12 October 2019

BUDGET 2020 | Cautious and Prudent

A. EXECUTIVE SUMMARY

1. CONTINUATION OF EXPANSIONARY POLICY

a. Government projects the economy to grow by 4.8%yoy in 2020

Externally, USA-China trade war, USA presidential elections, protectionist EU, geopolitical tensions in Middle East and volatility of commodity prices are the downside risks in the medium term for the Malaysian economy

b. Budget deficit is set to continue to reduce to 3.2%

The prospect of achieving a balanced budget over the next 3 years is indeed tough particularly with the environment of global economic and market uncertainties as well as volatile commodity prices.

c. Development expenditure above RM50 billion

Development expenditure stays on upward trajectory at above RM50 billion, and expected to boost economic growth in the short and long terms and comes with focus in improving labour productivity and technological improvement at industrial level

d. Enhancing Malaysia's competitiveness and well-being of its people

Budget 2020 is viewed as expansionary in nature, aiming at facilitating the economy, enhancing the nation's competitiveness through sound fiscal and monetary policies on top of ensuring better and efficient income distribution to cater for specific target groups. We opine the budget allocations on reducing the burden of cost of living would eventually support household spending especially the lower and middle income groups.

Locals@Work and Apprentice@Work encourages better labour quality and this may eventually increase high skilled-labour ratio to breach 30% level in the near future. This is in line with SPV2030 to alleviate compensation of employees to GDP ratio to almost 50% by 2030.

2. MOVING FORWARD

The mildly expansionary budget amid the general slowdown in world's economy is an attestation of the Malaysian government's commitment towards its long-term fiscal goal. Therefore, we do not expect it to provide a sufficiently strong near-term impetus towards market sentiment which has been battered by external uncertainties particularly the ongoing spats between US and China. Consequently, we revised our FBM KLCI year-end 2019 target to 1,630 points.

KINDLY REFER TO THE LAST PAGE OF THIS PUBLICATION FOR IMPORTANT DISCLOSURES

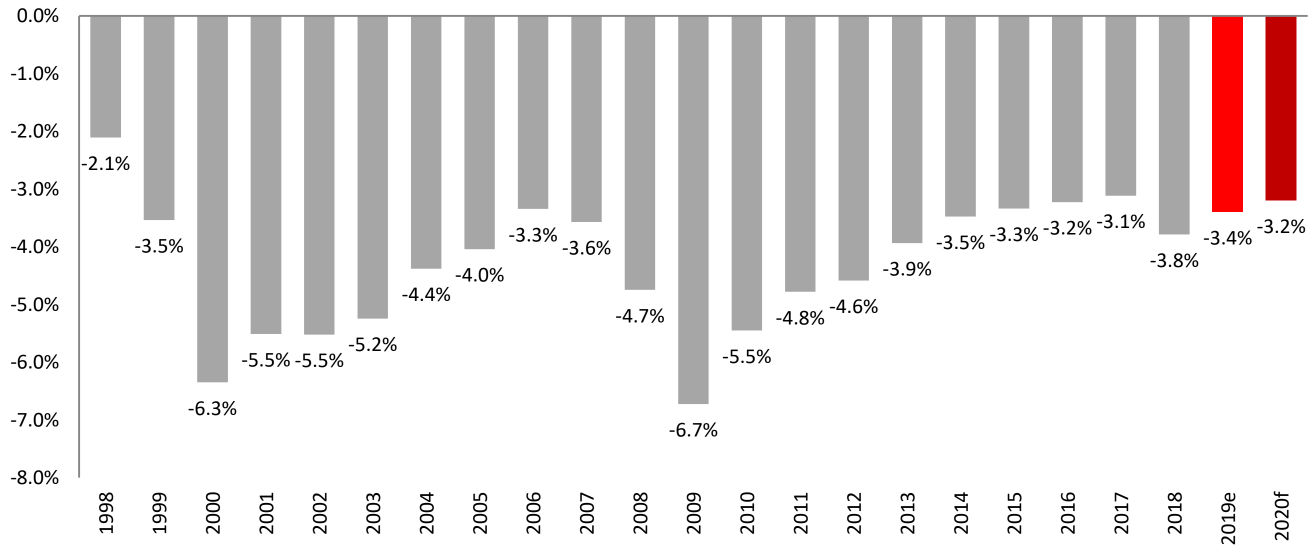
B. ECONOMIC

Budget 2020: Continuation of expansionary policy. Malaysia's upcoming fiscal policy is an expansionary policy with greater focus on development expenditure. From macro standpoint, economic outlook is not optimistic for 2020 particularly due to downside risks among others with ongoing USA-China trade war, USA presidential elections, protectionist EU, geopolitical tensions in Middle East and volatility of commodity prices. Externally is pessimistic while domestically is expected to stay resilient amid solid domestic demand, stable job market and expansionary government budget. Budget 2020 is predicted to boost domestic economic activities, gain advantages of the USA-China trade war and offset external trade slowdown. We can also expect further increase in minimum wage from RM1,100 to RM1,200, lower trade and investment barriers and provision of incentives & grants for local SMEs.

Malaysia's economy continues growing at steady pace. Malaysia's economy is showing resilience and continues to perform however at moderating pace. We expect the economic growth to stay around the estimate of 4.5%-4.7% in 2020 due to less growth impetus from external sources. Externally, USA-China trade war, USA presidential elections, protectionist EU, geopolitical tensions in Middle East and volatility of commodity prices are the downside risks in the medium term for the Malaysian economy. On the other hand, easing monetary policy by developed and emerging markets may boost global demand and trade flows in 2020. As for 2019, we maintain our forecast the economy to grow by 4.9%.

Moving towards a balanced budget. Budget deficit is set to continue to reduce amid better government revenue generation, lower operating expenditure and steady economic growth. 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 -3.2% in 2020. The prospect of achieving a balanced budget over the next 3 years is indeed tough particularly with the environment of global economic and market uncertainties as well as volatile commodity prices.

Chart 1: Budget Deficit to GDP Ratio (%)



Source: CEIC, MIDFR

2020 budget: cautious and prudent with the interest of the Rakyat in mind. Budget 2020 is viewed as expansionary in nature, aiming at facilitating the economy, enhancing the nation's competitiveness through sound fiscal and monetary policies on top of ensuring better and efficient income distribution to cater for specific target groups. We are positive that the budget would assist in stimulating the domestic economy with various measures introduced. Despite being exposed to external risks such as trade tensions, financial market volatility and geopolitical risks, the government is optimistic that the economic growth momentum will remain buoyant albeit at moderate pace. Government projects the economy to grow by 4.8%yoy in 2020.

Table 1: Government Finance

	RM Billion			YoY%		
	2018	2019[e]	2020[f]	2018	2019[e]	2020[f]
Revenue	232.9	263.3	244.5	6.2	13.1	(7.1)
Operating Expenditure	231.0	262.3	241.0	6.6	13.5	(8.1)
Current Balance	1.9	1.0	3.5	-	-	-
Development Expenditure	56.1	53.7	56.0	17.0	(4.3)	4.3
Overall Balance	(54.2)	(52.7)	(52.5)	-	-	-
Overall Balance as % of GDP	(3.8)	(3.4)	(3.2)	-	-	-

Source: MOF; MIDFR

Lower revenue as macroeconomic challenges remain. Macroeconomic picture is expected to moderate in 2020 amid gloomy external front. Government revenue is predicted to decrease due to reduction in non-tax income especially dividends. However, as the economy is expected to continue growing and driven by domestic demand, tax-based revenue is still contributing significantly towards the government coffer. Both direct and indirect taxes would support as domestic economic activities continue to expand firmly. Nevertheless, tax revenues from export-oriented and commodity-based sectors are expected to decline gradually next year.

Crude oil prices to stay at profitable level. For 2020, we forecast Brent crude oil price to average at USD 65pb, slightly higher than the government estimates of $62. The average price during Jan-Aug'19 was USD 65.10pb. We opine the government will set its oil price assumption at $60-$65. Even the oil price not as lucrative as before, oil & gas players are still able to keep pumping output and remain steady in the business. For 2018 and 2019 Malaysia had a supply disruption particularly at the Kebabangan Gas Field. The field was expected to run at full-capacity in Aug-19. Furthermore, Petronas's second floating liquefied natural gas named PFLNG 2 will be operational in 2020. Looking ahead, we predict oil & gas output to expand firmly next year underpin by encouraging oil price and higher productions of crude oil and natural gas. This may translate into better oil-related revenue to the government's coffer.

Table 2: Government Revenue

	RM Billion			Share %			YoY%		
	2018	2019[e]	2020[f]	2018	2019[e]	2020[f]	2018	2019[e]	2020[f]
Total Revenue	239.9	261.8	244.5				9.2	9.2	(6.6)
Tax	191.6	176.2	190.0	79.9	67.3	77.7	6.1	(8.0)	7.8
Direct Tax	127.7	135.1	142.7	53.2	51.6	58.3	5.8	5.8	5.6
Indirect	63.9	41.1	47.0	26.6	15.7	19.2	6.7	(35.7)	14.5
Non-Tax	44.9	81.6	51.2	18.7	31.2	20.9	22.0	81.7	(37.3)
Non-Revenue	2.3	2.4	2.2	1.0	0.9	0.9	69.5	5.4	(9.5)
Revenue from Fed Territories	1.0	1.5	1.2	0.4	0.6	0.5	9.6	45.0	(21.9)

Source: MOF, MIDFR
*Share to total expenditure

OPEX to focus on supplies & services. Expenses on supplies & services are predicted to increase strongly by 32.6%yoy from RM29.1 billion to RM38.5 billion in 2020. The focus would in reducing the burden of living cost. The government increases its allocations for travel expenses & cost of living, transport and others significantly. Emoluments which are the largest component continue to expand at RM82.6 billion in 2020. Consequently, we opine the budget allocations on reducing the burden of cost of living would eventually support household spending especially the lower and middle income group.

Table 3: Federal Government – Operating Expenditure

	RM Billion			Share %			YoY%		
	2018	2019e	2020f	2018	2019e	2020f	2018	2019e	2020f
Operating Expenditure*	234.3	259.9	241.0	81.7	83.0	82.1	9.1	10.9	-7.2
Emoluments	79.1	82.0	82.6	36.0	33.8	31.6	2.2	3.7	0.7
Salary	57.8	60.9	61.6	26.4	24.7	23.4	1.8	5.3	1.1
Fix Allowance	17.6	17.5	17.5	7.8	7.5	6.7	4.5	-0.6	0.1
Contribution	1.7	1.6	1.4	0.8	0.7	0.6	-2.9	-5.8	-13.6
Overtime Allowance	1.0	1.0	1.1	0.4	0.4	0.4	3.1	0.3	9.6
Interest on Finance Investment	1.0	0.9	1.0	0.5	0.4	0.3	1.9	-16.3	19.2
Special Allowance	0.0	0.2	0.0	0.0	0.0	0.1	3.3	>100	-99.3
Remuneration	0.0	0.0	0.0	0.0	0.0	0.0	-100.0	>100	23.2
Supplies and Services (SS)	33.6	29.1	38.5	14.9	14.4	11.2	5.0	-13.5	32.6
Travel Expenses &Cost of Living	1.0	0.9	1.1	0.4	0.4	0.3	30.7	-7.9	20.9
Transport	0.1	0.1	0.1	0.1	0.1	0.1	-3.8	-2.5	5.5
Utilities &Telecommunication	2.9	3.0	3.3	1.2	1.3	1.2	14.0	3.2	9.5
Rental	3.5	2.5	2.8	1.6	1.5	0.9	1.2	-29.8	12.5
Food and Beverage	0.6	0.7	0.7	0.3	0.2	0.3	3.1	16.5	4.6
Raw Material	1.4	0.9	1.5	0.7	0.6	0.4	-11.9	-33.6	56.0
Other material	5.2	5.3	5.8	2.3	2.2	2.0	5.9	1.0	10.3
Maintenance	7.5	6.2	10.4	3.3	3.2	2.4	4.2	-16.7	67.4
Business Service	11.3	9.4	12.8	5.0	4.8	3.6	5.1	-17.2	36.0
Current: Asset Acquisition (AA)	0.6	0.7	0.7	0.3	0.2	0.3	-16.4	16.6	-3.4
Land and Maintenance	0.1	0.0	0.0	0.0	0.0	0.0	0.7	-85.4	-71.8
Building &Maintenance Building	0.2	0.1	0.1	0.2	0.1	0.0	-51.9	-46.0	-15.8
Facilities &Maintenance Facility	0.0	0.0	0.1	0.0	0.0	0.0	>100	-42.2	>100
Vehicles and Machinery	0.0	0.1	0.1	0.0	0.0	0.0	>100	>100	-34.1
Other Capital Property	0.3	0.5	0.3	0.1	0.1	0.2	15.2	54.2	-33.6
Animals, Trees and Seeds	0.0	0.0	0.0	0.0	0.0	0.0	-9.0	-5.7	3.2
Loans	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Investment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Intangible Asset	0.0	0.0	0.2	0.0	0.0	0.0	0.0	0.0	>100
Grants & Transfers (GT)	119.8	146.3	118.0	48.3	51.2	56.3	15.4	22.1	-19.4`
Scholarships	2.5	1.9	2.1	0.2	1.1	0.7	>100	-27.0	13.6
Domestic Grant	57.3	84.9	53.9	23.0	24.5	32.7	15.9	48.0	-36.5
Abroad Grant	0.3	0.3	0.3	0.1	0.1	0.1	5.2	-11.3	5.9
Insurance Claims	0.6	0.1	0.1	0.1	0.3	0.1	>100	-78.0	2.6
Interest, Dividend &Debt Int	35.0	33.1	34.9	15.0	14.9	12.8	8.7	-5.3	5.4
Pension	16.6	20.3	20.4	6.9	7.1	7.8	11.7	22.3	0.7
Reward	6.6	5.0	5.4	2.7	2.8	1.9	15.1	-24.7	7.7
Replacement Leave	0.9	0.8	0.8	0.3	0.4	0.3	28.2	-6.7	-2.5

