

# Philippines Consumer

# NEUTRAL

 [Unchanged]

## Get into the holiday spirit

### 2Q23/1H23 earnings underperformance highlights importance of stock selection; Top Pick JFC

The 1H23 earnings of Philippine consumer companies was mixed. Five of the 9 stocks in our coverage were behind our full-year earnings forecasts due to slower revenue growth and rising opex. The 4 that are within/ahead of our expectations (PGOLD, URC, JFC and CNPF) focus on essentials and benefitted from their mass-market offerings and price leadership. On a consolidated basis, 1H23 consumer sector earnings was flat at 0% YoY, slightly behind our previous forecasts. We revise down our forecast sector earnings by 6% YoY, as we factor in higher raw material prices (for sugar, energy, potatoes and coffee beans). For 2H23, we recommend selecting companies with: (i) holiday-induced spending; (ii) absence of any regulatory overhangs; and (iii) that will benefit from policy rate cuts expected in 2H24. JFC is our Top Pick.

### Earnings cuts across the sector

Following the consumer sector's underperformance in 2Q23/1H23, we revise down our consolidated FY23/24 earnings forecasts by 6%/6%, implying earnings growth of 13%/14% YoY (17%/14% YoY previously). Within our coverage, RRHI, URC and DNL accounted for 4ppt of the 6%/6% cuts. We cut our FY23/24 earnings forecasts for URC by 5%/4% to factor in the anticipated uptrend in the prices of sugar, potatoes and coffee, while the 26%/26% cut in DNL's FY23/24 earnings forecasts is due to our lower volume growth assumption and high pre-operating expenses arising from its under-utilized Batangas facility. The 15%/21% cut in RRHI is mainly due to its prolonged debt for the acquisition of BPI shares. Our forecasts for JFC, HOME and CNPF are unchanged while we raise our forecast for PGOLD to factor in its acquisition of Divimart.

### 2H23 outlook

For 2H23, we expect: (i) average sales growth for FMCG manufacturers (URC, MONDE, CNPF) to be c.6% YoY, which is slower than 1H23's 8.5%; (ii) gross profit margin (GPM) expansion of 40-140bps for URC/MONDE, a reversal of 1H23's c.10-390bps contraction, as stabilized wheat and palm oil prices should offset rising crude oil and raw material prices (such as for sugar, potatoes and coffee); and (iii) flattish EBIT margin as rising manpower and utilities costs offset the 40-140bps GPM expansion. We expect retailers to sustain their SSSG trajectories, albeit with rising opex in 2H23 due to their back-ended expansion.

### JFC is our Top Pick

JFC is a direct beneficiary of domestic consumer spending, which we forecast to grow by 5.6%/7% YoY in FY23/24E. The stock outperformed the PSEi by 3ppts YTD and we expect it to continue to re-rate in 2H23 as we expect JFC to benefit from holiday spending. We forecast JFC's 14% YoY FY23 earnings growth to be predominantly domestically-led, which should be further boosted by JFC's back-ended store rollouts.

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#### Relevant reports:

1H23 gross margin expands, offset by rise in opex  
New stores in 2H23 a possible catalyst  
Sustainable earnings trajectory  
Fairly valued; D/G to HOLD  
Fast-tracks expansion  
Expect sequential GPM improvement  
Jolly good earnings  
Slow recovery

Stock	Bloomberg code	Mkt cap (USD'm)	Rating	Price (LC)	TP (LC)	Upside (%)	P/E (x)		P/B (x)		Div yld (%)	
							23E	24E	23E	24E	23E	24E
Universal Robina	URC PM	4,659	Buy	120.00	170.00	42	19.1	16.3	2.2	2.0	4.0	3.9
Jollibee Foods	JFC PM	4,411	Buy	227.00	288.00	27	29.2	24.7	3.8	3.5	1.1	1.3
Monde Nissin	MONDE PM	2,909	Buy	9.19	11.00	20	23.0	19.9	2.8	2.6	0.0	2.6
Century Pacific	CNPF PM	1,837	Hold	29.45	28.00	(5)	19.2	17.0	3.2	2.8	1.6	1.7
Wilcon Depot	WLCON PM	1,657	Buy	22.95	34.00	48	23.5	19.7	4.0	3.5	1.4	1.4
Puregold	PGOLD PM	1,471	Buy	29.10	49.00	68	8.5	8.2	0.9	0.8	1.7	1.7
Robinsons Retail	RRHI PM	1,295	Buy	47.00	67.00	43	14.1	13.5	0.9	0.9	4.2	4.3
D&L Industries	DNL PM	812	Buy	6.45	10.00	55	16.2	13.0	2.2	2.0	4.7	4.0
Allhome Corp	HOME PM	114	Buy	1.73	2.80	62	6.4	5.6	0.4	0.4	1.9	3.1

