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MALAYSIA EQUITY

BUDGET 2017

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ECONOMIC COMMENTARY AND ANALYSIS

Table 1: Federal Government Finance (RM million)

	RM million				YoY change		
	2014	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**
Revenue	220,626	219,089	212,595	219,726	-0.7%	-3.0%	3.4%
Operating Expenditure	219,589	216,998	207,126	214,800	-1.2%	-4.5%	3.7%
Current balance	1,037	2,091	5,469	4,926	101.6%	161.5%	-9.9%
Gross development expenditure	39,503	40,768	45,000	46,000	3.2%	10.4%	2.2%
Less Loan recovery	1,052	1,483	804	730	41.0%	-45.8%	-9.2%
Net development expenditure	38,451	39,285	44,196	45,270	2.2%	12.5%	2.4%
Overall balance	(37,414)	(37,194)	(38,727)	(40,344)	-0.6%	4.1%	4.2%
Overall balance as % of GDP	**-3.4**	**-3.2**	**-3.1**	**-3.0**	N/A	N/A	N/A

Source: MOF, MIDFR

Ensuring unity and economic growth, inclusive prudent spending, wellbeing of the rakyat. To aim for an expansionary fiscal policy while adopting fiscal consolidation is certainly not an easy task. However, as we have been expecting various measures which could stimulate the economy without causing a significant burden to the Government's finance has been introduced in the budge 2017. We are positive that the budget would help stimulate domestic economy with various measures introduced. Combined with the improving external condition, the Government is expecting the economy to grow stronger next year, with a growth range of GDP between 4.0-5.0%

Towards a balanced budget in 2020. The Government is serious in achieving a balanced budget by year 2020, despite all of the odds are against the Government's budget since last year. Malaysia Government is still steadfast with the fiscal consolidation plan and our budget deficit has been in a gradual decline since 2009, from the height of 6.7% to a targeted 3.0% this year. It should be noted that as long as we are able to keep our fiscal deficit at less than 3.1% to GDP, we should not be seeing an increase in our debt to GDP level so long as there is no economic slowdown which caused the nominal GDP to grow less than 6.0%. Moving forward, the economic prospect should be getting brighter as the global economy should be in a much better position in 2020, causing a balanced budget by that time possible.

Table 2: Federal Government – Revenue

	RM million				YoY change		
	2014	2015	2016	2017	2015	2016	2017
Direct Tax	126,742	111,770	110,500	120,739	-11.8%	-1.1%	9.3%
Income tax	118,996	103,965	102,438	112,373	-12.6%	-1.5%	9.7%
Companies	65,240	63,679	63,193	69,193	-2.4%	-0.8%	9.5%
Individual	24,423	26,321	28,163	29,853	7.8%	7.0%	6.0%
Petroleum	26,956	11,559	8,517	10,637	-57.1%	-26.3%	24.9%
Withholding and others	2,377	2,426	2,565	2,690	2.1%	5.7%	4.9%
Others	7,747	7,785	8,062	8,366	0.5%	3.6%	3.8%
Indirect Tax	37,462	53,670	56,601	59,841	43.3%	5.5%	5.7%
Export Duties	1,893	1,039	813	731	-45.1%	-21.8%	-10.1%
Petroleum	1,577	989	604	680	-37.3%	-38.9%	12.6%
Others	316	50	209	51	-84.2%	318.0%	-75.6%
Import Duties	2,670	2,732	2,736	3,008	2.3%	0.1%	9.9%
Export Duties	12,924	11,890	11,801	13,111	-8.0%	-0.7%	11.1%
Consumption Tax	17,217	35,273	38,646	40,000	104.9%	9.6%	3.5%
Sales Tax	10,939	5,223	79	-	-	-	-
Service Tax	6,278	3,038	67	-	-	-	-
Goods and Services Tax	-	27,012	38,500	40,000	-	-	-
Others	2,758	2,736	2,605	2,991	-0.8%	-4.8%	14.8%

Source: MOF, MIDFR

Higher revenue from stronger economy in 2017. In line with the rebounding economy, revenue to the Government is expected to be higher by 3.4% in 2017, after declining as much as 3.0% this year. The rebound in revenue is expected to be coming from various sources, including petroleum income tax which is expected to see a slightly better year next year from the stabilisation of crude oil price. The projection is based on an average oil price of USD45 per barrel, slightly lower than our in-house oil price forecast of average USD50 per barrel next year. Most notably, corporate income tax is projected to increase by 9.5%, despite there is no difference in the tax bracket while GST collection is expected to be higher at RM40 billion, against the revised target of RM38.5 billion this year. The GST collection has reached nearly RM30 billion as of 19 October 2016. There is no change in the GST tax rate in the budget.

The higher-than-expected oil price has benefitted the economy. Oil and gas sector-related revenue is expected to contribute around 14.6% of the total revenue, which is approximately RM32.1 billion, significantly higher than the initial estimate of around RM25.8 – 27.5 billion after the budget recalibration earlier this year. Moving forward, the Government is expecting to the oil price to average at USD45 per barrel next year, which is slightly lower than our own in-house forecast of USD50 per barrel. Nevertheless, it means that the oil and gas industry will be contributing more to the Government's revenue next year, and employment in the sector should begin to stabilise.

