ECONOMIC STIMULUS PACKAGE 2020

Giving a shot to the economy

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EXECUTIVE SUMMARY

1. DOMESTIC ECONOMY

a) Economic moderation projected in 2020. Growth of the Malaysian economy in 2020 will be influenced by various internal and external factors such as trajectories of global trade, threat of protectionism, Covic-19.

b) We view the stimulus package and easing monetary policy would revive the investment activities in 2020.

c) Private consumption to remain solid. The reduction in the minimum EPF contribution by employees from 11% to 7% to contribute to the GDP growth through private consumption.

2. PUBLIC SECTOR FINANCE

a) Widening budget deficit. We forecast fiscal deficit to GDP ratio to widen from initial target of -3.2% to -3.6%, slightly higher than -3.4% projected by the government.

b) As of 2019, federal government debt to GDP ratio is 52.5%. Hence, there is extra fiscal capacity roughly about RM37.8 billion, subject to 55% government debt to GDP ratio rule. Hence, the new government leadership will be able to table expansionary fiscal policy for 2021 onwards.

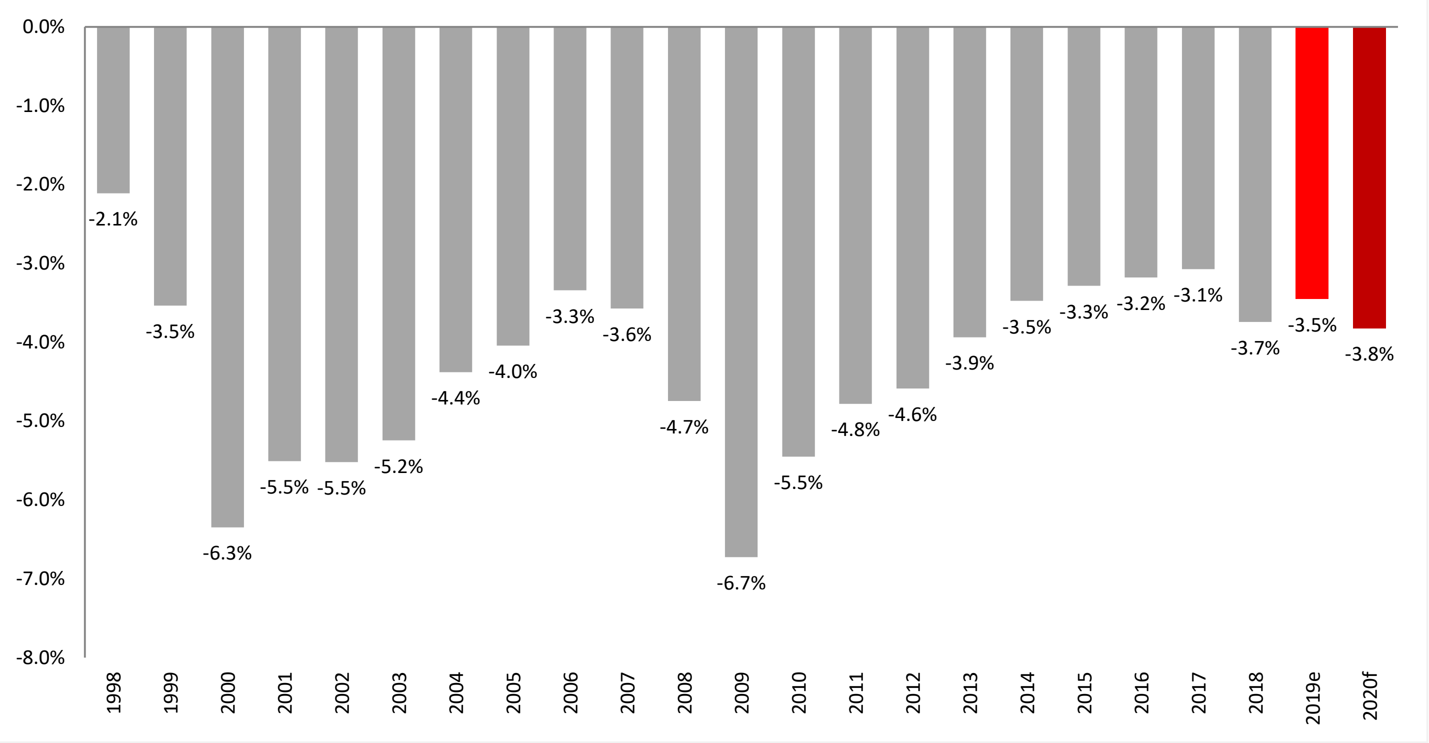
3. MOVING FORWARD

At the close yesterday, the local equity market ended higher despite generally lower regionals and amid the still unresolved local political stalemate. Thus we opine it is not too far fetch to attribute the positive local market performance to favourable initial reaction to the stimulus budget. However, we reckon the package would not be able to provide a sufficiently strong impetus towards general market sentiment which has been battered by multitude of internal and external uncertainties. Hence we maintain our FBM KLCI year-end 2020 baseline target at 1,600 points.

