midf INVESTMENT midf RESEARCH

23 OCTOBER 2015

MALAYSIA EQUITY

BUDGET 2016

ECONOMIC COMMENTARY AND ANALYSIS

An expansionary budget amid low oil price. It is the job of the government to inject the economy with further stimulus during an economic uncertainty, as fiscal policy should be in an anti-cyclical manner i.e. expansionary during recession and contractionary during expansion stage in the economic cycle. However, to conduct an expansionary budget while the oil price remains low would be difficult for the government, as petroleum-related revenues continue to become one of the main contributors to the government's revenue. As such, the introduction of goods and services tax (GST), which is widely considered as a more prudent tax system with a wider tax base compared to the previous sales and services tax (SST), helped to cushion a lot of the shortfalls in the petroleum-related revenues.

Petroleum-related revenue is expected to contribute only by 14.1% in 2016. Petroleum-related revenue is expected to reduce to approximately RM44.0 billion in 2015 and further reduced to RM31.7 billion in 2016, from RM66.9 billion in 2014. This reflects that the contribution of petroleum-related revenue to total revenue will be reduced from 29.7% in 2014 to 19.7% in 2015 and 14.1% in 2016. To reduce the dependent of the government to petroleum-related revenue has been the target in the 11th MP. By being able to maintain a considerably low budget deficit at 3.1% while the petroleum-related revenue has been reduced by approximately RM35.2 billion is reflecting that the Malaysia government is no longer dependent on petroleum-related revenue for its fiscal position.

Balancing between fiscal consolidation and people's welfare. The government's decision to demolish petroleum subsidy due to the low oil price and to replace it with 1Malaysia People's Aid (BR1M) should be applaud. In economic theory, a targeted subsidy system is considered as a better subsidy system compared to an in-kind subsidy which is received by all user of the products, as in the case of the previous petroleum subsidy. Despite that, amount of money used for BR1M's payment is considerably high which is estimated to be at RM5.9 billion in 2016, higher than RM5.3 billion in 2015 and may continue to increase further in the future. The government may eventually need to adapt targeted in-kind subsidy where only the low income households are eligible to buy necessities at a subsidised prices.

Table 1: Federal Government Finance

	RM million				YoY change (%)		
	2013	**2014**	**2015**	**2016**	**2014**	**2015**	**2016**
Revenue	13,370	220,626	222,455	225,656	3.4	0.8	1.4
Operating Expenditure	11,270	219,589	213,314	215,224	3.9	-2.9	0.9
Current balance	2,100	1,037	9,141	10,432	-50.6	781.9	14.1
Gross development expenditure	42,210	39,503	47,423	50,000	-6.4	20.0	5.4
Less Loan recovery	1,526	1,052	1,033	785	-31.1	-1.8	-24.0
Net development expenditure	40,684	38,451	46,390	49,215	-5.5	20.6	6.1
Overall balance	(38,584)	(37,414)	(37,249)	(38,783)	-3.0	-0.4	4.1
Overall balance as % of GDP	**-3.8**	**-3.4**	**-3.2**	**-3.1**	N/A	N/A	N/A

Moderate operating expenditure (OpEx), higher development expenditure (DevEx) in 2016. In line with government's fiscal consolidation plan, the government tried its best to minimise the budget deficit this year, though the best the government can achieve is to be at 3.1%, due to the sharp decline in petroleum-related revenue. Uncertain economic condition and being the first budget under 11th Malaysia Plan does not allow much pullback in development expenditure, where it will be increased by approximately 5.4% relative to the 2015 estimated figure. High development expenditure is seen as necessary in order to boost the economy next year due to the uncertain global economic condition. The government also revised their estimated OpEx to RM213.3 billion from the initial target of RM217.9 billion in the revised 2015 budget, reflecting that they have been able to cut their OpEx much more than they initially planned.

Table 2: Federal Government – Revenue

	RM million				YoY change		
	2013	**2014**	**2015**	**2016**	**2014**	**2015**	**2016**
Direct Tax	120,523	126,743	116,760	125,566	5.2%	-7.9%	7.5%
Income tax	113,300	118,996	108,362	116,558	5.0%	-8.9%	7.6%
Companies	58,175	65,240	68,320	74,381	12.1%	4.7%	8.9%
Individual	23,055	24,423	27,155	30,266	5.9%	11.2%	11.5%
Petroleum	29,753	26,956	9,529	9,331	-9.4%	-64.6%	-2.1%
Withholding and others	2,317	2,377	2,358	2,580	2.6%	-0.8%	9.4%
Others	7,223	7,747	8,399	9,009	7.3%	8.4%	7.3%
Indirect Tax	35,429	37,462	53,258	57,987	5.7%	42.2%	8.9%
Export Duties	1,930	1,893	1,053	1,012	-1.9%	-44.4%	-3.9%
Petroleum	1,632	1,577	904	900	-3.4%	-42.7%	-0.4%
Others	298	316	149	112	6.0%	-52.8%	-24.8%
Import Duties	2,524	2,670	2,727	2,791	5.8%	2.1%	2.3%
Export Duties	12,193	12,925	12,168	12,408	6.0%	-5.9%	2.0%
Consumption Tax	16,012	17,217	34,635	39,000	7.5%	101.2%	12.6%
Sales Tax	10,068	10,939	4,784	-	N/A	N/A	N/A
Service Tax	5,944	6,278	2,851	-	N/A	N/A	N/A
Goods and Services Tax	-	-	27,000	39,000	N/A	N/A	N/A
Others	2,770	2,757	2,675	2,776	-0.5%	-3.0%	3.8%
Non-Tax Revenue	57,418	56,421	52,437	42,103	-1.7%	-7.1%	-19.7%
TOTAL	**211,270**	**219,589**	**213,314**	**215,224**	3.4%	0.8%	1.4%