Table 3: Federal Government – Operating Expenditure

	RM million				YoY change		
	2014	**2015**	**2016**	**2017**	**2015**	**2016**	**2017**
Emoluments	66,947	70,050	73,866	77,422	4.6	5.4	4.8
Pensions and gratuities	18,218	18,872	18,993	21,763	3.6	0.6	14.6
Debt service charges	22,588	24,283	26,639	28,866	7.5	9.7	8.4
Grants & transfers to state governments	6,530	6,921	6,931	8,058	6.0	0.1	16.3
Supplies & Services	34,259	36,373	29,702	32,020	6.2	-18.3	7.8
Subsidies	39,703	27,269	24,642	22,431	-31.3	-9.6	-9.0
Refunds & write-offs	1,336	947	924	802	-29.1	-2.4	-13.2
Grants to statutory bodies	16,353	15,487	12,948	9,396	-5.3	-16.4	-27.4
Others	11,853	16,796	12,481	14,042	41.7	-25.7	12.5
TOTAL	**219,589**	**216,998**	**207,126**	**214,800**	-1.2	-4.5	3.7

Source: MOF, MIDFR

OPEX set to rise by 3.7%, led by 14.6% increase in payout to pensioners. Retired civil servants are set receive huge boost from Budget 2017, increasing by 14.6% to RM21.8b in 2017. We suspect there could be bigger one-off cash handout to pensioners, given prior to festivals or holidays similar to this year but with bigger amount.

Emoluments increases by 4.8% to RM77.4b from RM73.9b a year earlier and this effectively drives up the share of emoluments to total OPEX at 36% (2016: 35.7%). The increments in emoluments are more or less consistent over the years but we note the actual figures often exceed the budgeted figures by 1%-2%. Putting fiscal issue aside, rising emoluments should give support to local consumption as civil servants form nearly 15% of the 14.6 million workforces. This bodes well with our higher private consumption forecast for next year at 6.2% - 6.6%.

Debt service charges are expected to rise by 8.4% to RM28.7b. This is not a surprise since the government debt has increased since the last budget from RM630b to RM656 or 4.1%. For 2017, the debt to GDP ratio could dip below 53% depending on the actual nominal GDP growth. This represents a notable improvement from the 54.5% level reached in 2015. Besides, as we have covered in our June report '*Malaysia is Still Far from The 55% Debt Limit*', the debt ceiling is not a fixed post as it was not billed through the parliament.

Double-digit boost to grants & transfers to state governments and others expenditures. In the latest budget, allocation for grants & transfer item will be increased by 16.3% to RM8.1b while others expenditures have also increased by 12.5% to RM14.0b. The process of subsidies rationalisation continues which saw budget for the item cut by 9.0% to RM22.4 from RM24.6b previously.

Table 4: Federal Government – Development Expenditure

	RM million				YoY change		
	2014	2015	2016	2017	2015	2016	2017
Economic Services (ES)	**23,338**	**23,286**	**27,623**	**25,862**	**-0.2**	**18.6**	**-6.4**
Agri & Rural Dev	2,875	3,105	2,877	2,416	8.0	-7.3	-16.0
Trade and Industry	4,688	5,638	5,996	4,927	20.3	6.3	-17.8
Transport	7,271	6,693	8,419	10,599	-7.9	25.8	25.9
Public Utilities	3,485	3,637	2,877	2,582	4.4	-20.9	-10.3
Others	5019	5078	6484	5,338	1.2	27.7	-17.7
Social Services (SS)	**10,490**	**11,161**	**10,812**	**12,180**	**6.4**	**-3.1**	**12.7**
Education	4,928	4,758	3,874	5,904	-3.4	-18.6	52.4
Health	1,385	1,442	1,481	1,532	4.1	2.7	3.4
Housing	618	2,008	2,476	870	224.9	23.3	-64.9
Others	3,559	2,988	4,035	3,874	-16.0	35.0	-4.0
General Administration	1,344	1,567	1,524	2,671	16.6	-2.7	75.3
Defence & Security	4,332	4,754	5,041	5,286	9.7	6.0	4.9
TOTAL	**39,503**	**40,766**	**45,000**	**46,000**	**3.2**	**10.4**	**2.2**

Source: MOF, MIDFR

Bigger development expenditure (DEVEX) for 2017 at RM46b compared to the estimated RM45b DEVEX in 2016. The increase is driven by higher social services spending despite lower overall expenditures for economic provisions. The common trend that we have seen over the years are that the actual amount for DEVEC may fall short from the budgeted amount as the government continues to consolidate its fiscal standing.

Cheers for education, health and transport sectors. Education receives huge boost with RM5.9b budget or 52.4% increase from 2016 while healthcare increases slightly by 3.4% to RM1.5b. This is definitely a welcome change since the budget for these sectors had been slashed in the recalibrated budget 2016 and augurs well with the theme ensuring fiscal prudence. Budget for the transport sectors are up by 25.9% to RM10.6b which is line with the roll out of mega-infrastructure projects in the coming years such as Pan Borneo highways, MRT 2 & MRT 3 line and construction of Malaysian Vision Valley.

BR1M assistance will be increased up to RM1,200 from RM1,000 – RM1,050 in 2016. Since its inception in 2013, BR1M pay-outs have increased steadily from RM3b to RM5.9b in 2016. For next year, BR1M payments increase further by RM900mil to RM6.8b. Households under E-Kasih will receive an annual pay-out of RM1,200 in 2017, an increment of RM200 from 2016's figure. We believe this could be good move to support private consumption since BR1M targets mostly the B40 households. This group has high marginal propensity to consume hence their spending should return well for domestic consumption. Again, we think this is one of the moves that will support private consumption to grow above 6.0% next year.