A. ECONOMIC COMMENTARY AND ANALYSIS

Widening budget deficit. The stimulus package worth of RM20 billion are comprised of tax cuts, business incentives, cash assistances and direct investment for infrastructure projects. We view the package to cushion some of the impacts of Covid-19 besides other headwinds on Malaysian economy. Hence, we forecast fiscal deficit to GDP ratio to widen from initial target of -3.2% to -3.8%, higher than -3.4% projected by the government. The widening factor is partially due to larger contraction than expected for government revenue as anticipation of slowdown in GDP growth would derail government revenue target of RM244.5 billion this year.

Chart 1: Government Finance



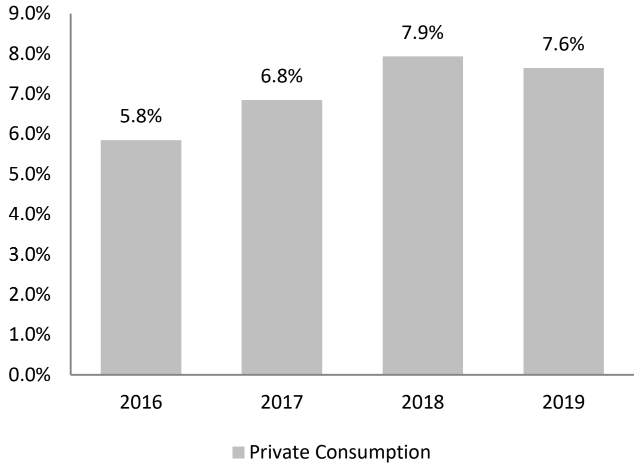
Source: CEIC; MIDFR

Economic moderation projected in 2020. Growth of the Malaysian economy in 2020 will be influenced by various internal and external factors such as trajectories of global trade, threat of protectionism, loss of growth momentum of world's major economies, global financial stability, commodity prices, inflationary pressure, labor market as well as the latest outbreak of Covid-19. Based on the current developments and indicators, we foresee Malaysian economy to continue expanding in 2020 but at a slower pace in the range of 4.0-4.3%yoy compared to 4.3%yoy for year 2019. Consumption and investment are expected to continue improving on the back of OPR cut, continuation of blanket fuel subsidy and the government stimulus package.

Stimulus package may support investment activities. Despite expectation of overall moderation in GDP growth, we had anticipated a rebound in public investment as tabulated in MIDF Outlook 2020. Public investment had been contracting consecutively since 3Q17 with the latest negative performance in 4Q19 at -7.7%yoy. We believe government will ramp up its spending this year through development medium in order to strengthen capital formation towards ensuring long-term growth sustainability. The boost from the government is needed particularly to sustain GDP growth above 4%yoy despite being exposed to external risks, financial market volatility and geopolitical risks. We view the stimulus package and easing monetary policy would revive the investment activities in 2020.

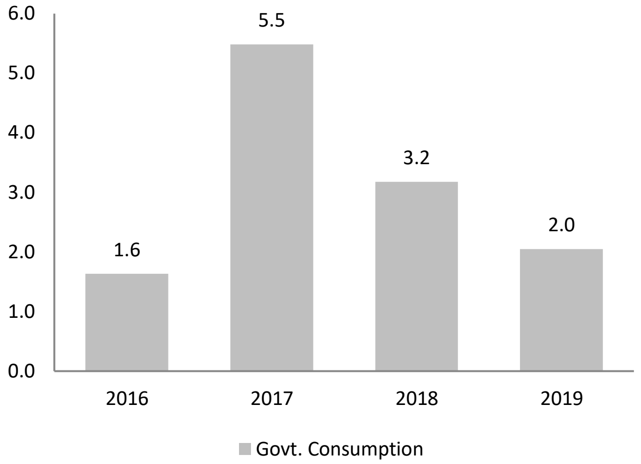
Private consumption to remain solid. Some of the Rakyat-centric measures announced in the stimulus particularly the reduction in the minimum EPF contribution by employees from 11% to 7% would mean there will be more disposable income for the employees to spend, contributing to the growth through private consumption. In addition, earlier payout of the BSH to Mar-20 from the initial schedule in May-20 would be supportive to the consumption. These in particular will help to offset some of the negative impact of Covid-19 and protectionism on our external trade performances for the 1H20. Private consumption will continue to be the biggest contributor the overall economic growth in 2020.