GST collection is expected to be at RM39 billion in 2016. The government estimates that GST collection for year 2015 and 2016 at RM27 billion and RM39 billion respectively, significantly higher than their previous estimation at RM23.2 billion for the three quarters in 2015. The upward revision in their estimates were due to the higher than expected voluntary registrants for the new tax system, where a total number of 390,378 business entities have registered under GST, compared to the initial figure of 300,811 during the mandatory period. However, we are of the opinion that the RM39 billion figure is quite optimistic compared to our base case of RM30 billion and the upper range of RM36 billion at the current 6% tax rate. As we had initially expected in our budget 2016 preview, the list of zero-rated GST is being expanded for more healthcare products and basic necessities. The government has also decided to increase the rate for the top two tax band from 25% to 26% (RM600K – RM1 million) and from 25% to 28% (RM1 million and above) to further boost government's revenue next year. The decision to increase the income tax while reducing the consumption tax is believed to help the low and middle income earners to cope with the rising cost of living.

Table 3: Federal Government – Operating Expenditure

	RM million				YoY change		
	2013	**2014**	**2015**	**2016**	**2014**	**2015**	**2016**
Emoluments	61,002	66,947	69,113	70,466	9.7%	3.2%	2.0%
Pensions and gratuities	14,842	18,218	18,153	19,496	22.7%	-0.4%	7.4%
Debt service charges	20,776	22,588	24,379	26,639	8.7%	7.9%	9.3%
Domestic	20,291	22,089	23,935	26,006	8.9%	8.4%	8.7%
External	485	499	444	633	2.8%	-11.0%	42.6%
Grants & transfers to state governments	6,046	6,530	7,384	7,611	8.0%	13.1%	3.1%
Supplies & Services	33,860	34,259	36,638	36,315	1.2%	6.9%	-0.9%
Subsidies	43,349	39,703	26,219	26,090	-8.4%	-34.0%	-0.5%
Asset Acquisition	1,415	1,802	1,157	761	27.4%	-35.8%	-34.2%
Refunds & write-offs	1,097	1,336	1,664	924	21.8%	24.6%	-44.5%
Grants to statutory bodies	14,761	16,353	15,655	12,908	10.8%	-4.3%	-17.5%
Others	14,123	11,853	12,952	14,014	-16.1%	9.3%	8.2%
TOTAL	**211,270**	**219,589**	**213,314**	**215,224**	3.9%	-2.9%	0.9%

Most of the cuts in OpEx are expected to be coming from grants to statutory bodies. Grants to statutory bodies is estimated to be reduced by approximately RM2.7 billion (-17.5%yoy) in 2016. Emoluments were initially planned to be at RM65.6 billion in 2015, but now being revised to RM69.1 billion and is expected to marginally increase to RM70.5 billion (+2.0%yoy) in 2016. Emoluments has been consistently above the government's expectation in the past, making it the major cause of increment for government expenditure in general. However, there is not much that the government can do for emoluments, as such the focus of the government in reducing its expenditure is in supplies and services, subsidies and grants.

Debt service charges is estimated to increase to RM26.6 billion in 2016. The public debt to GDP ratio was at 52.7% as at the end of 2015. As most of our government debts are used to cover the budget deficit, we can expect that the total debt will grow by approximately 6.4% and 6.3% in 2015 and 2016 respectively. Hence the nominal GDP will need to grow by more than these amounts in order to contain the public debt at the current level. This may be difficult for this year as the nominal GDP only grew by 4.1% in the first half of 2015 and is expected to grow by 5.5% for the full year according to the government's estimate.

Table 4: Federal Government – Development Expenditure

	RM million				YoY change		
	2013	**2014**	**2015**	**2016**	**2014**	**2015**	**2016**
Economic Services (ES)	24,646	23,338	28,316	30,303	-5.3%	21.3%	7.0%
Agri & Rural Dev	2,692	2,875	3,213	3,394	6.8%	11.8%	5.6%
Trade and Industry	6,244	4,688	6,768	8,349	-24.9%	44.4%	23.4%
Transport	8,152	7,271	8,734	8,440	-10.8%	20.1%	-3.4%
Public Utilities	3,332	3,485	4,523	3,636	4.6%	29.8%	-19.6%
Communication	187	176	37	22	-5.9%	-79.0%	-40.5%
Others	4,039	4,843	5,041	6,462	19.9%	4.1%	28.2%
Social Services (SS)	10,884	10,490	12,474	13,094	-3.6%	18.9%	5.0%
Education	6,438	4,928	5,629	4,691	-23.5%	14.2%	-16.7%
Health	1,738	1,385	1,564	1,780	-20.4%	13.0%	13.8%
Housing	852	618	2,293	2,588	-27.4%	270.8%	12.9%
Others	1,856	3,559	2,988	4,035	91.8%	-16.1%	35.0%
General Administration	2,032	1,344	1,701	1,593	-33.9%	26.6%	-6.3%
Defence & Security	4,649	4,332	4,932	5,010	-6.8%	13.8%	1.6%
TOTAL	**42,210**	**39,503**	**47,423**	**50,000**	-6.4%	20.0%	5.4%

DevEx will focus on stimulating the economy with high multiplier effect. Given the stress of higher productivity and improving the economy through education in the 11th MP, the reduction in education DevEx is unexpected. This decision may be made due to the focus to pump-prime the economy in sectors with a more immediate impact to the economy, as investment in education is considered as a long term investment strategy and will not be giving an immediate impact to the economy next year. Due to that, trade and industry experienced the highest increment by RM1.6 billion relative to the estimated 2015 budget, while the allocation for transport remains high as the government proceeds with the LRT3 expansion plan.