Surprise on the housing allocation cuts. The cut on housing expenditures are indeed a surprise given the commitment of the government to address the issue of affordable housing especially for urban dwellers. Budget for the sector will be seeing huge reduction by 64.9% to only RM870mil from RM2.5b last year. On the flip side, government introduces a new special step-up end financing scheme which should allow for higher borrowing for first time house buyers. At the current high household debt level, we believe the net effect for the real estate sector to be marginal but nonetheless support the current growth level.

EQUITY MARKET

A pre-election budget? The PM ended his budget speech pleading for "...the blessing of All Mighty will bring the ultimate victory in the 14th General Election to the Barisan Nasional..." On that note, we may deem the budget 2017 as a pre-election budget. Hence it is not surprising that many of the incentives announced are centered on the welfare and needs of the people, particularly among the so-called B40 and also M40.

Optimal mix. Having said the above, the budget nonetheless offers an optimal mix of stimulus, incentives and safeguards required to navigate what is expected to be another challenging year ahead. It takes cognizant of the need to balance between the country's aspirations to achieve a high-income nation status, and the 11 Malaysia Plan's commitment towards economic growth which is anchored on the principle of inclusivity, equity, wellbeing and sustainability.

Market Outlook

At structural level, the fiscal situation is now less fraught with uncertainty as compared to in the prior year during which the Malaysian government was staring at a RM30 billion shortfall in annual revenue from lower petroleum-related incomes. The imposition of GST and rationalization of subsidies, albeit unpopular, have managed to successfully plug the shortfall and help the government to achieve its budget deficit target which is expected to improve to 3.0% of GDP for next year.

However, expect only minor near-term market reaction. While the successful transition away from too heavy a reliant on petroleum sources but more on direct taxes such as GST may help to soothe investors' wariness over the state of government finances, nevertheless, we deem the budget itself provided no material surprises that may spur significant buying interest in the equity market. Therefore, we do not expect the Budget 2017 to directly provide an upward impetus to the FBM KLCI in the coming week.

Positive impact of the budget on equity pricing... We nonetheless reiterate our assertion 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 2017 on the equity market may therefore accrue over an extended period.

We reiterate our FBM KLCI 2017 year-end target at 1,830 points, which is equivalent to 17.0x of its 2017 earnings. Furthermore, we retain our FBM KLCI 2016 year-end target at 1,750 points, which equates to 17.5x of its 2016 earnings.

CONSTRUCTION, *maintain* POSITIVE

Four target segments. Based on our observation of the Budget 2017, the main injection of growth for the construction sector will emanate from 4 key segments:

a) Waterworks;

b) Rural Connectivity;

  (i) Rail Transport,

  (ii) Roads Maintenance/Upgrade,

c) Infrastructure;

d) Affordable Housing;

Our observation is based on the following estimate:

Measures	Allocation (RM)	Remarks
Waterworks		
Clean /FELDA Water Supply	732m	
Water Supply Grants	156m	
Water Supply Loan	509m	
Flood Mitigation Plans	495m	69 project to be implemented
Water Supply Fund	500m	
Water Treatment in Orang Asli Villages	222m	Total of 42 Villages (Inclusive of development and resettlement in Sungai Ruil, Cameron Highlands, Pahang)
Rural Connectivity (Rail Transport)		
East Coast Rail Line (Port Klang-Tumpat)	55.0b	
East Coast Rail Line Restoration (Gua Musang-Tumpat)	100m	
Rural Connectivity (Roads Maintenance/Upgrade)		
State road maintenance	4.6b	

616km of village roads/bridges	1.2b	
Road Upgrades in Kelantan, Sabah and Batang Lupar Bridge, Sarawak	2.0b	Estimated figures
Motorcycle Ramps in Federal Highway	29m	
Infrastructure		
Economic Corridors development	2.1b	Civil works
Hospitals in Perlis, Mukah, Jempol, Muar and Johor Bahru	15.8b	Estimated Figures
Football Academy Phase II, Gambang, Pahang	50m	
Construction and Upgrading; States Youth and Youth Complex, 1Malaysia Futsal Complex and Community Sports Centre	122m	
Construction of Urban Transformation Centres (UTC) in Negri Sembilan, Perlis, Pulau Pinang, Sabah and Sarawak	100m	
People Friendly Projects (Construction/Upgrade)	800m	
Affordable Housing / Housing Maintenance		
PR1MA	6.0b	10,000 units
Youth Rental Housing	6.0b	10,000 units
People’s Friendly Housing (PMR) (SPNB)	200m	5,000 units
FELDA, FELCRA,RISDA 2nd Generation House Infrastructure Development	400m	Estimated 10,000 units
MyBeautiful New Home	200m	Estimated 5,000 units
People’s Housing Programme (PPR)	134m	9850 units
1Malaysia Maintenance Fund	300m	113 People’s Housing Program Areas
Total	**97.8b**	

Largesse from Budget 2017. We reiterate our **POSITIVE** outlook on the construction sector premised on the construction of infrastructures and affordable housing as the nation's main thrust towards realizing the new National Transformation 2050 (TN50) plan.

POWER, *maintain* POSITIVE

Measures	Allocation (RM)	Remarks
To provide electricity supply in rural areas, targeting approximately 10,000 houses	460m	Tenaga Nasional Berhad has a monopoly in transmission and distribution in Peninsular Malaysia and Sabah (via its 80% stake in SESB). As such, it is likely to be a key beneficiary of this initiative.