## 1. 1H23 earnings mixed

1H23 earnings were mixed. Among our coverage, 3 names were in line with our expectation, 1 was ahead and 5 were behind. Despite revenue growth of 10% YoY on average in 1H23, consolidated earnings were unchanged YoY due to higher raw material costs and opex.

Fig 1: Philippine consumer sector coverage 2Q23/1H23 earnings

PHP m	2Q23	2Q22	% YoY	1Q23	% QoQ	1H23	1H22	% YoY	MIBG FY23E	% of FY23E	1H23 vs MIBG
WLCON	855	1,006	-15%	962	-11%	1,818	1,856	-2%	4,442	41%	Behind
RRHI	1,268	1,229	3%	1,094	16%	2,362	2,136	11%	5,858	40%	Behind
URC	3,249	2,728	19%	3,413	-5%	6,662	6,201	7%	14,413	46%	In line
DNL	646	940	-31%	594	9%	1,240	1,719	-28%	3,842	32%	Behind
CNPF	1,700	1,544	10%	1,497	14%	3,198	2,954	8%	5,439	59%	Ahead
PGOLD	1,995	2,049	-3%	2,406	-17%	4,401	4,200	5%	9,753	45%	In line
MONDE	1,631	1,960	-17%	1,876	-13%	3,507	4,081	-14%	7,694	46%	Behind
JFC	2,503	2,726	-8%	2,191	14%	4,694	4,990	-6%	8,588	55%	In line
HOME	230	250	-8%	212	8%	442	222	99%	1,015	44%	Behind
<b>Total</b>	<b>14,077</b>	<b>14,432</b>	<b>-2%</b>	<b>14,247</b>	<b>-1%</b>	<b>28,325</b>	<b>28,360</b>	<b>0%</b>	<b>61,044</b>	<b>46%</b>	

Source: Maybank IBG Research, Company

### 1.1 Key themes we observed in 1H23 earnings

- Domestic demand declined.** Sales volume for the essential categories of MONDE, URC and CNPF was flattish in 2Q23, ranging from -2.6% to +1% YoY, vs 1Q23's -1% to 8% YoY. ASP increases were likewise minimal, at 1-3%, in 1H23, but within our c.4-5% expectations. We believe there is less urgency to raise prices given the softening prices of wheat and palm oil, alongside having cumulatively raised ASPs by c.8-10% since end-1H22.
- FMCGs posted sequential GPM improvement.** Except for URC, whose GPM fell QoQ due to the change in its sales mix, the GPM of MONDE, DNL and CNPF rose by 30-370bps QoQ as the price of wheat and palm oil stabilized in 1Q23. We expect further GPM expansion for FMCGs in 2H23 but at a smaller degree given lower prices of wheat and palm oil could be offset by rising prices of sugar, coffee, tuna and potatoes.
- Retailers were impacted by rising opex.** Rent, manpower and utilities expenses have been rising across the board. This impacts retailers the most, as these account for c.48% of their total costs.
- Demand for discretionary formats normalizes.** SSSG for discretionary formats has recovered back to the 5-year mean of 1-3%, at 1.5%. Further GPM/EBIT margin upside for the likes of RRHI would come from the change in product mix.
- Supermarket retailers' sales growth is driven by transaction count/foot traffic.** In 1H23, increasing foot traffic drove supermarket retailers' sales growth, offsetting the flattish or slight decline in basket sizes. This trend is a reversal of the one during the pandemic when foot traffic was low but basket sizes were bigger, due to mobility restrictions.
- Robust SSSG of quick service restaurants.** The domestic SSSGs of JFC and PZZA continued to be high, at 11.3% and 16.0% in 2Q23, respectively. This was driven by transaction count as a result of the continuous improvement in dine-in sales (dine in sales as a % of total systemwide sales - JFC: 43%; PIZZA: 60% vs pre-pandemic JFC: 58%; PIZZA: 60%).