Table 5: Real GDP by Expenditure

	2014	2015	2016	2014	2015	2016
	YoY change			p.p. contribution to growth		
Final consumption expenditure	6.4%	6.1%	5.7%	4.18	4.00	3.75
Public	4.4%	3.6%	3.0%	0.61	0.48	0.40
Private	7.0%	6.8%	6.4%	3.58	3.51	3.35
Gross fixed capital formation	4.8%	5.2%	5.1%	1.26	1.37	1.34
Public	-4.7%	1.6%	2.3%	-0.50	0.15	0.21
Private	11.0%	7.3%	6.7%	1.75	1.21	1.13
Change in stocks	170.6%	-96.2%	-233.5%	-0.57	0.82	0.07
Exports of goods and services	5.1%	-0.8%	0.9%	3.94	-0.58	0.65
Imports of goods and services	4.2%	0.8%	1.5%	7.65	-10.44	-1.19
Gross Domestic Product at purchasers' prices	6.0%	5.0%	4.8%	5.99	5.03	4.83

The government is expecting further slowdown in the economy next year. The government is looking at 5.0% and 4.8% economic growth for year 2015 and 2016 respectively, while we are looking at 4.8% and 5.0% growth for 2015 and 2016 respectively. We are expecting that the economy will start to pick up in the second quarter next year, particularly led by private consumption with an expected growth of 7.0%. However, our assessment may be reviewed if the global economic slowdown persists in the fourth quarter of this year. We believe the government’s estimations are on the assumption that the global and emerging market’s economy will continue to slow in 2016, with both Ringgit and commodity prices to remain weak.

EQUITY MARKET

It is certainly a "difficult budget" as it offered not much goodies and no new key measures to spur the market, but nonetheless is an attestation to the government's steadfastness towards its fiscal goal.

Key Sectorial Impacts

The FBM KLCI is heavily weighted by four sectors. The key sectors among FBM KLCI 30 constituents are (i) Banking, (ii) Telecommunication, (iii) Plantation, and (iv) Oil & Gas. Together, these four sectors represent circa 3/4 of the benchmark's total weighting. In view of this, in order to gauge the direct impacts of the national budget on the stock market, our attention is duly centered on what in store for the aforementioned sectors.

Banking. The extension of tax benefits are aimed to create a more vibrant financial market and to further strengthen the country's position as an international Islamic financial centre. We believe that the continuation to provide tax deduction benefits will encourage issuers to issue sukuks and bonds to raise the required funding. We remain our NEUTRAL stance on banking sector.

Telecommunication. The increase in allocation for telecommunication infrastructure is in-tandem with the growing demand for data and voice services. However, we view that the increase in ARPU, in the case of TM, will be gradual. We remain our NEUTRAL stance on telecommunication sector.

Plantation. The increase in minimum wage (RM1,000 per month in Peninsular Malaysia and RM920 per month in Sabah/Sarawak) is expected to result in minimal impact to operating cost of plantation companies as most estate workers, such as harvesters, are already earning more than the new minimum wage. We gather that harvesters (which makes up more than 80% of plantation companies workforce) generally earn more than RM1,500 per month assuming average productivity. We maintain our POSITIVE stance on plantation sector.

Oil & Gas. The focus is still on the downstream oil and gas sector, chiefly the USD26b Refinery and Petrochemical Integrated Development (RAPID). In addition, the overall oil and gas sector will benefit from the GST relief on the re-importation of equipment for oil and floating platforms that are temporarily exported for the purpose of rental and leasing, as it will improve operating cash flows of oil and gas companies currently operating in tight and challenging environment. We remain POSITIVE on the sector as the local oil and gas industry is still seen as a key industry for Malaysia and also one of the key revenue contributors to the country.

In conclusion, we do not expect the Budget 2016 to directly bring much excitement to FBM KLCI in the coming week.

Market Outlook

The Malaysian government is staring at a RM30 billion shortfall in annual revenue from lower petroleum-related incomes, i.e. taxes, dividend and royalty, pursuant to the halving of crude oil (from USD100pb to USD50pb) and gas prices. The budget shortfall is equivalent to circa 60% of its yearly development expenditure of circa RM50b which is vital in providing support to the economy that is facing heightened headwinds. But on the other hand, incurring higher borrowings to plug the hole is also not an option as the rating agencies are closely watching for any signs of slippage in the government's efforts to contain the deficit and together with its long-term commitment to balance the budget by 2020.

"I have a plan, and the plan is working."–PM Najib Razak Fortunately, on hindsight, the pro-active measures introduced by the government to mitigate the anticipated decline in its revenues have arguably been the savior. The two main initiatives which have been taken by the government, namely (i) the imposition of the GST, and (ii) rationalization of subsidies, albeit unpopular, seem to be bearing fruits. Firstly, the GST collection is better than anticipated due to higher compliance and is expected to generate net additional income of circa RM21b, i.e. total GST collection of RM39b minus RM18 forgone revenue from the abolishment of SST, in 2016. Secondly, the abolishment of fuel subsidies and reduction in other subsidies will help to reduce government's expenditure by circa 13b. Together, the plan is working as these two measures are expected to provide around RM34b net boost to the government's coffer and enough to plug the massive RM30b shortfall in petroleum-related incomes.

Steadfastness to fiscal goal is a market-positive step… The Budget 2016 is an attestation to the government's earlier promise to contain its fiscal deficit, which is now expected to improve to 3.1% of GDP for next year, and eventually to achieve a balanced budget by year 2020. More importantly, it clearly outlines how the deficit target for next year shall be achieved. We believe the fiscal steadfastness will be viewed favorably by the market.

