

Philippines Consumer

NEUTRAL

 [Unchanged]

Extra rice, please!

Inflation pressure from rice still at manageable levels

As of 29 Sept 2023, the price of local well-milled rice and regular-milled rice has risen by +29%/14% YTD to PHP45/PHP40 per kilo due to illegal price manipulation, hoarding by opportunistic traders, volatile oil prices and India's ban on rice exports. As rice accounts for 8.9% of the CPI basket, we expect a negative impact from rising rice prices, pressuring our +6.3% 2023 inflation forecast (see *Headline accelerates further, driven by higher food inflation* report). Inflation is generally negative for the consumer sector, as it: (i) dampens purchasing power; and (ii) exerts margin pressure on consumer companies. Among the consumer stocks we cover, we believe JFC is the most vulnerable as rice is on its menu. Nevertheless, it has locked in supply contracts and flexible menu-pricing strategies can help mitigate downside risk from rising rice prices.

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Acronyms:

DOF- Department of Finance
MFN- Most Favored Nation
SWS - System-wide sales
FMCG - Fast moving consumer goods
EO 39 - Executive Order 39 (Imposition of mandated price ceilings on rice)

Shortage of rice supply in the Philippines

As of end July 2023, the Philippines had 1.8m MT (-11% YoY) of rice in its reserves. Along with the projected harvest of 11m MT in 2H23 (see *news article*), this should be insufficient to serve the 16.5m MT projected requirement for the year. This is why in the latest USDA report, it is not surprising that the Philippines has overtaken China to become the world's top rice importer. The Philippines imports c.20% of its rice requirements annually.

Regulatory interventions to pre-empt inflation

In an effort to contain rice prices, the Department of Agriculture imposed a price cap of PHP41/kg for regular-milled and PHP45/kg for well-milled rice, which became effective on 5 Sep 2023 and subsequently lifted last 04 Oct 2023. The government is expecting the arrival of 1.3m MT of rice imports in 4Q23. Finally, there is also a proposal by the DOF to temporarily reduce the rice tariff from 35% to 0-10% for ASEAN countries and MFNs. These measures are intended to address potential shortages and manage inflation pressure caused by rising rice prices.

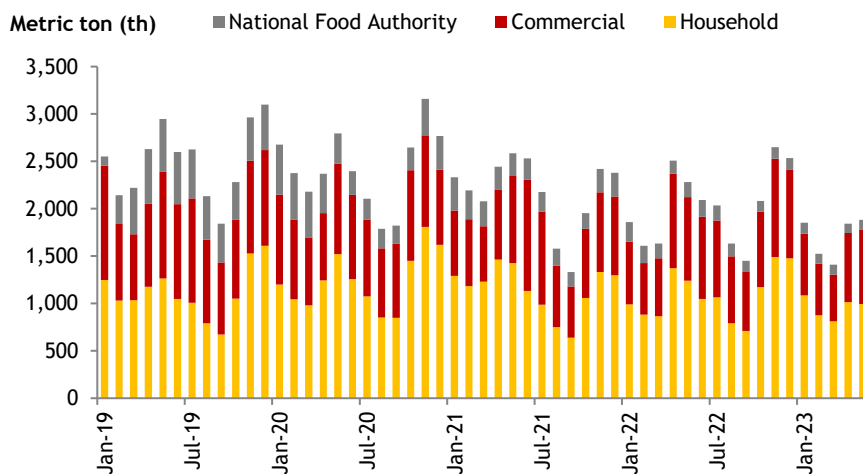
Minimal risks to JFC

FMCG manufacturers are the least impacted, as none of them have rice as their primary raw material. Meanwhile, retailers' price-pass-through mechanisms help insulate them against rising rice prices. Among our coverage, JFC is the most exposed as its domestic brands (c.69% of SWS sales) serve rice meals daily; rice accounts for c.3% of its domestic raw materials. Despite this, JFC remains our Top Pick in the sector due to its dominant market leadership position in a country that boasts above-average consumption growth and a young demographic, which we believe more than offsets potential downside from rising rice prices.

