

Short Term Economic Recovery Plan – PENJANA

Generating an Economic Recovery

MIDF Research Team
research@midf.com.my

EXECUTIVE SUMMARY

- Malaysia is moving onto the Recovery stage phase following the Reopening phase.
- Coincidentally, Malaysia is also moving to the Recovery Movement Control Order from Conditional Movement Control Order.
- With the new phase, the Government has announced a slew of measures to aid in generating the recovery, called PENJANA.
- We believe that PENJANA seems to be comprehensive, tackling the core issues such as employment and SMEs.
- The new stimulus will boost private consumption.
- However, in funding for the stimulus, Government's budget is expected to widen and debt-to-GDP ratio ceiling is expected to be breach.
- We expect the sectors that will benefit most are Automotive (Upgrade to POSITIVE), Properties (NEUTRAL) and Consumer (NEUTRAL).
- Nevertheless, market seems less jubilant judging from the close of FBM KLCI last Friday. However, this could be due to profit taking ahead of the long weekend.
- Current US-led market rally is driven by liquidity. As such, it has moved ahead of fundamentals in our opinion.
- We expect the second downward thrust (fallout phase) may later emerge, possibly in the third quarter, as the fuller extent of economic and corporate earnings impacts of Covid-19 become manifest.
- The secular trajectory of the equity prices has almost always corresponded to the underlying fundamentals, earnings performance in particular.
- Reaffirm year end FBM KLCI target of 1,320.

A. BACKGROUND

On to the next phase. Malaysia will be moving on to the next phase of its strategic approach in combating Covid-19 and the economic fallout. After the previous Restart phase, which coincides with the Conditional Movement Control Order (CMCO), Malaysia will enter into the Recovery phase. This is expected to entails the recovery of the economy.

Coincides with the easing of restrictions. After almost 3 month of Movement Control Order (MCO) and CMCO, the Government has announced the follow-up period which is Recovery Movement Control Order (RMCO). In this next stage, the Government has further ease many of the restrictions that was previously implemented, including the resumption of many economic activities such as night markets, bazaars, and cross state travels.

Economic impact MCO. It is without a doubt that the MCO and CMCO will have had a negative impact to Malaysia's economy. The lockdown would have put pressure on businesses, and this will have affected decisions on investments and employment. However, the Restart phase with the CMCO may have provided some relief to businesses. We expect the Recovery phase will give further support but in the context of a "new normal".

Additional stimulus programme to generate a recovery. To assist in the next stage, the Government had announced an additional stimulus program which is aimed for the short term. This Short Term Economic Recovery Plan or PENJANA is hoped to assist in the generating an economic recovery. We believe that the plan appears to be comprehensive. It addresses many concerns such as employment, SMEs and boosting domestic consumption.

B. ECONOMIC COMMENTARY AND ANALYSIS

Boost for the private consumption. Private consumption, the biggest driver of the economy is foreseen to be significantly affected by the MCO and to be further influenced by deteriorating sentiments. We expect consumption will be low particularly in 2Q20 as Rakyat stayed home and a substantial increase in unemployment in hard-hit sectors. However, we foresee a recovery starting 3Q20 in line with Malaysia's progress in containing the pandemic. In the latest stimulus package (PENJANA), the Government has announced several pro-consumption incentives such as RM50 e-wallet credit with an additional RM50 in value through vouchers, cashback and discounts for offline purchases. We opine that these measures are to encourage consumers to go out and spend. Government will also be co-funding digital discount vouchers on products from local businesses under Shop Malaysia Online campaign, leveraging on the new norm. Besides that, stamp duty exemption for Home Ownership Campaign (HOC) for residential property up to RM2.5m, exemption of Real Property Gains Tax (RPGT) until end of 2021 on top of sales tax exemption for both locally assembled and imported passenger cars could be a kick-start for big ticket items' purchases, partially addressing the concern over changes in consumption pattern from discretionary to necessity.