Tenaga Nasional Berhad (Tenaga) has a monopoly in transmission and distribution in Peninsular Malaysia and Sabah (via its 80% stake in SESB). As such, it is likely to be a key beneficiary of the initiative to extend supply of electricity in rural areas targeting 10,000 houses.

We remain **POSITIVE** on power and Tenaga is our top pick (TP: RM16.80) for: (1) Strong earnings visibility post-ICPT implementation, (2) Dividend catalyst on the back of FCF yield of ~7% over FY16F/17F, a relatively under-geared balance sheet at 0.35x and the upcoming capital optimisation exercise (3) Overseas expansion provides scope for stronger growth in the mid-term. Capital management and the resolution of its RM2b tax issue with the Inland Revenue Board are key catalysts over the next 12 months while existing 4% dividend yield (FY17F) looks attractive.

HEALTHCARE, *maintain* POSITIVE

Measures	Allocation (RM)	Remarks
Improve Healthcare Facilities		
To build new hospitals and clinics in Perlis, Kuching, Mukah, Jempol, Muar and Johor Bahru	N.M	These initiatives will benefit the public as a whole as it will enable greater access to healthcare for those in the rural area. However, we opine that it will not impact the earnings of private healthcare players due to the difference in target market of both public and private sectors.
To upgrade hospital facilities including provision for cardiology treatment equipment for Serdang Hospital, Pulau Pinang Hospital and Sultanah Aminah Hospital. This also includes the purchase of 100 ambulances	536m	
Operations of 340 1Malaysia Clinic, 11 1Malaysia Mobile Clinics, 959 health clinics and more than 1,800 existing	4.5b	

rural clinics		
Supply of drugs, consumables, vaccines and reagents to all government hospitals and health facilities	4.0b	
Medical assistance for 10,000 underprivileged patients	110m	
Grants for purchasing equipment to encourage establishment of more private haemodialysis centers	40m	
Allocation for expansion of Community Health Empowerment Programme to implement initiative to prevent and control contagious diseases such as dengue and zika	80m	
Non-Profit Charitable Hospitals Cooperating with private sector and NGOs to operate non-profit charitable hospitals based on government rates	20m	We do not think this will affect the private healthcare players negatively as we expect non-complex cases that will be referred to these non-profit charitable hospitals. Assuming that these private entities constitute private healthcare operators, this public-private partnership (PPP) will only contribute marginally to the earnings of these private hospital operators. We believe that the rates charged from this initiative will be much lower compared to a full-fledge private healthcare service.

Maintain POSITIVE. Overall, we are pleased with the continuous commitment by the government towards the healthcare sector. The announced Budget 2017 allocation for next year represents an increase of +8.6%yoy. On the private healthcare side, we remain **POSITIVE** premised on: (i) strong demand for quality private healthcare and; (ii) increasing urban demand for healthcare services as most government-led initiatives focuses on rural healthcare services. In addition, we opine that private healthcare operators will continue to be the preferred choice for the urban dwellers with higher disposable income and insurance coverage.

GLOVE, *maintain* POSITIVE

Measures	Allocation (RM)	Remarks
Purchase of floor price for rubber Implementation of the purchase floor price as an incentive to registered rubber smallholders	250m	This will not have any direct impact for rubber glove companies as it would mostly benefit small rubber planters.
Rainy Season Assistance Rainy season assistance with an amount of RM200 monthly for three months benefitting 440,00 rubber tappers and smallholders	264m	This does not have any direct impact for rubber glove companies as it would mostly benefit small rubber planters.

Maintain POSITIVE. We reaffirm our **POSITIVE** stance of the sector stemming from the robust demand for rubber gloves, which is to increase by 8-10% in global demand annually. In addition, we opine that going forward, demand would also come from conversion of latex rubber gloves to nitrile gloves which will be assisted by tightening of health regulations in regions such as Latin America. Furthermore, the ongoing automation and cost optimization that the players are currently undertaking will assist the players in the long run in coming up with more efficient production process and in return, higher revenue.

PLANTATION, *maintain* POSITIVE

Measures	Allocation (RM)	Remarks
To assist paddy farmers by subsidizing paddy price, seeds and fertilizers including hill paddy.	1.3b	Publicly listed plantation companies are not affected as they have no exposure to paddy planting.
To increase exports of palm oil, rubber, cocoa and pepper.	286m	Publicly listed plantation companies should benefit slightly due to increased export and better quality of palm oil.
Scientific research to enhance the quality of palm oil products.	50m	
To purchase rubber from registered rubber smallholders at a floor price.	250m	Publicly listed plantation companies are not affected as these measures are targeting smallholders.
Malaysian Palm Oil Board (MPOB) grant for replanting of palm oil by smallholders.	30m	

To upgrade estate roads and to facilitate palm oil smallholders.	20m	

Maintain POSITIVE on plantation sector. Publicly listed plantation companies should benefit slightly due to increased export and better quality of palm oil in the long run. Note that there is RM286m allocation to increase exports of palm oil, rubber, cocoa and pepper. There is also RM50m allocation to conduct scientific research to enhance the quality of palm oil products.

Maintain BUY call on KLK (TP: RM27.38) and IOICORP (TP: RM5.05). We expect CPO price to stay at the range of RM2500 to RM3000 per MT in the next three months due to low inventory of palm oil globally. Our top pick is KLK (BUY; TP RM27.38) due to its high exposure to palm oil business and good earnings growth of +18%yoy to RM747m in 9MFY16. We also like IOICORP (BUY; TP RM5.05) due to its pure exposure to palm oil business both in the upstream and downstream divisions. The Company's profit is also expected to recover in FY17 after the uplift of RSPO suspension.