Other Expenditure	1.1	1.7	1.3	0.4	0.5	0.7	32.4	60.3	-27.6
Return	0.9	0.9	1.0	0.4	0.4	0.4	10.7	3.7	7.1
Other Payments	0.2	0.8	0.3	0.0	0.1	0.3	>100	>100	-66.9

Source: CEIC, MIDFR
*Share to total expenditure

Development expenditure above RM50 billion. Development expenditure stays on upward trajectory and tabled at above RM50 billion. The amount is expected to boost economic growth in the short and long terms. Construction sector among others is the biggest beneficiary of the high development expenditure. Projects like highways, railways, airport expansion, road extension and other public infrastructure to continue spurring construction as well as economic activities in 2020. On a different note, development expenditure also would focus in improving labour productivity and technological improvement on industrial level.

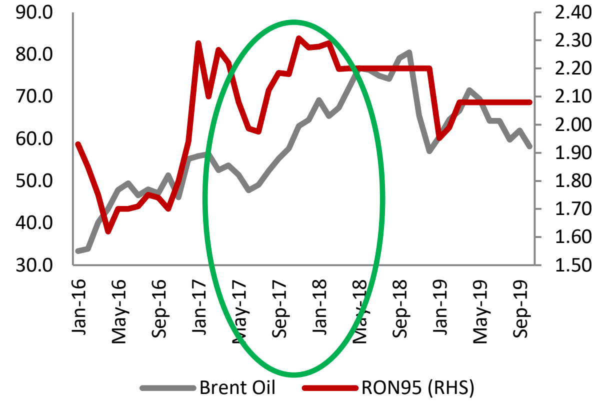
Table 4: Federal Government – Development Expenditure

	RM Billion			Share %			YoY%		
	2018	2019^{e}	2020^{f}	2018	2019^{e}	2020^{f}	2018	2019^{e}	2020^{f}
Development Expenditure*	48.0	56.7	58.0	18.3	17.0	17.9	0.0	18.1	2.3
PM Dept.	12.2	3.7	3.9	23.0	25.4	6.5	10.8	-69.7	4.2
JPA	0.0	0.0	0.0	0.1	0.1	0.1	23.8	7.3	-35.1
Treasury	1.3	6.6	9.7	1.0	2.7	11.6	>100	>100	47.3
Foreign Affairs	0.1	0.1	0.1	0.2	0.3	0.2	30.7	-5.9	-19.9
Economic Affairs	0.0	2.5	2.7	0.0	0.0	4.4	0.0	0.0	8.8
Plantation Industries	0.5	0.4	0.4	0.6	1.0	0.7	74.1	-23.3	7.7
Agriculture	1.4	1.4	1.4	2.8	3.0	2.4	5.3	-4.8	0.3
Rural & Regional Dev.	3.9	5.4	5.2	12.1	8.1	9.6	-33.6	40.1	-3.7
Natural Resources & Environment	1.4	2.8	3.5	3.3	3.0	5.0	-9.4	95.9	23.7
MITI	1.2	1.2	0.9	2.5	2.6	2.1	5.2	-6.1	-25.6
Domestic Trade	0.1	0.1	0.1	0.1	0.2	0.1	59.2	-16.3	4.0
Entrepreneurship	0.0	0.3	0.3	0.0	0.0	0.6	0.0	0.0	0.5
Public Works	3.8	6.1	6.2	10.2	7.8	10.8	-23.1	62.5	2.0
Transport	3.0	4.0	1.9	6.6	6.2	7.0	-6.0	34.0	-53.4
Energy, Tech. & Water	1.6	0.8	0.8	3.3	3.2	1.4	-1.4	-47.8	3.6
Tourism	0.2	0.2	0.2	0.4	0.4	0.3	-12.1	-1.1	0.6
Federal Territory	0.9	1.2	1.1	1.9	1.9	2.2	-0.7	33.7	-10.2
Health	1.8	2.2	2.7	2.8	3.8	3.8	37.9	18.2	22.0
Housing	1.5	2.4	2.0	3.5	3.0	4.2	-12.8	64.9	-16.6
Youth	0.4	0.4	0.5	0.9	0.8	0.7	-2.6	-6.0	28.2
Human Resources	0.5	0.5	0.5	1.1	1.0	0.9	-6.7	2.5	-9.0
Multimedia	0.5	0.4	0.8	1.0	1.0	0.7	-2.0	-14.5	96.0
Women	0.2	0.2	0.2	0.5	0.4	0.3	-17.8	3.4	9.2
Defense	3.3	3.6	3.1	7.0	6.9	6.4	-2.3	10.6	-15.5
Home Affairs	1.3	3.1	3.1	2.0	2.7	5.4	36.0	>100	0.0
Education	1.4	5.1	4.9	2.3	3.0	9.0	32.1	>100	-4.9
Contingent Deposits	2.0	2.0	2.0	4.2	4.2	3.5	0.0	0.0	0.0

Source: CEIC, MIDFR

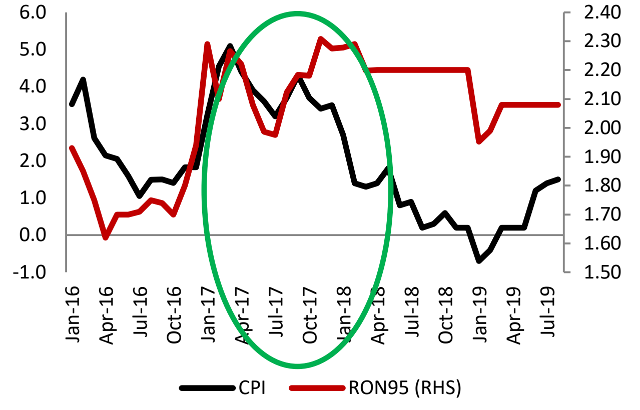
Expecting slightly higher inflationary pressure. We are predicting higher inflationary pressure in 2020 amid the return to floating fuel price mechanism particularly RON95. Given that almost 15% of CPI basket represented by transport items, we expect overall CPI to average at 2.8% as RON95 to surge from RM2.08 to RM2.34 per litre. RM2.34 is assuming Brent crude oil price to average at $62pbd as projected by the government. In addition, the largest weightage of the basket, food price is expected to increase as well due to widening food imports bill due to weakening Ringgit.

Chart 2: Brent Oil vs RON95 (USD vs RM)*



Source: CEIC, MIDFR
*Per barrel per day vs per Litre

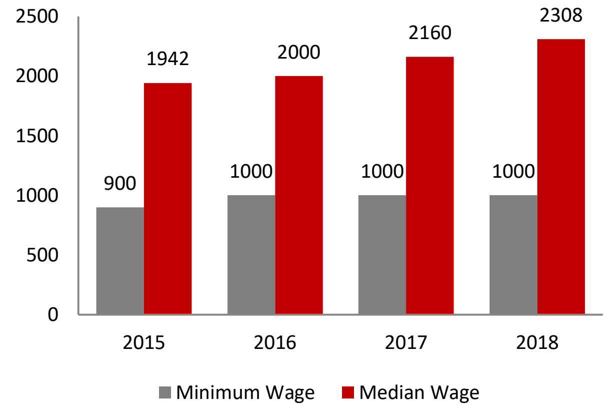
Chart 3: RON95 vs Headline CPI (YoY%)



Source: CEIC, MIDFR

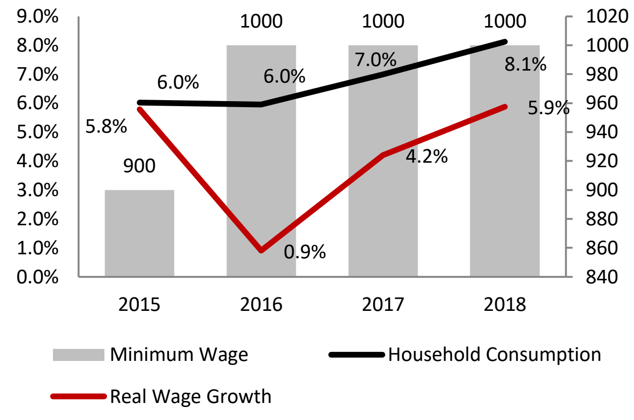
RM100 increase in minimum wage. In line with Shared Prosperity Vision 2030, slight rise in minimum wage to RM1,200 is expected to support higher wage growth and boost domestic spending. In particular, the rise in minimum wage would benefit low-skilled labour in particular. For instance wage growth of those with no educational certificate strongly since 2016 as compared to other groups. Nevertheless, our expectatiion of higher inflationary pressure would dim overall real wage growth in 2020.

Chart 4: Minimum Wage vs Median Wage (RM per month)



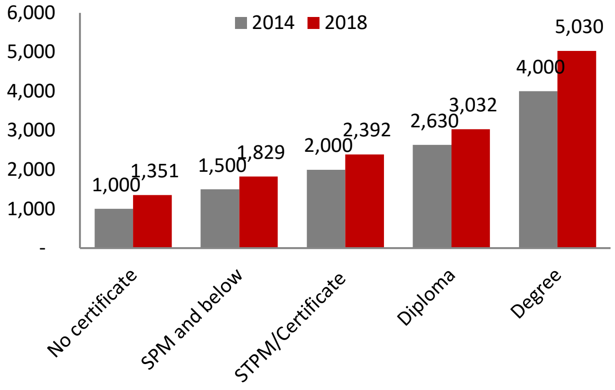
Source: CEIC, MIDFR

Chart 5: Minimum Wage vs Wage Growth vs Household Spending (YoY%)



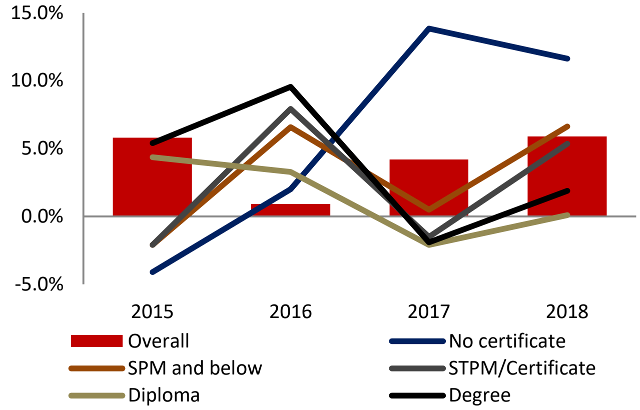
Source: CEIC, MIDFR

Chart 6: Median Wage by Education Attaintment (RM per month)