Full employment condition to continue. We foresee unemployment rate to breach the 4% full employment condition in upcoming months. Unemployment growth is expected to shoot up following layoffs in hard-hit sectors. Slowdown in both domestic and global economies which weaken exports and consumption will affect employment opportunities particularly in services and manufacturing sectors. Nevertheless, we opine the job market will gradually recover as the Government started to open up the economy. The average jobless rate is likely to remain below 4% and operating at full-employment condition for the whole year of 2020 as some of the stimulus measures announced by the Government may moderate the pressure particularly on wage subsidy. The extension of wage subsidy programme, incentives for hiring unemployed and reskilling & upskilling trainings for the unemployed will alleviate concern on higher unemployment rates. Furthermore, numerous supports given for SMEs including Penjana SME Financing (PSF) to sustain business operations could indirectly help to retain some employees as SMEs employ majority of the country's workers (more than 65%).

Pioneer status-like investment incentives, a tipping point. Circa 40% of investments in Malaysia are contributed by foreign investment. Promoting Malaysia as an investment destination by offering attractive tax incentives up to 15 years for foreign businesses to relocate to Malaysia as underlined in PENJANA should be attractive to entice more direct investment from foreign firms especially in the event of re-escalation of the US-China cold relationship. In addition, Japan is pulling its companies out of China with intention to relocate the production base to a number of countries, including those of the ASEAN in order to avoid relying on a single country. However, the relocations are likely to be more evident after the US presidential election as investors will be equipped with better clarity. Hence, we believe that the economic impact will take longer to materialize.

Contraction for the economy in 2020. The overall economic growth will be influenced by various internal and external factors including disruption in global production and consumption following Covid-19, recession fears, global financial stability, oil price war, inflationary pressure and labor market performance. Nevertheless, government stimulus packages including the latest one will provide some cushion to the overall adverse impact, providing support to our GDP growth forecast of -2.1%yoy for 2020.

Widening budget deficit. To date, four economic stimulus packages totaling RM295b have been announced by the Malaysian government in efforts to blunt the economic risks arising from the Covid-19 pandemic. The latest (PENJANA) worth RM35b, with RM10b coming from direct fiscal injection from the Government. This has increased the total fiscal injection to RM45b. Increasing expenditure on top of declining revenue push the Government's fiscal position to a tougher state for this year. Our forecast of Brent Crude oil price at USD41pb and GDP growth at -2.1%yoy suggest that government revenue will be reduced. Loss of income by businesses on top of tax exemptions including those announced for cars in PENJANA will reflect in lower tax collection. We foresee fiscal deficit to GDP ratio to widen to -6.4% in 2020.

Government debt to breach 55% ceiling rule. As of 2019, federal government debt to GDP ratio is 52.5%. Subject to 55% government debt to GDP ratio rule and -2.1%yoy GDP growth anticipated for this year, available fiscal capacity is less than RM5b. With the total fiscal injection of RM45b, we view the government debt to expand beyond the 55% rule in 2020, which we are projecting at 57.2%. Hence, we believe government will increase the ceiling rule from 55% to 60-65% in order to provide more fiscal space for future spending, subject to Parliament approval.

C. SECTORAL REVIEW

1. CONSUMER (NEUTRAL)

Measures	Allocation (RM'm)	Remarks
"Shop Malaysia Online" vouchers for consumers	RM70m	<ul style="list-style-type: none"> E-commerce vouchers will be co-funded with e-commerce platforms to encourage online spending on products from local retailers. We expect local brands to benefit from this initiative but any positive impact on the stocks under our coverage may be limited due to the huge numbers of retailers that consumers may choose from, hence diluting the positive impact.
National "Buy Malaysia" Campaign	RM20m	<ul style="list-style-type: none"> Made in Malaysia products will be promoted. This may spur consumers to support locally manufactured products. We think that any positive impact for consumer staples like Nestlé (Malaysia) Bhd (Neutral, TP: RM143.90) and Fraser & Neave Holdings Bhd (Neutral, TP: RM31.59) to be limited as their demand for their popular products have remained stable even since the introduction of the MCO. We think that Panasonic Manufacturing Malaysia Bhd (Neutral, TP: RM30.66) may benefit from this campaign when consumers compare locally made electronic appliances to imported ones.
Various re-employment and upskilling initiatives		<ul style="list-style-type: none"> We expect consumer sentiment to improve once employment rate improves. Overall, consumers will continue to spend on food and staples. The recovery in consumer sentiment over time may also lead to pent up demand in discretionary items. In this aspect, we expect recovery for sales at Aeon Co. (M) Bhd (Neutral, TP: RM1.08) and Padini Holdings Bhd (Neutral, TP: RM2.61). Recall that Aeon Co's general merchandise segment has been adversely impacted during the MCO. We expect the situation to improve further in the Recovery MCO. Meanwhile, Padini Holdings was not allowed to operate during the MCO period. With people going back to work, we expect to see recovery in demand for clothing and shoes. Padini Holdings may benefit from the recovery in employment due to its value for money proposition.
Banning of huge sports events and other activities that involve huge crowds		<ul style="list-style-type: none"> We expect demand for bottled drinks to remain soft. That may continue to put pressure on Spritzer Bhd (Buy, TP: RM2.73) which derives most of its income from bottled drinking water. However, we expect lower raw material cost to cushion the softer sales. Fraser & Neave Holdings Bhd (Neutral, TP: RM31.59) might also be impacted as its "100 Plus" products are very popular for outdoor and sports events.