AVIATION, *maintain* POSITIVE

Measures	Remarks
Extend eVisa to countries in the Balkans and South Asia regions.	Complements eVisa efforts which had been allowed for China, India, Myanmar, Nepal, Sri Lanka, the US and Canada in Budget 2016. Extension to South Asia countries could mean the inclusion of countries like Bangladesh, Bhutan, Maldives and Pakistan for eVisa applications. Meanwhile, eVisa application to Balkan countries could see more arrivals from Southeastern Europe.
Pioneer Status promotion and Investment Tax Allowance for new 4 and 5 star hotels extended to 31 December 2018.	Promote the development of new hotels to cater for the rising number of tourist arrivals and increase tourist receipts through increased spending at higher-end hotels.
Increase in tax deduction from RM500,000 to RM700,000 will be given to encourage sponsorship by the private sector in local and foreign arts, culture and heritage shows and performances.	To increase the appeal and showcase Malaysia's local arts and culture, promoting it as a tourist attraction.

Budget Year	2013	2014	2015	2016	2017
Allocation (RM'b)	0.4	1.2	0.3	1.2	0.4

Target tourist (m)	26.8	28.0	29.4	30.5	32
Actual tourist (m)	25.7	27.4	25.7	17.6*	N/A
Target income (RM'b)	62.0	65.0	89.0	103.0	N/A
Actual income (RM'b)	65.4	72.0	69.1	N/A	N/A
Campaigns	Visit Malaysia Year (VMY)		Year of Festivals	Cuti-cuti 1Malaysia (Dekat Je)	ASEAN@50 Year Campaign, 2017 SEA and Para ASEAN Games

Up to August 2016.

Initiatives to promote tourism

2016	2017
1. Online visa applications for China, India, Myanmar, Nepal, Sri Lanka, the US and Canada. 2. Implementation of E-Visa since Mar-2016. 3. 100% income tax exemption for tour operators will be extended from year of assessment 2016 until 2018. 4. Exemption of visa requirements for tourists from China from 1/3/16-31/12/16 for visits of no longer than 15 days, subject to conditions.	1. Pioneer Status promotion and Investment Tax Allowance for new 4 and 5 star hotels will be extended to 31 December 2018. 2. Increase in tax deduction from RM500,000 to RM700,000 will be given to encourage sponsorship by the private sector in local and foreign arts, culture and heritage shows and performances. 3. Extend eVisa to countries in the Balkans and South Asia regions.

The Government has allocated RM400m to promote the tourism industry in Budget 2017, a drop from the RM1.2b allocated in Budget 2016. This is in-line with previous trends, i.e. a drop to RM300m in Budget 2015 was seen after RM1.2b was allocated in Budget 2014. The Government has forecasted tourist arrivals to increase by +5% in 2017 to 32m from its forecasted 30.5m in 2016. Assuming a similar CAGR of +5% between 2017 to 2020, the Government's target of 36m tourist arrivals by 2020 would be achieved.

We remain **POSITIVE** on the aviation sector which is underpinned by robust year-to-date passenger traffic growth of +4.4%yoy and yields which have improved by double digits for airlines. The SEA games which will be held in 2017 along with more convenient application of Visas through the eVisa initiative would lend further support to the tourism industry. Under our coverage, we have BUY calls on AirAsia (TP: RM3.34) and MAHB (TP: RM7.60). Meanwhile, we are NEUTRAL on AirAsia X (TP: RM0.40).

SMALL and MID-CAP companies, POSITIVE

Measures	Allocation (RM)	Remarks
Special fund to invest in potential small and mid-cap companies. Government-linked investment companies will allocate up to RM3b to invest in potential small and mid-cap companies.	RM3b	The size of the fund is large in relation to the market capitalisation of many small to mid-cap companies. We opine that this could increase liquidity and institutional presence for smaller companies, helping boost investor confidence. In addition, smaller companies could command a higher price-to-earnings multiple closing the gap on their bigger peers.
Small and Mid-Cap PLC Research Scheme To conduct research on 300 public-listed companies.	N.M.	This scheme will definitely invigorate trading in small and mid-cap companies as many of them are under-researched. However, there is no mention of which 300 companies will be under this scheme and how they will be selected. We expect these companies to gain traction as investors and fund managers get to understand these companies more.
Export promotion programmes National Export Promotion Funds by MATRADE, MIDA and SME Corp to provide up to RM130m to local SMEs.	RM130m	Small and mid-cap companies can tap on the funds to expand their export business. Small and mid-cap companies get to diversify their income stream if they used to rely solely on the domestic market for sales. This is positive for small and mid-caps with plans to venture into new overseas market or expand on their export markets.

The allocation of the RM3b special fund to invest in potential small and mid-cap companies came as a positive surprise. It is expected to boost the trading activities in these counters. This is because the size of the fund is large in relation to the market capitalisation of many small and mid-cap companies. Conventionally, much focus is on the 100 top companies listed on Bursa Malaysia but with the introduction of this new fund, licensed fund managers who seek better capital returns and yields will have a new avenue for their investments. We opine that the increased traction in small and mid-cap companies could re-rate the price-to-earnings ratio (PER) for small and mid-cap companies with high potential as they usually trade at a lower PER in comparison with their bigger peers. The impact on small and mid-cap stocks will be determined by when and how the fund will be launched.