Chart 2: Private Consumption (YoY%)



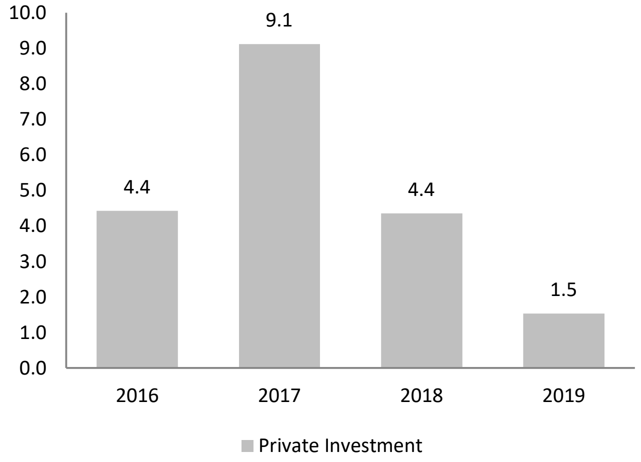
Source: CEIC, MIDFR

Chart 3: Public Consumption (YoY%)



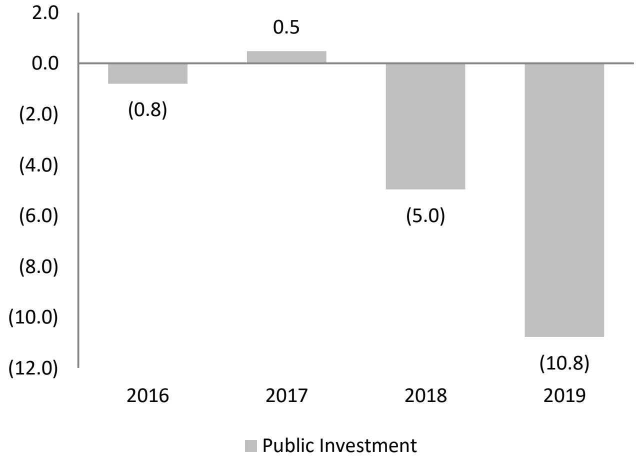
Source: CEIC, MIDFR

Chart 4: Private Investment (YoY%)



Source: CEIC, MIDFR

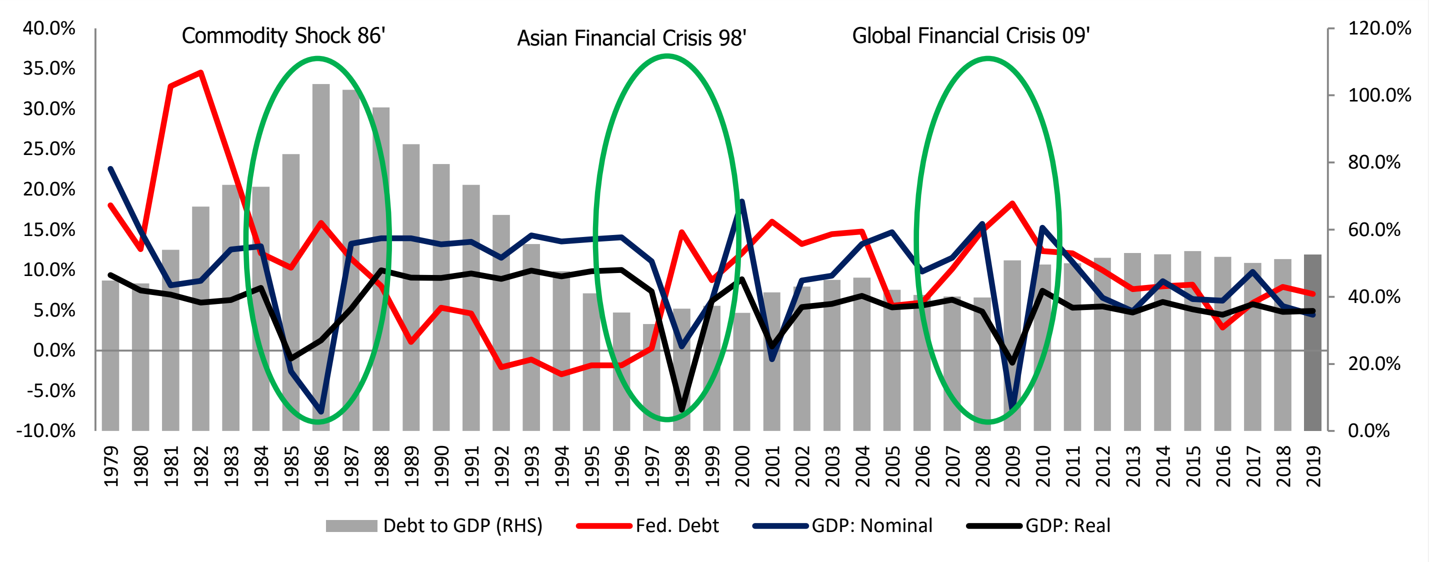
Chart 5: Public Investment (YoY%)