We expect consumer staples to remain relatively stable upon the announcement of the new stimulus packages as consumers will continue to spend on the necessities. When the outlook of their disposable income improves, we expect recovery in the discretionary segment. All in all, we are still **NEUTRAL** on the sector mainly due to limited upside in stock prices, lack of huge imminent catalysts and a rather cautious consumer sentiment in the near-term.

2. AUTOMOTIVE (POSITIVE)

Measures	Allocation (RM'm)	Remarks
Current 10% sales tax (SST) will be 100% exempted for CKD passenger cars while CBU models will enjoy a partial, 50% exemption. The SST exemption will run for a period of 6.5 months from 15 th June 2020 till 31 st December 2020.	897	<ul style="list-style-type: none"> Partly resembles the 2018 automotive tax holiday implemented between June to August 2018. Preliminary checks with selective players suggests a range of 2% to 9% reduction in selling price, vs. ~6% price reduction from the GST-holiday in 2018. FY20F TIV raised to 554,433 units from 504,580 units; much smaller contraction of 8%yoy expected vs. 17%yoy previously. FY20F aggregate sector earnings revised up by 39%, implies a narrower 31%yoy contraction from 51%yoy previously As a yardstick, when the 3-month tax holiday was implemented in 2018, monthly TIV during the period rose by an average 32%yoy, or in absolute terms, ~21K units/month increase against the pre-tax-holiday monthly TIV. In comparison, our revised FY20F projections imply a relatively conservative 7800 units/month incremental TIV over the tax holiday period. The much longer 6.5-month implementation should give the sector sufficient support to ride through the weak 2H20 before an expected underlying macro improvement sets in towards end-4Q20 or early FY21F. Sector set to see an inflection point from 3Q20 onwards from a strong combination of tax-holiday induced demand, consumer liquidity and a low interest rate environment; we upgrade autos to POSITIVE from NEGATIVE. BAuto (BUY, TP: RM1.95) and UMW (BUY, TP: RM3.40) are now our top sector picks <i>(for more details, please refer to our Thematic Report on the Auto Sector issued today)</i>.

3. PROPERTY (NEUTRAL)

Measures	Allocation (RM'm)	Remarks
Reintroduction of Home Ownership Campaign (HOC) for residential properties from RM300,000 to RM2.5m from 1 st June 2020 to 31 st December 2021. This includes stamp duty exemption on the instruments of transfer for	N/A	<ul style="list-style-type: none"> The reintroduction of HOC is positive to property sector as it will attract more buying interest from property buyers. Note that HOC was introduced in 2019 which had helped property sales of developers as property buyers could enjoy stamp duty exemption and at least 10% discount on property prices. We expect the reintroduction of HOC to spur buying interest and partially cushion the negative impact of weak buyer sentiment