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	4,462	Buy	114.70	170.00	48	18.2	15.6	2.1	1.9	4.2	4.1
Jollibee Foods	JFC PM	4,295	Buy	220.60	288.00	31	28.4	24.0	3.7	3.4	1.2	1.4
Monde Nissin	MONDE PM	2,724	Buy	8.59	11.00	28	21.5	18.6	2.6	2.4	0.0	2.8
Century Pacific	CNPF PM	1,841	Hold	29.45	28.00	(5)	19.2	17.0	3.2	2.8	1.6	1.7
Wilcon Depot	WLCON PM	1,585	Buy	21.90	34.00	55	22.4	18.8	3.9	3.4	1.4	1.5
Puregold	PGOLD PM	1,507	Buy	29.75	49.00	65	8.7	8.3	0.9	0.9	1.7	1.7
Robinsons Retail	RRHI PM	1,270	Buy	46.00	67.00	46	13.8	13.3	0.9	0.9	4.3	4.4
D&L Industries	DNL PM	807	Buy	6.40	10.00	56	16.1	12.9	2.1	2.0	4.7	4.0
Allhome Corp	HOME PM	115	Buy	1.74	2.80	61	6.4	5.6	0.4	0.4	1.9	3.1

Focus charts

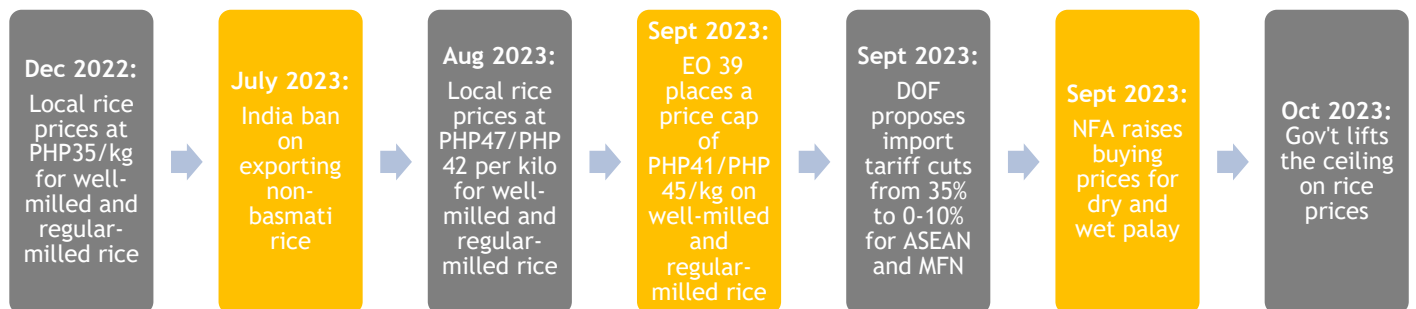
Fig 1: Rice inventory in the Philippines



95% of rice inventory in the country is allocated for households (53%) and commercial (42%) use.