Source: CEIC, MIDFR

Fiscal policy still has space to spend. As of 2019, federal government debt to GDP ratio is 52.5%. Hence, there is extra fiscal capacity roughly about RM37.8 billion, subject to 55% government debt to GDP ratio rule. Hence, the new government leadership will be able to table expansionary fiscal policy for 2021 onwards. Despite Covid-19, external fronts remain challenging especially with the upcoming USA Presidential Elections in Nov-20. If Donald Trump re-elected, protectionism will continue to affect global trade activity and Malaysia has to shield its economy by focusing on domestic-oriented sectors and strengthening domestic demand particularly household spending and government expenditures.

Chart 6: Government Finance



Source: CEIC; MIDFR

B. SECTORAL REVIEW

1. Aviation Sector (POSITIVE)

Measures	Allocation (RM'm)	Remarks
To allow deferment of monthly income tax instalment payments for businesses in the tourism sector. In addition, companies affected by the COVID-19 to be allowed to revise their profit estimates for 2020 with respect to monthly income tax instalment payments without penalty	N.A.	Enable business related companies to manage their cash flows better which could facilitate in maintaining operations or increasing marketing activities.
To provide 15% discount in monthly electricity bills to hotels, travel agencies, airlines, shopping malls, conventions and exhibitions centres	N.A.	Hotels in Kota Kinabalu and Langkawi were anticipating a drop in occupancy rates from 30% to 60% immediately, while other destinations like Melaka, Ipoh, Port Dickson and Penang were looking at an immediate impact of 10%-50% drop. As such hotels are offering discounts on room rates of between 30 and 70 per cent. 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. Airlines too can better manage their operating expenditure especially with lower electricity bills incurred for their corporate headquarters.
To exempt the 6% service tax for hotels. However, this exemption will be made effective earlier, which is from March to August 2020.	N.A.	
Relaxation of existing guidelines limiting use of hotels by Government agencies as part of mitigating the reduced demand	N.A.	
To exempt Human Resource Development Fund (HRDF) levies for hotels and travel related companies	N.A.	Enable business related companies to manage their cash flows better while allowing their staff to equip themselves with the latest skills related to their jobscope which could facilitate in improving promotional activities.
Government will provide double deduction on expenses incurred on approved tourism-related training. The Government will also provide up to RM100 million on a matching grant basis to HRDF to fund an additional 40,000 employees from the tourism and other affected sectors.	Up to RM100m on a matching grant basis	
Malaysia Airport Holdings Berhad (MAHB) will provide rebates on rental for premises at the airport as well as landing and parking		Landing and parking charges contribute around 17.0% annually to MAHB's aeronautical revenue. Rebate of landing and parking charges may potentially reduce the amount of landing and parking fees collected by MAHB.