Measures	Allocation (RM'm)	Remarks
residential properties limited to the first RM1m of the home price and full stamp duty exemption for loan agreement.		<p>as a result of Covid-19 pandemic.</p> <ul style="list-style-type: none"> The reintroduction of HOC is expected to benefit property developers with product offering within RM300k to RM2.5m. In this context, we expect Mah Sing (Buy, TP: RM0.70), S P Setia (Buy, TP: RM1.33) and Eco World Development (Buy, TP: RM0.73) to benefit from HOC as they have highest property exposure in Malaysia with products within the price range.
Uplift the 70% margin of financing limit for the third housing loan onwards for properties valued at RM600k and above during the HOC period.	N/A	<ul style="list-style-type: none"> This measure is expected to stimulate more buying interest from buyers who would like to upgrade homes or invest in property market as a long-term investment.
RPGT exemption from 1 June 2020 to 31 December 2021 for three residential properties per individual.	N/A	<ul style="list-style-type: none"> The RPGT exemption for 19 months is expected to encourage homeowners to upgrade homes as selling existing properties does not attract RPGT. Meanwhile, the RPGT exemption may attract more property owners/investors to sell their properties and increase the vibrancy of secondary market.

4. AVIATION (NEUTRAL)

Measures	Allocation (RM'm)	Remarks
<p>PENJANA Tourism Financing (PTF):</p> <p>To aid the tourism sector, a RM1 billion PENJANA Tourism Financing (PTF) facility will be made available to finance transformation initiatives by SMEs in the tourism sector to enable them to remain viable and competitive in the new normal. Details of this fund will be announced in July 2020.</p>	1,000	<ul style="list-style-type: none"> Enabling affected businesses to continue expanding their businesses such as travel agencies that have just been established or even home stay operators. Other related businesses include traditional handcraft retailers or manufacturers.
<p>Tourism Sector Support:</p> <p>Tax incentives for the tourism sector:</p> <ul style="list-style-type: none"> Tourism tax exemption from 1st July 2020 to 30th June 2021 Extension of service tax exemption for hotels to 30th June 2021 Extension of period for income tax relief of RM1,000 for tourism 	1,800	<ul style="list-style-type: none"> Hotels in Malaysia have experienced a drastic drop in occupancy rates due to the MCO, denting their cash flows. The exemption of the service tax could help hotels to manage their pricing without denting their margins too much in order to attract visitors and subsequently improve the occupancy rates. In general for tourism related business, such businesses would be able to manage their cash flows better which could facilitate in maintaining operations or increasing marketing activities. Moreover, the easing of lockdown measures announced on 7 June 2020 which now allows interstate travel will see a pent-up demand for hotel stays.. Airlines such as AAGB (Trading

Measures	Allocation (RM'm)	Remarks
expenses to 31st December 2021 ▶ Extension of period for deferment of tax instalment payment for tourism industry to 31st December 2020		SELL; TP: RM0.54) will also benefit from this as it has launched a three-day sale for domestic flights. Nevertheless, we believe that more Malaysians will opt to travel by land via private vehicles as it is not as exposed as travelling via air and passing through airports.

5. LOGISTICS (NEUTRAL)

Measures	Allocation (RM'm)	Remarks
"Shop Malaysia Online" for Online Consumption: The Government will collaborate with e-commerce platforms to co-fund digital discount vouchers to encourage online spending on products from local retailers	70	<ul style="list-style-type: none"> Supply chain operations in China have gradually picked up in late March 2020, enabling GDEX to clear the backlog of deliveries. Due to the MCO, consumers have shifted their spending habits towards online platforms due to the MCO, leading a recovery in parcel volumes in 4QFY20 (or 2QCY20). GDEX's sorting capacity even hit a high of 180,000 parcels per day. A research study done by Commerce.Asia, an e-commerce ecosystem of technology and big data solutions; saw that the gross merchandise volume growth surged by 149% year-on-year in the first quarter of 2020 since the MCO was enforced in Malaysia. As a result, last-mile delivery companies such as GDEX (NEUTRAL; TP:RM0.48) had a lot of its clientele migrate to digital platforms, namely myGDEX online portal which has been launched in late 2018 with the help of its 32.7%-owned associate, Web Bytes. Even after the conditional movement control order (CMCO) is lifted, the tendency of consumer to remain with online purchasing is high due to the social distancing measures at physical retail outlets. Therefore, higher online spending will bode well for GDEX in terms of higher parcel volumes handled. Having said that, we believe that other non-listed players such as Ninja Van and J&T will remain as a threat in the next two to three years as these companies continue to receive funding.

