Consumer

China Consumer: Assessing The Impacts Of El Niño

Highlights

- Against the backdrop of a strong El Niño expected during Sep 26-Feb 27, agricultural commodity prices have already risen, well ahead of the previous two El Niño cycles.
- We expect upside pressure on domestic sugar prices to be manageable, supported by comfortable domestic supply conditions and lower reliance on imports. In contrast, palm oil remains the key swing factor within the food cost basket, although any meaningful cost pressure is more likely to emerge in 2027.
- El Niño could affect consumer companies through two channels. On the supply side, it may increase input costs and, as a result, create pressure on margins. We see the impact as most relevant for: a) food producers with high exposure to instant noodles, bakery products and snacks; and b) apparel manufacturers and brands. On the demand side, it could affect seasonal consumption trends, particularly by dampening demand for cold-weather products. Maintain OVERWEIGHT.

Analysis

- **High probability of a strong El Niño during Sep 26-Feb 27.** According to the National Oceanic and Atmospheric Administration (NOAA), the Oceanic Niño Index (ONI) reached +1.8 during Jun-Aug 26. At the same stage (June-August) of the four most recent strong or very strong El Niño events, the ONI stood at +0.8 in 1982, +1.5 in 1997, +1.4 in 2015, and +1.0 in 2023, indicating that the current event is developing more rapidly than all four historical episodes and has been running ahead of them since May-July. According to the World Meteorological Organisation, there is an exceptionally high probability (nearly 100%) that El Niño will persist during Sep 26 – Feb 27, while the NOAA Climate Prediction Centre assigns a greater than 90% probability that the event will reach very strong intensity.

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OVERWEIGHT (Maintained)

Segmental Rating

Segment	Rating
Apparel & textiles	MARKET WEIGHT (Maintained)
Broadline retail	MARKET WEIGHT (Maintained)
Household durables	OVERWEIGHT (Maintained)
Macau gaming	OVERWEIGHT (Maintained)
Restaurant	OVERWEIGHT (Maintained)
Specialty retail	MARKET WEIGHT (Maintained)
Baijiu	UNDERWEIGHT (Maintained)
Beer	MARKET WEIGHT (Maintained)
Dairy	OVERWEIGHT (Maintained)

Source: Bloomberg, UOB Kay Hian

Sector Picks

Company	Ticker	Rec	Share Price (lcy)	Target Price (lcy)
Anta	2020 HK	BUY	72.00	112.20
Atour	ATAT US	BUY	32.02	47.10
Mengniu	2319 HK	BUY	18.09	24.40
Midea	000333 CH	BUY	85.04	112.60
Yum China	9987 HK	BUY	327.60	513.70

