

27 OCTOBER 2017
MALAYSIA EQUITY



BUDGET 2018

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A. ECONOMIC COMMENTARY AND ANALYSIS

Table 1: Federal Government Finance

	RM Million				YoY%			
	2015	2016	2017 ^e	2018 ^f	2015	2016	2017 ^e	2018 ^f
Revenue	219,089	212,421	225,337	239,860	(0.7)	(3.0)	6.1	6.4
Total Expenditure	256,283	250,822	265,224	279,650	(0.7)	(2.1)	5.7	5.4
Operating Expenditure	216,998	210,173	219,910	234,250	(1.2)	(3.1)	4.6	6.5
Current Balance	2,092	2,248	5,427	5,610	71.3	7.5	141.4	3.4
Net Development Expenditure	39,285	40,649	45,314	45,400	3.2	3.5	11.5	0.2
Overall Balance	(37,194)	(38,401)	(39,887)	(39,790)	(0.6)	3.2	3.9	(0.2)
Overall Balance as % of GDP	-3.2%	-3.1%	-3.0%	-2.8%	N/A	N/A	N/A	N/A

Source: MOF, MIDFR

- **Ensuring unity and economic growth, inclusive prudent spending, wellbeing of the Rakyat.** Budget 2018 is viewed as expansionary in nature, aiming at supporting Malaysia's economic growth and at the same time ensuring better and efficient income distribution to cater for specific target groups. In addition, the Government continues on consolidating its fiscal plan in order to achieve its balanced budget by 2020. 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 5.0-5.5%.

Table 2: Federal Government - Revenue

	RM Million				YoY%			
	2015	2016	2017 ^e	2018 ^f	2015	2016	2017 ^e	2018 ^f
Direct Tax	111,770	109,608	119,699	127,713	(11.80)	(1.93)	9.21	6.70
Income Tax	103,985	102,308	111,906	119,442	(12.60)	(1.61)	9.38	6.73
Corporate	63,679	63,625	67,822	72,475	(2.70)	(0.08)	6.60	6.86
Individual	26,321	27,566	30,089	32,234	7.80	4.73	9.15	7.13
Petroleum	11,559	8,422	10,937	11,445	(57.10)	(27.14)	29.87	4.64
Withholding & Others	2,426	2,695	3,058	3,288	2.10	11.09	13.47	7.52
Others	7,785	7,300	7,793	8,271	0.50	(6.23)	6.75	6.13
Indirect Tax	53,670	59,736	60,495	63,856	43.30	11.30	1.27	5.56
Export Duties	1,039	980	1,222	1,400	(45.10)	(5.69)	24.68	14.57
Petroleum	989	673	900	1,062	(37.30)	(31.95)	33.73	18.00
Others	50	307	322	338	(84.20)	514.00	4.89	4.97
Import Duties	2,732	2,905	3,008	3,022	2.30	6.36	3.53	0.47
Excise Duties	11,890	11,705	11,806	12,334	(8.00)	(1.55)	0.86	4.47
Goods & Services Tax	27,012	41,206	41,500	43,800	N/A	52.55	0.71	5.54
Others	2,736	2,733	2,959	3,300	(0.80)	(0.11)	8.27	11.52
Non-Tax	53,649	43,078	45,143	48,291	(4.90)	(19.70)	4.79	6.97

Source: MOF, MIDFR

- **Towards a balanced budget in 2020.** The Government targets fiscal deficits in 2018 to hit -2.8%. 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. Nevertheless, the prospect of achieving a balanced budget is indeed tougher but feasible.
- **Higher revenue from stronger economy in 2018.** In line with the rebounding economy, revenue to the Government is expected to be higher by 6.4% in 2018, slightly higher than 2017 of 6.1%. The increase 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 as globally referred oil price to maintain hovering above USD50. The projection is based on an average oil price of USD52 per barrel, slightly lower than our in-house oil price forecast of average USD55 per barrel next year. Most notably, corporate income tax is projected to increase by 6.9%, while GST collection is expected to be higher at RM43.8 billion, against the revised target of RM41.5 billion this year. The GST collection has reached nearly RM20 billion as of first half this year. GST tax rate remains unchanged in the budget while the exempted items are added.
- **Stabilising oil price to benefit the economy.** Petroleum tax and petroleum export duties are expected to record higher than this year at RM11.4b and RM1.1b respectively. Moving forward, the Government is expecting to the oil price to average at USD52 per barrel next year, which is slightly lower than our own in-house forecast of USD55 per barrel. Nevertheless, improvement in the oil prices will give significant booster towards overall Malaysia's economic activity via output, tax revenue, employment and income given that the oil & gas industry has strong value-added multiplier effects and efficient economic linkages.

Table 3: Federal Government - Operating Expenditure

	RM Million				YoY%			
	2015	2016	2017 ^e	2018 ^f	2015	2016	2017 ^e	2018 ^f
Emoluments	70,050	73,108	78,801	79,149	4.6	4.4	7.8	0.4
Pensions & Gratuities	18,872	21,029	23,648	24,550	3.6	11.4	12.5	3.8
Debt Service Charges	24,283	26,479	28,866	30,882	7.5	9.0	9.0	7.0
Grants & Transfers to State Governments	6,920	6,942	8,058	8,023	6.0	0.3	16.1	(0.4)
Supplies & Services	36,373	30,070	32,642	33,621	6.0	(17.3)	8.6	3.0
Subsidies	27,269	24,690	23,085	26,544	(31.0)	(9.5)	(6.5)	15.0
Refunds & Write-Offs	947	799	802	888	(30.0)	(15.6)	0.4	10.7
Grants to Statutory Bodies	15,487	13,557	13,449	13,099	(5.0)	(12.5)	(0.8)	(2.6)
Others	15,074	12,822	9,861	16,917	27.0	(14.9)	(23.1)	71.6
Total	216,998	210,173	219,910	234,250	(1.2)	(3.1)	4.6	6.5

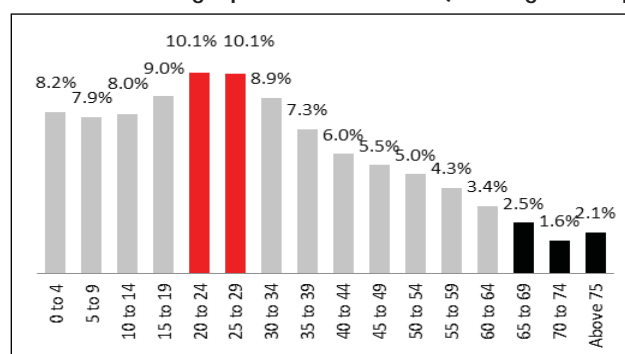
Source: MOF, MIDFR

- OPEX set to rise by 9.1%, led by 12.8% increase in pay-out to pensioners. Retired civil servants are set receive huge boost from Budget 2018, RM24.6b in 2018. We opine the surge in payment for pensioners is due to enlarging size of older age's groups. For instance, age group above 65 constituted about 5% in

2010 whereas in 2017, the group holds larger share of 6.2% of total population.

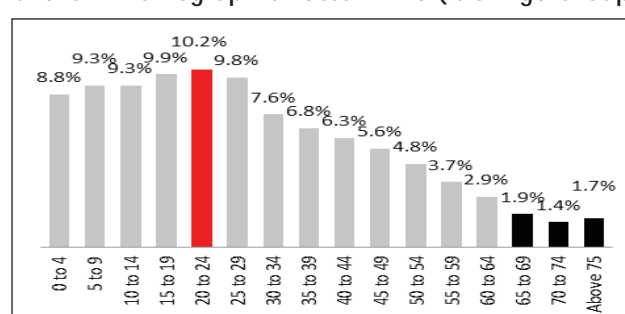
- **Emoluments increases by 2.2% to RM79.1b** from RM77.4b a year earlier and this effectively drives down the share of emoluments to total OPEX at 33.8% (2017: 36%). Putting fiscal issue aside, rising emoluments should give support to local consumption as civil servants form nearly 11% of the 14.5 million workforces. This bodes well with our higher private consumption forecast for next year.
- **Development expenditure stays at RM46b for 2018.** Budget allocation for development spending is equivalent to Budget 2017. The share of development expenditure declined to 16.4% in 2018 from 17.6% this year. Nevertheless, development expenditure program is in line with Malaysia's Eleventh Plan to gradually improvise and upgrade our structural economic activity in driving towards high nation income status.