The “Small and Mid-Cap PLC Research scheme” is a positive for small and mid-cap stocks because many of these companies are under-researched. The scheme is expected to increase the exposure and visibility of the 300 companies under the scheme as investors will get to understand these companies better. That will lead to higher traction and trading activities in these counters. However, there is no mention of which 300 companies will be under this scheme and how they will be selected.

We are positive on these measures as there will be more interest in the small and mid-cap space.

Based on a top-down approach, we recommend smaller and undervalued companies in the **POSITIVE** sectors. From a bottom-up perspective, we like stocks with near to medium term catalysts with a decent balance sheet.

BANKING, *maintain* NEUTRAL (with Positive bias)

Measures	Allocation (RM)	Remarks
Special "step-up" end-financing scheme for the PR1MA programme Financing will be easier and more accessible to the buyers with total loan up to 90% to 100%. This scheme will be implemented effective 1 January 2017 is capped for PR1MA houses with the value up to RM300,000, purchased between the period between 1 January 2017 and 31 December 2018. In addition, the stamp duty exemption will be increased to 100% on instruments of transfer and housing loan instruments, to help reduce the cost of first home ownership, compared to 50% at present.	N.M.	To promote home-ownership accessibility to first time buyers. We believe that this will be positive for the participating banks; Maybank (NEUTRAL, TP: RM8.10), CIMB (BUY, TP: RM5.50), RHB (NEUTRAL, TP: RM5.15) and AmBank (AMMB; BUY, TP: RM5.10). With this new scheme, demand for loans is expected to increase. Subsequently, we should also expect to see lower rejection rate as this increases affordability of first time home buyers. Indeed, loan approval rate for purchase of residential properties have dropped to 41.3% for the period until August 2016, down from 50.8% over the same period last year. However, we believe that the positive impact will be muted as it is confined to PR1MA homes only.
Income Tax and Stamp Duty Exemption on Islamic banking and Takaful business through the International Currency Business Unit (ICBU) in foreign currencies The income tax and stamp duty exemption on instruments of such activities, will be extended to the year of assessment 2020.	N.M.	We expect this measure to continue to promote and strengthen Malaysia's position as an international Islamic financial centre. It will incentivize foreign currencies activities for Islamic banking and Takaful to be done in Malaysia.

The "step-up" end-financing scheme will expected to influence loans demand for purchase of residential properties and may improve loans approval rate for the said segment. However, the scheme is confined to PR1MA homes only and this may limit any potential impact of the scheme to the participating banks. Challenge remains for the banks on slowing loans growth, NIM compression and higher provisions and credit cost. Nevertheless, we believe that the situation may be improving in FY17. In addition, valuation for banks is undemanding, currently. Hence, we maintain our **NEUTRAL with positive bias** stance on the sector. Our BUY calls are on CIMB Bank (TP: RM5.50) for the potential of its earnings recovery, Public Bank (TP: RM22.20) for its stable earnings and robust asset quality and AMMB (TP: RM5.10) due to the depressed valuation.

PROPERTY, *maintain* NEUTRAL

Measures	Allocation (RM)	Remarks
New special "step-up" end-financing scheme for the PR1MA program is announced. Through this scheme, financing will be easier and more accessible to the buyers with total loan up to 90% to 100% with loan rejection rate to be reduced drastically. Application process for this scheme will be implemented effective 1 January 2017. This scheme is collaboration among the Government, Bank Negara Malaysia (BNM), Employees Provident Fund (EPF) as well as four local banks, namely, Maybank, CIMB, RHB and AmBank.	N.M.	The long list of measures to address the issue of first home buyers' affordability is within our expectation. This is likely caused by the strong focus on the issue by the media as well as the people. We believe that the stamp duty exemption increase to 100% for house below RM300,000 should relief the burden of first home buyers slightly. However, the public listed developers are not affected as the price of their product is not in the same category. For the increase of stamp duty to 4% (from 3%) on house above RM1.0m, we expect it to affect property developers with products above RM1.0m. 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.
Stamp duty exemption is increased to 100% (from 50%) on instruments of transfer and housing loan instruments for houses with the value up to RM300,000 for first home buyers. Effective period is 1-Jan-2017 to 31-Dec-2018.	N.M.	
The rate of stamp duty on instruments of transfer of real estate worth more than RM1.0m will be increased from 3% to 4% effective 1-Jan-2018.	N.M.	
Government to vacant lands at strategic locations to GLCs and Perumahan Rakyat 1Malaysia (PR1MA). This is aimed to build more than 30,000 houses with the selling price ranging between RM150,000 an RM300,000 which is much lower than the market price from RM250,000 to RM400,000.	N.M.	
Syarikat Perumahan Negara Berhad (SPNB) will build 5,000 units of People's	200m	

Friendly Home with a subsidy of RM20,000 for each house.		
Second Generation House infrastructure development for FELDA, FELCRA and RISDA.	400m	
The Ministry of Urban Wellbeing, Housing and Local Government (KPKT) will build 9,850 houses under People's Housing Programme (PPR). 11,250 PPR houses are being built with an allocation of RM576 million. These PPR houses will be sold between RM35,000 and RM42,000.	134m	
To increase the public servants' housing loans eligibility from between RM120,000 and RM600,000 to between RM200,000 and RM750,000;	N.M.	
MyBeautiful New Home targeting B40. Initially, 5,000 units will be built with prices ranging from RM40,000 to RM50,000 per unit. The Government will finance RM20,000 while the remaining will be paid as instalments by each owner. These houses will be built on their own land; land permitted by the landowner; and land awarded by state governments.	200m	

The long list of measures to address the issue of first home buyers' affordability is within our expectation. This is likely caused by the strong focus on the issue by the media as well as the people.