Source: CEIC, MIDFR

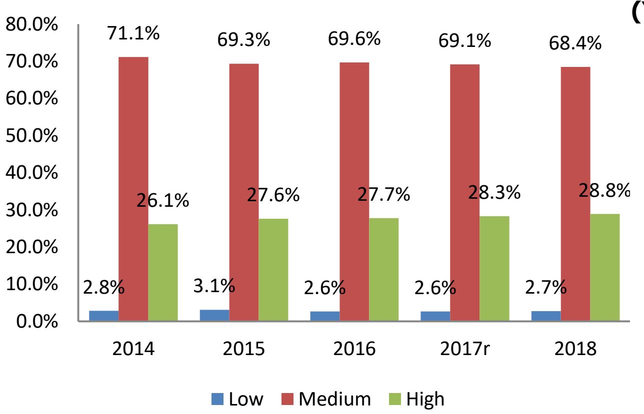
Chart 7: Real Wage Growth (YoY%)



Source: CEIC, MIDFR

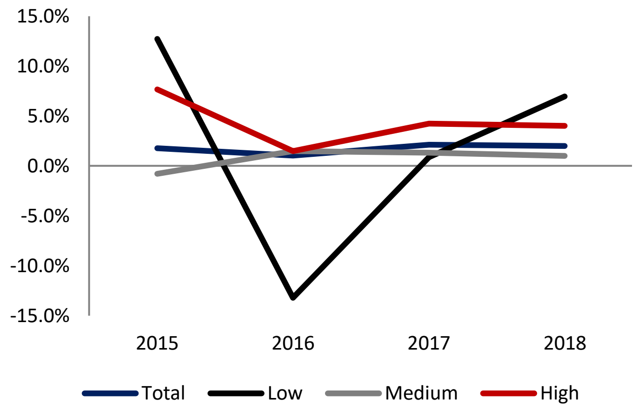
Uplifting skill-labour ratio. For human capital development, the government announced two initiatives which Locals@Work and Apprentice@Work. The first initiative would encourage more local employment and indirectly reducing dependency on low-skilled foreign labour. The second initiative also encourages better labour quality and this may eventually increase high skilled-labour ratio to breach 30% level in the near future. This is in line with SPV2030 to alleviate compensation of employees to GDP ratio to almost 50% by 2030.

Chart 8: Skill-Labour Ratio (%)



Source: CEIC, MIDFR

Chart 9: Employment Growth by Skill-Labour (YoY%)



Source: CEIC, MIDFR

C. SECTORAL REVIEW

1. Budget 2020 - Automotive Sector (NEUTRAL)

Our observation is based on the following:

Measures	Allocation (RM'm)	Remarks
The Fuel Subsidy Program that was initially announced by KPDNHEP recently was targeted for the BSH (Bantuan Sara Hidup) recipient group – which involves ~2.9m vehicle owners. The key qualifying criteria are: (1) Ownership of a car/motorcycle with a valid road tax (2) Car owned entails 1.6 litre engine capacity or if it is >1.6 litre, is >10 years of age (3) Motorcycle owned is 150cc and below or if >150cc, is above 7 years of age (4) Maximum limit of vehicle ownership is 2 cars and 2 motorcycles. The subsidy rate for qualified BSH recipient is RM30/month for car ownership or RM12/month for motorcycle ownership. Under Budget 2020, the scheme is expanded to include non-BSH recipients, with similar vehicle criteria. All luxury vehicles will not be qualified however. The subsidy for non-BSH recipient is set at 30sen/litre up to a maximum of 100 litre/month for cars and 40 litres/month for motorcycles. Scheme is only applicable if RON95 Automated Price Mechanism is above RM2.08/litre. No subsidy will be given if RON95 price falls below RM2.08/litre.	2,200	As highlighted in our sector report *dated 8th Oct 2019*, and further underpinned by expansion of the target group to include non-BSH vehicle owners under Budget 2020, we think demand could gradually gravitate towards lower capacity models going forward. For the car market, the lower priced (and <1.6 litre engine capacity) segment in the market is largely dominated by Perodua and Proton along with a few key Japanese and Korean models such as the Mazda 2, Kia Picanto/Rio, Nissan Almera, Honda Jazz/City/BRV and Toyota Vios/Yaris/Avanza/Rush/Sienta. Luxury models are not qualified for the subsidy scheme though this has yet to be clearly defined (perhaps, to be based on a certain price ceiling). The scheme is expected to immediately benefit a total of over 8m vehicle owners. Against a total private car-plus-private motorcycle population of 25.5m in Peninsular Malaysia (based on JPJ statistics as of end-1Q19), this suggests a relatively large pool of potential consumers that may gradually switch to lower capacity model cars (and motorcycles). The national cars (Perodua and Proton) are potential key beneficiaries, other than the key Japanese marques Toyota **(UMW - NEUTRAL, TP: RM5.35)**, Nissan **(Tan Chong – NEUTRAL, TP: RM1.50)** and Mazda **(Bermaz Auto - BUY, TP: RM2.85**). **MBM (BUY, TP: RM4.55)**, via its 22.6% stake, is a key proxy to Perodua, which accounts for >60% of group earnings.

2. Budget 2020 -Aviation Sector (POSITIVE)

Our observation is based on the following:

Measures	Allocation (RM'm)	Remarks
Ministry of Tourism, Arts and Culture (MoTAC) to increase awareness, promotion and programmes for VMY2020 campaign. Total allocation for MoTAC amounts to RM1.1b.	90	The GoM target achieving 30m tourist arrivals. We expect **Malaysia Airports Holdings Berhad (MAHB) (BUY; TP: RM9.43), AirAsia Group Berhad (AAGB) (BUY; TP:RM2.08) and AirAsia X Berhad (AAX) (NEUTRAL; TP:RM0.19)** will benefit from the growth in passenger traffic. We estimate passenger traffic at MAHB's Malaysian airports to reach 107.0m in 2020.
A substantial portion of the international passenger departure levy effective 1 September 2019 will be used for tourism infrastructure projects.	N.A.	We opine that tourism infrastructure projects could largely relate to aviation related development i.e. airlines. Meanwhile, the portion from the international departure levy will not be channelled to airports as MAHB will be responsible for their own capital expenditure under the Regulated Asset Base Framework starting from January 2020. Hence, no direct impact to MAHB.
The GoM will continue to allocate 50% of tourism tax to respective State Governments to support efforts in conjunction with Visit Malaysia Year 2020 (VMY2020).	N.M.	These measures would promote efforts various parties encompassing the state governments and the private sector (travel agencies, arts and cultural related bodies, themepark developers and event organisers) by expanding their offerings and footprint in Malaysia to increase the attractiveness to foreign tourists. In terms of international theme parks, such attractions have always been major pull factor for tourists i.e. Legoland in Johor. Tax exemptions will welcome more international theme park developers such as Samsung Everland Group, Six Flags Entertainment and Hershey Entertainment and Resort.
Income tax exemption will be given for organisers of approved arts and cultural activities, approved international sports recreational competitions and conference organisers.	N.M.	
New investments for international theme park projects will be given income tax exemption of 100% of statutory income of Investment Tax Allowance of 100% to be set off against 70% for 5 years.	N.M.	
Increasing the tax deductions given to companies that sponsor arts, cultural and heritage activities in Malaysia from RM0.7m to RM1.0m per year.	N.A.	Tourism vehicles that range from vans, buses to cable cars play an important role to connect tourists with Malaysia's landmarks. The comfort of tourism vehicles is also important to give a positive perception for tourists when embarking on their journey to the various locations in Malaysia. Overall, this could boost the number of foreign tourists arrival which contribute to the growth in number of passengers for MAHB's airports and the load factor of AirAsia
Accelerated Capital Allowance for expenditure incurred on the purchase of new locally assembled excursion bus to be fully claimed within two years.	N.A.	
Excise duty exemption of 50% for locally assembled vehicles given to tour operators for the purchase of qualified	N.A.	

new tourism vehicles.		Group Berhad and AirAsia X.
The funicular train service Penang Hill has reached 2m passenger per year and has exceeded capacity The GoM will fund the development of the new cable car system to Penang Hill with any additional costs to be borne by state government.	100	
Support Malaysian visual art galleries and exhibition organisers in holding art exhibitions under the Cultural Economy Development Agency (CENDANA). Think City would also receive government support to preserve culture and urban heritage.	15	
Organising Malaysia Year of Healthcare Travel 2020 via the Malaysian Healthcare Tourism Council to solidify Malaysia's leading position as a medial tourist destination in the region.	25	With Malaysia's brand as a destination for medical tourism enhanced, the local medical services sector will lend stronger support to attract passenger traffic from around the world. As such this will form a niche demand for airport services, supporting growth of tourism receipts which is targeted to reach RM100.0b in 2020.
Licensed travel agents under Ministry of Tourism, Arts and Culture (MoTAC) are allowed to submit group application for up to 100 people per transaction through the eNTRI and eVISA system.	N.A.	Further facilitates the visa application process and subsequently promote the ease of travelling to Malaysia in larger groups.
Upgrading rail tracks from Gorge Line between Halogilat Station to Tenom Station in Sabah.	50	Increase connectivity and travelling convenience not just for locals but also providing a pleasant experience for tourists. Increased traction of tourists for the rail track could spur high passenger traffic growth at airports in Sabah.
Upgrade Sultan Azlan Shah Airport in Ipoh including an extension of its runway. Towards this, the GoM will invite proposals on public private partnership basis to realise this investment.	N.A.	The invitation for proposals on public-private partnership to participate in the upgrade of the Sultan Azlan Shah Airport is in line with the introduction of four new operating agreements (OAs) that includes Peninsular Malaysia, Sabah, Sarawak and KLIA between MAHB and the GoM. With more OAs based on regional groupings, MAHB would be able to source for suitable partners according to the requirements of a particular region.

3. Budget 2020 - Banking Sector (POSITIVE)

Our observation is based on the following:

Measures	Allocation (RM'm)	Remarks
Customized investment incentive packages to attract Fortune 500 companies and "Global Unicorns" to generate additional economic activity and Small and Medium Enterprises (SMEs).	1,000 allocation per annum for 5 years	SME financing have been a key focus for the majority of banks recently. This is due to the fact that it provides an attractive yield. However, loans in this segment have retraced recently due to lower business optimism stemming from external uncertainties. SMEs were either dialling back on its demand or not drawing down on approved loans. We noted loans to SMEs fell -3.7%yoy to RM297.7b as at 2QCY19 for the banks under our coverage. However, with better Government support and potentially better business environment, SMEs will be more confident to expand and borrow. As such, we opine that banks with a strong niche in the SME financing segment will benefit the most. In our opinion, **Alliance Bank (TRADING BUY, TP: RM3.50)** fits the bill. Nevertheless, we do not foresee this measure to have an immediate impact.
Specialized investment incentives to eligible local companies subject to proving its ability to grow and export its products and services worldwide. This will strengthen the local supply chain ecosystem.	1,000 allocation per annum for 5 years	
50% matching grant up to RM5,000 for SMEs need to adopt digitization measures, including Electronic Sales System (e-POS), Enterprise Resource Planning (ERP) and Electronic Salary Payment System. Limited to the first 100,000 SMEs.	500 for period of 5 years	We do not foresee this measure to have a direct impact to banks under our coverage. However, we believe that banks with strong support to SMEs may have an advantage. For example, Alliance Bank has its Alliance@Work program which offers Electronic Salary Payment System to its SME clients, and RHB Bank (BUY, RM6.35) provide ERP type solutions.
Business Loan Guarantee Scheme (Skim Jaminan Pinjaman Perniagaan; SJPP). Government guarantees will be increased from 70% to 80%. Guarantee fee reduced to just 0.75%. SJPP is also providing a new RM500m guarantee facility for women entrepreneurs.	n.a.	We believe that this measure could enhance banks' asset quality as it increases the loans coverage. This could also lead to more SMEs affording financing. However, as we mentioned, the impact of this measure predicated on business optimism of the SMEs.
One-off digital incentives worth RM30 to all Malaysians over 18 years of age with annual income of less than RM100,000. To be implemented by Khazanah Nasional Bhd.	450	Potential beneficiary could be existing major e-wallet provider such as TouchNGo, Boost and GrabPay. In case of TouchNGo, it may benefit **CIMB (BUY, RM6.30).** We understand that CIMB have included TounchNGo as part of its Forward23 plan.
Bank Negara Malaysia (BNM) is finalizing the licensing framework for digital banks to be published by the end of the year for public consultation. The final	n.a.	We do not foresee that existing banks will be scrambling to acquire the digital banks license as its current license already allows for banks to have a digital presence. We also