Chart 1: Demographic Pattern '17 (% of Age Group)



Source: DOSM, MIDFR

Chart 2: Demographic Pattern '10 (% of Age Group)



Source: DOSM, MIDFR

Table 4: Federal Government - Development Expenditure

	RM Million				YoY%			
	2015	2016	2017 ^e	2018 ^f	2015	2016	2017 ^e	2018 ^f
Economic Services	23,286	25,113	25,897	26,342	(0.2)	7.8	3.1	1.7
Agri & Rural Development	3,105	2,902	2,416	2,523	8.0	(6.5)	(16.7)	4.4
Trade & Industry	5,638	4,841	4,830	4,149	20.3	(14.1)	(0.2)	(14.1)
Transport	6,693	7,827	10,749	10,479	(7.9)	16.9	37.3	(2.5)
Public Utilities	3,637	2,927	2,514	2,746	4.4	(19.5)	(14.1)	9.2
Others	2,881	4,265	3,042	4,327	(16.1)	48.0	(28.7)	42.2
Social Services	11,161	10,429	12,119	11,720	6.4	(6.6)	16.2	(3.3)
Education	4,758	3,727	5,904	5,256	(3.4)	(21.7)	58.4	(11.0)
Health	1,442	1,495	1,532	1,910	4.2	3.7	2.5	24.7
Housing	2,008	2,238	870	1,167	224.6	11.5	(61.1)	34.1
Social & Community	2,952	2,969	3,813	3,387	(17.1)	0.6	28.4	(11.2)
Defence & Security	4,754	4,832	5,286	5,214	9.7	1.7	9.4	(1.4)
General Administration	1,567	1,621	2,660	2,724	16.6	3.4	64.1	2.4
Development Expenditure	40,768	41,995	45,962	46,000	3.2	3.0	9.4	0.1

Source: MOF, MIDFR

- **Cheers for education, health and infrastructure activities.** Education receives huge boost with RM5.3b budget while healthcare increases hugely by 24.7% to RM1.9b. The allocations for these activities surely provide significant impacts on ensuring quality human capital and excellent healthcare for the overall population. We opine the creation of National Rail Centre of Excellence, NCROE can give better exposure especially for young Malaysians to the rail engineering activities and indirectly upskilling our labour force. Budget for the transport sectors remain above RM10b 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.
- **Booster for domestic spending underpinned by individual income tax cut.** The decision to reduce personal income tax accordingly is seen as a move to alleviate private consumption in 2018. The consumption component covers about 53.5% of total GDP. Hence, the cut will have significant impact in fuelling Malaysia's economic growth in 2018, ranging between 5-5.5%. Besides, the tax cut added with other microfinance and social assistance schemes would improve income growth in particular those in B40 and M40 groups. In facing the rising cost of living, increase in disposable income surely give huge relief to every household in Malaysia.

Table 5: Household Income by State

	Median Income (RM)			% Share of HH Numbers		
	Bottom 40	Middle 40	Top 20	Bottom 40	Middle 40	Top 20
Malaysia	3,000	6,275	13,148	40.0	40.0	20.0
Johor	3,420	6,554	12,304	34.1	46.7	19.2
Kedah	2,154	4,412	9,602	59.1	31.0	9.9
Kelantan	1,869	3,667	8,427	68.6	24.0	7.4
Melaka	3,458	6,572	12,077	34.9	45.7	19.4
Negeri Sembilan	2,658	5,409	10,857	46.7	40.2	13.0
Pahang	2,722	4,648	9,049	56.1	35.1	8.8
Pulau Pinang	3,286	6,382	12,268	36.8	45.5	17.7
Perak	2,366	4,678	9,540	56.1	34.1	9.9
Perlis	2,572	4,751	9,017	53.6	39.7	6.7
Selangor	4,395	8,585	17,410	19.7	47.3	33.0
Terengganu	3,135	5,443	10,692	45.6	40.9	13.5
Sabah	2,169	4,843	10,886	55.6	31.5	12.9
Sarawak	2,275	4,986	10,688	52.5	35.0	12.4
Kuala Lumpur	5,344	10,564	20,201	12.1	41.7	46.2
Labuan	3,654	7,217	15,238	27.2	46.0	26.8
Putrajaya	5,960	9,492	21,994	12.1	53.7	34.2

Source: DOSM, MIDFR

- **Productivity and entrepreneurship.** The budget highlighted to stress on high-impact investment activities such as petroleum, logistic, aerospace, rail and robotics. This is in line with the government aspirations to adopt with Industry 4.0. On a flip side, more fund allocations on SMEs developments mentioned in the fiscal plan as part of the Government's initiatives to encourage entrepreneurship among the Rakyat. In tandem with the high-impact investment, we foresee these fiscal strategies are gist towards improving our labour productivity, market efficiency and fairer resources distribution in the economy.

B. EQUITY MARKET

- It is an election-friendly budget laden with multitude of social assistance and allowances as well as subsidies for the rakyat, particularly those in the B40 and M40 income brackets, as well as allocations and programs targeted mainly at micro, small and medium enterprises. While the 2018 budget may lack generous corporate goodies (such as corporate tax cuts) and large new infrastructure projects (apart from those previously announced), nonetheless we view the projected further narrowing of national budget deficit to -2.8% of GDP in 2018 as an attestation to the government's steadfastness towards its long-term fiscal goal.

I. KEY SECTORIAL IMPACTS

- The FBM KLCI is heavily weighted by five sectors, namely (i) Banking, (ii) Telecommunication, (iii) Plantation, (iv) Oil & Gas, and (v) Utility. On this score, in order to gauge the direct impacts of the 2018 budget on the stock market, our attention is duly centered on what in store for the aforementioned sectors.
- Banking (Budget impact: Mild Positive). The "step-up" end-financing scheme will be expected to influence loans demand for purchase of residential properties and may improve loans approval rate for the said segment. Should the scheme be extended to other banks, we opine that it will spur further the growth of mortgages in CY18, possibly to level seen in CY16. We believe that the abovementioned measures will have a positive impact to the banks through spurring loans growth and improving NIM through cheaper funding cost. Therefore, we continue to be POSITIVE on the banking sector.
- Telecommunication (Budget impact: Neutral). We expect the building of the telecommunication infrastructure will spread over the medium term, telecommunication service providers will not see a significant increase in customer base in the immediate term. Meanwhile, competition remains intense as new players seek to expand their respective market share in the already-saturated market. 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.
- Plantation (Budget impact: Neutral). Publicly listed plantation companies are not expected to benefit directly from the budget measures. However, the replanting program should benefit the oil palm industry in the long run as it improves the national FFB yield and age profile. We maintain our bullish view on palm oil price at RM2,825 per MT for 2017 and RM2,900 per MT for 2018. Reiterate POSITIVE view on the sector.
- Oil & Gas (Budget impact: Neutral+). With volatile global crude oil prices, upstream service providers have been struggling, especially in winning new contracts and to reduce its overhead costs. We believe that the GST relief provided will ease the financial burden on offshore service providers, especially in the procurement phase of offshore projects. Nonetheless, we remain NEGATIVE on the upstream segment of the oil and gas industry but maintain our POSITIVE stance on the downstream segment as the focus is still on the development of the Pengerang Integrated Petroleum Complex (PIPC).
- Utility (Budget impact: Neutral+). In regard to the GTFS allocation, Tenaga Nasional Berhad's exposure to RE relative to its overall capacity is expected to remain small in the foreseeable future and will act more as a complementary source of energy. Overall, we remain POSITIVE on the power sector.

- In conclusion, we expect the Budget 2018 to directly engender only measured excitement to FBM KLCI in the coming week.

II. MARKET OUTLOOK

- Steadfastness to fiscal goal would be appreciated by the market... The Budget 2018 is an attestation to the government's earlier promise to gradually lower its fiscal deficit, which is now expected to improve to -2.8% of GDP for next year (lower than -2.9% anticipated by our economist) , and eventually to achieve a balanced budget by year 2020. We believe the fiscal steadfastness will be appreciated by the market.
- ...but expect measured market reaction towards Budget 2018. While the budget may help to soothe investors' wariness over the state of government finances, it nevertheless provided only few material surprises which may attract only targeted buying interest in the equity market.
- Ongoing macro recovery to drive market in closing months of the year... Despite the not too exciting 2018 budget, we foresee the FBM KLCI regaining its upward thrust during the closing months of 2017 to be propelled by (i) resumption of earnings recovery in 4Q17, and (ii) improving forward earnings expectations, respectively underpinned by continuing macro improvement and macro resilience.
- ...hence reiterate our FBM KLCI 2017 and 2018 year-end targets. We reiterate our FBM KLCI 2017 year-end target of 1,830 points which equates to PER17 of 17.1x and +1.1SD. Likewise, we reaffirm our FBM KLCI 2018 year-end target of 1,900 points which is equivalent PER18 of 16.7x and +0.9SD.