charges.		On the flip side, the rebate will be in favour for airlines as it will decrease their operating costs directly. Based on data from MAVCOM, low cost carriers such as AAGB and AAX are currently paying around RM400 per aircraft for landing fees (base) while parking fees are very minimal. A rebate on these fees also enable airlines to manage their fares better as less cost will need to be passed to customers. Meanwhile, rental revenues make up around 30.0% of MAHB's non-aeronautical revenue. While the rebate for rental for premises in the airport could potentially reduce MAHB's non-aeronautical revenue, we believe that this coincides well with its commercial reset strategy. The commercial reset strategy is aimed at changing the travel retail landscape at its airports with an injection of new brands, high-end fashion retailers and a refreshed shopping experience. As such, rebates could attract premises to extend their contracts for existing one while inviting new tenants at MAHB's airports.
Bank Simpanan Nasional (BSN) will allocate a RM200 million in microcredit facility offering an interest rate of 4% to affected businesses. In addition, the approval process for existing loan funds will be further streamlined such as Bank Pembangunan's Tourism Infrastructure Fund of RM1.5 billion.	RM200m	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.
The Government will give a one-off payment of RM600 each to taxi drivers, tourist bus drivers, tourist guides and registered trishaw drivers.	RM600	Will enable the mentioned individuals such as tourist guides to equip themselves by enrolling in courses to enhance presentation and communication skills. As for trishaw drivers, it could help finance their modification of their trishaws.
Personal income tax relief of up to RM1,000 on expenditure related to domestic tourism;	RM1,000	Bodes well for AirAsia Group which recently had a RM12 sale on Malaysian domestic flight. Nevertheless, fears of travelling via air may still linger and therefore prompt many travelers to opt for other alternatives such as railways.
Malaysian will be eligible to digital vouchers for domestic tourism of up to RM100 per person for domestic flights, rails and hotel accommodations for all Malaysians. Additional matching grants for tourism promotion will be provided. An allocation of RM500 million is provided for the vouchers and tourism promotion	RM100 per person RM500m for voucher and tourism promotion	

2. Banking Sector (POSITIVE)

Measures	Allocation (RM'm)	Remarks
Special Relief Facility provided by Bank Negara Malaysia (BNM), particularly in the form of working capital for Small Medium Enterprises (SMEs) at an interest rate of 3.75%	2,000	These measures will ensure support to the cash flows of affected businesses. With this support, businesses will be able to ease any cash flow constraints, including payment of loans. Hence, it will indirectly ensure asset quality of banks do not come under undue pressure. We expect this will help moderate any pressure to credit cost and asset quality of banks in the immediate term
Other easing cash flow measures such as deferment of monthly income tax instalment payments for businesses	n/a	
All banks are required to provide financial relief in the form of payment moratorium comprising restructuring and rescheduling loans for affected businesses and individuals. BNM is tasked to ensure that all financial institutions will assist all companies in need without exception	n/a	We believe that this measure will also come with a more relax treatment of R&R accounts whereby, banks may not have to make provisions for affected accounts. We expect that this will ensure that asset quality and credit cost of banks to be stable. Consequently, the pressure to banks' earnings may be moderated
Microcredit Facility provided by Bank Simpanan Nasional (BSN), offering an interest rate of 4% to affected businesses. Also, approval process for existing loan funds will be further streamlined such as Bank Pembangunan's Tourism Infrastructure Fund of RM1.5b	200	Does not impact the listed banks as it is not a targeted segment
Promoting quality investments	n/a	We opine that this may spur lending activities from businesses which should provide support to loans growth
Measures affecting individuals such as one-off payments, increase in critical allowance and reduction of EPF contribution to 7%	n/a	We expect that this will spur domestic spending. Although not a direct impact to banks, we believe it will have an indirect impact. Most likely, it may ease cash flow constraints of businesses which will ensure stable banks' asset quality, and could also might boost lending

3. Power Sector (POSITIVE)

Measures	Allocation (RM'm)	Remarks
Provision of a 15% discount in monthly electricity bills to hotels, travel agencies, airlines, shopping malls, convention and exhibition centres for a period of 6-months beginning Apr20.	NA	Tenaga (BUY, TP: RM14.40) is financially neutral as the discount, estimated at RM30m-RM40m for the 6-months period will be fully funded by the Kumpulan Wang Industry Elektrik (Electricity Industry Fund)
MESTECC to open up bid quota for 1400MW of solar power generation projects.	RM5b	RE/Utilties players such as Cypark (Not-Rated), Tenaga, Ranhill (BUY, TP: RM1.45), Malakoff (Not-Rated) and Solarvest (Not-Rated) are key potential beneficiaries from the potential award of the solar contracts. The 1400MW is notably larger than LSS packages of ~500MW/package.
TNB to invest RM13b capex in 2020 including accelerated projects such as LED street lights, transmission lines and rooftop solar installations.		Tenaga's planned FY20F capex is circa RM11b. This will be increased by acceleration of an estimated RM2b capex which includes investments into transmission grid projects and distribution network projects. Capex related to the group's regulated business will accelerate the expansion of Tenaga's regulated asset base (RAB). However, recognition of earnings from the accelerated capex will be further discussed with the regulator.