framework will be finalized and open for application in the 1HCY20.		do not foresee that existing banks will be negatively impacted by the digital banks. This is due to the fact that there might be restrictions in which the "neo"-bank will be allowed to operate. Also, we expect that BNM will not allow "neo"-banks to be value destructive to the banking system.
Tax deduction for Sukuk issuance costs and additional tax deduction on additional Sukuk issuance costs under the Wakalah principle. Tax deductions on SRI Sukuk issuance costs.	Extended for a period of 5 years to the year of assessment 2025 Extended for a further 3 years to the year of assessment 2023	This measure will be positive for banks in regards to its non-interest income. Banks earn fees such as for advisory and underwriting from Sukuk issuance.
Government will work with financial institutions to introduce a Rent To Own (RTO) Homes Scheme. To assist potential homeowners that face difficulties in obtaining the 10% deposit and find it difficult to access home purchase financing. • For first home purchase of up to RM500k. • Applicant will rent for a period of up to 5 years and after one year, will be given the option to purchase the home at the price fixed upon the lease agreement being signed.	10,000 in financing provided by financial institutions with Government support through the provision of a 30% guarantee or RM3b. Full stamp duty exemption on transfer instruments.	Residential mortgages continue to be the highest contributor for the banking system's total loans book, 31.9% or RM555.5b as at end August CY19. This is despite certain segments finding difficulties in obtaining home financing. While we believe that this RTO scheme could assist in addressing the issue, it could also provide the banks with potential additional risk as the banks could be saddled with unutilized properties. Nevertheless, we do not believe that the additional risk to banks' asset quality will be significant as it will be covered by the value of the properties. As we mentioned in our previous report on the 11th Malaysia Plan, Government support will be required. Here, it is provided through a guarantee which will give banks additional coverage. We believe that **Maybank (BUY, TP: RM10.30)** will be a prime beneficiary given it was the first bank to offer such scheme.
Lower the threshold for condos and apartments in urban areas from RM1m to RM600,000 by 2020 for foreign ownership.	n.a.	We do not expect much impact to loans growth, providing only a marginal boost. This is due to the fact that banks currently are cautious to lending in this segment. Also, it will boil down to assessment of risk and affordability.
Government will continue the Youth Housing Scheme run by Bank Simpanan Nasional (BSN) starting 1 January 2020 until 31 December 2021. The scheme also offers a 10% loan guarantee through Cagamas. Applicable for first 2 years and limited to 10,000 units of houses.	n.a.	This measure may provide a boost to mortgage loans growth. However, it will not be captured in the banking statistics given that it will be managed by BSN, a development financial institution.

4. Budget 2020 - Consumer Sector (NEUTRAL)

Our observation is based on the following:

<table>
<tr><th>Measures</th><th>Allocation (RM'm)</th><th>Remarks</th></tr>
<tr><td>Bantuan Sara Hidup (BSH) scheme will be continued and expanded to cover:
a) 1.1m single individuals aged above 40 years old who are earning less than RM2,000 per month
b) all disabled persons aged 18 years old and above, with an income less than RM2,000 per month
which entitled these recipients to payment of RM300 and automatic qualification as a recipient of the free MySalam Takaful scheme.</td><td>5,000</td><td rowspan="2">The amount allocated for BSH is the same as last year. However, the increase in scope of eligible recipient for BSH coupled with the initiatives to increase the income of farmers will further increase disposable income of the B40 category. We expect spending on F&B related products to be stable and hence, this benefits companies that have sizeable market share and diverse product range that caters to all income categories such as Nestlé (Malaysia) Berhad (NEUTRAL, TP: RM149.50) and F&N Holdings Berhad (NEUTRAL, TP:RM33.78).
In addition, the efforts to increase incomes of farmers and fishermen are important to attract more people to agriculture and address the food security problem in Malaysia. This is as the country is struggling to meet its own food consumption needs. For instance, Malaysia is not self-sufficient in terms of rice production as it only produces about 70.0% of its requirement.</td></tr>
<tr><td>The government aims to enhance incomes of farmers and fishermen through the following initiatives:
a) increase in allowance
b) make glutinous rice a signature product of Langkawi Island
c) raise padi yield
d) develop new crop varieties with higher productivity and quality</td><td>4,900</td></tr>
<tr><td>The government is targeting to achieve 30 million tourist arrivals for Visit Malaysia 2020.</td><td>1,100</td><td rowspan="2">The heightening competition among brick and mortars retailers and shift in preference to the online shopping platform has led to overall decline in retail prices. However, the expected increase in tourist arrival next year is expected to boost retail sales of traditional retailers especially the one that are located at tourist areas. This could potential lift the recent subdued retail sales in the fashion segment. In addition, the one-off RM30 incentive to use e-wallet could also spur spending at traditional retailers.</td></tr>
<tr><td>One-time RM30 digital stimulus to qualified Malaysians aged 18 and above with annual income less than RM100,000. This one-time digital stimulus per person can be redeemed and used for a two-month period commencing 1 January 2020 and expiring on 29 February 2020.</td><td>450</td></tr>
<tr><td>Minimum wage to increase to RM1,200 nationwide starting Jan 1, 2020.</td><td>NA</td><td>This will have a minimal impact on total staff cost for large consumer players as most staffs are paid above this level.</td></tr>
</table>

The Malaysians@Work initiative aimed at simultaneously creating better employment opportunities for youth and women and reducing our over-dependence on low-skilled foreign workers.	6,500	With better employment opportunities, youth and women will contribute positively to food and beverage (F&B) spending given that they have a higher average monthly expenditure on F&B products away from home. In addition, Malaysian spends around 34.0% of total spending on food. This is in line with the growing number of restaurants, fast food joints and hawker stalls which made many young adults and women are switching preferences from home cooked meals to buy food from outside. This will also benefit convenience store operators like FamilyMart which is operated by **QL Resources Berhad (NEUTRAL, TP:RM7.46)**, **7-Eleven Malaysia Holdings Berhad (NON-RATED)** and **MyNews Holding Berhad (NON-RATED).**
Starting January 2020, Targeted Subsidy Programme (PSP) will be launched in Peninsular Malaysia with two eligible categories as follows for eligible recipients of the BSH and all other motorists who are not BSH recipients.	2,200	We applaud the move to subsidies all other motorists who are not BSH recipients especially the M40 category. Given that this category is the biggest contributor to retail sales, we expect sales in discretionary and lifestyle items will continue to grow.
MDEC to train micro-digital entrepreneurs and technologists to leverage on e-Marketplaces and social media platforms to sell their products.	10	The e-commerce industry has grown exponentially in the past few years with increasing rate of adoption among local consumers. Hence, it is important to also increase the number of sellers participating on the e-commerce platforms. Otherwise, consumers may look to purchase similar products from foreign merchants instead.

The government has continued to improve the financial aid to the B40 income category by providing more targeted assistance. For instance, BSH scheme is expanded to include more deserving recipients which is in line with the objective of shared prosperity vision in addressing wealth and income disparities. We believe that the efforts to address income disparities supported by favorable monetary and fiscal policy changes will contribute to a stable private consumption growth going forward. In addition, the well-being of F&B manufacturers would primarily depend on their abilities to offer value-for-money products to the general masses. Meanwhile the performance of traditional brick and mortar retailers will continue to be pressured by the escalating number of online retailers. Due to the absence of significant positive catalyst, we are reiterating our **NEUTRAL** stance on the sector.

5. Budget 2020 - Construction Sector (NEUTRAL)

Our observation is based on the following:

Four target segments. Based on our observation of the Budget 2019, the funding injections will stimulate four key segments:

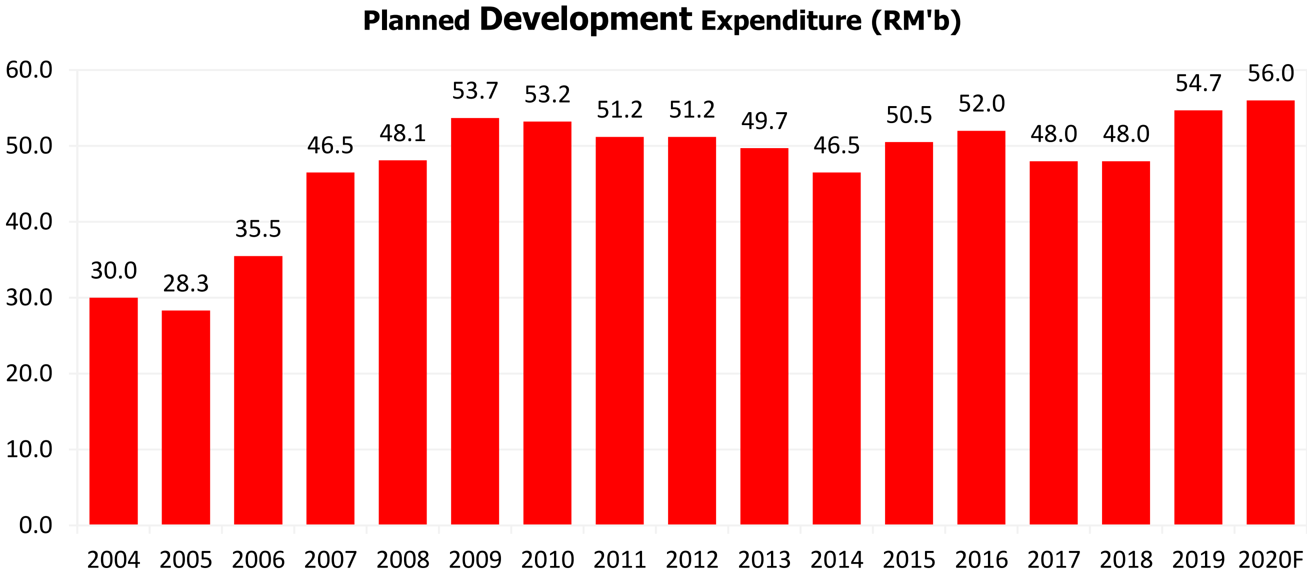
1. Water infrastructure
2. Rural connectivity and amenities
3. General infrastructure
4. Affordable housing

Measures	Allocation (RM'm)	Remarks
Funds to finance corridor developments	1,100	Positive to spur higher industrial activities, which will encourage further investments in the area. Significant portions will be utilized for the infrastructure developments of Chuping Valley Area in Perlis, construction of Sungai Segget Centralized Sewerage Treatment Plant in Johor, and development of Samalaju Industrial Park in Sarawak, to name a few.
FELDA Developments To fund water supply (RM100m), property development (RM70m) and roads (RM90m)	260	Clear beneficiaries are local contractors. Sabah and Sarawak continue to receive sizeable funds for rural infrastructure either for upgrading or construction works. Also, water and electricity supply remains federal's sole focus in both Sabah and Sarawak. These are positive for local contractors especially in East Malaysia, given the encouraging potential for job replenishments.
Education -allocation for the redevelopment of old and new schools (including Sabah and Sarawak)	1,500	
Rural Infrastructure - build and upgrade of roads (Sabah:RM326m and Sarawak:RM224m) - build and upgrade basic facilities, focusing on the supply of water (RM587m, including Sabah and Sarawak), electricity in Sabah and Sarawak (RM500m)	3,400	
Building of Trans Borneo Highway	600	Savings derived from Pan Borneo Highway would allow for the construction of 165km Trans-Borneo Highway (TBH). A package worth RM600m is an important component of the TBH project, which would bring more values for local contractors.
Development Expenditure (DE) for Sabah and Sarawak	9,600	We believe the amount is inclusive of the rural infrastructure spending, to form a big chunk from the total. Clearly, it is a huge commitment by federal to spur more developments in both states. We noted that some rural projects have already commenced, manned by the states local contractors.
State Road Maintenance	4,900	Positive for road operators. While it was not stated in the budget, we believe the funds allocated could be utilized for federal roads as well.