C. BUDGET 2018 REVIEW

I. AUTOMOTIVE Maintain POSITIVE

Measures	Allocation (RM)	Remarks
E-hailing application for registered taxi driver to purchase new taxi: (grant RM5,000)	N.A.	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. Beneficiaries are Proton via DRB-Hicom (NOT RATED) and Perodua via UMW (BUY, TP:RM7.20) and MBM (NOT RATED).
Income tax reduction: Reduction in individual income tax rates: • RM20,001-35,000: 5% to 3%; • RM35,001-50,000: 10% to 8%; and • RM50,001-70,000: 16% to 14%; Increase disposable income between RM300-RM1,000 while 261,000 do not have to pay tax	1.5b	The move will increase disposable income for consumers generally. At the average RM80/month reduction in income tax (based on RM1000/annum savings), consumers' financing capacity stretches by an additional RM9000 (assuming a 9-year HP tenure). This might generally benefit the auto sector, provided the savings are channelled towards discretionary spend. However, bear in mind that a normalisation in EPF contribution to 11% from 8% (in the past 2 years) from Dec 2017 onwards may offset the impact of the reduction in income tax.
GLCs: (1) Increase distribution of profits to employees (2) Introduction of flexible benefits - convert leaves entitlement to cash rewards	N.A.	
Easy loans for Food Truck 1Malaysia (FT1M) through Bank Rakyat and BSN with interest rate of 2%. Govt to provide subsidy of 4%	120m	These are generally positive for the auto sector - increased disposable income and access to cheaper financing may spur discretionary spending, including on autos.
Three-wheel Motorcycle Programme, mobilepreneur and MyAGROSIS programme	25m	

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

- We remain **POSITIVE** on autos underpinned by: (1) Currency strength, (2) Roll-back of rebates, (3) Improving loan approval rate - HP loan approvals have held up above 50% for the past 3 months.
- BAuto** remains our top sector pick at unchanged TP of RM2.55/share. Key catalysts over the next 12 months: (1) A 30%yoy increase in FY18F TIV driven mainly by launch of the new CX5 in Sep17 and CX9 in Jul17 (2) A more than doubling in associate earnings contribution to group (via 30%-owned Mazda Malaysia SB and 29%-owned Inokom) given a massive export market expansion which will triple MMSB's prospective market. (3) Attractive dividend yield of 6% underpinned by net cash which accounts for 10% of market cap and solid 7% FCFE yield (FY18F). The listing of BAuto Philippines will bump yields up further given potential one-off special dividends. (4) Value unlocking from the listing of **BAuto Philippines (BAP)**. Current market cap attributes practically no value to BAuto's stake in BAP relative to the 15x indicative IPO valuation and historical sector valuation of 12x (for Malaysian autos). Ex-cash, BAuto trades at just 8.6x CY18F earnings. (5) A stronger Ringgit against the JPY.
- UMW Holdings** remains a contrarian **BUY** at unchanged TP of RM7.20/share. Key catalysts: (1) Demerger of O&G units deleverages balance sheet, drives UMW back into the black and allows better focus on core divisions (2) Reversal of prior years' market share loss, structural cost reduction and pricing advantage from UMW Toyota's EEV-focused strategy (3) Monetisation of UMW's 861 acres Serendah landbank which will unlock value of the asset - easily worth 39sen/share, or 6% of our SOP valuation (4) A more than quadrupling of M&E division earnings once its aerospace division reaches full scale production (5) An underleveraged balance sheet post UMWOG de-merger suggests room for acquisitive growth.

II. AVIATION Maintain POSITIVE

Measures	Allocation (RM)	Remarks
Tourism		
Visit Malaysia Year 2020	N/A	These measures will be positive to MAHB (BUY, TP: RM9.98), where with the promotion of Malaysia as official tourism destination will encourage more tourist arrivals. As tourist arrival is expected to be spurred by the development in tourism services and further enhancement to the existing infrastructure. Eco-tourism programme, homestay, and tourism infrastructure will also benefit from this allocation.
SME Tourism Fund with interest subsidy of 2%	RM2b	
Tourism infrastructure development fund	RM1b	
Tourism expansion and development programme	RM500m	
Investment Tax Allowance for new 4 and 5 star hotels extended to 31 December 2020.	N/A	
Extension of tax exemption for tour operators to 2020.	N/A	

Measures	Allocation (RM)	Remarks
Extend eVisa to Expat, foreign students and recipients for Malaysia My Second Home program.	N/A	Complements eVisa efforts which have benefited tourists from Balkan and South Asia Regions in Budget 2017. Other countries that have been allowed eVisa include but not limited to China, India, Myanmar and Nepal.
Medical Tourism	RM30m	
<ul style="list-style-type: none"> Create high value healthcare packages as Asian Hub for Fertility Treatment and Cardiology 	N/A	This will enhance Malaysia's brand as one of the best destination for medical tourism. Along with affordable medical costs, coupled with various tax relief granted by the government, the local medical service will lend stronger support to attract passenger traffic from around the world. The expected rise of medical tourism activities will form a niche demand for airport services, supporting the growth of tourism receipts.
<ul style="list-style-type: none"> Flagship Medical Tourism Programme especially for private hospitals 	N/A	
<ul style="list-style-type: none"> Extension of Investment Tax Allowance for medical tourism until 30 December 2020. 	N/A	
<ul style="list-style-type: none"> Double tax deduction on expenditure incurred for dental and ambulatory services. 	N/A	
<ul style="list-style-type: none"> Increase special tourism healthcare incentive from 50% to 100%. 	N/A	
Airports & Airlines		
Construction of new Mukah Airport in Sarawak and airports expansion in Kota Bharu and Sandakan. Allocation is provided to upgrade Pulau Pinang and Langkawi international airports.	N/A	Develop the current airport facilities to cater the needs of airport users. The increase in capacity is to benefit the growing passenger traffic in airports, opening up opportunities for wider airport services.
Construction first phase of Digital Free Trade Zone in Aeropolis, KLIA	RM83.5m	This will reaffirm the forward progression of Aeropolis project, extending support to the nation's eCommerce growth.
GST relief for imports of big ticket items such as air craft and ship	N/A	Positive for future expansion in airline business. Low Cost Carrier airlines like Air Asia and Air Asia X are poised to benefit, taking into account the reduction in operational cost.

Budget Year	2013	2014	2015	2016	2017	2018
Allocation for Promotional Activities (RM'b)	0.4	1.2	0.3	1.2	0.4	0.5
Target tourist (m)	26.8	28.0	29.4	30.5	31.8	28.0
Actual tourist (m)	25.7	27.4	25.7	26.8	10.8*	N/A
Target income (RM'b)	62.0	65.0	89.0	103.0	118.0	N/A
Actual income (RM'b)	65.4	72.0	69.1	82.1	N/A	N/A
Campaigns	Visit Malaysia Year (VMY)		Year of Festivals	Cuti-cuti 1Malaysia (Dekat Je)	ASEAN@50 Year Campaign, 2017 SEA Games	Visit Malaysia Year 2020

*Up to May 2017

Initiatives to promote tourism

2017	2018
<ul style="list-style-type: none"> Pioneer Status promotion and Investment Tax Allowance for new 4 and 5 star hotels will be extended to 31 December 2018. 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. Extend eVisa to countries in the Balkans and South Asia regions. 	<ul style="list-style-type: none"> Construction of new Mukah Airport in Sarawak and airports expansion in Kota Bharu and Sandakan. Allocation is provided to upgrade Pulau Pinang and Langkawi international airports. Extend eVisa to Expat, foreign students and recipients for Malaysia My Second Home program. Investment Tax Allowance for new 4 and 5 star hotels extended to 31 December 2020. Visit Malaysia Year 2020 campaign

- The Government has allocated RM500m to promote the tourism industry in Budget 2018, an increase from the RM400m allocated in Budget 2017. Higher allocation was granted for SME Tourism Fund and Tourism Development fund worth RM2b and RM1b respectively, as efforts to stimulate further growth in the tourism sector. Overall, we are positive on the progress initiated by the government taking into account the various benefits to be enjoyed by both businesses and consumers.
- We believe that the increase in allocation is positive for promoting tourism chiefly through increasing advertising efforts overseas and organizing tourism campaigns. We expect the aviation sector to benefit,

more so from the increase in allocation as well as by the initiatives taken above. Both combined, will help to boost passenger traffic numbers in MAHB as well as increase load factors for both Air Asia and AAX.