## 2. Summary of changes in estimates

We trim our FY23/24E earnings forecast by -6%/-6%.

**Fig 2: Changes in our FY23/24E earnings forecasts**

PHP m	FY23E Old	FY23E New	% YoY	FY24E Old	FY24E New	% YoY	Notes
WLCN	4,442	4,002	-10%	5,008	4,764	-5%	We revise down our FY23/24E net income by 10%/5%, as we account for slow ramp up of some newly opened stores, along with pre-operating expenses from the construction of 6-9 new stores. This is partially offset by the +60/+60bps increase in gross margin from higher yielding in-house and exclusive brand products.  <i>See <a href="#">1H23 gross margin expands, offset by rise in opex report</a>.</i>
RRHI	5,858	4,973	-15%	6,520	5,167	-21%	We cut our FY23/24E net income by 15%/21% as we: (i) factor in the conversion of RRHI's PHP15.4b short-term facility for the acquisition of BPI shares to a 5-year term loan with a floating rate of 6.75%; (ii) higher equity in net losses from GoTyme, which we expect to remain weak given slow ramp up and heightened competition in the digital banking space.  <i>See <a href="#">New stores in 2H23 a possible catalyst report</a>.</i>
URC	14,413	13,764	-5%	16,736	16,043	-4%	We revise down our FY23/24E earnings by 5%/4% to factor in elevated sugar, potato and coffee prices, partially offset by the stabilization of wheat and palm oil prices. This, in turn, reduces our gross profit margin assumptions by 50/50bps to 27%/27.8% for FY23/24E.  <i>See <a href="#">Sustainable earnings trajectory report</a>.</i>
DNL	3,842	2,836	-26%	4,801	3,556	-26%	We cut our FY23/24E net income by 26%/26% to factor in lower volume growth for specialty fast, refined vegetable oil and oleochemicals and higher pre-operating expenses.  <i>See <a href="#">Batangas plant finally online report</a>.</i>
CNPF	5,439	5,439	0%	6,140	6,140	0%	No changes. See <a href="#">Fairly valued; D/G to HOLD report</a> .
PGOLD	9,753	9,809	1%	10,257	10,232	0%	Taking into account the new Divimart stores, we raise our FY23 earnings forecast by 1%. <i>See <a href="#">Fast-tracks expansion report</a>.</i>
MONDE	7,694	7,188	-7%	8,767	8,311	-5%	We revise down our FY23/24E earnings by 7%/5% to factor in higher cost of sales assumptions from elevated sugar and energy prices; partially offset by stabilization of wheat and palm oil prices.  <i>See <a href="#">Expect sequential GPM improvement report</a>.</i>
JFC	8,644	8,644	0%	10,217	10,217	0%	No changes. See <a href="#">Jolly good earnings report</a> .
HOME	1,016	1,016	0%	1,165	1,165	0%	No changes. See <a href="#">Slow recovery report</a> .
<b>Total</b>	<b>61,101</b>	<b>57,671</b>	<b>-6%</b>	<b>69,611</b>	<b>65,595</b>	<b>-6%</b>	