Build and upgrade of hospitals	1,600	Positive for short-term job flows, comprising healthcare and rail infrastructures.
Build and upgrade of health and dental clinic	319	
Upgrade of rail tracks between Halogilat Station and Tenom Station in Sabah	50	
Upgrade of Sultan Azlan Shah Airport	PPP	
Decision on Toll Takeover (KESAS, LDP, SPRINT, SMART)	Approved	The existing concession period will not be extended and will expire as per stated in agreement. This is positive for Gamuda, who owns significant equity stakes in the highways. Upon successful disposal, Gamuda will be armed with more cash to finance future projects with the like of PTMP.
Rent-to-Own Scheme	10,000	For the purchase of first home, with value of up to RM500k. The tenants are required to rent for a period of five year. Upon the end of the five-year rental period, they could exercise their option to purchase the house at agreed price.
Reducing unsold units of condominiums and apartments worth RM8.3b	NA	Reduce the threshold value for foreign ownership from RM1m to RM600k. We believe this will help to stimulate higher take-up rate for the high-end segment. The objective is to alleviate the issues on property overhang.
Skim Perumahan Belia	NA	Extended to 31 December 2020.
Maintenance and upgrade of low-cost properties	100	
Bandar Malaysia revival	-	We noted that there will be an additional 5,000 units of affordable homes to be developed. Despite the reiteration of its return, we are surprised that not much detail was revealed. We are under the impression that an inclusive arrangement is still being ironed out.
Total*	23,400	

*Based on the allocations announced. The amount could be overstated due to overlapping.

In a larger context, Budget 2020 can be seen as supplementing the overarching idea of SPV2030. In particular, the government has set a long-term direction that is predicated on shared prosperity, based on clear measurable targets. While the government is anchored towards narrowing the income gap, it is encouraging to see that equitable treatment was given to infrastructure developments.



A sizeable amount was parked for Development Expenditure, amounting to RM56b. Compared to last year, the amount was higher by +2.3%, to cover the development of rural connectivity, general infrastructure and East Malaysia developments. Based on the amount, our back-of-the-envelope calculation points towards a possible rise in construction value of between 8-13% in CY20.

In the budget, we did not see any chunky allocations for mega projects. Despite Bandar Malaysia return being reiterated, we did not get any further details from what was announced in April this year. Going by our understanding, we believe negotiation is still on-going which could hinge on local contractor participations, financing arrangement, and the master development plan to name a few. At this juncture, it could still be too early to dish out the details given its scale. To recall, Bandar Malaysia is a large mixed development project in the city centre, covering areas that is 5x the size of TRX and BBCC developments combined. With indicative GDV of RM140b, we noted that its commencement could bring a potential flow of RM70b new construction jobs in the next two decades. Notably, Ekovest Berhad (NR) has earlier expressed interest to participate in this project.

Toll roads takeover finally approved. The existing concession period will not be extended and will expire as per stated in agreement. The approval on takeover is positive for Gamuda who owns significant equity stakes in the highways, given the reasonable price offered. Upon successful disposal, the group will be armed with more cash, to finance future projects. Further on PTMP, Penang state government has previously appealed for federal funding of RM10b to partly fund the PIL1 and LRT components. We are not in the know of its outcomes as none was announced during the budget.

On a separate note, the government is channelling RM9.6b worth federal funds to East Malaysia (Sabah and Sarawak) which will be supportive to the developments of rural and road connectivity. Accordingly, this trains our attention back to East Malaysia, which in the past years has been fuelled by big-scale road projects narrative. We view this positively, as the federal administration remains supportive of the states' continuous developments in the long term. As we assess this situation, clear winners are the states' local players. Among our covered names in Sarawak, it appears that our **BUY** calls are aligned. These are namely **CMSB (BUY, TP:RM3.12)** and **HSL (BUY, RM1.54).**

Despite the robust allocation for DE, our NEUTRAL call seems to be intact given the lack in catalysts. There was no mention or update on shelved mega projects namely HSR and MRT3, which we think could have fuelled meaningful optimism in the near term. Having said that, it is not all gloom for construction firms as smaller scale projects are already in the budgeted plan. Hence, in this environment, we expect smaller construction companies to derive more benefits in relative terms. In our basket of stocks, we have **BUY** calls for **Muhibbah Engineering (BUY, TP:RM3.73)** and **Gabungan AQRS (BUY, TP:RM1.72).**

6. Budget 2020- Healthcare Sector (POSITIVE)

Measures	Allocation (RM'm)	Remarks
The Government will be allocating nearly RM30.6b for Ministry of Health (MOH), up 6.6% compared to the previous year. This includes: a) RM1.6 billion for the construction of new hospitals as well as upgrading and expansion of existing ones b) RM319 million for the construction and upgrading of health and dental clinics, as well as quarters facility c) A total of RM227 million will be provided to upgrade medical equipment while RM95 million for renovation of medical infrastructure and facilities d) RM31 million is allocated for upgrading and maintenance of ICT services which will include a pilot project for hospital electronic medical records	30,600	In 2018, Malaysian total healthcare expenditure was RM28.7b or about 2.0% of GDP. With the increase allocation for MOH in Budget 2020, the percentage ratio of healthcare expenditure to GDP will be similar. This could translate into higher procurement of drugs (which historically account for about 17.0% of total healthcare spending) and consumables as well as medical equipment from the government. This bodes well for generic drugs manufacturer such as **Pharmaniaga (BUY, TP: RM2.95)** and **Duopharma Biotech (Non-Rated)** as well as **LKL International Berhad (Non-Rated)** which involved in the provision of healthcare beds, peripherals and accessories.
The MySalam social protection scheme and Skim Peduli Kesihatan (PEKA) B40 scheme will be expanded	NA	We believe that this will have a neutral impact for the private healthcare service providers under our coverage i.e: **IHH Healthcare (BUY, TP: RM6.66)** and **KPJ Healthcare (NEUTRAL, TP: RM0.96)**. This is due to the fact that we expect the treatments and health screenings will be provided by public hospitals and private clinics respectively.
Government will allow for pre-retirement withdrawals for the Private Retirement Schemes for the purposes of healthcare	NA	This could potentially benefit premium healthcare service providers such as **IHH Healthcare (BUY, TP: RM6.66)** and **KPJ Healthcare (NEUTRAL, TP: RM0.96)**.
The Government will allocate RM25 million for the Malaysia Healthcare Tourism Council (MHTC) to enable the branding of Malaysia as a destination of choice for medical tourism in relation to promote Malaysia Year of Healthcare Travel 2020	25	We are positive on the RM25m allocation to private healthcare service providers And Malaysian Healthcare Travel Council (MHTC) to encourage medical tourism. We opine that **IHH Healthcare (BUY, TP: RM6.66)** and **KPJ Healthcare (NEUTRAL, TP: RM0.96)** 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 minimal at this juncture as medical tourism makes up only less than 10% of both IHH and KPJ's total revenue.

The Malaysian healthcare system is delivered through a dual system in which public and private healthcare amounts approximately equal contribution to the total healthcare expenditure. In 2018, Malaysian total public healthcare expenditure was RM28.7b or 2.0% of GDP. Total allocation has been increase by RM1.9b to RM30.6b in 2020. With the double digit increase in healthcare costs in recent years, the MOH certainly could use the allocated fund to provide better healthcare for the poor. We are reiterating our **Positive** stance on the sector as we expect demand for healthcare services to remain robust for 2019. Our positive stance is premised on: (i) strong demand for quality healthcare resulting from health awareness and; (ii) increase in social protection scheme for the B40.

7. Budget 2020 - Insurance Sector (POSITIVE)

Our observation is based on the following:

Measures	Allocation (RM'm)	Remarks
The Public Sector Home Financing Board (LPPSA) will offer free personal accident insurance (up to RM100,000 coverage) for two years to new Government housing loan borrowers.	N/A	The support measures outlined would possibly increase the uptake of Government housing indirectly and partially boost the demand for general takaful and insurance policy, especially with the mortgage guarantees. This stems from the possible increase in credit-related insurance (i.e. Mortgage Reducing Term Assurance) and fire insurance which are mandatory for mortgages. Currently, LPPSA has a tie-up with Takaful IKHLAS to provide Mortgage Reducing Term Takaful coverage.
In addition, all disabled persons aged 18 years old and above, with an income less than RM2,000 per month will also be covered. They will be entitled to receive BSH payment of RM300, and qualify automatically as a recipient of the free MySalam Takaful scheme. Coverage extended to the following starting 1 January 2020: 1) Cover 45 illnesses from the existing 36, including polio and terminal illness; 2) Those aged up to 65 years old,	This scheme is currently funded with an initial contribution amount from Great Eastern of RM2.0 billion. So far, there is no additional funder despite	We opine that this could further reduce the protection gap. Currently, Great Eastern Takaful Berhad is the first and current administrator of this scheme. As the insurance penetration rate of the B40 segment remains consistently low (circa 30%) as compared to non-B40 segment (circa 56%), this scheme provides an avenue to understanding the B40 profile through direct servicing experience and encourage wider awareness and education on insurance/takaful among the B40. Comprehending the scheme, we view that it also provides an opportunity for the pilot testing of a sustainable product design,

compared to the current 55 years old, benefiting an additional 1.5 million individuals; and 3) Those with gross annual income up to RM100,000. They will receive critical illness pay out of RM4,000 and RM50 daily hospitalization income replacement for up to 14 days when diagnosed and warded at Government hospitals. This will benefit an additional up to 5 million Malaysians.	foreign insurance companies had submitted their proposal to pare down 30% at end April 2019. Contribution to the mySalam fund is initially said to be a likely option	pricing and new insurtech capabilities aimed at better tackling the low insurance penetration in Malaysia.

8. Budget 2020 - Manufacturing Sector

Our observation is based on the following:

Measures	Allocation (RM'm)	Remarks
Matching grants for intelligent automation to 1,000 manufacturing and services companies to automate business processes amounting to RM550.0m to be provided. Each company gets up to RM2.0m.	550 up to RM2m per company	This may benefit companies that have put plans for automating their manufacturing processes. Although the incentive may encourage companies to further automate their processes, we note that certain automation processes may take up more than RM2.0m as some of the equipment may be capital intensive.
Minimum wage to be increased to RM1,200 for major cities from RM1,100 per month.	N.A	This is an increase of ~9%. This is a slight dampener for certain labour intensive companies based in major cities. Raw material costs remain the highest cost component for many manufacturing companies at 60-70%. We believe that some of these costs may be passed on or mitigated through the increase in operational efficiencies.
Locals@Work, a hiring cost equalisation programme to shift away from low-skilled foreign workers dependency is introduced.	Malaysians hired to replace foreign workers are given wage incentive of RM350 or RM500 per month depending on the sectors	This programme may help to ease the shortage in foreign labour as both employees and employers get incentives by participating in this programme. That said, the success of the programme will hinge on the take up rate as most of the jobs taken up by foreign labour are known to be dirty, dangerous and difficult, which are some of the main reasons locals shy away from these jobs.

	while employers get up to RM250 per month for up to two years	

9. Budget 2020 – Media Sector (NEGATIVE)

Our observation is based on the following:

Measures	Allocation (RM'm)	Remarks
The government recognises the growing potential of e-Sports.	20	We opine this will benefit media companies with their own esports and gaming entertainment network that champion esports-related event, leagues, tournaments and broadcasting. The measure will benefit **Media Prima Bhd (Sell, TP:RM0.34)** and **Astro Malaysia Holdings Bhd (Buy, TP: RM1.84) who have** their own esports arms i.e. 'MyGameOn' and 'eGG Network' respectively. Nonetheless, we expect contribution from e-sports will not be meaningful in the immediate term.
Allocation to Malaysian Digital Economy Corporation (MDEC) to grow local champions in creating digital content, especially in e-Games, animation and digital arts.	20	We believe this would give a further boost to all the media companies under our coverage that are undergoing digital transformation as well as producing digital contents that are poised to increase consumption in this segment. However, contribution from the digital arm of these media companies is still minute at this juncture.
Income tax exemption for organisers of arts and culture activities and international sporting events.	N/A	This would provide positive spill-over effects for media companies that have event organising-related activities that are part of their revenue sources. As such, we believe this could indirectly bode well with **Star Media Group Berhad (Neutral, TP:RM0.54)** especially at its event revenue segment.
Digital Services Tax will be implemented with effect from 1 January 2020, to include services such as, but not limited to downloaded software, music, video or digital advertising.	N/A	We are of the view that this might dampen the growth of digital advertising and consumption of digital contents. This would possibly translate into lower revenue from the digital segment of all media companies that are focusing on growing the digital pie.