…but nonetheless expect minor near-term market reaction to Budget 2016. While the budget may help to soothe investors' wariness over the state of government finances, it nevertheless provided no material surprises that may spur significant buying interest in the equity market. Hence we expect the short-term equity market undertone to continue to be cagey in view of the still heightened external economic uncertainty (e.g. Euro area may require a fresh injection of stimulus by the end of the year and China cut its interest rate by further 0.25% to counter economic slowdown) and unsettled domestic political issues.

Positive secular impact of the budget on equity pricing… Having said the above, it must also be noted that healthy government finances is of long-term strategic importance to the nation's well-being particularly with regard to (i) Malaysia's sovereign rating stability, (ii) global investor confidence, and (iii) continued ability of the government to provide adequate backstops during an economic downturn. Tying the above to the equity market, it is widely recognized that equity pricing is essentially the questions of not only earnings but also that of valuation. And equity valuation, by extension, involves considerations with regard to the measure of risks and its attendant required return.

…may only manifest in due course. On this score, as earlier stated, improvement in the nation's fiscal underpinning shall result in stronger government finances, enhanced sovereign rating and higher investor confidence. These in turn would engender the diminution of sovereign and economic risks. Therefore, in due course, the improvement in aggregate risks level would attract a lower required return which customarily drives equity market valuation higher. In gist, the positive impact of Budget 2016 on the equity market will likely accrue over an extended period.

We reiterate our FBM KLCI 2016 year-end target at 1,800 points, which is equivalent to 16.0x of 2016 earnings or +0.5SD above its long-term average (from 2006-present). Furthermore, we retain our FBM KLCI 2015 year-end target at 1,650 points (with upper and lower range of 1,700 and 1,600 points respectively) which equates to PER16 of 14.7x and -0.3SD.

2016 BUDGET REVIEW

CONSTRUCTION, *maintain* POSITIVE

Sector will likely continue to grow. We maintain our positive outlook stance on the construction sector largely in view of the reaffirmation of ongoing and planned execution of government programs and policies in Budget 2016.

Higher development budget met expectation. The total value of government's development budget for 2016 announced at RM52bn with sizable allotments toward rural development and urban public transport initiatives, which are two of the National Key Result Areas (NKRAs) under the GTP. This is necessary in order to complete the GTP3.0 which runs from 2015-2020.

Measures	Allocation (RM)	Remarks
Public Transport		
1. KVMRT Line 2	28.0b	Construction will commence in the second quarter of 2016 and is expected to be completed by 2022
2. LRT 3	10.0b	Construction will commence in 2016 and is expected to be completed by 2020
3. Rapid Transit Bus (BRT)	2.5b	The BRT project at a cost of more than RM1.5b and BRT Kota Kinabalu at a cost of almost RM1b will be implemented
4. KL-Singapore High Speed Rail		The Government will continue negotiations with the Singapore Government
Roads and Highways		
1. Pan-Borneo Highway	RM28.9b	Construction in Sarawak spanning 1,090-km is expected to be completed in 2021 with an estimated cost of RM16.1b In Sabah, construction work on the 706-km highway from Sindumin to Tawau will commence in 2016 with an estimated cost of RM12.8b.
2.Sungai Besi-Ulu Klang Expressway 3. Damansara-Shah Alam Expressway 4. Pulau Indah and Central Spine Road	N.A.	To improve logistics infrastructure, including building and highways in 2016

Maintain POSITIVE. We maintain positive on the sector due to positive underlying dynamics based on (i) the current on-going and planned roll out of various government projects, (ii) attractive average sectoral ROE of 15% compared to average of 11.4% for the market benchmark, (iii) relatively inexpensive valuation with average PER of 11.54x, and (iv) growing awarded projects year-on-year.

Among the stocks under our coverage that will benefit from the Budget are as follow: **Muhibbah (BUY; TP: RM2.95), IJM (Neutral; TP: RM3.56), SunCon (BUY; TP: RM1.32) and Gamuda (BUY; TP: RM4.83).**

PLANTATION, *maintain* POSITIVE

Measures	Allocation (RM)	Remarks
Minimum wage would be increased to RM1000/month from RM900/month in Peninsular Malaysia and from RM800/month to RM920/month in Sabah/Sarawak effective 1 July 2016.	n.a.	Expect minimal impact to cost of plantation companies as most estate workers such as harvesters are already earning more than the minimum wage. We gather that harvesters (which makes up more than 80% of plantation companies workforce) generally earn more than RM1500 per month assuming average productivity.
Build Palm Oil Jetty in Sandakan, Sabah.	20m	Slightly positive to plantation sector as it could improve the transportation system of palm oil in Sabah. We expect minimal earnings to plantations players with exposure in Sabah namely Sime Darby, IOI Corp, KLK, Genting Plantations, TSH Resources, and IJM Plantations.
Development of rubber and oil palm plantations through the Orang Asli Economic Development Project.	25m	No impact to listed plantation companies.

Maintain POSITIVE on plantation sector. We expect CPO price to benefit from weak Ringgit as weaker Ringgit is expected to improve CPO competitiveness against other vegetable oil. Besides, we think that soybean oil price should have bottomed as inventory is expected to decline in 2015/16 season and hence pose limited downside risk to CPO price. We also believe that the seasonal production downtrend has started with the latest MPOB production figures reported CPO production contraction in September. Additionally, the El-Nino is stronger than expected. We are now assume strong El-Nino and expect Malaysia oil palm production to decline 1%yoy in 2016 and lower palm oil inventory. All considered, we estimate CPO price to average at RM2,300/mt in 2016.