Source: Maybank IBG Research

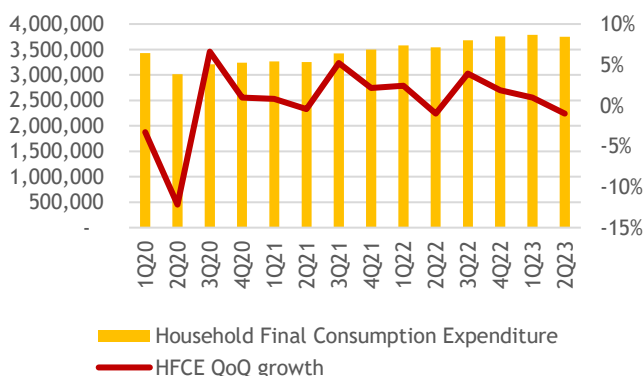
### 3. 2H23 outlook

#### 3.1 Persistent inflation may result in lower demand, but holiday demand should cushion this

In 2Q23, we saw softer demand across the board for essential items, as FMCG manufacturers’ sales volumes were flattish, due to persistent inflation and down trading. For 2H23, we expect pent-up holiday demand to increase sales volumes, supported by overseas remittances and holiday bonuses, amid a shrinking household wallet. On an annual basis, we still expect average sales growth for FMCG manufacturers to be in the mid-single to high-single digit level, underpinned by decent ASP increase and mid-single digit volume growth.

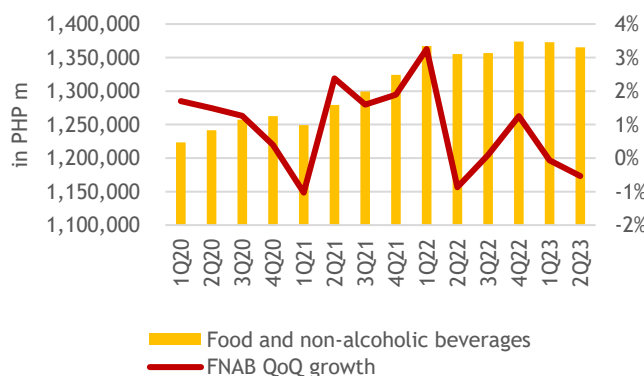
Since peaking in Jan’23 at 8.7%, domestic inflation has been on a downtrend, albeit still higher than the central bank’s 2-4% target range. However, alongside this, we noticed that household final consumption expenditure has started to slow down (1Q23 QoQ: +1%; 2Q23 QoQ: -1%) sequentially, driven mainly by slower food and non-alcoholic beverages (c.36% of total household final consumption expenditure), which was down 0.5% QoQ in 2Q23. Notably, decline in the alcoholic beverages and tobacco segment was more drastic in 2Q23 at -7% QoQ. We believe, this may be the start of manifestation of inflation’s lagged effect, which on average, manifests into lower demand about 6-8 months after it hits, particularly for the low-end market.

Fig 3: Quarterly household final consumption expenditure



Source: Maybank IBG Research, PSA

Fig 4: Quarterly food and non-alcoholic beverages



Source: Maybank IBG Research, PSA

#### 3.2 Expect limited margin expansion in 2H23

Even as FMCG manufacturers hold 3-6 months’ worth of inventory of raw materials, and wheat/palm oil prices are back at USD580/bushel and MYR3,600/tonne, we expect margin expansion in 2H23 to be less pronounced as initially expected owing to: (i) rising crude oil prices (Brent at USD90/barrel), which could impact inventory logistics cost; (ii) rising prices of key raw materials, such as sugar, potatoes and coffee beans; (iii) limited sardine supply; and (iv) rising manpower and utilities costs. As such, post 1H23, we have trimmed our FY23E GPM assumptions by 50-90bps for the FMCG manufacturers we cover. Downside risk in 2H23 is further depreciation of the PHP vs USD, which is now at the PHP56-57 level, as c.40-50% of FMCG’s raw materials are imported and are not denominated in PHP.

