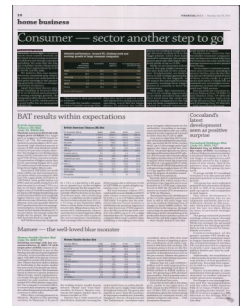


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# Consumer — sector another step to go

## Consumer sector

**Maintain overweight:** Consumer stocks have soared recently on the back of recovering economic conditions and strong consumer spending. We note that the bigger consumer stocks, whose share prices have appreciated by 0.4% to 29.5%, led the rally.

We believe this was mainly driven by rotational play whereby corporates are anticipated to post good earnings in the upcoming quarterly results on stronger consumer sentiment.

Apart from their decent valuation (trading at forward PERs of 11 to 22 times) and potentially strong earnings growth, the companies offer decent dividend yields of 1% to 6%, which serve as a good buffer for an anticipated volatile 2H.

The sector is also perceived as resilient.

Although the smaller companies have a smaller earnings base, they also stand to gain to a certain extent from strong consumer spending, much like the bigger players. In addition, the smaller

players are trading at a large average discount of some 67% to the bigger players. Given their more attractive valuations, the smaller players generally offer higher dividend yields of up to 15.8%.

While we are uncertain of how much this gap might narrow as this also depends on the companies' fundamentals, we believe there is still trading opportunity, particularly for the laggards, as we expect the anticipated strong quarterly earnings from bigger players to continue to drive the momentum.

That said, this represents a short-term trading opportunity as we think investors may shift their focus from the small-cap consumer companies to the big caps as these companies are expected to release reasonably good results in August.

Furthermore, concerns that the smaller consumer companies may not have recovered fully from the recession last year would also prompt investors to switch around their funds.

As we expect consumer sentiment and consumer spending to recover further, plus the fact that the decent dividend yield of most of these stocks make it a good sector pick amid a volatile 2H, we maintain our overweight recommendation on both the consumer retail and F&B sectors.

Our top picks for consumer retail are Parkson (buy, TP RM6.75) and Zhulian (buy, TP RM2.58) while top consumer F&B stocks are QL Resources (buy, TP RM4.65) and CI Holdings (buy, TP RM3.66).

— OSK Investment Research

### Absolute performance, forward PE, dividend yield and earnings growth of large consumer companies

	Absolute performance (2 months) (%)	Forward PE	Dividend yield (%)	Y-o-Y earnings growth (FY10f vs FY09) (%)
Nestle	7.3	22.3	4.8	9.9
F&N	29.5	12.3	2.9	47.9
Dutch Lady	21.0	11.2	1.1	40.2
Parkson	7.2	19.0	1.0	19.9
AEON	0.4	11.8	2.3	9.7
Amway	9.1	16.4	6.0	10.7

Source: OSK Research