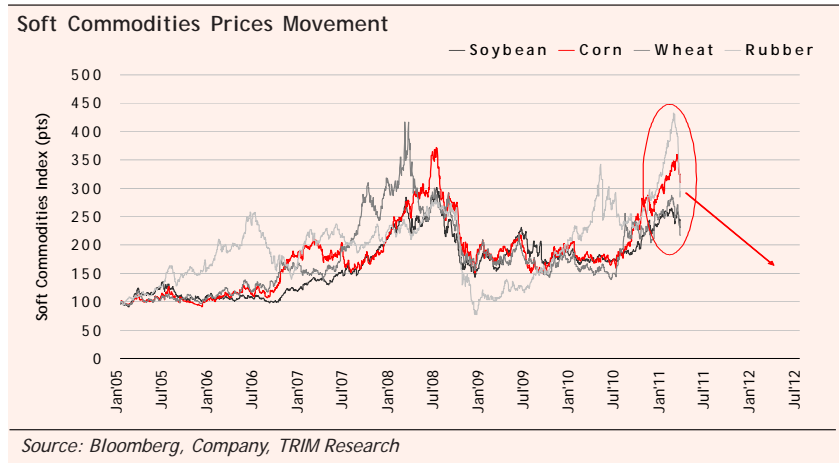


Is This the Right Moment to Look Back on Soft-COGS Consumer Stocks?

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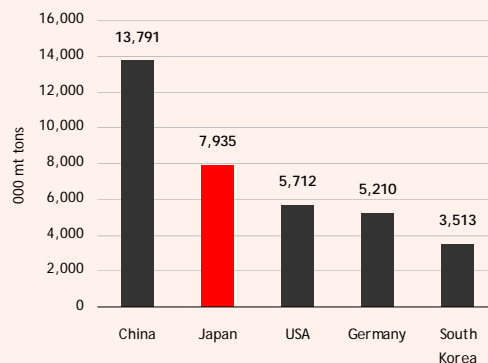
Refers to our TRIM Yearbook 2011, we highlighted how consumer stocks with soft commodities COGS will underperform in 2011 as we saw pressure building on margins due to the increasing soft commodities prices which has significantly gained since their respective bottom in Jun'10. However, recent Japan's quake has slashed most of soft commodity prices along with the increasing concern that global demand will be squeezed after Japan, the world's third largest economy, struggling for recovery. Coupled with abated wet weather and harvest seasons, the issues has put the soft commodities prices a "huge" downward pressure. Therefore, we see an upside risk to our Yearbook 2011 call on soft-COGS consumer stocks. Stocks that interested to be watched as we believe have a big exposure on this theme: CPIN, JPFA, GJTL, MASA, INDF, ROTI, MYOR and ICBP.



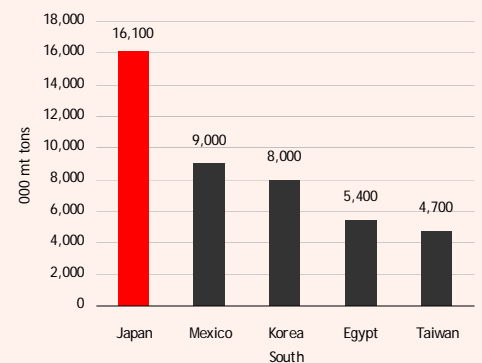
Wheat, Rubber, and Sugar Being the Most Underperform Counters

Rubber has dropped 12.8% WoW and 37% below its peak on Feb'11. Wheat plunged 12.0% WoW, and sugar decline 13.5% WoW respectively, compared to an average soft commodities decline of 9.0% WoW. It is not surprising as both commodities have a big exposure to Japan. The country is the world second largest auto producing countries, the world's leading buyer of corn, the third largest importer of soybeans, and the fifth-biggest purchaser of wheat.