**Fig 5: Wheat prices**



Source: Bloomberg

**Fig 6: Palm oil prices**

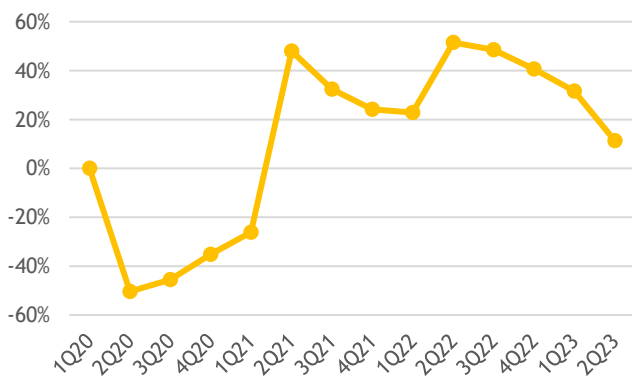


Source: Bloomberg

### 3.3 Robust demand for restaurant operators

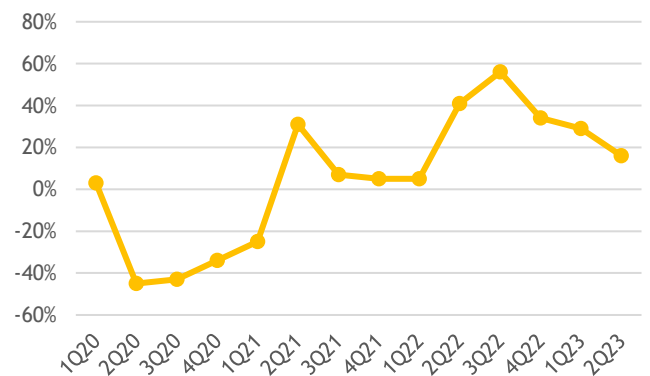
We expect demand in 2H23 to be stronger and benefit restaurant operators, as mobility restrictions have been lifted and dining in has resumed (Dine in as a % of total systemwide sales- JFC: 43%; PIZZA: 60% vs. pre-pandemic JFC: 58%; PIZZA: 60%). We expect 2Q23 trend of double-digit SSSG to be sustained, driven largely by transaction count and foot traffic.

**Fig 7: JFC's domestic SSSG**



Source: Maybank IBG Research, Company

**Fig 8: PIZZA's SSSG**

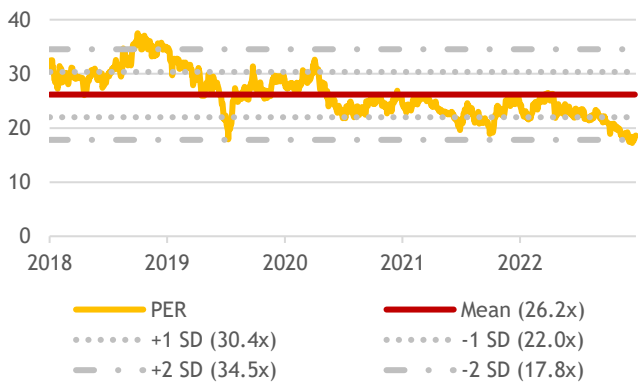


Source: Maybank IBG Research, Company

### 3.4 Operating expenses to remain high

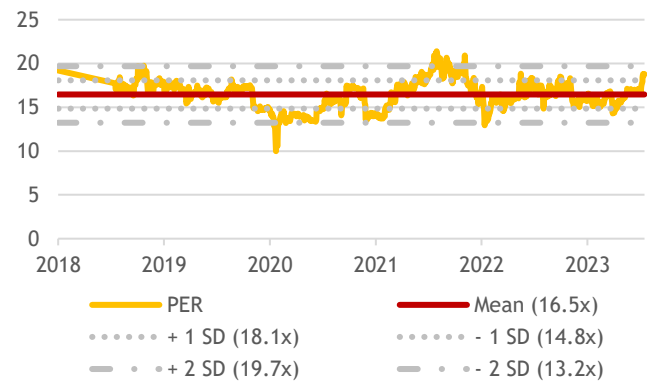
As PGOLD and RRHI's store network expansion will be in the latter part of the year, we expect operating expenses, such as rent, manpower and utilities, to remain high in 2H23. Given the 6% minimum wage increase in the National Capital Region effective 15 July, costs may rise, although the impact on bottom lines should be minimal. In our latest WLCON report ([1H23 gross margin expands, offset by rise in opex](#) report), we estimate the annualised average opex of the 4 new stores opened in Jan-Jun 2023 was more than double the opex per store in FY22 due to higher rent, trucking and utilities costs.