Source: Bloomberg, UOB Kay Hian

Peer Comparison

Company	Ticker	Rec	Price 17-Sep-26 (lcy)	Target Price (lcy)	Upside to TP (%)	Market Cap (US$m)	PE 2026F (x)	PE 2027F (x)	P/B 2026F (x)	P/B 2027F (x)	EV/EBITDA 2026F (x)	EV/EBITDA 2027F (x)	ROE 2026F (%)	Yield 2026F (%)
Anta Sports	2020 HK	BUY	72.00	112.20	55.8	25,667.18	11.8	10.9	2.3	2.1	5.3	4.7	20.9	3.9
Atour Lifestyle	ATAT US	BUY	32.02	47.10	47.1	4,356.10	13.8	11.4	6.0	4.5	8.0	6.2	46.6	3.3
Bud APAC	1876 HK	BUY	5.91	9.30	57.4	9,976.86	15.8	15.1	1.0	1.0	4.9	4.5	6.2	6.9
CR Beer	291 HK	BUY	18.17	28.60	57.4	7,513.92	9.7	9.2	1.5	1.4	4.4	3.8	15.6	5.7
CTG Duty-Free	601888 CH	BUY	51.15	77.10	50.7	15,623.55	21.3	19.0	1.8	1.7	8.3	6.8	8.6	1.9
Galaxy	27 HK	BUY	32.70	47.00	43.7	18,253.81	13.2	12.3	1.7	1.6	7.6	7.2	12.7	5.7
Haidilao	6862 HK	BUY	9.50	16.70	75.8	6,749.90	10.9	9.8	4.3	4.2	5.3	4.8	40.6	8.7
Haier Smart Home	6690 HK	BUY	20.58	28.30	37.5	27,124.31	8.8	7.9	1.3	1.2	5.8	5.2	14.3	6.6
Li Ning	2331 HK	BUY	12.58	21.80	73.3	4,144.93	11.5	10.4	1.0	0.9	1.6	1.3	8.6	4.4
Mengniu	2319 HK	BUY	18.09	24.40	34.9	8,926.69	12.0	10.8	1.4	1.3	4.3	3.8	12.0	4.2
Midea	000333 CH	BUY	85.04	112.60	32.4	96,488.08	13.9	13.1	2.8	2.6	13.0	12.2	20.3	5.3
Miniso	MNSO US	BUY	8.80	17.50	98.9	2,670.89	7.1	6.2	1.7	1.5	5.3	4.3	24.1	7.1
Moutai	600519 CH	HOLD	1,266.98	1,295.00	2.2	236,085.46	19.8	19.3	6.1	5.7	12.1	11.6	34.5	4.0
Sands China	1928 HK	BUY	12.20	20.30	66.4	12,586.26	10.7	9.8	8.5	7.8	8.2	7.9	81.7	9.1
Shenzhou	2313 HK	BUY	34.94	55.80	59.7	6,693.32	10.4	8.4	1.2	1.1	5.4	4.8	11.3	5.8
Tsingtao Brewery	168 HK	BUY	39.70	62.40	57.2	8,611.84	10.0	9.6	1.4	1.4	6.7	6.4	14.8	7.2
Wuliangye	000858 CH	HOLD	69.13	78.50	13.6	39,998.10	18.0	17.3	2.3	2.4	7.0	7.0	12.7	7.2
Xtep	1368 HK	BUY	3.50	5.60	60.2	1,254.14	7.1	6.6	0.8	0.7	2.5	2.2	11.6	8.0
Yili	600887 CH	BUY	26.56	32.40	22.0	25,042.31	13.9	12.6	3.0	2.8	10.4	9.6	21.7	5.4
YUM China	9987 HK	BUY	327.60	513.70	56.8	14,248.70	15.5	13.7	2.4	2.2	6.9	5.7	17.5	2.8

Source: Bloomberg, UOB Kay Hian

- **Agricultural prices have moved well ahead of the previous two El Niño cycles.** Since the emergence of the event (defined as ONI ran at or above +0.5) during March-May this year, international agricultural futures from March-to-date for Arabica coffee/crude palm oil/wheat, soft red winter/corn/raw sugar No.11/cotton No.2/cocoa was up 8%/15%/21%/21%/27%/27%/114%, respectively. These moves are well ahead of those seen during both the 2015-16 and 2023-24 El Niño events. During the equivalent March-September period of the 2015-16 event, futures prices changed by -16%/-12%/-4%/+2%/-18%/-3%/+4%, respectively, and during the 2023-24 event, futures prices changed by -15%/-11%/-13%/-26%/+31%/+1%/+34%, respectively.
- **Implications on domestic market: Sugar prices have limited upside pressure…** While Intercontinental Exchange (ICE) raw sugar futures have gained 27% since March, domestic sugar futures prices (as indicated by the main contracts on the Zhengzhou Commodity Exchange) have remained largely flat. This divergence is mainly attributable to relatively comfortable domestic supply conditions. As of end-August, China's sugar industrial inventories were 91% higher than last year, providing buffer ahead of the new 2026/27 crushing season (starting in mid-to-late September). The output is expected to be approximately flat yoy. Moreover, China's reliance on sugar imports is controllable, accounting for around 30% of the total consumption in the 2025/26 crushing season. We therefore expect the upside pressure on sugar prices from El Niño to be manageable.

  …and palm oil prices remain the key swing factor, but the impact is likely to materialise in 2027. Palm oil is one of the few agricultural commodities for which China remains almost entirely dependent on imports, making domestic prices highly exposed to global market volatility. However, we expect any palm oil-related cost pressure to be more likely to emerge in 2027 rather than 2026. Unlike annual crops, palm oil is a perennial tree crop with a biological lag of roughly six to 18 months between adverse weather conditions and meaningful production impacts. Historical experience supports this pattern. Following the onset of the 2023 El Niño, palm oil futures prices declined 11% by September and were only 4% higher after one year, before eventually peaking at 10% by April the following year.