- We remain **POSITIVE** on the aviation sector buoyed by the abovementioned points. We have **BUYs** on both AirAsia (TP: RM3.94) and MAHB (TP: RM9.98) while we are **NEUTRAL** on AAX (TP: RM0.43)

III. **BANKING..... Maintain POSITIVE**

Measures	Allocation (RM)	Remarks
<p>Allocation under the Skim Jaminan Pembiayaan Perniagaan (SJPP) for services sector, including Industrial Revolution (IR 4.0);</p> <ul style="list-style-type: none"> • RM5 billion for working capital • RM2 billion with 70% guaranteed by the Government 	7.0b	<p>We believe the measures may increase the risk appetite for banks to lend to SMEs. In addition, asset quality will be partly protected given that these loans will be partly guaranteed by the Government. We opine that Alliance Bank (BUY, TP: RM4.60) will be one of the major beneficiary given its position as a major financier to SMEs. We also understand that BIMB (BUY, TP: RM5.00) targets such schemes to grow its SME loans portfolio. Therefore, another beneficiary to the measures in our view.</p>
Loans to companies with 70% guaranteed by the Government to enable SMEs to automate production processes and reduce employment of foreign workers.	1.0b	
Using intellectual property as an instrument of financial collateral with up to 80% financing guarantee.	1.5b	
Income tax exemption on income from management fee to be expanded to approved conventional SRI fund managers from year of assessment 2018 to 2020.	N.M.	This measure will be beneficial for banking groups with strong presence in fund management, such as Public Bank (BUY, TP: RM23.30). However, it is difficult to ascertain the magnitude of the benefits given portion of investment in conventional SRI fund is unknown.
Beginning 2018, Bank Negara Malaysia will monitor salary payment through local bank accounts for foreign workers, excluding domestic helpers.	N.M.	We believe that this measure will be overall positive for the banking sector as it provides steady stream of CASA. This may ease any possible NIM compression or improve it through cheaper funding cost. Based on our recent visit note report, we believe that Alliance Bank (BUY, TP: RM4.60) will be a major beneficiary given that it has started such scheme with its "Alliance at Work" product.

Measures	Allocation (RM)	Remarks
The step-up financing scheme introduced by PR1MA will be extended to private housing developers subject to certain criteria.	N.M.	<p>It seems to be a continuation from Budget 2017 measure to promote home-ownership accessibility to first time buyers. We believe that this will be positive for the participating banks; Maybank (BUY, TP: RM10.30), CIMB (BUY, TP: RM7.10), RHB (NEUTRAL, TP: RM5.20) and AmBank (AMMB; NEUTRAL, TP: RM4.50).</p> <p>We expect not only will demand for mortgages to increase but could potentially see lower rejection rate as this increases affordability of first time home buyers. Indeed, the banking system's 8MCY17 loan approval rate for the purchase of residential properties was flattish at 41.8% when compared with same period last year.</p>

- The “step-up” end-financing scheme will be expected to influence loans demand for purchase of residential properties and may improve loans approval rate for the said segment. Should the scheme be extended to other banks, we opine that it will spur further the growth of mortgages in CY18, possibly to level seen in CY16. This is especially as property developers are moving towards developing more affordable homes. To put into context, mortgages grew +8.8% as at August CY17 vs. +10.1% as at August CY16. Meanwhile, loan demand in this segment grew +16.5%yoy to RM161b for 8MCY17. Hence, we believe that this will reinforce our view that loans growth may come in better in CY19 comparatively to CY18.
- We believe that the abovementioned measures will have a positive impact to the banks through spurring loans growth and improving NIM through cheaper funding cost. Therefore, we continue to be POSITIVE on the banking sector. Our BUY calls are Maybank (TP:10.30), Public Bank (BUY, TP: RM23.30), CIMB (TP: RM7.10), Affin (TP: RM3.30), Alliance Bank Malaysia Bhd (TP: RM4.60) and BIMB (TP: RM5.00).

IV. CAPITAL MARKET Maintain POSITIVE

- We are POSITIVE on the various incentives granted to the capital market. One of it includes the exemption of stamp duty, which is expected to encourage more trading activities for ETF and Structured Warrants. At the same time, we see more positive development happening in the start-up space, providing support for future expansion. With various backings given to the local business entities, we see better listings potentials in the capital market ecosystem. In light of this, Bursa is poised to benefit financially providing sustainability to its future earnings. As such, we maintain our BUY call on Bursa with TP of RM11.25.

Measures	Allocation (RM)	Remarks
Duty Stamp exemption for contract note of Exchange-Traded Fund and Structured Warrants for 3 years starting January 2018	N/A	Positive development in the securities market segment. We opine the duty stamp exemption will boost up the demand for both products, while at the same time providing diversification opportunities for investors.
Relief on tax imposed on venture capital companies equivalent to the amount of investment	N/A	This is to promote higher investment participation by venture capital companies. The support given by these investors play an instrumental role to the development of start-up companies, giving strength to its financial structure. Moving forward, it is possible that these companies may offer equity offerings via Bursa Malaysia's newly launched LEAP. This will potentially benefit Bursa bottom line via listing and trading fees.
Tax deduction for angel investors in venture capital	N/A	Positive for start-up companies looking for seed funding.
Income tax exemption on Sukuk Green SRI social grant receive	N/A	Complement SRI Sukuk framework and promote greater utilization of green sukuk as a fundraising channel.
Income tax exemption on management fee extended to conventional SRI fund managers	N/A	Complement the development of capital market through lower operating cost of fund management. Less operational cost will translate to better yield in investments.
Malaysian Children Trust Fund 2050 (ADAM50) of RM200 through PNB's Unit Trust Scheme for Child born from 1 January 2018-2022	N/A	Complement future structural community development in parallel with TN50 long term vision. The additional investment capacity will lend further support to the growth in trading activities.

V. CONSTRUCTION Maintain POSITIVE

- 4 target segments. Based on our observation, Budget 2018 has injected new catalysts to 4 segments of the construction sector;
 - » Infrastructure and Social Amenities
 - » Rural Connectivity
 - » Affordable Housing
 - » Waterworks

- Our observation is based on the following:

Measures	Allocation (RM'm)	Remarks
Waterworks		
Flood Mitigation	517	Nationwide exercise
Off-River Storage	1300	Alternative source of water
Clean water supply	420	RM300m will be allocated to Sabah and Sarawak. Allocation will cover at least 3000 houses
Rural Connectivity (Roads Maintenance/Upgrade/New Roads)		
Central Spine Road (Raub to Bentong and Gua Musang, Kelantan to Kampung Relong, Pahang)	230	
Alternative road to Port Klang	110	
Rural road connectivity	934	RM500m will be allocated to Sarawak and Sabah to improve connectivity between cities and growth nodes within the economic corridors
Infrastructure and Social Amenities (Maintenance/Upgrade)		
International and domestic airports such as Penang, Sandakan, Kota Bharu, Langkawi and Mukah.		The total amount is not specified
Two blocks of Female and Children's ward in Tuanku Afzan and Putrajaya's Hospitals	1000	Construction to cover 300 beds for each of the hospitals
New cancer hospital in Sg. Petani	500	Capacity for 200 beds
New ward and specialist clinic block in Penang General Hospital	500	Capacity for 300 beds
International Forensics Centre in Kuala Lumpur General Hospitals	380	
Upgrade for Muar, Banting and Balik Pulau General Hospitals	1400	
Construction of schools	654	Construction of 4 pre-schools, 9 PERMATA Centres, 2 Autistic Children Centres, 48 primary, secondary and vocational schools and 1 matriculation college.
Special Fund for Upgrade and Maintenance of Schools	550	