We believe that the stamp duty exemption increase to 100% for house below RM300,000 should relief the burden of first home buyers slightly. However, the public listed developers are not affected as the price of their product is not in the same category.

For the increase of stamp duty to 4% (from 3%) on house above RM1.0m, we expect it to affect property developers with products above RM1.0m.

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.

AUTOMOTIVE, *maintain* NEUTRAL

<table>
<tr><th>Measures</th><th>Allocation (RM)</th><th>Remarks</th></tr>
<tr><td>A grant of RM5,000 to purchase new vehicles and offer individual taxi permits, with an allocation of RM60 million. This will benefit 12,000 qualified taxi drivers who have ended their leasing contract with taxi companies.</td><td>60m</td><td>The grant of RM5,000 for taxi drivers to purchase new vehicles implies a new car price point of a maximum RM50,000 (assuming the RM5,000 is used as a 10% downpayment) - this falls specifically in the national car price point and national car-based taxis mainly comprise of Proton models given the abundance of sedan models e.g. the Persona and Saga, which are more suitable to be used as taxis. Perodua may also benefit as the Bezza may qualify for taxi duty since the ruling for the budget taxi segment has been liberalized but with a requirement of a minimum 3-star ASEAN NCAP – the Saga, Persona and Bezza all entail above 3-star ASEAN NCAP safety rating.</td></tr>
<tr><td>For households earning between RM3,000 and RM4,000, BR1M will be increased from RM800 to RM900;</td><td>N.M</td><td rowspan="2">The moves are timely to help revive Proton's sales as Proton's market share has been ailing at around 8%-12% versus close to 17%-20% in the past 5 years. The targeted incentive for the Iriz i.e. only for those who do not already own a car qualifying for the RM4,000 rebate, should help limit excessive buildup to household debt. More importantly, unlike a blanket first car buyer scheme, the overhang post-incentive period should not be too exaggerated and given the idea is specifically for income generating UBER ride-sharing use, should not result in significant loan defaults, which was the case for Thailand's first car buyer scheme when implemented back in 2012 (refer to our auto sector report dated 12th October 2016).</td></tr>
<tr><td>To assist the B40 group, especially BR1M recipients to generate additional income, the Government will encourage their participation as ride-sharing drivers such as UBER drivers, particularly those who own vehicles. To those who do not own a vehicle, down payment will be made using BR1M and a rebate of RM4,000 will be provided for the purchase of Proton Iriz.</td><td>4,000/car</td></tr>
</table>

Most of the measures benefiting the auto sector is targeted specifically towards: (1) The B40 group i.e. the bottom 40% of households earnings <RM3,900, (2) Proton being the carmaker mainly benefitting as the RM4,000 rebate (equivalent to 8% of the Iriz's average pricing) is specifically for the purchase of the Iriz model.

BENEFITING PRICE POINTS FOR RM5,000 TAXI PURCHASE GRANT

Total rebate (RM)	Downpayment as % of car price	Implied new car price point (RM)
5,000	20%	25,000
	10%	50,000

Meanwhile the grant of RM5,000 for taxi drivers to purchase new vehicles implies a new car price point of a maximum RM50,000 (assuming the RM5,000 is used as a 10% downpayment) - this falls specifically in the national car price point. National car-based taxis mainly comprise of Proton models given the abundance of sedan models e.g. the Persona and Saga, which are more suitable to be used as taxis. Perodua may also benefit as the Bezza may qualify for taxi duty since the ruling for the budget taxi segment has been liberalized but with a requirement of a minimum 3-star ASEAN NCAP – the Saga, Persona and Bezza all entail above 3-star ASEAN NCAP safety rating.

The moves are timely to help revive Proton's sales in particular, as Proton's market share has been ailing at around 8%-12% versus close to 17%-20% in the past 5 years. The move also coincides with the recent introduction of the three new sedan national car models i.e. the Bezza, the new Persona and the new Saga and should support take up of these models. The targeted incentive for the Iriz i.e. only for those who do not already own a car qualifying for the RM4,000 rebate, should help limit excessive buildup to household debt. More importantly, unlike a blanket first car buyer scheme, the overhang post-incentive period should not be too exaggerated and given the idea is specifically for income-generating UBER ride-sharing use, should not result in significant loan defaults, which was the case for Thailand's first car buyer scheme when implemented back in 2012 *(see our auto sector report dated 12th October 2016)*.

Given Proton's comprehensive contribution to the industry supply chain (including platform, upper body and engine design) and given its deadline to seek a foreign partner by 1H17, it comes as no surprise that Proton is the biggest beneficiary from the Budget 2017 measures for the auto sector, which is currently impacted by a cyclical slowdown. Back in the 2008/09 crisis, Proton's sales were supported by a Proton-specific car scrapping scheme which helped drive a 4% volume growth for Proton (vs the industry's 2% contraction in the same period).

While we remain **NEUTRAL** on the auto sector at this point, the incentives (albeit very targeted towards specific models) should lend support to near-term auto sales and this is likely to be driven by Proton. Maintain BUY on BAuto (TP: RM2.50) for stock-specific catalysts i.e. the listing of its Philippines unit and expansion of export market, and NEUTRAL on both UMW (TP: RM5.30) and Tan Chong (RM1.95).