10. Budget 2020 – Non-Banks Financial Sector (NEUTRAL)

Our observation is based on the following:

Measures	Allocation (RM'm)	Remarks
Tax deduction for Sukuk issuance costs and additional tax deduction on additional Sukuk issuance costs under the Wakalah principle.	Extended for a period of 5 years to the year of assessment 2025	We do not believe that this measure will have significant impact to the capital markets given that it is a continuation of existing incentive. We believe that this measure is to ensure that the growth momentum in Islamic finance is being maintained.
Tax deductions on SRI Sukuk issuance costs.	Extended for a further 3 years to the year of assessment 2023	
Additional allocation to My Co-Investment Fund (MyCIF) under the Securities Commission (SC) of Malaysia to leverage on Equity Crowdfunding (ECF) and Peer-to-Peer (P2P) platforms to provide financing to SMEs with difficult access to financing.	50	This measure should provide a continuation to the assistance provided to SME to acquire financing. However, it will not benefit Bursa Malaysia (NEUTRAL, TP: RM6.50) as it is being administered by SC.
Tax incentives for venture capital and angel investors to continue to provide alternative sources of funding for new companies and attract more foreign investment to Malaysia.	Extended until 2023	Continuation of previous incentive.

11. Budget 2020 – Oil & Gas Sector

Our observation is based on the following:

Oil & Gas, *maintain* NEUTRAL on Upstream, POSITIVE on Downstream

Measures	Allocation (RM)	Remarks
Petroleum-related revenue to amount to RM50.5b in 2020	N.A	The government is expected to receive a total of RM50.5b in petroleum-related revenue next year. This include income from petroleum income tax (PITA), oil royalty as well as; dividend from the national oil company Petroliam Nasional Berhad (PETRONAS). The Government's revenue expectation is pegged to a Brent crude oil assumption of USD62pb in 2020 which we opine is reasonable and prudent given the current global geo-political developments as well as; the increasing supply from the unconventional (shale) oil production.
Targeted RON95 petrol subsidy • A targeted petrol subsidy programme will be implemented to benefit those that are categorised under the B40 segment and are currently the receiver of Bantuan Sara Hidup (BSH) • Those eligible under the targeted petrol subsidy programme will be receiving RM30 per month for cars and RM12 per month for motorcycle owners • The subsidy is targeted to benefit private single car owners with an engine capacity of 1,600cc and below as well as; motorcycle owners with an engine capacity of 150cc and below • The subsidy will be capped at 100litres per car and 40litres per motorcycle each month • The subsidy is expected to benefit	2,200	Due to the government's decision to re-float RON95 via *Automatic Pricing Mechanism* (APM), petrol demand is expected to be under pressure in 2020. However, we opine that the demand pressure will be arrested by the 30sen subsidy planned by the government for the non-BSH receivers whose cars or motorcycles are eligible for the 30sen subsidy. Furthermore, there is no change to the petrol price to be sold in Sabah and Sarawak which will not alter the expected demand from the East of Malaysia. Hence, we view that this measure will have a **POSITIVE** impact on **Petronas Dagangan Bhd (BUY, TP: RM28.35**) given that it will minimize the potential adverse impact on the petrol demand.

4.0m car owners and 2.6m motorcycle owners. • A 30sen subsidy will be provided by the government for the purchase of RON95 petrol to the above car or motorcycle owners that do not belong under the BSH programme. • The subsidy mechanism is expected to take effect in 1QCY20. • Subsequently, RON95 will be re-float on the market gradually according to *Automatic Pricing Mechanism* (APM) to reduce the difference in market price of petrol. This will assist in curbing cross-border smuggling of petrol.		

Upstream sub-segment NEUTRAL and reiterate POSITIVE on downstream sub-segment. Moving forward into 2020 with the: (i) expected stable crude oil price environment; (ii) continued spending in offshore E&P capex; (iii) sustained offshore activity levels and; (iv) resilient demand for petrochemical products globally, we continue to reiterate our **POSITIVE** stance on the downstream sub-segment of the oil and gas industry. Due to this, we are setting our in-house average Brent crude oil price expectations at an average of **USD65pb** for 2020. Additionally, we are maintaining our stance on the upstream sub-segment of the oil and gas industry at **NEUTRAL** as we remain wary of the upstream segment due to the persistent geo-political uncertainty surrounding the world currently which might derail the movement of the crude oil price.

Downstream players still our Top Pick. For the downstream subsector of the O&G industry, we remain bullish on **Petronas Dagangan Berhad (BUY; TP: RM28.35), Petronas Chemicals Group Berhad (BUY; TP: RM8.77);** and **Gas Malaysia Berhad (BUY; TP: RM3.11)**. As for the upstream services segment, we are bullish on **Dialog Group (BUY, TP: RM3.83)** and **Bumi Armada Berhad (BUY, TP: 0.38)** as the companies can expect to benefit from: (i) the upcoming full-commissioning of Pengerang Integrated Complex (PIC); (ii) potential increase in flow of maintenance works; (iii) stable crude oil and LNG selling prices and; (iv) increased shallow water and deep water activities.

12. Budget 2020 – Plantation Sector (NEGATIVE)

Our observation is based on the following:

<table>
<tr><th>Measures</th><th>Allocation (RM'm)</th><th>Remarks</th></tr>
<tr><td>Commodity Development:

Palm oil replanting loan fund for smallholders collateral-free at an interest rate of 2% per annum, with tenure of 12 years including a 4 year moratorium on repayment. The replanting will be undertaken using the latest seedlings and also in compliance with Malaysian Sustainable Palm Oil (MSPO) standards to ensure better productivity and marketability;</td><td>550</td><td rowspan="9">We observe that the government is placing significant efforts to improve the palm oil smallholders' welfare like FELDA and RISDA to weather this current unfavourable CPO price environment as well as enhancing their abilities to increase efficiency through various programs. Note that FELDA, RISDA and FELCRA accounted for an aggregate 16% of the Malaysian oil palm planted area in 2018.

Premised on the above, we expect positive spillover effect to FGV Holdings Bhd (FGV) (Neutral, TP: RM0.96). The wellbeing of FELDA settlers is expected to improve in view of anticipated higher crop resultant from the initiatives. This will lead to higher purchase of fresh fruit bunches by FGV which in turn will increase the CPO production. The higher CPO production would also help to reduce the cost of production per metric tonnes. This would partially allay the earnings concern of its 51%-owned MSM Malaysia Holdings Bhd (Sell, TP:RM0.88).

In addition, the Government is providing incentives and aids for smallholders to meet MSPO certification deadline of 31st December 2019. To recall, as of 30th June 2019, only 4.0% and 50.8% of the oil palm area of independent and organised smallholders are MSPO-certified respectively. The Government is also showing commitment by allocating a sum to MPOB in promoting MSPO to the international area as well as combating against the negative sentiments and legislation around palm oil arising mainly from the environmentally-conscious western counterparts.

We opine that the implementation of B20 mandate next year would help to offload palm oil supply and lower the palm oil inventory level via higher consumption of palm oil-based biodiesel domestically.</td></tr>
<tr><td>An allocation to support Malaysian Palm Oil Board's (MPOB) efforts to market palm oil internationally and counter anti-palm oil campaigns;</td><td>27</td></tr>
<tr><td>Enhance implementation of biodiesel, with the B20 biodiesel for the transport sector to be implemented by the end of 2020. This is expected to increase palm oil demand by 500k tonnes per annum.</td><td>N/A</td></tr>
<tr><td>FELDA Community

The Government will make allocation for the welfare of FELDA community, as follows:</td><td></td></tr>
<tr><td>1) Income enhancement program benefiting 11,600 settlers;</td><td>250</td></tr>
<tr><td>2) Write-off the interest of the settlers' debts;</td><td>300</td></tr>
<tr><td>3) FELDA water supply projects;</td><td>100</td></tr>
<tr><td>4) RM70 million for housing the new generation of FELDA settlers; and</td><td>70</td></tr>
<tr><td>5) RM90 million for the upgrading of FELDA roads and basic infrastructure</td><td>90</td></tr>
</table>

The Government will provide RISDA and Federal Land Consolidation and Rehabilitation Authority (FELCRA) to implement various income-generating programmes to benefit the more than 300k RISDA and 100k FELCRA smallholders.	738	

13. Budget 2020 – Power Sector (NEUTRAL)

Our observation is based on the following:

Measures	Allocation (RM'm)	Remarks
Migrate the current PPA system towards a wholesale market in the future. RE suppliers to compete directly in the retail market.	N/A	**Migration to a wholesale market:** This is not entirely new and is part of the recently announced Power Sector Reform Plan (MESI 2.0). To recap, among the key reform initiatives are: (1) To allow generators to source their own fuel to optimize cost (2) To move from a PPA regime to a capacity and energy market (3) To establish a TPA (Third Party Access) framework and network charges for the grid (4) To facilitate green energy producers and consumers (s*ee our reports dated 18th Sep 2019 & 26th Sep 2019 for more comprehensive comments)*. Generally, the Government is planning to do away with the existing PPA structure which essentially guarantees both capacity payment and energy payment (the latter, via the fuel cost pass-through mechanism). While future PPAs are still expected to involve capacity payments (which covers the fixed cost element of a power plant), there will be no more locked-in energy payments. Additionally, future capacity market contracts will have much shorter tenures than the current 21- year PPAs (anywhere between 6 months to 10 years). The impact of this move is gradual given that the last PPA will expire some time in 2045 (before taking into account the latest Tadmax and Gurun PPAs). MESTECC intends to roll out the new structure with a first capacity auction by end-2023, earliest. In the immediate term, NEDA+ (New Enhanced Dispatch Arrangement) will be rolled out by 3Q20 to allow expired IPPs or players with excess capacity to sell energy via spot contract to the Single Buyer. PPA-based IPPs will not be impacted as the current PPAs will still be honoured. The Government is also allowing a total of

		100MW (with minimum blocks of 20MW each) RE capacity to be traded on a direct, P2P (peer-to-peer) scheme whereby Tenaga will be paid a fee for utilisation of its grid network. A TPA (third party access) framework for access to the grid is expected to be finalised by end-2022 in order to facilitate the full liberalisation of the sector. We do not rule out a potential comeback of **YTL Power (BUY, TP: RM0.88)** in the domestic power scene via both, the competitive generation market (the migration to a wholesale market will essentially allow old/expired capacity back into the system) as well as an entry into retailing (which will be opened up as part of the liberalisation). YTL Power was only given a short-term extension for one of its plants i.e. its 1st Generation Paka IPP (585MW), which will be expiring mid-2021. As for existing players such as **Malakoff (Non-Rated)** and **Tenaga (NEUTRAL, TP: RM14.40)**, the shift of demand-risk to generators could create a much more competitive generation market vs. the essentially "guaranteed return" model they are currently enjoying. **Solar leasing and EPC:** Both are new schemes launched by MESTECC earlier this year/late 2018 and is essentially the creation of new sub-segments within the power sector. The former, will benefit from the 70% tax exemption offered and is likely to encourage more new players to participate, beyond **G-Sparx (owned by Tenaga)** and **Petronas' M+**. A solar leasing company essentially finances the capex for a consumer intending to install solar PV (and maintains the solar installation) and is repaid a monthly leasing fee by the consumer. G-Sparx is targeting to offer some 1500MW of self-generation schemes for solar PV installations.
GITA and GITE incentives to be extended to 2023.	N/A	**GITA and GITE:** The Green Technology Investment Tax Allowance (GITA) scheme is awarded to eligible companies undertaking investments in a specific project that promotes sustainability and green environment. It entails 100% of qualifying capex incurred and can be utilised to offset against 70% of statutory income. Meanwhile, the Green Investment Tax Exemption (GITE) scheme is eligible for companies that support investments in green projects. It entails tax exemption of 100% of statutory income. Broadly, projects promoted under GITA and GITE fall under RE, Energy Efficiency, Green Building, Green Data Centres and Integrated Waste Management. Power players such as

		Tenaga (NEUTRAL, TP: RM14.40) and **Cypark (Non-Rated)** are involved in RE, particularly via the Large Scale Solar schemes. Meanwhile, both **Ranhill (BUY, TP: RM1.45)** and **Malakoff (Non-Rated)** are looking to expand into Waste-to-Energy.
70% tax exemption of up to 10 years for companies undertaking solar leasing activities.	N/A	
Energy Performance Contracting (EPC) (entailing upfront capital investment into energy saving equipment for Government buildings, repaid via savings in utility costs achieved) to be accelerated for Government buildings, prioritizing hospitals and education institutions.	N/A	
National Fibre Connectivity Plan (NFCP) via public-private partnership - the Government is expected to bear more than half of the expected capex.	21,600	**NFCP:** Tenaga has completed rollout to 1100 homes in Melaka under its pilot project, involving RM3m-RM4m capex. Fine details of its actual rollout is not forthcoming yet, but Tenaga could be looking to keep to just the wholesale segment and is targeting returns that can at least match its current regulated returns.