4. Telecommunication Sector (POSITIVE)

Measures	Allocation (RM'm)	Remarks
Malaysian Communications and Multimedia Commission (MCMC) will implement works related to the National Fiberisation and Connectivity Plan (NFCP)	Up to RM3b allocation	The move will help to partially ease the capital spending of telecommunication service providers (telco) which are involved in the NFCP project. The excess capital may be redeploy for other capital expenditure purposes and/or reduce the borrowings. On another note, the beneficiaries will also include Network Facilities Providers (NFP) such as edotco group, which is a subsidiary of **Axiata Group Bhd (BUY, TP:RM4.77)**, and **OCK Group Bhd (NR)**. To recall, NFP are the owners/providers of network facilities infrastructure such as cables, towers, satellite earth stations, broadband fibre optic cables, telecommunications lines and exchanges, radio communications transmission equipment, mobile communications base stations and broadcasting transmission towers.

5. Consumer Sector (NEUTRAL)

Measures	Allocation (RM'm)	Remarks
A payment of RM200 to all **Bantuan Sara Hidup (BSH)** recipients scheduled for May 2020 will be brought forward to March 2020 An **additional RM100** will be paid into the bank accounts of all BSH recipients in May 2020. Subsequently, **an additional RM50** will be channelled in the form of e-tunai The **minimum EPF contribution** by employees will be reduced by 4% from 11% to 7%, with effect from 1 April 2020 to 31 December 2020	NA NA NA	These measures are targeted on protecting disposable income primarily for the B40 and M40 categories. We view that the early and additional payout of BSH, for instance, is timely as it could spur spending especially during Ramadhan and Hari Raya period. Hence, we expect spending on staple food will remain elevated during the time of festivities. This will benefit F&B producers such as **Nestlé (Malaysia) Berhad (NEUTRAL, TP: RM148.00)**, **F&N Holdings Berhad (NEUTRAL, TP:RM31.59)** and **Leong Hup International Berhad (NEUTRAL, TP: RM0.82)**.
15% discount in monthly electricity bills to hotels, travel agencies, airlines, shopping malls, conventions and exhibitions centres Malaysia Airport Holdings Berhad (MAHB) will provide **rebates on rental for premises at the airport** as well as landing and parking charges	NA NA	The abundant supply of retails space provides very little room for shopping mall operators to charge higher rental rate. Furthermore, the revision in minimum wage and rising operating costs have negatively impacted retailers' bottom line. Hence, we opine that the discount on electricity and rebates on rental could serve as a breather for shopping mall operators and retailers like **Aeon Co. (M) Bhd (NEUTRAL, TP: RM1.22)** and **Padini Holdings Berhad (NEUTRAL: RM2.86)**.
Agrofood facility will be provided by BNM at an interest cost of 3.75% to promote food production activities to meet domestic and export **RM10m allocation to FAMA** to provide food storage facilities to help reduce food prices	1,000.0 10.0	Malaysia is currently experiencing a trade deficit in food products. Hence, the weakening Ringgit will lead to higher cost of imported foods and consequently increase domestic food prices. We forecast that vegetables and fruits items to be the largest contributor to trade deficit at RM6.0b. Therefore, we expect the stimulus measures to address Malaysia's food security issue and escalation in food prices to a certain extent.

C. STRATEGY

Equity Market

At its core, we reckon the RM20b stimulus budget is mainly targeted at cushioning the negative impact of Covid-19 on private consumption. In this regard, it is notable that private consumption is the single largest and the most dependable source of domestic demand growth for our economy.

Hence a key measure announced is the reduction in the minimum EPF contribution by employees from 11% to 7%. This would mean there will be RM10b (approximately half of the stimulus package) more disposable income for employees, contributing to the output growth through consumer spending.

Initial market reaction is seemingly positive. At the close yesterday, the FBM KLCI ended 10.4 points higher at 1,505.6 despite generally lower regional markets and amid the still unresolved local political stalemate. Thus we opine it is not too far fetch to attribute the positive local equity market performance to favourable initial reaction to the stimulus budget.

Market Outlook

Stimulus package is supportive but not a key impetus. In spite of the seemingly positive initial market response to the stimulus package, going forward, we reckon the package would not be able to provide a sufficiently strong impetus towards general market sentiment which has been battered by multitude of internal and external uncertainties.

Maintain FBM KLCI year-end target at 1,600 points. On that score, we maintain our FBM KLCI year-end 2020 baseline target at 1,600 points, i.e. PER20 of 16.0x which equates to -1.5SD (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 *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.