CONSUMER, *maintain* NEUTRAL

Measures	Allocation (RM)	Remarks
For households in the e-Kasih database with a monthly income below than RM3,000, BR1M will be increased to RM1,200 from RM1,050 and RM1,000; For households earning between RM3,000 and RM4,000, BR1M will be increased from RM800 to RM900; and For single individuals earning below RM2,000, BR1M will be increased from RM400 to RM450.	N.M	Short term positive for consumer related stocks in general as this will cause an uptick in discretionary spending from the increase in disposable income
Special assistance of RM500 to all public servants, while special payment of RM250 for Government retirees. This payment will be made in early January 2017.	N.M	

With these additional payouts, we foresee a slight uptick in consumer spending especially on discretionary items. However, in the longer term, we believe that consumer discretionary segment will likely still be compressed due to the overall cautiousness in consumer spending. The consumer sentiment index (CSI) is still expected to remain subdued below 100-points largely attributable to worries on job security. Having said that, we believe margin compression could still be an issue amongst the retail and F&B players. All things considered, we maintain **NEUTRAL** on the Consumer sector.

TELECOMMUNICATION, *maintain* NEUTRAL

Measures	Allocation (RM)	Remarks
More affordable broadband packages Effective January 2017, fixed line broadband service providers will offer services at a higher speed for the same price. Within the next two years, the speed will be doubled with the reduction in prices	N.M.	In the short term, fixed line broadband service providers such as Telekom Malaysia Bhd (Buy, TP: RM8.18), Time Dotcom Bhd (unrated) and Maxis Bhd (Neutral, TP: RM6.55) will be negatively impacted. These broadband providers could experience erosion in profit margins as higher data is offered at a cheaper rate. However, in the

by 50%		longer term the number of subscriber should increase as the fixed line packages become more affordable. Coupled with various cost management exercise, this could potentially mitigate the decrease in profit margin.
Broadband coverage and quality The Malaysian Communications Malaysian Communications and Multimedia Commission (MCMC) will provide RM1b to ensure the coverage and quality of broadband nationwide with broadband speed reaches up to 20megabytes per second.	N.M.	We believe that the RM1b will be utilised from the universal service provision (USP) fund. The move will complement the on-going High Speed Broadband (HSBB) phase 2 and Sub-Urban Broadband projects. In our view, the immediate potential beneficiaries will include telecommunication infrastructure service providers such as OCK Group (unrated) and edotco Group.

Maintain **NEUTRAL** on Telecommunication sector. Competition remains intense as new players seek to expand their respective market share in the already-saturated market. On another note, the hefty cost of acquiring and maintaining new spectrum allocation serves as a challenge to local mobile players. The impending reallocation of the 700Mhz, 2300Mhz and 2600Mhz would put more pressure on local telecommunication players. Given the lack of rerating catalysts, we reiterate our NEUTRAL stance on the sector. Telekom Malaysia Bhd (Buy; TP:RM8.18) is our top pick for the telecommunication sector

TECHNOLOGY, *maintain* NEUTRAL

Measures	Allocation (RM)	Remarks
MIDA Fund Malaysian Investment Development Authority (MIDA) will be allocated a fund of RM522 million. Among the industries that will be given emphasis are chemicals; electric and electronics; and R&D activities.	522m	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.

Digital Economy Through MDEC, a sum of RM162 million is allocated to implement programmes such as e-commerce ecosystem and Digital Maker Movement as well as the introduction of new location category as Malaysia Digital Hub. The Government will also introduce the first Digital Free Zone in the world. It will merge physical and virtual zones, with additional online and digital services to facilitate international e-commerce and invigorate internet-based innovation.	162m	At present, Malaysia' digital economy which currently contributes about 16.3% to the GDP. We view that the initiative will further spur new setup of online businesses. This will also support Malaysia to be a thriving digital economy by 2020, contributing at least 20% to the GDP. In addition, it will also increase the broadband penetration rate which stands at 78.7 per 100 households as at 1Q16.

Maintain **NEUTRAL** on Technology sector. We expect sales of smartphone to remain lackluster in the immediate term owing to slowdown in global economic and lack of innovation in new smartphone launches. On another note, we take comfort in knowing that semiconductor players remain committed in its capital spending as seen in the positive BTB ratio. This would ensure that the industry will continue to grow, albeit slower pace. All in, anticipating 2016 to be a lackluster year, we maintain our NEUTRAL stance on the sector.

NON-BANKING FINANCIAL INSTITUTIONS, *Not Rated*

Measures	Allocation (RM)	Remarks
Invest in potential small and midcap companies Government-linked investment companies will allocate a special fund up to RM3 billion to fund managers licensed under the Securities Commission.	3.0b	We view that the fund is timely in order to at least rejuvenate liquidity and sentiment in the local stock market. This is based on an expectation of the event of foreign outflow following impending U.S. Fed rate hike and uncertainties in global economy.

We maintain our Bursa Malaysia's next year estimated earnings growth of 6.6% despite the special fund. However, we expect it may help to partially offset the potential shortfall in securities ADV traded from aforementioned events, thus achieving our FY17 ADV targets of RM1.974b. We maintain our NEUTRAL call on Bursa Malaysia (TP: RM8.95) due to expected lower securities trading activities in FY17.

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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.