Our top pick is SIME as its FY16 FFB growth expected at 10%yoy is the highest among big cap peers (average: 2% FFB growth). Most of the FFB growth is expected to come from New Britain Palm Oil Limited (NBPOL) which will start its first full year contribution in FY16. SIME is also the beneficiary from Budget 2016 as Malaysian Vision Valley will unlock the value of Company's large land bank located in Negeri Sembilan. Note that SIME owns 55,462 acres of landbank in Malaysian Vision Valley.

Other BUYs are PPB (TP: RM18.00), TSH (TP: RM2.33) and TAANN (TP: RM4.50). We like PPB due to its strong 1HFY15 earnings growth of 34%yoy as it rides the earnings recovery from Wilmar. PPB is also poised to benefit from higher USDMYR rate as Wilmar earnings is reported in USD. We also like TSH as its FY16 FFB growth of 12% means that the Company is poised to enjoy superior earnings growth against other mid-cap peers. Its young age profile estimated at 7.3 years old means that its FFB production is more resilient to El Nino. For TAANN, we expect its timber division to benefit from higher USDMYR as the division's product (Export Log and Plywood) prices are quoted in USD. Hence, TAANN is poised to enjoy earnings growth from both plantation and timber divisions.

Oil and Gas, *maintain* POSITIVE

Measures	Allocation (RM)	Remarks
Investments totaling RM18b (approximately USD4.2b) for RAPID Complex in Pengerang, Johor	n.a.	The value of investment mentioned in the Budget speech is in-line with the total value of the RAPID initiative of USD26b. As such, we remain positive on the downstream oil and gas sector especially on the Pengerang initiatives. Key beneficiary under our oil and gas universe of coverage is **KNM Group (BUY; TP: RM0.62)**
For the oil and gas industry, GST relief is provided on the re-importation of equipment for oil and floating platforms that are temporarily exported for the purpose of rental and leasing	n.a.	This is positive for the entire sector as it will improve the cash flow of oil and gas companies and will help sustain offshore activity levels

In this year's budget, focus is still given on the downstream oil and gas sector, chiefly the USD26b Refinery and Petrochemical Integrated Development (RAPID). In addition, the overall oil and gas sector will benefit from the aforementioned GST relief as it will improve operating cash flows of oil and gas companies currently operating in tight and challenging environment. We remain **POSITIVE** on the sector as the local oil and gas industry is still seen as a key industry for Malaysia and also one of the key revenue contributors to the country.

AVIATION, *maintain* POSITIVE

Measures	Allocation (RM)	Remarks
E-Visa applications to commence for tourists from China, India, Myanmar, Nepal, Sri Lanka, US and Canada and subsequently for other countries by 2H16.	n.a.	The measure simplifies the existing application process which is done through travel agents. However, more could be done such as waiving the Visa requirement entirely following similar moves by Indonesia and Thailand to promote tourism.
Extension of tax exemption for tour operators from 2016 to 2018.	n.a.	Positive in promoting tourism for both locals and foreigners in Malaysia as tour operators are incentivized.

Airfares for domestic economy class tickets for rural area residents to be GST exempted.	n.a.	While we are unsure of how the measure will be implemented, i.e. in the classification of a rural resident, we view the move as slightly positive as it encourages rural folk to travel more by air and less by land/sea transport.
KL Aeropolis to be developed with a size of 1,300 acres.	n.a.	While the initiative is not new, we like the government's commitment in reaffirming the project's viability especially in potentially attracting RM7b in investments.
Construction of Mukah Airport in Sarawak and upgrading airports in Kuantan and Kota Bharu.	RM42m	The allocation complements the previous RM200m allocation for the construction of Mukah airport to replace the old airport. For Kota Bharu and Kuantan, both airports are in need of upgrading.

In budget 2016, the government has increased the allocation to the Ministry of Tourism to RM1.2b (2015: RM316m) while setting a target of 30.5m foreign tourist arrivals with targeted income of RM103b (2015 target: 29.4m tourist & income of RM89b). We believe that the increase in allocation is positive for promoting tourism chiefly through increasing advertising efforts overseas and organizing tourism campaigns. We note that foreign tourist arrivals took a hit in 2015 following the tragic airline incidents and lack of marketing overseas.

We expect the aviation sector to benefit, more so from the increase in allocations and slightly by the initiatives taken above. Both combined, will help to boost passenger traffic numbers in MAHB as well as increase will load factors for both AirAsia and AAX.

We remain **POSITIVE** on the aviation sector buoyed by capacity rationalization which is positive for yields and low jet fuel prices which cuts airline costs dramatically. We have **BUYs on both AirAsia (TP: RM1.82) and AirAsia X (TP: RM0.26)**, and NEUTRAL on MAHB (TP: RM6.35).

SHIPPING, SEAPORTS and LOGISTICS, *maintain* POSITIVE

Measures	Allocation (RM)	Remarks
Improving the Pulau Indah highway.	n.a.	While not new, the initiative aims to improve the connectivity to Westports. The highway is a bottleneck in terms of traffic flow due to the high volume of cargo trucks.

We maintain **POSITIVE** on the shipping, seaports and logistics sectors. We believe that industry dynamics are positive predicated on: 1) steady growth of container throughputs; 2) clarity on container handling tariffs; 3) excess crude supply environment to persist.

BUY recommendations on Westport (TP: RM4.77) and MISC (TP: RM9.45). Meanwhile, we are NEUTRAL on NCB (TP: RM4.40) and Maybulk (TP: RM0.77). We prefer Westport due to: 1) clarity on tariff hikes provides better negotiation leverage with clients; 2) geographical diversification with 70% exposure to transshipment business and 3) potential granting of investment tax incentive for its CAPEX spending which kicks off largely in 2016 which will reduce its effective tax rate from 24% to 16%.