14.Budget 2020 – Property Sector (NEUTRAL)

Our observation is based on the following:

Measures	Allocation (RM'm)	Remarks
No extension of Home Ownership Campaign (HOC 2019) where 10% discount in the form of stamp duty exemptions.	N/A	The HOC will end on 31 December 2019 and there is no mentioning of a further extension of this program. During the campaign period, 21,000 houses valued at RM13.4b were sold under the program. In view of the deadline which has not been extended, we expect a spike in residential property transaction in the next few months that are priced above RM500,000.
Rent To Own (RTO) scheme to be introduced for the purchase of first home up to RM500,000. The applicant will rent the property for up to 5 years and after the first year, the tenant will have the option to purchase the house based on the price fixed at upon the signing of the tenancy agreement. The government will provide stamp duty exemptions on the instruments of transfer between the	Financing of up to RM10b to be provided by financial institutions with the support from Government	This scheme may further boost ownership of first homes for home buyers as they do not have to fork out a huge amount for down payment and stamp duty. We note that stamp duty for the transfer of ownership is also waived for this scheme. That said, the value of houses purchased under this scheme is capped at RM500,000 compared to the full stamp duty waiver of houses up to RM1.0m under the HOC 2019.

developer and the financial institution and between the financial institutions and the buyers.	via a 30% or RM3b guarantee.	
Threshold of foreign home ownership in urban areas to be reduced to RM600,000 from RM1.0m.	N/A	To reduce the overhang of high-rise units amounting to RM8.3b in 2Q19, foreigners are able to purchase houses priced at RM600,000 and above from RM1.0m previously. This will be positive for developers with high exposure in high-rise buildings and high inventories previously as now they are able to market their products to foreigners. Among others, the low-hanging fruit may come from investors especially in the region such as Hong Kong and Singapore who look to purchase a second home overseas.
Enhancement of Real Property Gain Tax (RPGT) treatment from the base year of 1 January 2000 to 1 January 2013.	N/A	This may be a slight boost to transaction volume and for home upgraders as they are able to enjoy better tax treatment from disposing off their properties as the taxable amount is expected to be lowered by introducing a later base year.

We maintain our **NEUTRAL** recommendation on the sector as we think that it will take time for developers to clear their inventories and ease their cash flow. While the lower threshold for foreign home owners may help in clearing some of the unsold high-rise units, developers will have to compete with regional developers in attracting property investment in Malaysia. Our Top Pick for the sector is **UOA Development (BUY; TP: RM2.45)** as we like its strategy of launching urban-based properties in strategic location within the Klang Valley, which should be well-received by property buyers.

15. Budget 2020 – REITs Sector (NEUTRAL)

Our observation is based on the following:

Measures	Allocation (RM'm)	Remarks
Enhancement of Real Property Gain Tax (RPGT) treatment from the base year of 1 January 2000 to 1 January 2013.	N/A	Due to the potentially lower taxable amount, REIT managers may take this opportunity to dispose of their non-core assets.
RM1.1b is allocated to promote tourism in Malaysia, including attracting international visitors to the country. This includes improving the tourism infrastructure as well as to promote arts, cultural and heritage activities.	1,100 for the Tourism Ministry to promote Visit Malaysia Year 2020	The government targets tourist arrival of 30 million, which is an increase of 6.8% from the 2019 target. Meanwhile, receipts target is estimated to grow by 8.4% to RM100b in 2020. Malls and hotels in tourist hot spots may benefit from the increase in tourist arrivals and spending popular in shopping malls. However, neighbourhood malls may not be direct beneficiaries from the increase in tourist arrival due to location and offering. Income tax exemption for organisers of approved arts and cultural activities,

		international sports recreational competitions and conferences may also spur more activities and take up of hotel spaces and rental of convention halls.

We believe that the measures announced in Budget 2020 to have minimal impact on REITs as most of their tenancy agreement are mid-to-long term. That said, higher than expected tourist arrivals and spending may have a positive impact on REITs with exposure to the retail and hotel segments. Our Top Pick for the sector is **Sunway REIT (BUY; TP: RM2.02)** due to its key assets that are located in an integrated and mature township as well as the resilient rental income from Sunway Pyramid mall.

16. Budget 2020 – Technology Sector (NEUTRAL)

Our observation is based on the following:

Measures	Allocation (RM'm)	Remarks
The Government will provide tax incentives to further promote high-value added activities in the Electrical and Electronics (E&E) industry to transition into 5G digital economy and Industry 4.0. These incentives include:		
First: income tax exemption up to 10 years to E&E companies investing in selected knowledge-based services; and	n/a	The exemption would translates into increase in demand of company which provides knowledge-based services. We view that Prestariang Bhd (NR) would be one of the main beneficiary, among others.
Second: special Investment Tax Allowance to encourage companies in E&E sector that have exhausted the Reinvestment Allowance to further reinvest in Malaysia	n/a	The availability of the special investment tax allowance would further spur research and development activities among the semiconductor companies. This would be in favour of semiconductor companies which has healthy balance and has ready access to funding. In general, semiconductor companies in our universe are in a net cash position.
To build a Digital Malaysia, the private sector must come onboard. More Malaysian Small Medium Enterprise (SMEs) need to adopt digitalisation measures for their business operations, including electronic Point Of Sale systems (e-POS), Enterprise Resource Planning (ERP) and electronic payroll system. The Government will provide a 50% matching grant of up to RM5,000 per company for the subscription of the above services. This matching grant will	500	The matching grant would encourage SMEs to digitalise their operation in a bid to improve their business operation. Thus, software companies which provides e-POS, ERP and electronic payroll system would be the main beneficiaries.

be over 5 years, limited to the first 100,000 SMEs applying to upgrade their systems.		
Programmes such as the Coach and Grow Programme (CGP) by Cradle Fund for high impact technology entrepreneurs involving 469 companies to date have generated RM2.3b in revenues, including RM300m in exports. As part of the Government's continued commitment to promote early stage innovations, the Government will provide RM20m million to Cradle Fund for the provision of training and grants to seed companies.	20	This would help to increase the pool technology entrepreneurs as well as to increase the revenues coming from these entrepreneurs. Nonetheless, the introduction of DSR would help to maintain a healthy balance between profitability and being a socially responsible. Moreover, having DSR could further boost profitability via the availability of tax deduction.
To ensure gains arising from successful Digital Companies are shared with the Rakyat, the Government will introduce the concept of **Digital Social Responsibility (DSR)**. DSR is the commitment by businesses, to contribute to digital economic development while improving the digital skills of the future workforce with initiatives such as technology scholarships, training and upskilling for digital skills for communities in need. Contributions towards DSR by the companies will be given tax deduction.	n/a	
IP-generated income based on the Modified Nexus Approach (MNA) derived from patents and copyright software will be given tax exemption for a period of up to 10 years.	n/a	The tax exemption would encourage transfer of knowledge, especially among the local software companies. This would improve local industry's overall skill in coming out with new patents and softwares. The move would also help in increasing the competitive ability of local SMEs against global players.

17.Budget 2020 – Telecommunication Sector (NEUTRAL)

Our observation is based on the following:

Measures	Allocation (RM'm)	Remarks
The Government will create the necessary infrastructure to construct a Digital Malaysia by implementing the National Fiberisation & Connectivity Plan (NFCP) over the next 5 years which will provide comprehensive coverage of high speed and quality digital connectivity nationwide including rural areas. The NFCP will adopt a public private partnership approach. The Government, through MCMC, will finance at least half	At least of half of 21,600	The implementation of NFCP will benefit companies engaging in the provision of telecommunication-network services. This includes Sacofa Sdn Bhd (a 50% -owned subsidiary of **Cahya Mata Sarawak Bhd (Buy, TP:RM3.12)**, **Opcom Holdings Bhd (NR)** and **OCK Group Bhd (NR).** In conjunction with this, **Telekom Malaysia Bhd ™ (Neutral, TP:RM3.54)** is pitching to be Malaysia's exclusive 5G network provider. This would mimic the HSBB project. At this

of the required investment with corresponding investments by the private sector telecommunications players via a matching grant mechanism		juncture, TM has more than 540k km in deployed fiber and core capacity.
As part of NFCP, we will improve connectivity in remote areas of Malaysia, especially in Sabah and Sarawak, to ensure that no one is left behind in our digital drive. MCMC will leverage on various technologies, including via satellite broadband connectivity	250	
In addition, the Government will accelerate the deployment of new digital infrastructure for public buildings particularly schools and also high impact areas such as industrial parks. Priority will be given to locations within states that are able to facilitate and expedite the implementation of the NFCP	210	
To seed technological developments by Malaysian companies to ride the global 5G wave, which is 100 times faster than 4G, the Government will introduce a 5G Ecosystem Development Grant	50	
An additional allocation will be given to set up a contestable matching grant fund to spur more pilot projects on digital applications such as drone delivery, autonomous vehicle, blockchain technology, and other products and services that leverage on our investments in fibre optics and 5G infrastructure	25	Telecommunication companies has been actively running test on their 5G network. This include coming up with various 5G showcase. The grant will further spur more activities to increase the uses of 5G. This will be done via partnership with equipment vendor such as Huawei Technologies Malaysia. In this regard, **Maxis Bhd (Sell, TP:RM4.68)** aspire to become the first 5G providers via roll out the 5G service by 2H2020.
To significantly increase the number of Malaysians, participating merchants and SMEs to use e-wallets, the Government will offer a one-time RM30 digital stimulus to qualified Malaysians aged 18 and above with annual income less than RM100k. All you need is to own an identity-verified e-wallet account with selected service providers. The one-time digital stimulus per person can be redeemed and used for a two-month period commencing 1 January 2020 and expiring on 29 February 2020. The allocation will be given to Khazanah Nasional to implement this digital stimulus, which will benefit up to 15m Malaysians	450	At present, the three e-wallet service providers with the biggest customer base includes Boost (wholly-owned subsidiary of **Axiata Group Bhd (Neutral, TP:RM4.68)),** Touch 'n Go and GrabPay. Thus, we view that there are high likelihood that these could be the selected service providers. Nonetheless, we do not expect the possible surge in e-wallet transaction to have significant impact to Axiata.

18.Budget 2020 – Transportation Sector (NEUTRAL)

Our observation is based on the following:

Measures	Allocation (RM'm)	Remarks
The Government of Malaysia (GoM) is undertaking a feasibility study for the development of Pulau Carey for the next phase of growth to make Port Klang as a regional maritime centre and cargo logistics hub combining manufacturing, distribution, cargo consolidation, bunkering and ship repairs.	N/A	**Westports Holdings Berhad (Westports) (BUY;TP:RM4.27)** has completed the feasibility studies for 'Westports 2' expansion plans in 1QFY19. Meanwhile, dredging works are expected to commence in mid-1QFY20 provided that the concession agreement has been signed. We believe that the GoM may prioritise 'Westports 2' before Pulau Carey given that the concession agreement is expected to be signed by 1QCY20. Westports had guided that funding will likely be via a dividend reinvestment plan instead of borrowings alone, ruling out any government support. Pulau Carey will come into play when the Port Klang is expected to reach full capacity in the next five years. Hence we view this as an act of readiness by the GoM to provide capacity for container throughput. Therefore we do not view this measure as a direct threat to Westports. Moreover, Westport has strong relationship and track record with container liners.
To reach the aspirations of becoming a maritime hub, the GoM will enhance and repair the highway leading to Port Klang.	50	This will ensure better connectivity of cargo between hinterland and areas nearby Malaysian ports via highways which will benefit freight forwarders such as **Tasco Berhad (NEUTRAL; TP:RM1.22)** and **Tiong Nam Logistics Holdings Berhad (Tiong Nam) (SELL; TP:RM0.39),** and Westports.
The Ministry of Transport will commence feasibility studies on the Serendah-Port Klang Rail Bypass for cargo shipments and the Klang Logistics Corridor, a dedicated privatised highway connecting Northport and Westport for commercial vehicles.	8,300	
The Royal Malaysian Customs Department will introduce a deferred payment facility to expedite the clearance process of cross border transactions at ports.	N.A.	Increase trade facilitation and reduce time and cost for cross border trade significantly. As a result, more container liners will call at Malaysian ports especially major ones such as Westports and **MMC Corporation Berhad's (MMC Corp) (BUY;TP:RM1.30)** Port of Tanjung Pelepas, Penang Port, Johor Port and Northport.
Strengthen trade with Thailand through the 100-acre logistics hub at Kota Perdana Special Border Economic Zone	50	This would further increase cross border transport of goods. Therefore the flow of goods that come in the form of containers via