Measures	Allocation (RM)	Remarks
Upgrade for schools	2500	RM500m will be allocated to upgrade schools in Peninsular Malaysia, RM1.0bn for schools in Sarawak and RM1.0bn for schools in Sabah
Basic infrastructure upgrade	1100	Upgrade of bridges, streetlights, Suraus and markets
Public and basic infrastructure upgrade in rural areas	500	
Police stations and headquarters	720	11 police headquarters and 6 stations
Sports Facilities	132	14 new sports complex and RM20m upgrade of Bukit Jalil Sports School
Affordable Housing and House Maintenance		
Projek Perumahan Penjawat Awam 1Malaysia (PPA1M) for Royal Malaysian Police		10,000 units will be constructed according to their salary scale`
Army Public Housing		6,000 units
Projek Perumahan Rakyat (PPR)*	2200*	17,300 units
Rumah Mesra Rakyat*		3,000 units to be constructed by Syarikat Perumahan Negara Berhad
PR1MA Housing Scheme	1500	210,000 units constructed below the selling price of RM250,000
MyDeposit and MyHomes Schemes		2,000 units
MyBNHomes Scheme		600 units in Terengganu, Melaka, Sabah, Sarawak, Johor, Pahang and Johor
Maintenance and upgrade of houses	200	Inclusive of 1Malaysia Maintenance Fund
Total	17,347	

- Budget 2018 presents stronger emphasis on social, basic infrastructure upgrade as well as affordable housing. Construction for schools, housing and hospitals are not complicated thus enabling project team minimize cost-overruns. As a result, margins and risk profiles will improve compared to heavy engineering infrastructure projects i.e. rail-based projects and bus rapid transit (BRT) systems. Notably, the inclusion of Industrial Building System (IBS) for construction and upgrades is much anticipated as it reduces total construction cost with lesser reliance on foreign labour.
- However, we doubt that the projects will have significant positive impact to the building materials segment as there are ample supplies except steel bars. Cement companies i.e. Lafarge (TP: RM3.80) will still be in a conundrum as supply-demand gap widens through IBS using pre-casted materials. Hence, reliance on higher concrete content will be accentuated.

- The imminent impacts to our coverage are as follows;

Company	Target Price	Recommendation	Impact
MRCB	RM1.36	BUY	Abolishment of toll for Eastern Dispersal Link in Johor may seem negative for MRCB at first glance. However, we believe the government will compensate the abolishment in near term.
Cahaya Mata Sarawak	RM4.62	BUY	Participation in schools and road upgrades/constructions in various locations within Sarawak. Building materials division will enjoy a steady monopoly over cements and clinker supply.
Hock Seng Lee	RM2.00	BUY	HSL has strong expertise in construction of social amenities such as education-purposed buildings and roads.
Gabungan AQRS	RM2.08	BUY	Stronger opportunity to participate in affordable housing segments especially the PPA1M-PDRM and PR1MA schemes through its previous track records in Kota SAS.

- We exclude to note the Labuan to Sabah Bridge project as it is still in 'feasibility studies' stage. Additionally, the costs of several housing and airport projects are unspecified. But more importantly, the fillip of projects from the 10th and 11th Malaysia Plans will still form a core backdrop of our sectoral view. We view the impact of Budget 2018's projects as 'work-in-progress' of both the Plans respectively. Altogether, we reiterate our POSITIVE stance on the construction sector due to the consistent execution of key points under both Plans from the previous national budget.

VI. HEALTHCARE Maintain POSITIVE

- Maintain POSITIVE.** Overall, the announced Budget 2018 allocation for the healthcare sector next year focuses on making healthcare services more accessible and affordable both in public and private sectors with the introduction of the Voluntary Health Insurance Scheme (VHIS). This in turn, will increase the number of patients seeking treatments in private hospitals. In addition, the budget also includes medical tourism incentives which are expected to encourage medical travelers to seek treatments in Malaysia's private hospitals.
- Hence, we remain POSITIVE on the private healthcare side premised on: (i) ongoing strong demand for quality private healthcare; (ii) lack of public healthcare amenities to cater for patients especially in the urban areas and; (iii) 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. IHH Healthcare (BUY; TP: RM7.06) is our Top Pick for the sector. We like IHH for its: (i) geographically-diversified revenue base; (ii) robust balance sheet and; (iii) strategic expansion plans.

Measures	Allocation (RM)	Remarks
Improving Healthcare Facilities & Services		
To upgrade and maintain hospital facilities, medical devices and ambulance including building of operation theatres in three hospitals i.e: Hospital Muar, Banting and Balik Pulau	1.4b	
– To upgrade the service of cardiology and cardiothoracic in Hospital Sultanah Nur Zahirah Kuala Terengganu and Hospital Sultanah Bahiyah Alor Setar	NM	
– To upgrade the hospitals and clinics including wiring systems	100m	
Hemodialysis assistance in the form of RM100 subsidy from a total cost of RM110 per treatment	50m	
– Allocation for Healthcare Assistance Fund for low income earners	40m	
Allocation for the treatments of rare diseases	10m	
Allocation for National Health Programme to increase awareness on non-communicable diseases in 10,000 areas nationwide	30m	
– Supply of drugs, consumables, vaccines and health support	4.1b	An increase of 2.5% in allocation (from RM4.0b in 2017) for purchase of drugs and consumables will bode well for generic drugs manufacturer and Government concession agreement holder under our coverage Pharmaniaga (NEUTRAL, TP: RM4.66) and other generic drugs manufacturers as this will likely translate to higher order coming from the Government.
– Allocation for Voluntary Health Insurance Scheme	50m	We opine that the new allocation for Voluntary Health Insurance Scheme is positive for the private healthcare service providers under our coverage i.e: IHH Healthcare (BUY, TP: RM7.06) and KPJ Healthcare (NEUTRAL, TP: RM1.08). This is due to the fact that we expect the scheme will enable more patients to seek treatments at private hospitals. However, more information on the scheme is required to determine the extent of coverage and to quantify the impact.

Measures	Allocation (RM)	Remarks
Two blocks of ward for Women and Children's Hospital in Hospital Tengku Ampuan Afzan and Hospital Putrajaya with a 300-bed capacity	1.0b	
Allocation for Cancer Center in Sungai Petani with a 200-bed capacity	500m	
Allocation for specialist clinic block and new wards in Hospital Pulau Pinang with a 300-bed capacity	500m	
Allocation of an international standard Medical Forensic Service Center in Hospital Kuala Lumpur	380m	
Medical Tourism Incentives		
Promoting Malaysia as the Asian Hub for "Fertility Treatments" for treatments such as IVF and Cardiology. The eVisa facility will be extended to cover other specialized medical services and high value healthcare packages	30m	We are positive on the RM30m allocation to private healthcare service providers and Malaysian Healthcare Travel Council (MHTC) to encourage medical tourism. We opine that IHH Healthcare (BUY, TP: RM7.06) and KPJ Healthcare (NEUTRAL, TP: RM1.08) are the direct beneficiaries of these incentives as the two private healthcare service providers are the main recipient of medical travelers in Malaysia. However, we think the impact on earnings of the two companies will be fairly minimal at this juncture as medical tourism currently make up only <10% of both IHH and KPJ's total revenue.
Introduce "Medical Tourism Hospital Flagship Programme" which offers special incentives to private hospitals to attract medical travelers		
Extend the investment tax allowance (ITA) of 100% for medial tourism until 31 December 2020		
Provide double tax deduction on expenses incurred in obtaining certification from healthcare services accreditation bodies for dental and ambulatory services registered with MHTC		
Increase the special tourism healthcare incentive from 50% to 100% of the incremental value of exports, for private healthcare services, beginning year of assessment 2018 to 2020		

VII. INSURANCE/TAKAFUL Maintain POSITIVE

- We are neutral on the news given the minimal impact it leaves to the sector. However, we remain POSITIVE on the insurance sector as we view that the demand for protection products are still resilient, amidst growing awareness among consumers on financial securities. In light of this, we maintain our BUY call on Syarikat Takaful with TP of RM4.90 and Tune Protect with TP of RM1.47. We maintain our NEUTRAL stance on LPI Capital with TP of RM18.91.

Measures	Allocation (RM)	Remarks
Voluntary Health Insurance Scheme	N/A	Positive development for consumer healthcare, trimming down the increasing cost of medical treatment. Its serves as alternative healthcare services, helping people to tackle the high cost of private medical treatment. But expect minimal impact to the demand of medical insurance, we view this as NEUTRAL to the insurance sector.