  A similar pattern appears to be unfolding in the current cycle. Since March, palm oil futures prices have risen 15%, lagging the gains seen in other weather-sensitive agricultural commodities, while data from the Malaysian Palm Oil Council (MPOC) showed that China inventories for palm oil stood at an eight-month high as of August, suggesting that weather-related supply disruptions have yet to materialise. As such, we view palm oil as the key swing factor within the food cost basket. It remains one of the few major input costs that food producers have yet to absorb, although a more severe weather outcome could translate into a meaningful headwind to gross margins in 2027.
- **What are the implications on China consumer?** We believe agricultural commodity prices have largely priced in the expected impact of El Niño, whereas the potential implications for China consumer companies have not yet been fully reflected. In our view, El Niño could affect consumer companies through two channels: supply side cost pressures and demand-side disruptions.

  First, on the supply side, El Niño may increase input costs and, as a result, create pressure on margins. This impact is likely to be more pronounced for: a) food producers, particularly those with high exposure to instant noodles, bakery products and snacks, for which palm oil is a key input; and b) apparel manufacturers and brands, given the potential rise in cotton prices. That said, the pass-through from higher commodity prices to raw material costs typically involves a lag. Therefore, we expect any meaningful margin pressure to be more visible in 2027. For apparel companies, the impact could materialise even later due to procurement arrangements.

Second, on the demand side, abnormal weather conditions may alter consumer spending patterns. A strong El Niño is often associated with a milder winter in eastern China and is often followed by a hot and wet summer across the Yangtze River region. Such weather conditions could affect seasonal consumption trends. In particular, a milder winter may dampen demand for cold-weather products, including down jackets and other winter apparel.

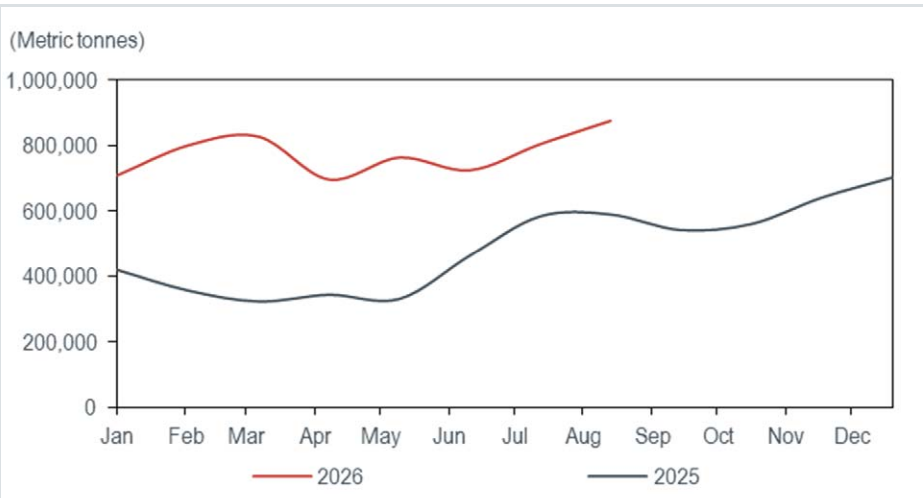
Under our consumer discretionary coverage, we favour companies with strong cost-control capabilities on the supply side. In particular, we prefer players with a centralised supply chain, which helps mitigate raw material cost volatility through scale advantages and procurement efficiency, such as YUM China. We see apparel manufacturers under our coverage, such as Shenzhou, as being more exposed to rising cotton prices. On the demand side, weather-related demand fluctuations remain a key risk. Thus, we prefer companies with diversified multi-brand portfolios, which can better absorb volatility in seasonal categories, particularly winter-related products. We prefer Anta.

Under our consumer staples coverage, we see limited pressure from rising input costs, as most companies have relatively low exposure to raw materials that are currently experiencing significant price increases. We prefer names whose key inputs are primarily sourced domestically and where supply-demand dynamics are improving. We prefer Mengniu.