6. TELECOMMUNICATION (NEUTRAL)

Measures	Allocation (RM'm)	Remarks
Support e-learning and productivity activities by providing free internet connectivity from Mid June to end December 2020 <ul style="list-style-type: none"> Free 1Gb per day between 8am to 6pm for education, 	3,000	<ul style="list-style-type: none"> We are neutral on the development as the measure is the continuation of the same measure which was announced during the early days of MCO. In addition, we expect the utilisation of the free 1GB internet could be generally less as it is limited to education, productivity and news purposes only. To recall, the previous measure does not have any restriction on the purpose

Measures	Allocation (RM'm)	Remarks
<p>productivity (video conference applications) and news by participating telecommunication companies</p> <ul style="list-style-type: none"> Free unlimited use of Government's COVID-19 applications and access to Ministry of Health and other Government websites 		of usage.

7. PLANTATION (NEUTRAL)

Measures	Allocation (RM'm)	Remarks
<p>Provide financial relief for commodity players through 100% export duty exemption from 1 July 2020 to 31 December 2020 for the following palm oil products:</p> <ul style="list-style-type: none"> Crude Palm Oil (CPO) Crude Palm Kernel Oil Refined Bleached Deodorized Palm Kernel Oil 	200	<ul style="list-style-type: none"> We view that the exemption would help to spur demand of CPO, CPKO and RBD PKO. This would assist in redirecting demand of palm oil products to Malaysia, especially from India. Note that India has placed restrictions on refined palm oil import. In comparison, Indonesia has hike its export levy by USD5 to USD55 per tonne, primarily to support its biodiesel mandate. Thus, the measure will make Malaysia palm oil products more competitive. Having said this, we do not discount that the Government of Indonesia could retaliate by imposing the same measures.

8. CONSTRUCTION (NEUTRAL)

Measures	Allocation (RM'm)	Remarks
<p>SME Bank via the SME Go-Scheme will provide financing to 16,000 qualified G2 and G3 contractors who have received projects under the PRIHATIN package. No collateral or deposit is required.</p>	N.A.	<ul style="list-style-type: none"> This measure is positive for small and medium local construction players as we think this implementation will encourage more job replenishments. SME Go-Scheme will provide liquidity for G1 and G2 contractors who were awarded small Government projects under the Economic Stimulus Package 2020 and the PRIHATIN stimulus package. To recap, government has announced RM4.0b allocation under the first two stimulus packages and these are for small projects to support the smaller contractors. Moreover, we opine that this measure will help to generate more job opportunities and spur economic activities given that the scheme would have multiplier effects on other industries - namely raw and manufactured building material supply as well as professional services.

D. STRATEGY

Equity Market

Market seems less jubilant... The initial local equity market reaction to the latest PENJANA fiscal plan may seem less than jubilant as the FBM KLCI closed in the red on Friday despite the sea of greens across the region. The local benchmark retreated -5.51 points to close at 1,556.33 points.

...but maybe investors pocketing gains ahead of long weekend. Nonetheless, the FBM KLCI was already on a bullish streak adding more than 83 points on-week. Hence we reckon some investors were just playing it safe and decided to pocket their gains ahead of an extended weekend.

Back to previous level. Another point to note, at its close last Friday, the FBM KLCI was back at the level last seen on 28 January when (i) the Covid-19 was still seen as just yet another epidemic in China, (ii) there were only a total of 7 (mainly imported) Covid-19 cases in Malaysia, and (iii) our PM7 was still very much in the driver seat.