VIII. OIL & GASDownstream Maintain POSITIVE Upstream Maintain NEGATIVE

Measures	Allocation (RM)	Remarks
GST relief for oil and gas companies for the importation of equipment for oil platforms and floating structures from 1 January 2018.	N.M	A similar variation of this measure was announced in Budget 2016, where 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. This will be beneficial for oil and gas offshore service providers under our coverage such as Dayang Enterprise Bhd (Trading Sell; TP: RM0.83), Deleum Bhd (Neutral; TP: RM0.77), Malaysia Marine and Heavy Engineering Bhd (Neutral; TP: RM0.70) and Sapura Energy Bhd (Neutral; TP: RM1.69).
Government will implement a TVET Malaysia Master Plan. All Technical and Vocational Education and Training (TVET) institutions under seven Ministries will be rebranded as 'TVET Malaysia' under the Ministry of Human Resource.	4.9b	Human capital remains one of the key elements in the oil and gas industry. This initiative is positive as more new local talents can be trained, hence reducing the need for foreign talents and foreign skilled workers.

- The oil and gas industry in Malaysia remains one of the key industries and key contributors to the national revenue. With volatile global crude oil prices, upstream service providers have been struggling, especially in winning new contracts and to reduce its overhead costs. We believe that the GST relief provided will ease the financial burden on offshore service providers, especially in the procurement phase of offshore projects. Nonetheless, we remain NEGATIVE on the upstream segment of the oil

and gas industry but maintain our POSITIVE stance on the downstream segment as the focus is still on the development of the Pengerang Integrated Petroleum Complex (PIPC). Our sector top picks are Petronas Dagangan Bhd (Buy; TP: RM28.00), Petronas Chemicals Group (Buy; TP: RM8.18) and Gas Malaysia Bhd (Buy; TP: RM3.50).

Measures	Allocation (RM)	Remarks
Financial assistance and incentive such as fertilizer and production input for paddy farmers, rubber smallholders and fishermen.	2.3b	Publicly listed plantation companies are not affected.
To improve irrigation infrastructure at agriculture area and upgrade the road	500m	Publicly listed plantation companies are not affected.
Rubber replanting program and prepare infrastructure by increase the latex production instead of "cup lump" hence increase the income of smallholders	200m	Publicly listed plantation companies are not affected.
Oil palm replanting including its promotion	140m	Publicly listed plantation companies are not affected.
Encourage the planting of other crops such as corn, coconut, durian and develop the culinary industry	200m	Publicly listed plantation companies are not affected.
Coconut replanting	50m	Publicly listed plantation companies are not affected.
RM200 monthly assistance to paddy farmers before the harvesting period	150m	Publicly listed plantation companies are not affected.
Replanting of oil palm trees for FELDA settlers.	60m	Publicly listed plantation companies are not affected.

IX. PLANTATION Maintain POSITIVE

- **No significant impact on public listed plantation companies.** Publicly listed plantation companies are not expected to benefit directly from these measures. However, the replanting measures should benefit the oil palm industry in the long run as it improve the national FFB yield and age profile.
- **Maintain positive view on the sector due to our bullish view on palm oil price.** We maintain our palm oil price forecast of RM2825 per MT for 2017 and RM2900 per MT for 2018. Reiterate positive view on the sector due to: i) Consensus palm oil price forecasts are too pessimistic, ii) demand outlook for palm oil is better in 2018, iii) supply growth for palm oil to weaken in 2018, iv) South America soybean production should decline in 2018, v) strong set of earnings expected in the upcoming November result season.

X. POWER Maintain POSITIVE

- **We remain POSITIVE on the power sector and Tenaga remains our top pick (TP: RM16.80) for:** (1) Dividend catalyst on the back of an under-gearred balance sheet and capital optimisation exercise (2) Overseas expansion provides scope for stronger growth in the mid-term (3) Strong earnings visibility post-ICPT implementation (4) At just 12x FY18F PE Tenaga trades at a discount to sector average of 13x

and the index's 16x-17x. Tenaga is a liquid proxy to the GDP growth and trade upcycle, but yet remains a laggard vs. the broader market. Foreign shareholding is already near historical trough at 24% vs. a peak of 29%. Two key concerns that have been weighing down on Tenaga have been uncertainties on RP2 allowable returns and second, inefficient balance sheet management. The latter has been addressed by a meaningful increase in dividends. Details on RP2 should be out by year end.

Measures	Allocation (RM)	Remarks
To provide electricity supply in rural areas, including RM620m for Sabah/Sarawak, targeting approximately 10,000 households.	672m	Tenaga Nasional Berhad (BUY, TP: RM16.80) 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. This should be part of Tenaga's Transmission & Distribution capex.
Green Technology Financing Scheme (GTFS) to promote investment in green technology industry	5b	This is an extension to the current GTFS program which ends in 2017. The GTFS provides a scheme to encourage more participation of green investments in sectors such as energy, water and waste, building and township, as well as transport. To qualify for the scheme, the investments must be certified as "green" by the Malaysian Green Technology Corp and should adhere to criteria such as minimal environmental degradation, low greenhouse gas emissions, as well as conserving the use of energy and natural resources while promoting the use of renewable resources. The first (and current) GTFS program entailed funds of RM3.5b running from Jan 2010 till Dec 2017. The additional RM5b allocation under Budget 2018 is for the scheme to continue into its 2nd phase, commencing Jan 2018 till Dec 2022. The GTFS has been extended to over 302 projects. Beyond this period KeTTHA is mulling setting up a financial institution in the form of a green investment bank by as early as 2020. The beneficiaries are pretty widespread as the scheme involves the utilities, property development and transport sectors, among others. In the power sector, renewable energy players should benefit e.g. Cypark (NOT RATED), Tenaga (BUY, TP: RM16.80); the latter's exposure to RE relative to its overall capacity is expected to remain small in the foreseeable future and will act more as a complementary source of energy.

Measures	Allocation (RM)	Remarks
The Government allocates a sum of RM3.9 billion for goods and transport subsidies including cooking gas, flour, cooking oil, electricity and toll.	3.9b	The Government is currently subsidising electricity rates partially for consumers. In the 2H17 ICPT announcement, given the rise in coal price and weak RM, the ICPT position should have turned to a surcharge of 1.02sen/kwh. Instead, the Government has decided to keep the rebate of 1.5sen/kwh and subsidise the difference i.e. a total of 2.52sen/kwh on behalf of consumers up till Dec 2017. This involves a total estimated amount of RM1.3b, sourced from savings from renegotiation of rates for the 1st Generation IPPs since 2013. The amount of RM3.9b mentioned in the Budget is meant for utilization in 2018 - we do not rule out part of this being used to offset sharp swings in electricity rates going forward as fuel prices remain volatile. There is still an estimated RM300m remaining PPA savings funds excluding the amounts to be utilized for 2H17. In this case, the IBR's earnings neutrality impact on Tenaga arising from fluctuations in fuel cost is reaffirmed and reinforces Tenaga's strong earnings visibility under the IBR.

XI. PROPERTY Maintain POSITIVE

Measures	Allocation (RM)	Remarks
<p>"Step-up" end financing scheme for PR1MA program will be extended to private housing developers to encourage more affordable property projects. The scheme was implemented in 1st January 2017 for PR1MA program to make financing easier to buyers with total loan up to 90%-100% and to lower loan rejection rate.</p> <p>Under "step-up" end financing scheme, home buyers pay interest only for the first five years while on subsequent years pay interest and principal.</p>	N.M.	The "step-up" end financing scheme should result in a significant reduction in monthly home loan instalments and lower loan rejection rate. While the criteria for affordable property projects to qualify for the "step-up" end financing is yet to be determined, it is generally positive to the property market as the "step-up" end financing scheme will help to address the issue of home buyers in securing home loan.