**Fig 9: URC's 5-year PER**



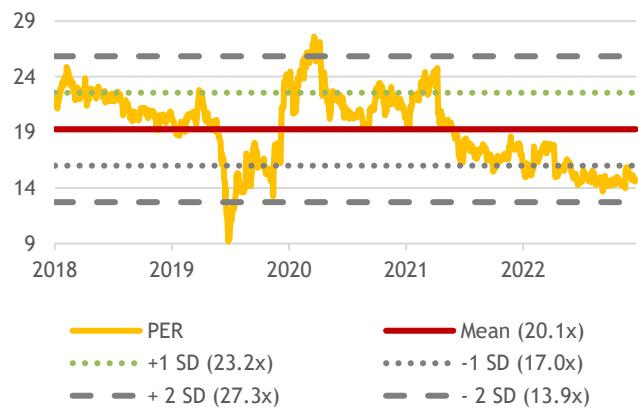
Source: Maybank IBG Research, Bloomberg

**Fig 10: CNPF's 5-year PER**



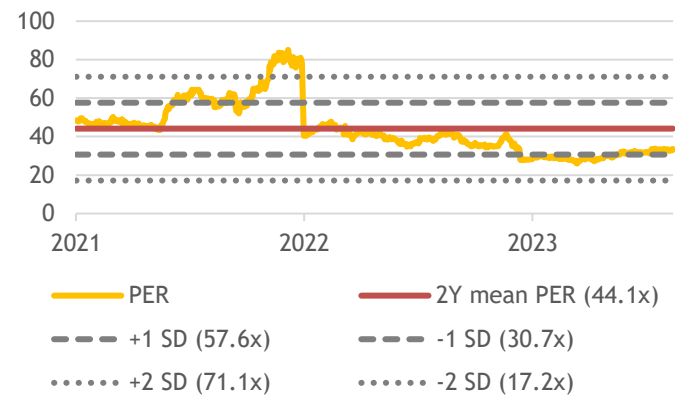
Source: Maybank IBG Research, Bloomberg

**Fig 11: DNL's 5-year PER**



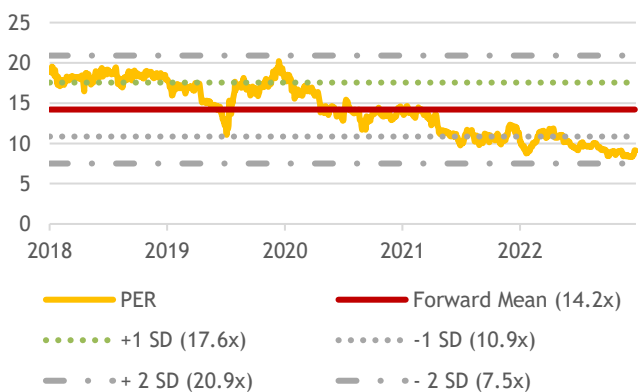
Source: Maybank IBG Research, Bloomberg

**Fig 12: JFC's 2-year PER**



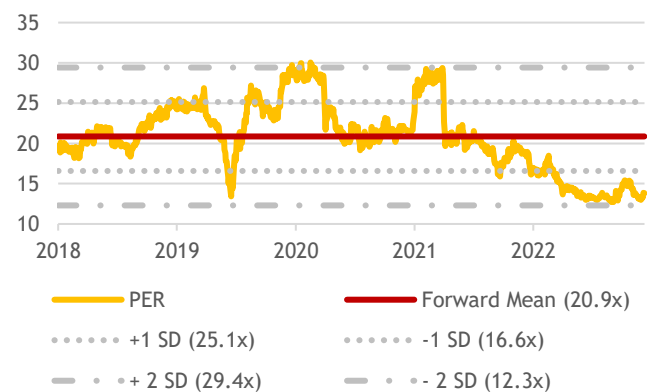
Source: Maybank IBG Research, Bloomberg

**Fig 13: PGOLD's 5-year PER**



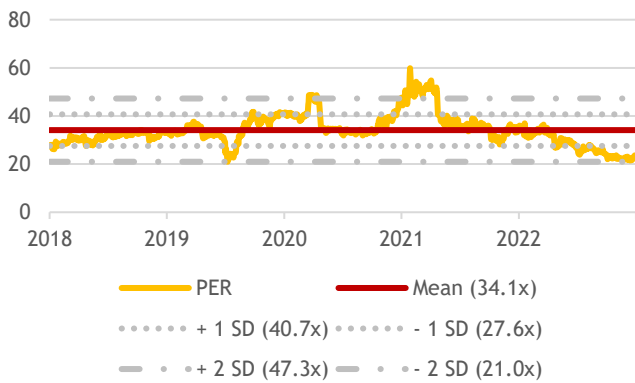
Source: Maybank IBG Research, Bloomberg

**Fig 14: RRHI's 5-year PER**



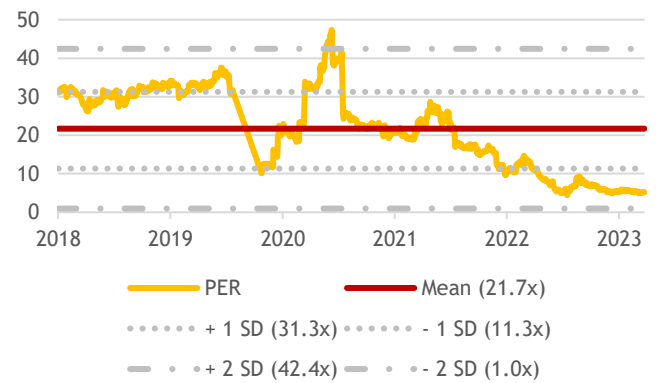
Source: Maybank IBG Research, Bloomberg

Fig 15: WLCON's 5-year PER



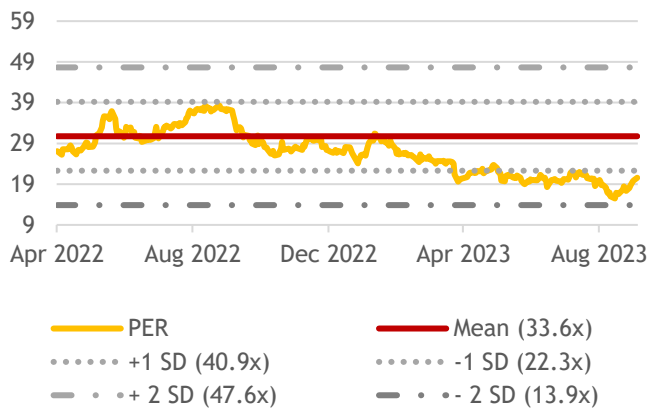
Source: Maybank IBG Research, Bloomberg

Fig 16: HOME's 5-year PER



Source: Maybank IBG Research, Bloomberg

Fig 17: MONDE's 5-year PER



Source: Maybank IBG Research, Bloomberg

Fig 18: Peer comparison

Company	Stock code	Mcap USD b	Reco	CP (PHP)	TP (PHP)	P/E (x)		P/BV (x)		ROE (%)	
						FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Century Pacific Food	CNPF PM	1.9	Hold	28.00	28.00	18.2	16.2	3.0	2.7	16.7%	16.6%
D&L Industries Inc.	DNL PM	0.8	Buy	6.42	10.00	16.2	12.9	2.1	2.0	13.3%	15.4%
Jollibee Foods Corp	JFC PM	4.4	Buy	229.40	288.00	29.6	25.0	3.8	3.5	17.1%	18.0%
Puregold Price Club	PGOLD PM	1.5	Buy	28.90	49.00	8.4	8.1	0.9	0.8	10.8%	10.3%
Robinsons Retail Holdings	RRHI PM	1.3	Buy	46.70	67.00	14.0	13.5	0.9	0.9	6.7%	6.7%
Universal Robina Corp	URC PM	4.4	Buy	118.90	170.00	18.9	16.2	2.2	2.0	11.6%	12.3%
Wilcon Depot Inc.	WLCON PM	1.5	Buy	22.00	34.00	22.5	18.9	3.9	3.4	17.2%	17.9%
AllHome Corp.	HOME PM	0.1	Buy	1.74	2.80	6.4	5.6	0.4	0.4	6.3%	6.8%
Monde Nissin Corp.	MONDE PM	2.9	Buy	9.03	11.00	22.6	19.5	2.7	2.6	12.1%	13.1%
<b>Weighted Average</b>						<b>20.8</b>	<b>18.0</b>	<b>2.7</b>	<b>2.4</b>	<b>13.6%</b>	<b>14.2%</b>

Source: Bloomberg, Maybank IBG Research, prices as of 29 September 2023

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