TECHNOLOGY, *maintain* POSITIVE

Measures	Allocation (RM)	Remarks
To boost domestic investment, Focus will be given to chemical, **electrical and electronics**, machinery and equipment, aerospace and medical devices industries as well as services. For this, RM730m is allocated to funds under the Malaysian Investment Development Authority (MIDA)	730m	Due to the fast changing business climate, technology companies need to constantly develop new cutting-edge products. As such, this measure will partly address the concern of high R&D cost in the initial phase. We view that the allocation will primarily benefit small players in the industry rather than established technology companies which have the necessary financial muscle to fund its respective R&D. The funding will also help the local technology industry to move up the value chain through the creation of more value added products.
To facilitate tourists to visit Malaysia, the Government will implement E-Visa by mid-2016. Online visa applications will be implemented beginning with China, India, Myanmar, Nepal, Sri Lanka, the US and Canada.	n.a.	The shift to online visa applications (E-Visa) would financially benefit **MyEG Services Bhd (not rated)** which is a concessionaire for the Malaysian E-Government MSC Flagship Application.

Maintain **POSITIVE** on Technology sector. This measure will lead to the creation of more Original Equipment Manufacturers (OEM) instead of Original Design Manufacturers (ODM). An OEM will create a design and build a product according to its own specifications. On the contrary, an ODM will design and build a product in accordance with preset specifications by another company.

RUBBER GLOVES, *maintain* POSITIVE

Measures	Allocation (RM)	Remarks
Boost Domestic Investment 1) Development of Rubber city in Kedah	320m	We expect the Rubber City project to benefit rubber glove companies as Malaysia is the largest exporter of rubber gloves.

		As this project might also involve neighbouring countries such as Indonesia and Thailand, it will serve as a good marketing platform for rubber glove companies.
Easing Cost of Living 1) Development of rubber and oil palm plantations as well as cash crops through the Orang Asli Economic Development Project	25m	This does not have any direct impact for rubber glove companies as it would mostly benefit rubber planters.
2) Allocation for the Rubber Industry Smallholders Development Authority (RISDA) and Federal Land Consolidation and Rehabilitation Authority (FELCRA) to implement various income and productivity enhancement programmes for paddy farmers, smallholders and rubber tappers	852m	This does not have any direct impact for rubber glove companies as it would mostly benefit rubber tappers.
3) Improved rubber production incentive (IPG) by increasing IPG activation price - SMR20 FOB is raised from RM4.60 to RM5.50 per kilogramme - scrap rubber or cuplumps is raised from RM1.75 to RM2.20 per kilogramme at farm price	n.a.	We expect that this might increase the price of raw material of natural rubber gloves. However, since most rubber glove companies have shifted into manufacturing nitrile rubber gloves, the impact towards the cost of raw material would be minimal.
4) Increased minimum wage from RM900 – 1000 per month	n.a.	As this will only be implemented by 1st July 2016, we believe that the rubber glove companies will have ample time to increase its average selling prices to offset the increase in staff costs. Furthermore, the increase in staff costs is expected to be minimal, which is approximately 11%, translating into an increase of operating expenses which is less than 1%.
Promote and Strengthen Economic Activity Allocation to MATRADE for 1Malaysia Promotion Programme, Services Export Fund and Export Promotion Fund	235m	We expect all rubber glove companies to benefit from this as most of its products are exported.

Maintain POSITIVE. The average price-to-earnings ratio (PER16) for the four largest glove stocks is at an all-time high of 25x driven by the positive sentiment from the strengthening of USD/MYR, robust expansion plans and depressed raw material price. Despite the high PER16, we reaffirm our POSITIVE call on the sector as we believe that the demand for rubber gloves, mainly nitrile, is still strong. Moreover, we still believe that the demand for rubber gloves will be able to cater to the robust expansion plans by the glove companies and that the fundamentals of the rubber glove sector will remain favourable.

HEALTHCARE, *maintain* POSITIVE

Measures	Allocation (RM)	Remarks
New Facilities		
1) Enhance services of 1Malaysia Mobile Clinics in the interior areas of Sabah and Sarawak	Procure new boats and vehicles	
2) Increase the healthcare facilities		
- 5 new hospitals in Pasir Gudang, Kemaman, Pendang, Maran and Cyberjaya	n.a.	
- RM848m Kuala Lumpur Women and Children's Hospital to commence operations in October 2016	n.a.	
- Redevelopment of Kajang Hospital	n.a.	These initiatives will benefit the public as it will enable easier access to healthcare for those in the rural area. However, we do not believe that this will impact the sales for private healthcare as the target market for private healthcare is different, which is why people are willing to pay the premium.
- Upgrade of rural clinics, health clinics, dental clinics as well as quarters nationwide	260m	
- Allocation to operate the existing 328 1Malaysia clinics and to establish 33 new ones	52m	
- Allocation to provide medical assistance, including haemodialysis, which is expected to benefit nearly 10,000 poor patients	72m	
- Allocation for the supply of medicines, consumables, vaccines and reagents to all Government hospitals and clinics	4.6b	

Drugs subject to GST at Zero Rate 1) Zero-rating of all types of controlled medicines under the Poisons List Group A, B, C and D as well as an addition of 95 brands of over-the-counter medicines including treatment for 30 types of illnesses such as cancer, diabetes, hypertension and heart disease. This is a double increase from 4,215 to 8,630 brands of medicines	n.a.	This will benefit the public and enable them to obtain more affordable treatments. Indirectly, this will also benefit healthcare companies as it will reduce the burden of patients caused by the increase in treatment cost from the implementation of GST.
Boost Domestic Investment 1) Khazanah Nasional Berhad will invest in nine high-impact domestic projects in sectors such as healthcare, education, tourism as well as communication software and infrastructure	6.7b total	If this allocation involves the private sector, we expect **IHH Healthcare Bhd (Buy; TP:RM7.14)** to be the main beneficiary for the healthcare sector as IHH is 43.5% owned by Khazanah. We suspect that the high-impact project for the healthcare sector might possibly involve the development or expansion in the tertiary and quaternary care.
Empowering Youth, Community and NGOs 1) Allocated for NGOs to implement programmes based on community development, solidarity, social welfare, health and safety	160m	Through the programs organized by NGOs, we expect the awareness of healthcare among the public will increase. This will indirectly benefit both government hospitals and private hospitals as the programs will encourage people to take care of their health, thus increase their expenses on primary care.

