2020 and that consumer sentiment will see a sharp rebound due to pent-up demand. This report aims to see if that view holds true.

What did we see? Generally, the pick-up in footfall at most of the locations we covered were rather encouraging. Notwithstanding the time and day of our visit, we note that the quantum was not as strong as seen in previous relaxations, as we understand that the stubbornly high number of cases as well as the threat of the Delta variant have led to residual fears of being in public and a cautious stance among consumers. The prime malls we visited saw footfall that was between 50% and 70% of pre-pandemic levels, with parking lots also fully taken up. Any lull seen, we deduce, is also a result of a tourist volume shortfall.

From our observation, well over 80% of retailers were back in operation since the start of NRP Phase 2. We note that shuttered lots were also rather noticeable on every floor (such as the Rasa food court at Suria KLCC) especially in comparison to the pre-pandemic period – a sign of the times. As expected, there were various promotions in place to attract shoppers, and we were also aware of the capacity limitations within each store to adhere to SOPs. Queues existed for all types of shops from the likes of grocery stores to luxury stores such as Louis Vuitton, and were more apparent in shopping malls like IOI City Mall where the catchment area is a lot bigger than the malls in Kuala Lumpur where shoppers are more spoilt for choice. At a glance, we found that eateries and F&B players were the ones to see the biggest patronage as opposed to anchor tenants such as Metrojaya and Harvey Norman.

On the part of businesses, we can see that retailers are more comfortable to proceed with their renovation works and expansion plans – as we also got around to visiting CU's first flagship store in IOI City Mall that had just opened at the end of September. The crowds, from our observation, were very encouraging.

Figure 1: Total check-ins and unique independent check-ins on MySejahtera



Note: Data is smoothed to a 7-day rolling average
 Note 2: Unique independent check-ins are only counted once
 Source: RHB, MySejahtera

What did we hear? Conversations with consumers point to the fact that confidence in being out in public is now a lot higher, considering the positive vaccination progress. In line with our observations of heavier traffic seen at eateries, the general consensus seems to be eager to dine in, above all else. Several patrons we spoke to at a restaurant also shared that this was their first time going out since MCO 1.0. This indicates boosted confidence, even among the fearful and cautious, especially as more people are now complying with social-distancing SOPs while businesses have taken steps to ensure their premises are as safe as possible.

Speaking to sales personnel, we learnt that authorities are considerably more stringent these days in ensuring that SOPs are adhered to and making it a point to have frequent announcements so that shoppers remember to maintain their distance. Meanwhile, we also spoke to frontline workers, including security guards and wait staff, who collectively agree that while it has been a challenge to ensure that only fully vaccinated individuals are allowed into their premises, customers are now generally more cooperative in following SOPs, eg signing in, temperature screening, etc.

Outside of malls, our conversations with e-hailing drivers also suggest that traffic has seen a significant pick-up since the commencement of NRP Phase 2. One driver, in particular, went as far as to say that traffic has exceeded the previous relaxations of movement restrictions, as e-hailing cars were only allowed 1-2 passengers per car and personal cars only up to the capacity, which contributed to congestion on the roads, in general.

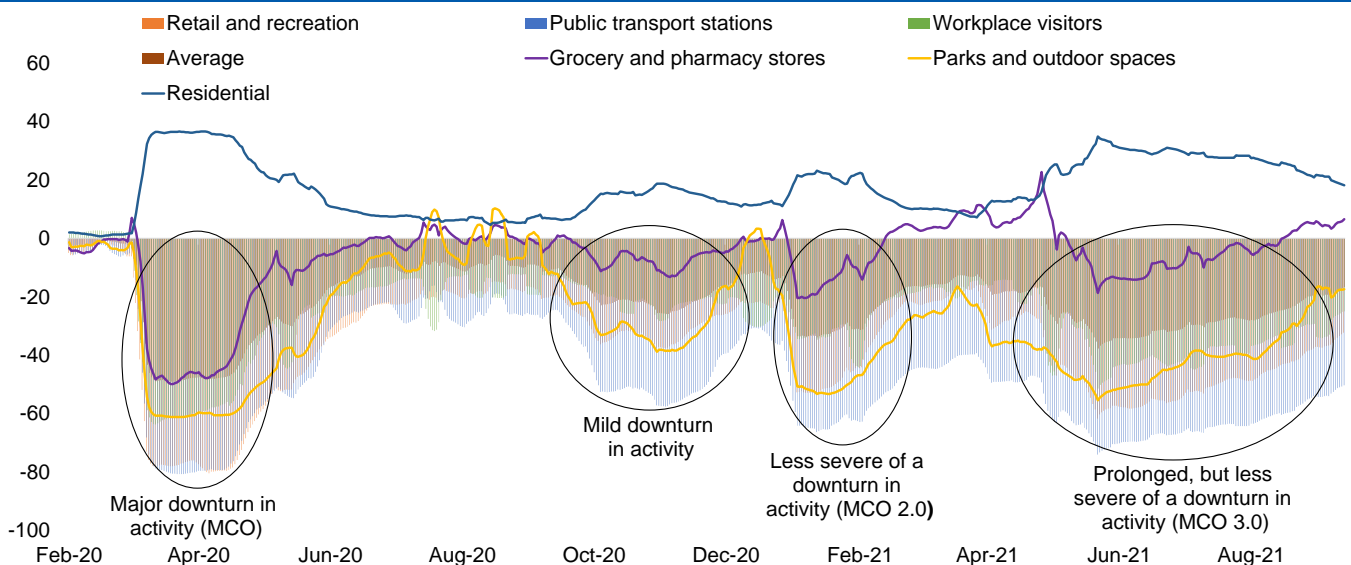
In summary, consumers that we spoke to are looking forward to the containment of the pandemic following the inoculation moving towards achieving critical mass, although a large percentage seem to still exercise caution as the mutating virus and the fact that teenagers and children have yet to be vaccinated is proving to be a major concern.