Measures	Allocation (RM)	Remarks
<p>To build 17,300 houses under People's Housing Programme</p> <p>Syarikat Perumahan Negara Berhad (SPNB) will build 3,000 houses under program of People's Friendly Home</p> <p>To build 210,000 houses with prices below RM250k under Perumahan Rakyat 1Malaysia (PR1MA). RM1.5b is allocated for a period of two years.</p> <p>25k units of houses will be completed in 2018 under 1Malaysia Civil Servants Housing Programme (PPA1M). Meanwhile, 128k units houses under the program are at various stages of construction.</p> <p>600 units of houses to be built under the scheme "My Beautiful New Homes" for group of B40 in Terengganu, Pahang, Malacca, Johor, Sabah, Sarawak and Orang Asli settlements.</p> <p>Reintroduced "MyDeposit" scheme for 2,000 units of houses to assist down payments as well as MyHomes programme to enable developers to provide more affordable homes.</p> <p>A sum of RM200m is allocated for maintenance and refurbishment of houses, including the 1Malaysia Maintenance Fund.</p>	2.2billion	<p>The long list of measures to address the issue of first home buyers' affordability is within our expectation.</p> <p>Reintroduction of "MyDeposit" scheme will enable more young Malaysians to own home.</p> <p>There is no change to the Real Property Gain Tax (RPGT) rate. As for Developer Interest-Bearing Scheme (DIBS), it is still disallowed.</p>
<p>50% tax exemption on rental income received by resident individuals not exceeding RM2,000 per month. The aim is to promote rental of residential homes. The tax exemption is effective from the year of assessment of 2018 to 2020.</p>	N.M.	<p>The rental income tax exemption encourages property investment in residential homes.</p>

- The long list of measures to address the issue of first home buyers’ affordability is within our expectation.
- The extension of “step-up” end financing scheme to private property developers for affordable home projects will benefit existing property developers with affordable home projects such as Mah Sing and UOADEV. The “step-up” end financing scheme will help to address the issue of home loan rejection. Reintroduction of “MyDeposit” scheme will enable more young Malaysians to own home.
- The 50% tax exemption on rental income from residential properties may encourage property investment in residential homes.
- **There is no change to the Real Property Gain Tax (RPGT) rate.** As for Developer Interest-Bearing Scheme (DIBS), it is still disallowed.
- **Maintain Positive on property sector.** Property developers with affordable home projects such as Mah Sing and UOA Development are the key beneficiaries of the measures outlined in Budget 2018 as they are expected to benefit from the extension of “step-up” end financing scheme to private property developers. Meanwhile, no change to RPGT and no reintroduction of DIBS is neutral to the sector as a whole.

XII. TECHNOLOGY Maintain POSITIVE

Measures	Allocation (RM)	Remarks
Capital Allowance for ICT equipment, which includes spending on computer software development, is claimable for the period of four years beginning year of assessment 2018 to 2020, including for SMEs	n.m.	This would potentially benefit company which supply information and communications technology (ICT) products such as ECS ICT Bhd (Non-rated)
<p>In line with the emerging IR 4.0 and the era of digital economy, the Government will implement the Malaysia Digital Policy.</p> <p>As such, in order to support the IR 4.0 business and investment activities, the Government will provide a matching grant worth RM245m million under the Domestic Investment Strategic Fund to upgrade the Smart Manufacturing facilities.</p>	245m	<p>The government has established the Domestic Investment Strategic Fund (DISF) matching grant for expenditures incurred for the modernisation and upgrading of facilities and tools to undertake manufacturing or services activities for multinational corporations (MNCs) and Malaysian conglomerates. We understand that currently eligible corporations would still have access to up approximately RM1.0b. The additional fund injection of RM245m would further increase the fund size by +24.5% to RM1.2b.</p> <p>This would potentially benefit equipment manufacturers such as Vitrox Corporation Bhd (non-rated), Elsoft Research Bhd (non-rated), Aemulus Holdings Bhd (non-rated), Pentamaster Corporation Bhd (non-rated) and MMS Ventures Bhd (non-rated).</p>

- **Maintain POSITIVE on Technology sector.** Demand for PCs is expected to improve, driven by faster upgrades to Windows 10. In addition, we also foresee healthier demand for smart devices, automotive, storage and healthcare markets. These could translate to higher order for semiconductor components. Production of new components for new products would also requires new equipments to be manufactured which would depend on the design of the components. This would benefit equipment manufacturers who have positioned themselves within the value chain. All factors considered, we maintain our POSITIVE stance for the technology sector.

XIII. CONSUMER Maintain Neutral

Measures	Allocation (RM)	Remarks
A. Measures to increase disposable income		
Seven million recipients will continue to receive BR1M cash transfer of up to RM1,200.	6.8b	<p>In regards to measures that will increase disposable income of the rakyat, we are of the opinion that BR1M and personal tax rate cut in particular will have an immediate impact in stimulating consumer spending from the M40 and B40 category. Hence, we opine that spending on consumer staples will increase.</p> <p>This will directly benefit F&B companies albeit in the short term as the effect of these measures on income growth tends to be one-off. Therefore, we maintain NEUTRAL on Nestlé (TP:RM82.76), F&N (TP:RM25.47), QL Resources (TP:RM4.13), MSM (TP:RM3.31) and Oldtown (TP:RM3.10).</p>
<p>Individual income tax rates reduction of two percentage points for income tax band between RM20,000 to RM70,000, as follows:</p> <p>First: Income tax band from RM20,001 to RM35,000, the rate is reduced from 5% to 3%;</p> <p>Second: Income tax band from RM35,001 to RM50,000, the rate is reduced from 10% to 8%; and</p> <p>Third: Income tax band from RM50,001 to RM70,000, the rate is reduced from 16% to 14%;</p> <p>This measure will increase the disposable income of the rakyat between RM300 to RM1,000.</p>	1.5b	
<p>Additional flexibility for PTPTN loans as follows:</p> <p>First: For students from B40 households undergoing highly marketable courses, an additional RM200 million is provided to increase the maximum loan amount; and</p> <p>Second: The grace period for loan repayment is extended to 12 months upon completion of study compared with six months currently.</p> <p>In addition, for borrowers intending to pursue their studies to a higher level, for example from diploma to undergraduate, they may combine both loans into a single loan and to repay upon completion of their studies.</p>	200m	

Measures	Allocation (RM)	Remarks
B. Measures to curb rising prices of basic necessities		
<p>Kedai Rakyat 1Malaysia will be restructured as KR1M 2.0. As a start, in 2018, 50 outlets will be transformed to KR1M 2.0 and will be expanded further to 3,000 outlets within three years.</p> <p>KR1M 2.0 will provide five basic necessities at low prices such as rice, sugar, cooking oil, flour and cooking gas. In addition, 50 branded consumer goods will be sold at a lower than the market price.</p>	N.M	Price of basic necessities particularly sugar and cooking oil rose significantly during the year from increase in raw material prices and reduction in subsidies. Such increases most affected those from the B40 category. Through this measure, the lower income group will not be deprived of these goods.
The Government will continue the Standardisation of Prices for Basic Necessities Programme in Sabah and Sarawak.	80m	Nevertheless, these will not significantly affect consumer companies selling basic necessities at a more premium price points as there is demand for such products particularly from the M40 and T20 whereas the stress is more on quality.
The Government will develop the Agrobazaar Malaysia to provide market space and agrofood sales centre at a lower price, beginning in Putrajaya.	20m	
Ministry of Agriculture and Agro-Based Industry will implement programmes through FAMA and LKIM. These programmes enable consumers to purchase food products such as fish, vegetables, chickens and eggs at affordable prices.	50m	Therefore, we maintain NEUTRAL on Nestlé (TP:RM82.76), F&N (TP:RM25.47), QL Resources (TP: RM4.13), MSM (TP:RM3.31) and Oldtown (TP:RM3.10).
C. Boosting Tourism Industry		
<p>First: The year 2020 is declared as the Visit Malaysia Year. In 2020, Malaysia will host series of international meetings, namely APEC, WCIT and CHOGM;</p> <p>Second: A sum of RM2 billion is allocated to SME Tourism Fund to provide soft loans to tour operators with an interest subsidy of 2%;</p> <p>Third: An additional RM1 billion is provided to the Tourism Infrastructure Development Fund as soft loans;</p> <p>Fourth: A sum of RM500 million is provided to develop and promote tourism through upgrading infrastructure facilities as well as promoting homestay and eco-tourism programmes;</p> <p>Fifth: Expand eVisa regional hub by facilitating visa application worldwide, especially for expatriates, foreign students, and Malaysia My Second Home Programme (MM2H);</p> <p>Sixth: Extend tax incentive for investment in new 4-and 5-star hotels until 31 December 2020; and</p> <p>Seventh: Extend tax incentive for tour operators to year of assessment 2020.</p>	3.5B	<p>The local retail market remains challenging as traditional brick and mortar retail players are facing ever increasing competition due to the influx of new local and foreign retailers into the market as well as competition from e-commerce channel. Whilst on the demand side, local consumers are switching spending from products to lifestyle and entertainment.</p> <p>Therefore, we believe that external demand such increase in tourist arrival will be the driver to revive the local retail sector. Hence, we maintain NEUTRAL on AEON Co (TP:RM2.21), Padini (TP:RM3.79) and Panasonic Manufacturing (TP:RM35.75).</p>