Government will continue its effort in providing quality healthcare and medical services for the rakyat, ensuring that all Malaysians will be able to benefit from good healthcare services.

Maintain POSITIVE. We are reiterating our POSITIVE stance on the sector as we expect the sector's earnings growth to remain strong on robust demand for quality private healthcare. Our top pick for the sector is **IHH Healthcare Bhd (Buy; TP: RM7.14)**. Our BUY call is supported by the expected higher EBITDA margin from IHH's Turkey operations and increase in bed capacity of its home market.

Maintain **POSITIVE** on Technology sector. This measure will lead to the creation of more Original Equipment Manufacturers (OEM) instead of Original Design Manufacturers (ODM). An OEM will create a design and build a product according to its own specifications. On the contrary, an ODM will design and build a product in accordance with preset specifications by another company.

BANKING, *maintain* NEUTRAL

Measures	Allocation (RM)	Remarks
• To stimulate the capital market, the Government will implement several initiatives. This includes tax deduction on the issuance cost on Sustainable and Responsible Investments (SRI) sukuks. Stamp duty exemption of 20% on instruments of Shariah-compliant loans for purchase of houses will be extended for another 2 years on condition that the loan documents be executed on or before 1st January 2016 and not later than 31st December 2017. Also, tax deduction on additional issuance cost of retail bonds and sukuks will be extended for another 3 years (for year of assessment 2016 to 2018)	n.a	To promote the issuance of SRI sukuks to finance social and responsible investments, tax deduction will be given on the cost of SRI sukuk issuance. We see this as consistent with 2015 budget measures to extend the tax deduction for issuance cost of sukuks based on Ijarah and Wakalah principles for another three years (year of assessment 2016 to 2018). On the extension tax deduction on the additional issuance cost of retail bonds and sukuk, we believe that this will promote the issuance of retail bonds/sukuk to boost the capital market and encourage individual investors to invest. In regards to the stamp duty 20% exemption on Shariah-compliant loans instruments for purchase of houses, this measure is not new. It is an extension of the stamp duty exemption for another 2 years for Syariah complaint loan documents. We expect this measure to continue to promote Islamic financing as well as lower the cost for purchase of houses and ease burden of home ownership.
• Extension of tax exemption on statutory income of Shariah-compliant fund management companies certified by Securities Commission Malaysia for another 4 years (for year of assessment 2017 to 2020).	n.a	The extension of the tax exemption of statutory income of Shariah-compliant fund management companies is expected to expand the size of Islamic funds managed by fund management companies. We view the above measures as positive to continue to consolidate Malaysia's leading position in Islamic finance.

The above measures and the extension of tax benefits are aimed to create a more vibrant financial market and to further strengthen the country's position as an international Islamic financial centre. We believe that the continuation to provide tax deduction benefits will encourage issuers to issue sukuks and bonds to raise the required funding. We remain our NEUTRAL stance on banking sector. This is based on challenges on the revenue growth of banks, NIM of banks continued to remain under pressure and potentially higher credit cost from lower recoveries and higher provisions for loan impairment due to economic slowdown locally and externally. Our BUY calls are on Hong Leong Bank (TP: RM14.60) for its stable earnings and robust asset quality and Maybank (TP: RM9.80) for its diversified earnings and attractive dividend yield.

TELECOMMUNICATIONS, *maintain* NEUTRAL

Measures	Allocation (RM)	Remarks
Malaysian consumers will receive rebates equivalent to the amount of GST paid, which will be credited directly to their prepaid accounts. This measure will be effective from 1 January 2016 to 31 December 2016.	n.a.	Following the implementation of GST on 1st April 2015, the GST is no longer borne by mobile operators for its prepaid subscribers. As such, the rebate announced will not impact the earnings of mobile operators.
To improve the telecommunication infrastructure, Malaysian Communications and Multimedia Commission (MCMC) will provide RM1.2b, among others, for rural broadband projects which will see a four-fold increase in internet speed from 5Mbps to 20Mbps; National Fiber Backbone Infrastructure; High-speed Broadband and undersea cable system.	1,200m	**Telekom Malaysia Bhd (TM) (Neutral: TP:RM7.10)** and **Time Dotcom Bhd (not rated)** would be the main beneficiaries of this initiative. This is also in-line with the announced HSBB Phase 2 project and the Sistem Kabel Rakyat 1Malaysia "SKR1M" submarine cable system. TM, in particular, is expected to record higher average revenue per user (ARPU) when its subscribers in the rural area upgrade their internet packages.

Maintain **NEUTRAL** on Telecommunication sector. The increase in allocation for telecommunication infrastructure is in-tandem with the growing demand for data and voice services. However, we view that the increase in ARPU, in the case of TM, will be gradual.

MEDIA, *maintain* NEUTRAL

Measures	Allocation (RM)	Remarks
A sum of RM250m is allocated for the national broadcasting digitalisation project to enhance audio visual quality and provide value-add to TV content as well as interactive data transactions.	250m	This measure will benefit ***MyTV Broadcasting Sdn Bhd*** which won the contract to develop the digital terrestrial television (DTTV) infrastructure. This includes a digital multimedia hub and a network of high, medium and low powered digital TV transmitters.