Market Outlook

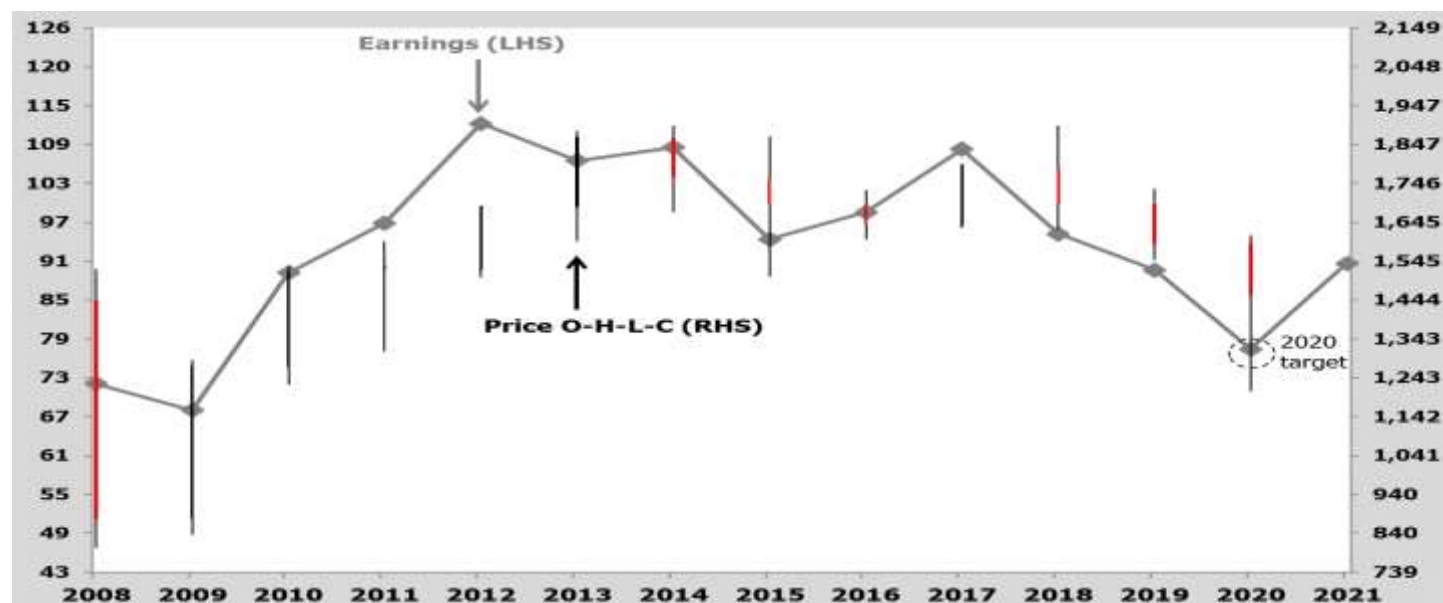
Market rally arguably liquidity driven. The US-led market rally of the past three weeks was arguably liquidity driven. It is also notable that the sharp market updraft coincided with the commencement of the USD0.5t SMCCF by the US Fed. The magnitude of market rebound off its year-low has exceeded expectation as investors seem to impute blue-sky scenario in regard to the post-lockdown economic recovery.


The Dow Jones Industrial Average (DJIA) closed past 27,000 points level last Friday as investors cheered a better than expected unemployment figure of 13.3% in May. The unemployment rate is closely watched by the market as it correlates to consumer spending which accounts for more than two-thirds of the US economy.

Market may be ahead of fundamentals. However, putting the above into perspective, the previous time the DJIA traded at a similar level was in late February when the unemployment rate was at a much lower 3.5%. Hence we believe the liquidity-stimulated market may have gone overbought, i.e. way ahead of fundamentals. In this regard, as highlighted in our recent strategy report titled [Fallout Phase Remains A Lurking Fear](#) dated 2 June, we expect the equity market to eventually correct itself.

Expecting a second downward thrust. Hence we expect the second downward thrust (fallout phase) may later emerge, possibly in the third quarter, as the fuller extent of economic and corporate earnings impacts of Covid-19 become manifest.

Secular trajectory corresponds with earnings performance. As empirically demonstrated by the Earnings versus Price (Open-High-Low-Close) chart of the FBM KLCI, the market is not always right but forever seeking what is right. Thus, while the short-term equity valuation (i.e. price relative to earnings) may be influenced by multitude of 'noises' (such as change in sentiment, situational events as well as deluge or dearth of liquidity), however, the secular trajectory of the equity prices has almost always corresponded to the underlying fundamentals, earnings performance in particular.



Reaffirm baseline target of 1,320 for FBM KLCI. In line with the diminution in consensus EPS20 estimate for the FBM KLCI to 77.4 points as of end-May, as well as the recent downward revision in our GDP target to -2.1% for this year, we reaffirm our FBM KLCI year-end 2020 baseline target at 1,320 points which equates to PER20 valuation target of 17.0x or -0.5SD (standard deviation) of its 5-year (2014-18) historical average. 

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.