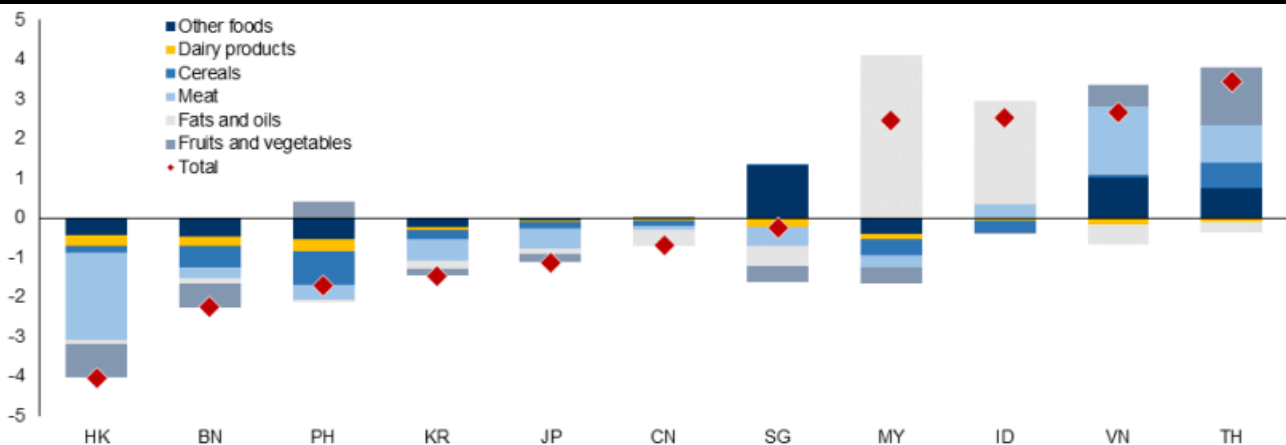
Source: CEIC, PSA

Fig 2: Rice prices - a timeline



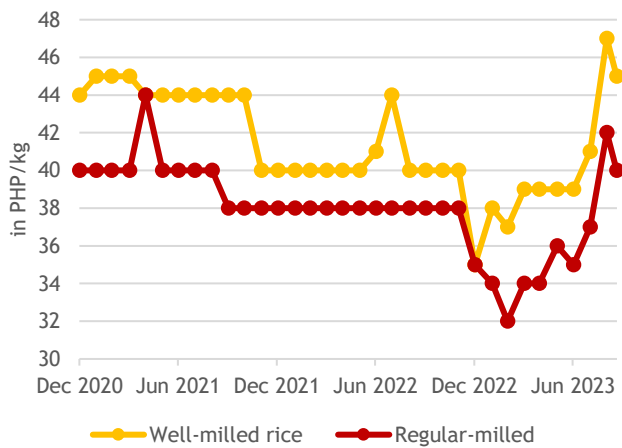
Source: Maybank IBG Research, News reports

Fig 3: ASEAN+3: Food Trade Balance, 2021 (as % of GDP)



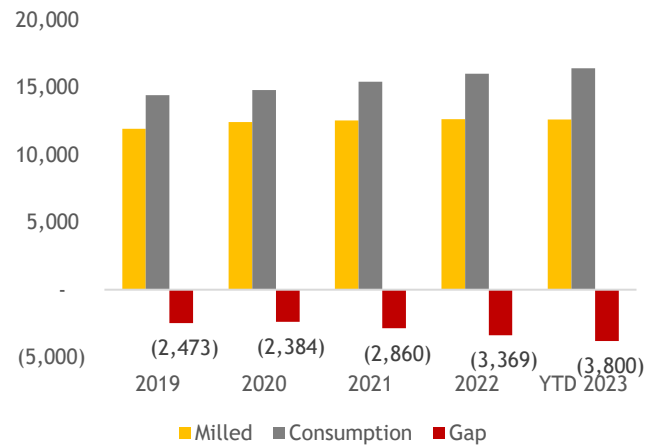
Source: Maybank IBG Research, AMRO; BN = Brunei; CN = China; HK = Hong Kong; ID = Indonesia; JP= Japan; KR = Korea; MY = Malaysia; PH = the Philippines; SG = Singapore; TH = Thailand; VN = Vietnam.

Fig 4: Rice prices in leading Metro Manila markets



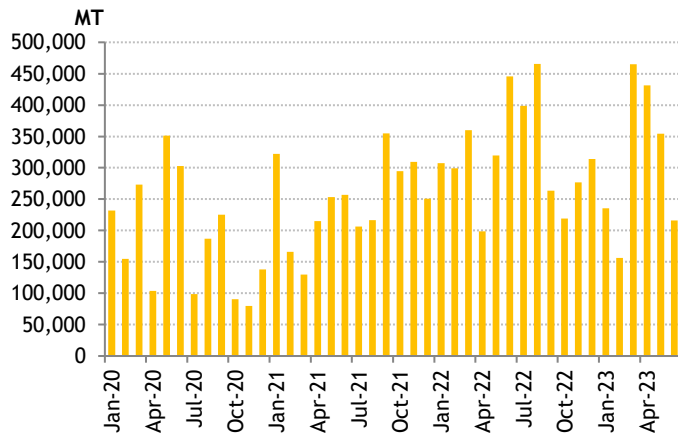
Source: Maybank IBG Research, Department of Agriculture (DA)