		We are neutral on the news. Based on our channel checks with local media companies, the fees charged for the provision of digital broadcasting could potentially be uncompetitive

Maintain NEUTRAL on media sector. We view that the measure would not have a significant impact to the earnings of the local media players in the immediate term.

REITs, *maintain* NEUTRAL

Measures	Allocation (RM)	Remarks
Tax incentives for foreign institutional investors and non-corporate investors receiving profit distribution from REITs are subject to final withholding tax at 10% will be extended for another 3 years to December 2019.	-	Neutral to REITs sector as there is no change to the current tax structure of REITs.

Maintain NEUTRAL. In the recent 2016 Budget, there are no significant announcements relating to the REITs sector except for the extension on the tax incentives for foreign institutional investors and non-corporate investors. We remain **Neutral** on the REITs sector, as we believe the cautious consumer spending and sluggish consumer sentiment would affect REITs with exposure to shopping malls namely Pavilion REIT, CMMT, Sunway REIT, IGB REIT, and KLCC. Besides, REITs with office exposure (Axis-REIT, Sunway REIT) may face increased competition amid influx of new office space. Nevertheless, we think that the defensive nature of REITs and average yield of 5.0% would keep downside of REITs supported.

PROPERTY, *maintain* NEUTRAL

Measures	Allocation (RM)	Remarks
Affordable housing measures PR1MA to build 175,000 houses which will be sold at 20% below market prices. A total of 10,000 units are expected to be completed next year. SPNB will build 10,000 units of Rumah Mesra Rakyat with a subsidy of RM20,000 for each house. Build 100,000 houses, priced between RM90,000 and RM300,000, under Perumahan Penjawat Awam 1 Malaysia (PPA1M) by 2018. A Facilitation Fund of up to 25% of development cost is	1.6b 200m n.a.	The long list of measures to address the issue of housing affordability is within our expectation. This is likely caused by the strong focus on housing affordability recently by the media as well as the people. There is no change to the Real Property Gain Tax (RPGT) rate. As for Developer Interest-Bearing Scheme (DIBS), it is still disallowed. We are Neutral on this as we see no catalyst for the sector due to the absence of change in RPGT and no reintroduction of DIBS.

provided. Build 22,300 units of apartments and 9,800 units of terrace houses under the People's Housing Programme (PPR) Establish a First House Deposit Financing Scheme under KPKT to assist first-time house buyers of affordable houses to pay the deposit. Build 5,000 units of PR1MA and PPA1M houses in 10 locations in the vicinity of LRT and monorail stations, including in Pandan Jaya, Sentul and Titiwangsa. Department of Orang Asli Development to build houses for the community. Build houses for the second generation of settlers comprising 20,000 units by FELDA, 2,000 units by FELCRA and 2,000 units by RISDA. For houses built by FELDA, the maximum price is reduced to RM70,000 from RM90,000 previously. GLCs to build affordable houses in the vicinity of the MRT station in Bandar Kwasa Damansara. Kwasa Land owned by EPF will build 800 units and Sime Darby Property 4,600 units. KPKT to revive abandoned low and medium-cost private housing projects	863m 200m n.a. 60m n.a. n.a. 40m	
Boosting domestic demand Development of the Malaysian Vision Valley covering an area of 108,000 hectares (or 267,000 acres) from Nilai to Port Dickson. Initial investment forecast of RM5.0b in 2016	5.0b	This is not a surprise as the project has been announced during 11th Malaysia Plan on May-2015. However, the initial amount of RM5.0b investment is welcomed as it shows the Government commitment to kick start the project soon. SIME is the beneficiary as this will unlock the value of Company's large land bank located in Negeri Sembilan. Note that SIME owns 55,462 acres of landbank in Malaysian Vision Valley. None of the listed developers under our coverage has landbank in the area mentioned.

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While we are positive on the development of the Malaysian Vision Valley, none of the listed developers under our coverage has landbank in the area mentioned. However, SIME (categorized under plantation sector for stocks under our coverage) is the beneficiary as this will unlock the value of Company's large land bank located in Negeri Sembilan. Note that SIME owns 55,462 acres of landbank in Malaysian Vision Valley.

We maintain our **NEUTRAL** call on the sector due to the absence of change in RPGT and no reintroduction of DIBS. The recent data shows that the dynamics of the sector are still weak. According to the National Property Information Centre's (NAPIC) First Half 2015 Property Market Report, property transaction value in the 1HCY15 has declined 6.0%yoy to RM77.08b. Separately, the latest Bank Negara statistics show that "Applied Loan for Purchase of Property" for the first eight months of 2015 (8M15) has declined 7%yoy to RM203.13b.

Our top pick is SPSETIA (BUY; TP: RM3.70). We like SPSETIA as: i) it is expected to benefit from higher GBPMYR rate, ii) the upcoming 4QFY15 result is likely to be good and iii) its net dividend yield is higher than peers' average. We also like GLOMAC as we expect its FY16 earnings growth to be strong at +48%yoy as its unbilled sales have improved to RM796m as of end-FY15 (against RM555m as of end-FY14).

UOADEV downgraded to NEUTRAL with unchanged Target Price of RM2.05. Since our Upgrade on the stock to BUY on 21-Aug-2015 when the share price was RM1.82, it has gained 19% to RM2.17 as of 23-Oct-2015. Our valuation method of 30% discount to RNAV is unchanged. As the share price has appreciated substantially coupled with lack of catalysts from the Budget 2016, we downgrade the stock to NEUTRAL.

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	*Negative* total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.