What do we expect? The number of new COVID-19 cases in Malaysia has dropped to below 10,000 on 3 Oct after peaking in end August. Correspondingly, public mobility has gradually improved, following the lifting of the movement restrictions. While we expect there to be near-term weakness due to business disruptions, particularly in 3Q21, as movement restrictions only began easing in September, we foresee a more palpable recovery in 4Q21. This is as 90% of the adult population is expected to be fully vaccinated by then. Interstate travel and the year-end festivities should also spur pending patterns.

We believe the consumer spending and sentiments are on a steady recovery path thanks to the successful inoculation drive, as well as consumers' and businesses' acclimatisation to live with the virus as we begin treating COVID-19 as endemic. We see more value and opportunity in the consumer discretionary/cyclical space, with the staple food counters maintaining their valuations at lofty – but fair – levels. Maintain NEUTRAL on the consumer sector. Our preferred picks are:

- i. **Mynews (MNHB MK, BUY, TP: MYR1.22)** – a good proxy to capitalise on the recovery, given its entrenched network of stores and contributions from CU;
- ii. **BFood (BFD MK, BUY, TP: MYR2.50)** should also benefit handsomely from a return in foot traffic, atop an elevated base coming from its alternative sales channels;
- iii. **Innature (INNATURE MK, NR)** – for its strong fundamentals with earnings growth to be underpinned by its regional expansion in Vietnam and Cambodia;
- iv. **Mr DIY (MRDIY MK, BUY, TP: MYR4.41)** – gravity-defying growth anchored by outlet expansion and effective business model of competitively-priced products in accessible locations.

Figure 2: Mobility trends across various locations



Source: RHB, Google mobility trends, Thomas Hale, Sam Webster, Anna Petherick, Toby Phillips, and Beatriz Kira (2020). Oxford COVID-19 Government Response Tracker, Blavatnik School of Government.

Figure 3: Taman Saujana Hijau Park in Putrajaya



Source: RHB

Figure 4: Car park was almost full on a weekend evening



Source: RHB

Figure 5: Taman Connaught night market



Source: RHB

Figure 6: Taman Connaught night market



Source: RHB

Figure 7: Gym goers are confident to return after months of lockdown...



Source: RHB

Figure 8: ...but our visit on a Friday afternoon proved to be relatively quiet



Source: RHB

Figure 9: Futsal courts were full again after being closed for most of the year



Source: RHB

Figure 10: Some courts needed to be booked a week in advance



Source: RHB

Figure 11: Steady stream of shoppers entering Pavilion KL from the bustling Jalan Bukit Bintang



Source: RHB

Figure 12: It took a while to get a parking lot at IOI City Mall



Source: RHB

Figure 13: Relatively bigger crowds seen at IOI City Mall



Source: RHB

Figure 14: Shoppers queuing for their month-end splurge at Uniqlo @ Suria KLCC



Source: RHB

Figure 15: Machines store at AEON Cheras Selatan



Source: RHB

Figure 16: The new iPhone 13 drew strong interest, as usual



Source: RHB

Figure 17: Flagship CU store at IOI City Mall



Source: RHB

Figure 18: The fairly new brand attracted a good crowd



Source: RHB

Figure 19: Supermarkets were consistently crowded – Cold Storage @ Suria KLCC...



Source: RHB

Figure 20: ...with queues extending beyond the entrance – AEON @ Mid Valley Megamall



Source: RHB

Figure 21: Consumers eager to reunite with the big screens at Golden Screen Cinemas @ Mid Valley Megamall...



Source: RHB

Figure 22: ...although foot traffic was relatively scanty at Golden Screen Cinemas @ Mid Valley Megamall



Source: RHB

Figure 23: Limited numbers allowed in the skating rink and bowling alley @ Sunway Pyramid



Source: RHB

Figure 24: Security checking the vaccination and risk status of every customer entering Sunway Pyramid



Source: RHB

Figure 25: Sunway Pyramid not as packed as it was pre-pandemic even during peak hours (only 50% now)



Source: RHB

Figure 26: Plenty of consumers in the desserts kiosks @ Sunway Pyramid



Source: RHB

Figure 27: Shoppers lining up to purchase footwear



Source: RHB

Figure 28: Few moviegoers; the 50% maximum allowed capacity was rarely met @ Sunway Pyramid



Source: RHB

Figure 29: Only about three closed stores seen at Sunway Pyramid



Source: RHB

Figure 30: The high-end stores were expectedly the quieter parts of the mall



Source: RHB

Figure 31: Promotions were aplenty to entice shoppers @ Mid Valley Megamall



Source: RHB

Figure 32: Capacity limitation was another factor causing long queues



Source: RHB

Figure 33: Eateries and food courts were the busiest – Signatures food court @ Suria KLCC



Source: RHB

Figure 34: Good patronage for F&B businesses in general



Source: RHB

Figure 35: Crowds were encouraging at food stalls...



Source: RHB

Figure 36: ...with seating capacity filled up



Source: RHB

Figure 37: A bistro at Bangsar South on a Sunday night



Source: RHB

Figure 38: A food court on a weekday at lunch hour



Source: RHB

Figure 39: Consumers are more confident of dining in...



Source: RHB

Figure 40: ...with a strong preference for alfresco dining



Source: RHB

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