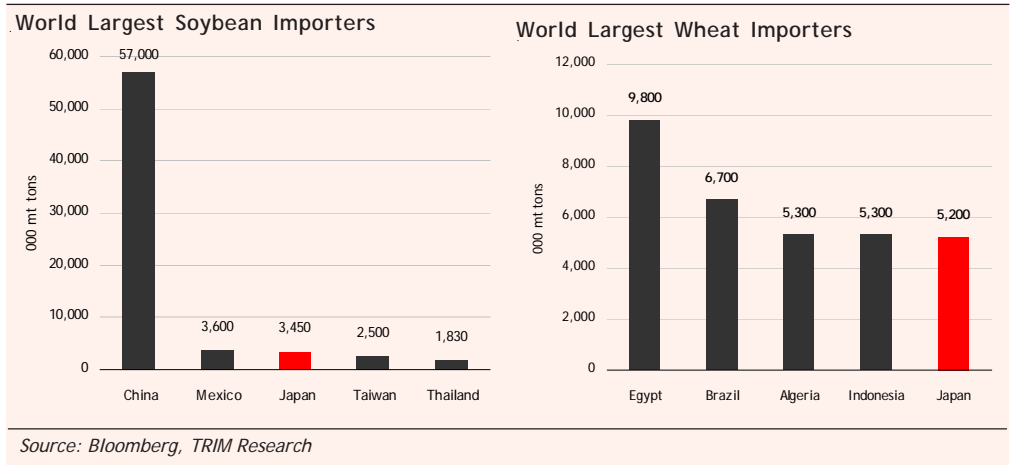
World Largest Auto Producing Countries



World Largest Corn Importers

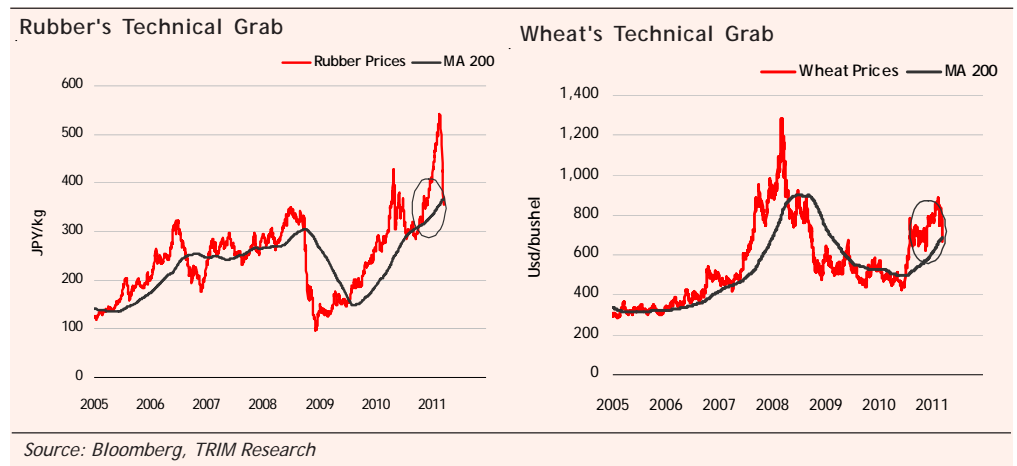


Source: Bloomberg, TRIM Research



Technical Wise: Not Yet Confirm Bearish Despite Has Reached Below MA 200

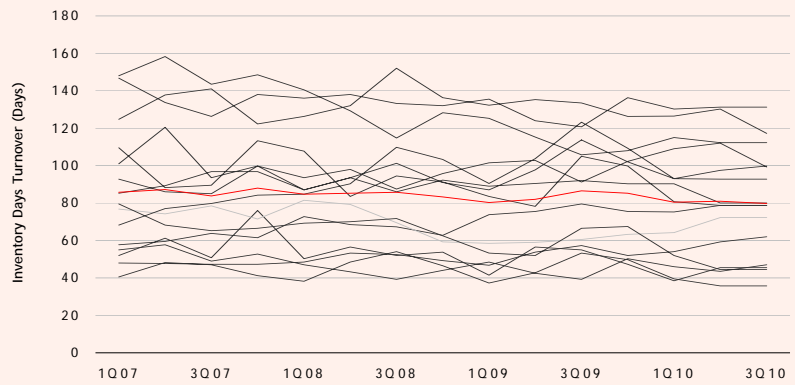
Market was speculating that wheat and rubber price would prolonged its downtrend after broke their MA200 yesterday. However, our discussion with our technical desk concluded that a 36.9% pullback from its highest record in Feb'11 made the prices reached its psychological support and there was an indication of reversal if we looking at slow moving oscillator signal. But we still remain cautious for another global sentiment that would lead another correction on soft commodities prices further.



Why All These Mattered for Consumer Stocks?

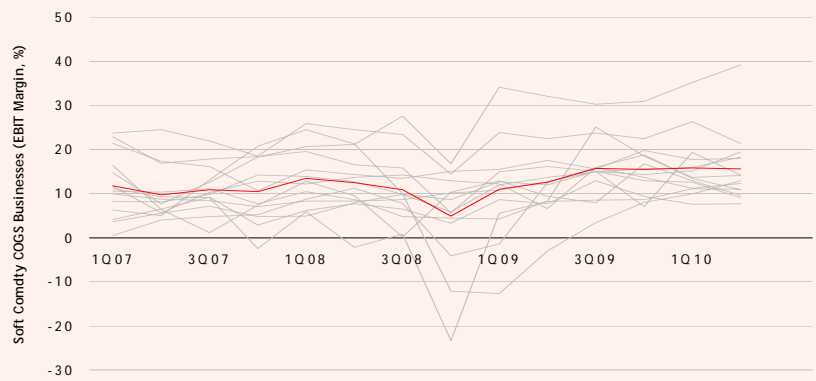
The decline in prices of soft commodities is good news for the consumer sector, where the soft commodities are majority component of their COGS. Wheat is main ingredients for INDF and ICBP's instant noodle and also important materials for ROTI's product. Moreover, INDF had increased its instant noodle price last month; this price increase will improve its margin. Likewise, the decline in rubber price for GJTL and MASA, corn price for CPIN and JPFA, and sugar price for MYOR. However, the declining price will be favorable for those companies, only if the low price is sustainable for a few times. Because accounting COGS using FIFO an average of 80 inventory days, if the low price sustain, the margin should show a sign of strengthening in 2Q 2011.

Inventory Days



Source: Bloomberg, Company, TRIM Research

Soft Commodities COGS Business EBIT Margin



Source: Bloomberg, Company, TRIM Research

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