at Bukit Kayu Hitam. Further to the development of the Truck Depot announced in Budget 2020, the GoM will stimulate public-private partnerships for the project. The GoM will provide support for the construction of primary infrastructure while the private sector will invest in critical business assets to catalyse potential domestic investment worth RM800m which would provide job opportunities to more than 600 people.		road using trucks, especially from Southern Thailand will be facilitated better. Beneficiaries would be companies with trucking and haulage companies such as Tasco and Tiong Nam. Meanwhile, this will also enhance the flow of goods from Southern Thailand to MMC Corp's Penang Port, increasing the container throughput handled there.
Supporting projects related to Kuantan Port related to ECERDC.	69.5	Projects could cover port development which includes capacity expansion, dredging and equipment upgrade. This could eventually make Kuantan Port more efficient and enable to handle more containers.
Support infrastructure at Samalaju Industrial Park at Sarawak by RECODA.	55	This can encourage companies (foreign or local) to establish plants or hubs at the industrial park. The transportation of products manufactured or repackaged at the industrial park via sea would benefit Bintulu Port which will handle more gateway cargo that has higher yields.
Maritime and Logistics Fund under the GoM's initiative to support strategic projects through financing programmes under Bank Pembangunan Malaysia Berhad.	1,000	Possible areas of coverage could include financing programmes for logistics players seeking funding for warehouse and fleet expansion. As for the maritime sector, possible areas could include the development of the bunkering subsector as the Ministry of Transport aspires to transform Malaysia into a bunker hub.
Upon commencement of the fuel subsidy scheme, RON95 and diesel retail prices will be gradually floated, reducing leakages and cross border smuggling of subsidised fuel which is estimated to cost the GoM millions of ringgit. Fuel subsidy will kick in whenever the RON95 market price determined by the Automatic Pricing Mechanism is above RM2.08 per litre but no fuel subsidy will be given when the market determined APM price falls below RM2.08 per litre.	2,200	Logistics players such as Tiong Nam, Tasco and **GD Express Carrier Berhad (GDEX) (NEUTRAL;TP:RM0.30)** will be affected if pump prices continue to increase above RM2.08 per litre for RON95 and RM2.18 per litre for Diesel. As such, logistics companies could face a dilemma. There could be margin compression due to higher transport costs, while market share could be lost if the cost is passed on should there be cheaper alternatives from non-listed players that are backed by huge funding by larger entities.
Cabinet will consider all proposals including from Khazanah Nasional Berhad to acquire or dispose all shares of PLUS Malaysia Berhad. There will be a minimum reduction of average toll charges by 18% discount across all PLUS highways. The discount on toll charges	N.A.	We assume that the discount also applies to lorries and logistic vehicles. This may alleviate the pressure from the potentially higher fuel cost.

for the North South Highway will save highway users up to RM1.12b in 2020 and RM43b over the entire concession period until 2038.		
Cabinet approval of proposed offer to acquire 4 Klang Valley highways; KESAS, LDP, Sprint and SMART to be funded via Government guaranteed borrowings	6,200	Introduction of congestion charges that will be lowered by up to 30% of the present toll rates during near peak and normal hours and free during off-peak hours will provide savings to highway users nearly RM180m per year or RM2b over the respective concession periods. There will be no extension of the existing concession and will end according to the existing concession contract. Acquisition of highways will not burden GoM because the financing, operations and maintenance cost will be entirely funded by the collection of toll and congestion charges without requiring any future funding by the Government. We reiterate our **Trading BUY** stance for LITRAK as we believe that the takeover offer by the government via Gamuda's stake in SPRINT and LDP is appealing. The combined price tag of RM2.75b for both highway concessions translates to an effective offer price of RM5.18 per share with a P/BV of 2.75x, a 10% premium to the current trading P/BV of 2.5x.

D. STRATEGY

Equity Market

The Finance Minister proudly highlighted in his Budget 2020 speech that Malaysia's economy is among the few in the world that recorded a better growth in 2Q this year (4.9%) as compared to the preceding quarter (4.5%). However, the good macro figure (which exceeded market expectation) had failed to invigorate the performance of the local equity market, which is currently languishing at circa 4-year low levels, as investors sentiment continued to beset by external uncertainties particularly the ongoing spats between US and China.

The initial market reaction to the Budget 2020 speech was also rather muted. Meanwhile, we reckon the slight market gain in the afternoon session was duly in line with the general rise in regional bourses on Friday.

In this regard, the Budget 2020 itself was rather muted; a safe, middle ground kind of budget. It was only tepidly expansionary with development expenditures to expand slightly to RM56b next year from nearly RM54b in 2019.

Moreover, despite the higher than previously expected fiscal deficit target of -3.2% in 2020 (against earlier target of -3.0%), the shortfall can be explained by the special dividend from Petronas in 2019. It is also notable that the deficit target for 2020 is an improvement in comparison to the 2019 deficit estimate of -3.4%.

Nonetheless, looking at the glass half full, we view the mildly expansionary budget amid the general slowdown in world's economy an attestation of the Malaysian government's commitment towards its long-term fiscal goal.

In summary, we expect the Budget 2020 to directly engender at best only a mildly positive impetus to FBM KLCI in the coming week.

Key Sectoral Impacts

The FBM KLCI is heavily weighted by four sectors, namely (i) Banking, (ii) Telecommunication, (iii) Plantation, and (iv) Oil & Gas. Hence, in order to gauge the direct impacts of 2020 budget on the market barometer, our attention is duly centred on what are in store for the aforementioned sectors.

Banking (Budget impact: Neutral). We believe that the Budget 2020 to have NEUTRAL impact to banking sector. The banking sector will play an indirect and supporting role in channelling financing for projects such as infrastructure and construction, also to household segment. We opine that there are two areas in which the banking sector will play a key role; (1) affordable housing, and (2) SME financing. In general some measures are positive for the sector in particular the measures relating to addressing home ownership. However, it is tempered by the lower loans demand coming from businesses especially SMEs as external uncertainties continue to induce cautiousness. As such, whether the Budget 2020 measures could spur more lending activities is predicated on the external environment.

Telecommunication (Budget impact: Neutral). The NFCP initiative will greatly improve the availability and speed of broadband and broadband-related services. This would also set the platform for 5G. Companies which are engage in the provision of telecommunication-network services will the initial beneficiaries. Having carried out the HSBB and HSBB phase two project, TM has relay their interest in being Malaysia's exclusive 5G network provider. However, given the project will take five years to complete. Thus, we do not expect any revenue to accrue to TM within these five years, should it win the project. Meanwhile, telecommunication companies have been aggressively trying to expand their products and services via the application of 5G. Maxis Bhd is expected to be the first telecommunication companies to provide 5G services in the later part of 2020. Given that the next-generation technology is still at its infancy we do not expect significant contribution coming from the deployment of 5G. On another note, we opine that the Government initiative to increase the usage of e-wallet will lead to higher online transaction for Boost, being one the leading e-wallet player in Malaysia. That being said, we expect the impact to Axiata would be negligible as bulk of the contribution stem from the provision of telecommunication services. As we do not see any significant rerating catalysts to boost earnings in the near-term, we are maintaining our NEUTRAL recommendation on the sector.

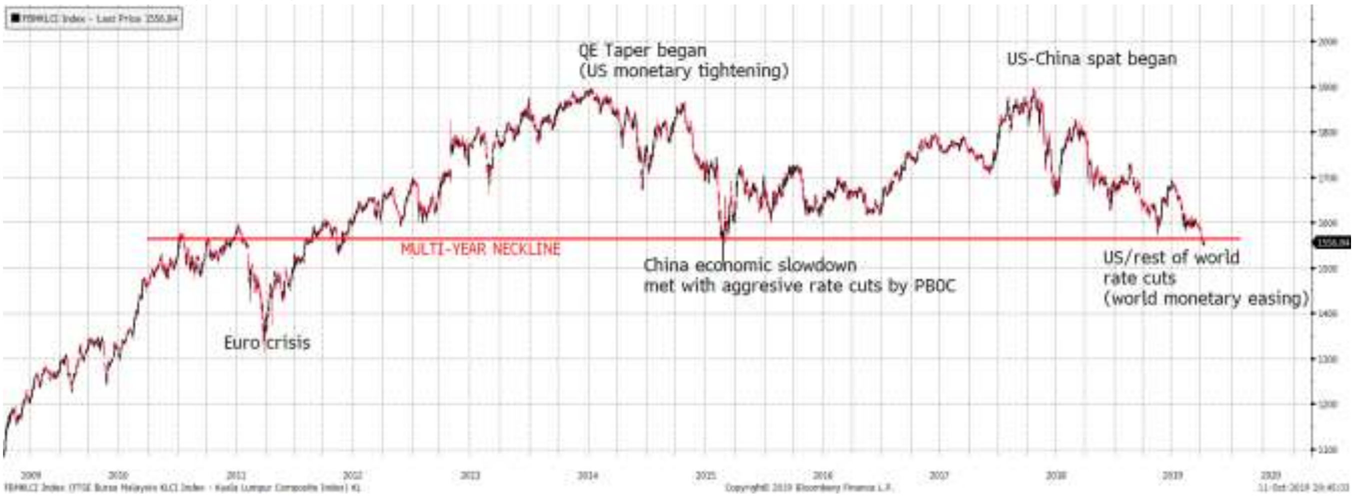
Plantation (Budget impact: Neutral+): The welfare of FELDA, RISDA and FELCRA is expected to improve via various initiative to enhance the FFB yield. It would also help the smallholder in achieving the MSPO-certification, which is essential for the export market. This will make Malaysia-derived CPO to be more marketable. We view that FGV would be the main beneficiary from the anticipated increase in FFB from these smallholders. However, the loss-making entity, MSM, would remain a grave concern. Meanwhile, the upcoming implementation of B20 would also help to further reduce the elevated inventory level. This would also help to lend support on the currently-weak CPO price. As the earnings contribution of plantation companies is heavily dependent on CPO price, we are maintaining our NEGATIVE stance on the sector at this juncture. Nonetheless, we expect the outlook to improve in 2020 in anticipation of greater recovery in CPO price.

Oil & Gas (Budget impact: Neutral). The Budget 2020 announcement reaffirmed our view that there will be: (i) stable crude oil price environment; (ii) continued spending in offshore E&P capex; (iii) sustained offshore activity levels and; (iv) resilient demand for petrochemical products globally going into 2020, as the Government is pegging its 2020 revenue to an average of USD62pb Brent crude oil price target. We opine that this is reasonable and prudent given the current geo-political environment as well as; the increasing supply from the unconventional (shale) oil production. Additionally, minimal impact is expected from the implementation of the targeted petrol subsidy as we opine that it will benefit the petrol retailers given that the subsidy to eligible BSH and non-BSH recipients will help to arrest the potential decline in demand from the re-floating of RON95. Thus, our NEUTRAL stance on the upstream segment and POSITIVE stance on the downstream segment remains at this juncture.

Market Outlook

As earlier stated, the FBM KLCI is teetering circa 4-year low levels which also correspond with its multi-year neckline. On this score, as explained in our Strategy report dated 4 October, we are rather sanguine on the prospect of a world's macro reflation within the next 9 months (in view of near concerted monetary easing and fiscal expansion worldwide) hence we view any neckline breach to be transient and a buying opportunity.

FBM KLCI: Price Trend



Source: Bloomberg, MIDFR

Having said the above, we reckon the Budget 2020 would not be able to provide a sufficiently strong near-term impetus towards market sentiment which has been battered by external uncertainties particularly the ongoing spats between US and China. Thus we revised our FBM KLCI year-end 2019 target from 1,680 points (i.e. PER19 of 17.5x which equates to the Mean of its 5-year historical trailing 12-month PER) to 1,630 points (i.e. PER19 of 17.0x which equates to -0.5SD of its 5-year historical trailing 12-month PER).

FBM KLCI: Price Earnings Ratio (PER) with Mean & Standard Deviation (SD)

Source: Bloomberg, MIDFR

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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 *rise* 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	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* 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.