Fig 5: Philippine rice production, consumption and output gap



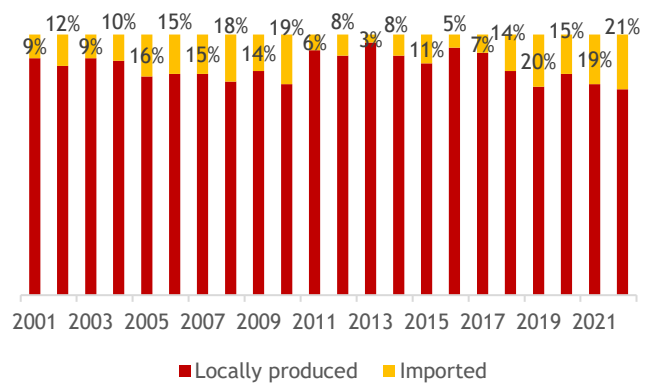
Source: Maybank IBG Research, CEIC, USDA

Fig 6: Monthly importation of rice



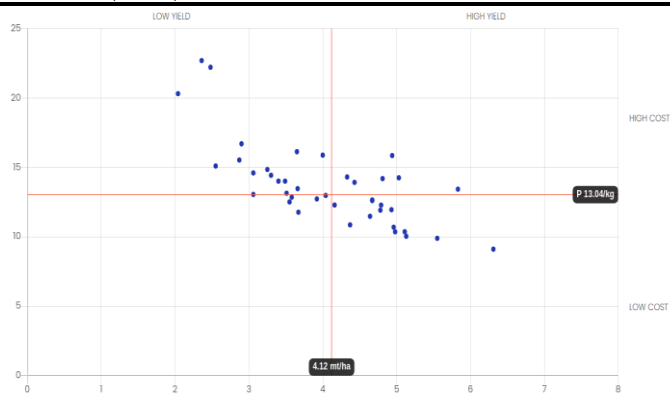
Source: Maybank IBG Research, PSA, CEIC

Fig 7: Percentage share of rice imports and local production to total supply (2001-2022)



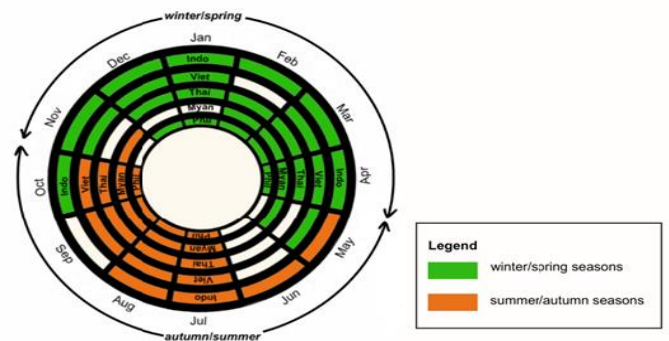
Source: Maybank IBG Research, PSA, Philrice.gov

Fig 8: Yield and production cost of major rice-producing provinces (2017)



Source: Maybank IBG Research, Philrice.gov, PalayStat System

Fig 9: Rice seasons in dominant ASEAN rice-growing regions



Source: Maybank IBG Research, ISEAS

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BUY	Return is expected to be above 10% in the next 12 months (including dividends)
HOLD	Return is expected to be between 0% to 10% in the next 12 months (including dividends)
SELL	Return is expected to be below 0% in the next 12 months (including dividends)

Applicability of Ratings

The respective analyst maintains a coverage universe of stocks, the list of which may be adjusted according to needs. Investment ratings are only applicable to the stocks which form part of the coverage universe. Reports on companies which are not part of the coverage do not carry investment ratings as we do not actively follow developments in these companies.

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