

Aug 08, 2016 | Written by PublicInvest Research | 0



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Consumer sector

Neutral on the consumer sector: According to news portal The Edge, MSM Malaysia Holdings Bhd has been quoted as saying that the government had given permission for the wholesale price of refined sugar to rise by up to RM600 a tonne, from RM1,900 per tonne currently, to between RM2,400 and RM2,500, effective Aug 1. MSM has also proposed to the government to raise the retail price of refined sugar from the current price of RM2.84.

The winning party is MSM, while the ones on the losing end are companies with higher sugar volumes as their raw materials. Among the companies are food and beverage (F&B) players, particularly ones operating in the confectionery and beverage industries. As for companies under our coverage, one that is likely to be affected is London Biscuits Bhd (outperform; target price: RM1.03), of which sugar makes up about 14% of its cost of goods sold. As it relies on only a few suppliers, there is low negotiation power on its end. However, the impact will not be immediate as raw materials are usually stocked up in advance. Other players in sugar-related food manufacturing industries may feel an impact as well, though the degree would depend on the amount of sugar volume used and their inventory and trading practices.

As for consumers, sugar-price hikes tend to result in other price hikes, primarily the food segment, which will affect consumption and the spending pattern. If the government decides to approve the proposed rise in retail price of refined sugar, the impact felt would be even more, and this may affect the recovering consumer sentiment, which improved in the second quarter of 2016 (2Q16) to 78.5, from 72.9 in 1Q16 (according to the Malaysian Institute of Economic Research).

For the affected F&B players, a few ways to handle the hike include passing on to consumers, lower sugar content in their products and diversifying into lower-sugar-content products. We believe that the sugar-price hike is unavoidable, considering that the raw sugar price has gone up by about 70% year-on-year. Since the majority of the F&B counters have performed favourably this year, we think that their share prices might take a beating on this news. — PublicInvest Research, Aug 5

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Filepic of MSM's flagship product Gula Prai. MSM has proposed to the government to raise the retail price of refined sugar from the current price of RM2.84.

Photo by Bloomberg

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