D. Industrial Revolution 4.0	
<p>The Government will provide tax incentives as follows:</p> <p>First: Extend the incentive period for Accelerated Capital Allowance of 200% on automation equipment from year of assessment 2018 to year of assessment 2020;</p> <p>Second: Extend the incentive period for Accelerated Capital Allowance of 200% for manufacturing and manufacturing-related services sector.</p>	<p>N.A</p> <p>Due to the rising input costs, most F&B players are facing margin compression. The performance of F&B companies is dependent on the extent of the savings generated from its internal operating efficiency and cost management initiatives.</p> <p>The tax incentives provided under Industry Revolution 4.0 will assist F&B companies to increase automation and generate extra savings to mitigate rising costs. As such, we maintain NEUTRAL on Nestlé (TP:RM82.76), F&N (TP:RM25.47), QL Resources (TP: RM4.13), MSM (TP:RM3.31) and Oldtown (TP:RM3.10). Nevertheless, we have a BUY call on Spritzer (TP:RM2.83) driven by stabilizing raw material cost and expected reduction in operating expenses.</p>

- We believe these measures will provide temporary relief to the rising cost of living issues among the M40 and B40 categories. While there is no increase on BR1M payout, we believe that uptick in consumer spending will be limited to only short term. In the longer term, however, these measures to increase disposable income will mitigate the expected price increase of consumer staples particularly F&B products as F&B players are facing prolong period of margin compression and hence, force to increase prices. In the meantime prices of consumer discretionary items are expected to decrease due to tight competition and the rising of e-commerce channel. All things considered, we maintain NEUTRAL on the Consumer sector.

XIV. GLOVES Maintain NEUTRAL

- Maintain NEUTRAL.** We reiterate our NEUTRAL stance on the sector as we remain cautious on the near term prospects for the glove industry. Despite expecting better performance for the sector this year with USD vs MYR rate remains stable and favourable to glove players, we do not discount the potential fluctuation coming from both raw materials price as well as currency which could potentially hurt earnings. In addition, we are also wary on the potential delay of capacity expansion plans by some of the major glove manufacturers as it could disrupt earnings growth.

Measures	Allocation (RM)	Remarks
<p>Replanting of rubber trees</p> <p>About RM200m is allocated for rubber replanting programme and providing infrastructure to increase production of latex instead of cup lump as this will raise the income of small holders</p>	200m	As the latex used in production of rubber gloves sourced from Malaysian planters consists of only 5% of total latex supply needed for glove productions, this measure does not have any material impact on rubber glove companies under our coverage as it would mostly benefit small rubber planters.

XV. TELECOMMUNICATION Maintain NEUTRAL

Measures	Allocation (RM)	Remarks
Development of communication infrastructures and broadband facilities in Sabah and Sarawak	1b	<p>The measure will improve the broadband penetration rate in Sabah and Sarawak, which stands at 56.0% and 93.7% respectively, nearer to the national broadband penetration rate of 103.6% as at 1Q17.</p> <p>We believe that the RM1b will be utilised from the universal service provision (USP) fund. The funding is expected to benefit telecommunication infrastructure service providers company such as edotco (62.4%-owned subsidiary of Axiata Group Bhd, Hold TP: RM5.28), OCK Group Bhd (Non-rated) and Weida (M) Berhad (Non-rated). Nonetheless, the construction of the communication infrastructure will take place over the medium term.</p>

- **Maintain NEUTRAL on Telecommunication sector.** As we expect the building of the telecommunication infrastructure will spread over the medium term, telecommunication service providers will not see a significant increase in customer base in the immediate term. Meanwhile, 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.

XVI. TRANSPORTATION (PORTS, SHIPPING & LOGISTICS)..... Maintain NEUTRAL

- **We maintain NEUTRAL on the shipping, seaports and logistics sectors** due to challenging overcapacity environment and a slew of new entrants into the market. Nonetheless, we reckon that some support to come from : 1) steady growth of container throughputs; 2) clarity on container handling tariffs; and 3) growth in e-commerce activities.
- **BUY recommendations on MMC Corp (TP: RM2.63) and Tasco (TP: RM2.91).** Meanwhile, we are NEUTRAL on MISC (TP: RM7.43) and Westports (TP: RM3.98). We prefer MMC Corp due to 1) expected improvement for its ports and logistics segment with its Johor Port and PTP likely to record strong container and conventional throughput volume and ii) potential acquisition of Sabah Ports which can expand its port footprint in Malaysia. We also favour Tasco due to: 1) growth in its cold chain logistics and 2) growth from global distribution contract from Renesas.

Measures	Allocation (RM)	Remarks
Construction of East Coast Rail Link (ECRL) to connect Port Klang and Pengkalan Kubor, Kelantan.	N.M.	The ECRL will enable cargoes to be transported within 4 hours between Port Klang and Pengkalan Kubor. Construction will begin in January 2018.
Establishment of National Rail Centre of Excellence	N.M.	Developing skilled workers for the railway transportation.
Alternative road to Port Klang.	110m	The initiative aims to improve the connectivity to Port Klang, reducing the bottleneck in terms of traffic flow due to the high volume of cargo trucks.
GST exemption for ship for shipping companies registered in Malaysia.	N.M.	No effect on public listed shipping companies.
First Digital Free Trade Zone (DFTZ) outside China which includes an e-Fulfilment Hub, Satellite Services Hub and e-Service Platform.	83.5m	The DFTZ could help spur e-commerce activities, benefiting logistic players like GD Express Carriers Berhad.

XVII. MIDSMALL CAP COMPANIES

Measures	Allocation (RM)	Remarks
Grant for Industrial Revolution 4.0 Provision of matching grant to support investments related to the Industrial Revolution 4.0 (IR 4.0) to upgrade equipment and machineries to Smart Manufacturing facilities.	245m	We believe that some of the listed companies under our coverage could take advantage of this grant to upgrade their machineries and equipment to improve production efficiency.
Tax incentives for automation Accelerated Capital Allowance of 200% for automation equipment to be extended from FYA2018 to FYA2020.		This is expected to spur further investment for companies that had been holding back some of their capex for automation. Companies with smaller capex budget can plan better to optimize their capital.
Accelerated Capital Allowance of 200% for manufacturing and related services to be extended.		This is expected to spur further investment for companies that had been holding back some of their capex for upgrades or expansion. Companies with smaller capex budget can plan better to optimize their capital.

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Accelerated Capital Allowance of 200% for manufacturing and related services to be extended.		This is expected to spur further investment for companies that had been holding back some of their capex for upgrades or expansion. Companies with smaller capex budget can plan better to optimize their capital.
Capital Allowance for ICT equipment Capital Allowance for ICT equipment that includes spending on computer software development, is claimable for the period of four years starting FYA2018 to FYA2020.		This is expected to spur further spending for companies that had been holding back some of their ICT expenditure. Companies with smaller capex budget can plan better to optimize their capital.
Education to nurture talents that are ready for IR 4.0 <ul style="list-style-type: none"> Establish a Science, Technology, Engineering and Mathematics (STEM) centre to develop the latest learning methods to train STEM specialist teachers. Enhance Computer Science module, which includes coding programme, in primary and secondary school curriculums 		Shortage of talents has been an issue for the operations of manufacturing firms. The incorporation of STEM and computer science into primary and secondary education will see more ready talents to support IR 4.0.
Technical and Vocational Education Training (TVET) Laying out a master plan to produce highly-skilled and competitive workforce. The establishment of 100 TVET Outstanding Student Scholarships.	4.9b 4.5m	This is to further complement the education system to train skilled employees as enterprises move up the value chain. We believe that more available skilled employees bode well for the development for industrial sector as well as manufacturing firms as they move towards IR 4.0.

- The grant is beneficial to manufacturing companies as automation can propel operation efficiency. We are positive on the allocation of this grant as manufacturers require heavy capex to automate certain processes. Such an investment may be a drag especially for mid and small cap companies' balance sheet due to the heavy capital involved. We believe that there is still room for improvement in terms of Smart Manufacturing as each company is at different stage of the industrial revolution. Manufacturers that could potentially benefit from this grant include: Daibochi Plastic and Packaging Industry Bhd (BUY, TP: RM2.51), D&O Green Technologies Bhd (NEUTRAL, TP: RM0.66), Superlon Holdings Bhd (NEUTRAL, TP: RM2.36), P.I.E Industrial Bhd (NEUTRAL, TP: RM2.49) and United U-Li Bhd (BUY, TP: RM4.88).

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	<i>Negative</i> total return is expected to be -10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% 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.