Valuation/Recommendation

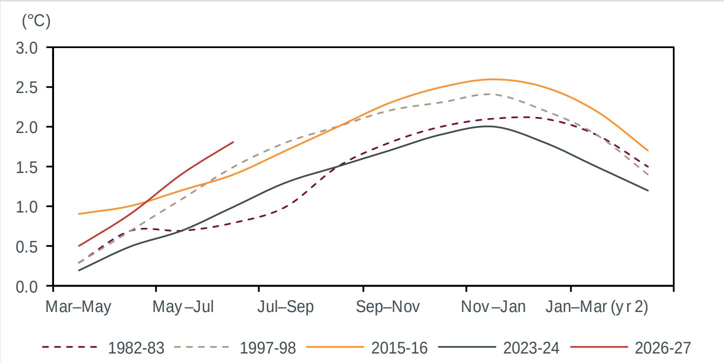
- **Maintain BUY on Anta (2020 HK).** Our DCF-based target price is HK$112.20, implying 19.2x 2026F PE and 17.7x 2027F PE. Anta currently trades at 11.8x 2026F PE and 10.9x 2027F PE.
- **Maintain BUY on Atour (ATAT US).** Our DCF-based target price is US$47.10, implying 20.4x 2026F PE and 16.8x 2027F PE. Atour currently trades at 13.8x 2026F PE and 11.4x 2027F PE.
- **Maintain BUY on Mengniu (2319 HK).** Our DCF-based target price is HK$24.40, implying 17.0x 2026F PE and 15.1x 2027F PE. Mengniu currently trades at 12.0x 2026F PE and 10.8x 2027F PE.
- **Maintain BUY on Midea (000333 CH).** Our SOTP-based target price is Rmb112.60, implying 18.4x 2026F PE and 17.3x 2027F PE. Midea currently trades at 13.9x 2026F PE and 13.1x 2027F PE.
- **Maintain BUY on YUM China (9987 HK).** Our DCF-based target price is HK$513.70, implying 23.8x 2026F PE and 20.8x 2027F PE. YUM China currently trades at 15.5x 2026F PE and 13.7x 2027F PE.

China Total Ending Stocks For Palm Oil



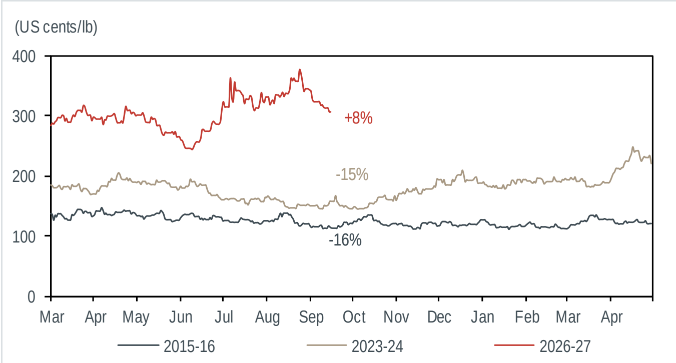
Source: Malaysian Palm Oil Council (MPOC), UOB Kay Hian

Oceanic Niño Index (ONI)



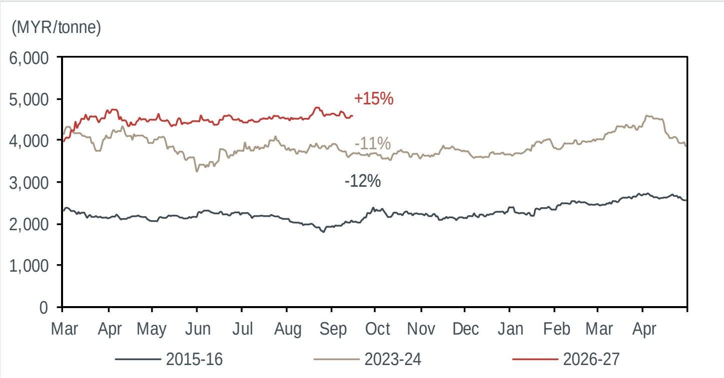
Source: National Oceanic and Atmospheric Administration, UOB Kay Hian

ICE Arabica Coffee Futures



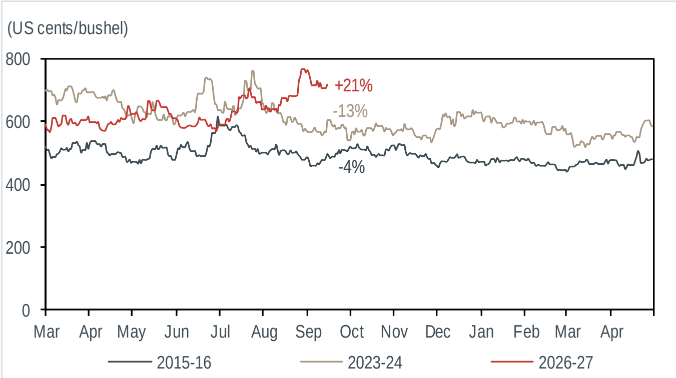
Source: Intercontinental Exchange (ICE), UOB Kay Hian

Bursa Malaysia Crude Palm Oil Futures



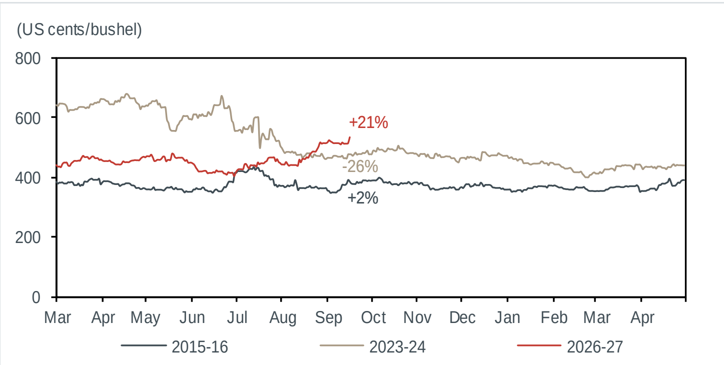
Source: Bursa Malaysia, UOB Kay Hian

CBOT Wheat Futures



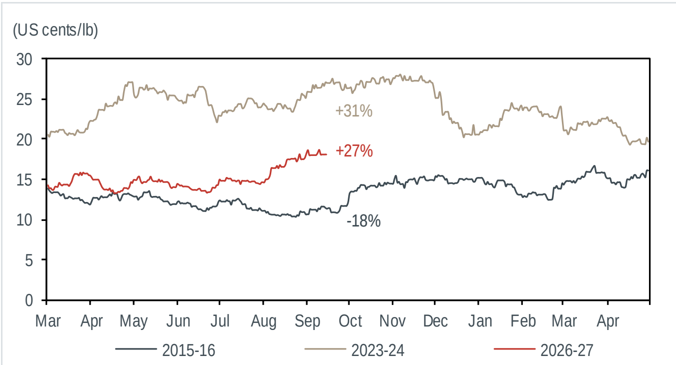
Source: Chicago Board of Trade (CBOT), UOB Kay Hian

CBOT Corn Futures



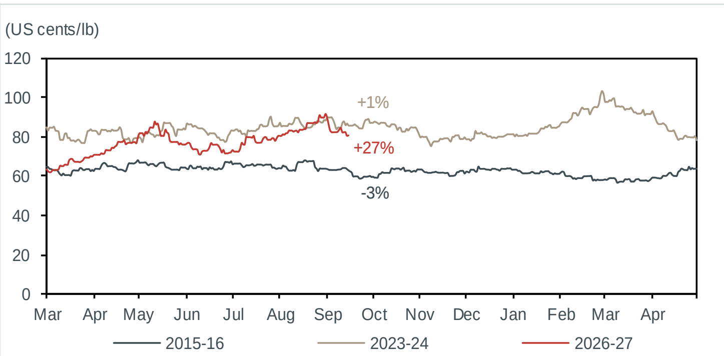
Source: Chicago Board of Trade (CBOT), UOB Kay Hian

ICE Sugar No. 11 Futures



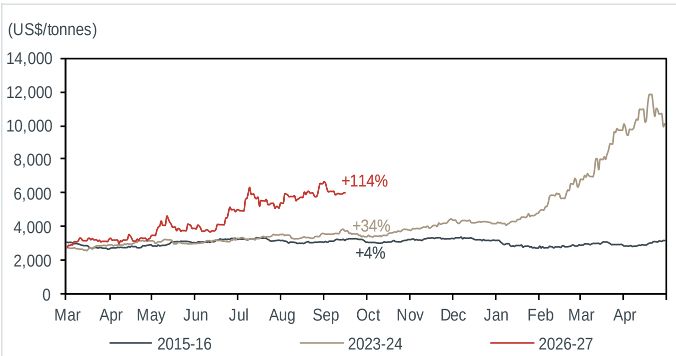
Source: Intercontinental Exchange (ICE), UOB Kay Hian

ICE Cotton No. 2 Futures



Source: Intercontinental Exchange (ICE), UOB Kay Hian

ICE Cocoa Futures



Source: Intercontinental Exchange (ICE), UOB Kay Hian