# BUDGET 2023

## Providing Support in Light of Uncertainties

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## EXECUTIVE SUMMARY

### 1. DOMESTIC ECONOMY

**Malaysia's GDP growth set to range at +4.0~5.0% for 2023.** The Government of Malaysia foresee the economy to expand at the range of +4.0~5.0% for 2023, a moderation from +6.5~7.0% in 2022. Domestic demand including expansionary fiscal policy is projected to continue supporting the economic growth.

**Expecting slower external trade performances amid global uncertainties…** Tightening monetary policy in many countries, elevated inflationary pressure and geopolitical tensions are among downside risks for global trade next year.

**…but domestic demand to stay firm and steady…** As domestic economic recovery continues, Malaysia's private consumption expenditure is expected to grow steadily by +6.3% in 2023 (2022E: +8.7%). Through Budget 2023, the Government lends extra support for consumer. In addition, the Government is optimistic that tourism-related activities to improve further next year amid higher foreign tourists' arrival.

### 2. PUBLIC SECTOR FINANCE

**Tax revenue to increase despite reduction in personal income tax.** Despite the 2ppt reduction in personal income tax, total collection from direct tax is expected to increase on the back of improving trade and domestic economic activities. Meanwhile the Government decided not to continue Cukai Makmur (or Prosperity Tax).

**Expansionary budget with record high allocation for DE.** The largest expansionary budget of RM372.3b for 2023 tabled by the Government today also come with increased allocation for development expenditures (DE). A total allocation of RM95b will push DE to a new record high, and the first in 13 years that DE covers a quarter of government spending.

**Fiscal deficits to drop to -4.4% of GDP in medium term.** For 2023, fiscal deficit is expected to drop to -5.5% of GDP, to be achieved via sustained economic growth and keeping fiscal deficit relatively unchanged. We opine that the reduced deficit size is feasible on the back of sustained economic growth. Furthermore, the improved fiscal space will provide flexibility for the government should the country faces another crisis next year.

### 3. MOVING FORWARD

**Support and reform in light of uncertainties.** The drivers for Budget 2023 – Responsive, Responsible and Reformist (3R), can be seen as preparing to provide support to the Rakyat in light of these uncertainties, while reforming Malaysia's economy for a more inclusive and sustainable growth including strengthening the country's ESG agenda.

**External factors to continue hold sway over equity market sentiment.** Going forward, we expect external factors to continue hold sway over equity market sentiment. In this regard, we foresee a situation whereby the local equity market valuation would remain at below normal historical range particularly due to the consequence of US Fed extended aggressive tightening on world's financial liquidity. Additionally, equity valuation could also be impacted by higher risk attached to earnings forecasts corresponding to heightened economic uncertainty worldwide.

**Moving towards the end of this year,** we expect the local equity market valuation to crawl higher from current levels in line the expectation of positive macro (as well as corporate earnings) growth in 2023. However, lingering fear over further delays to the Fed pivot would exert downward pressure on equity valuation.

**We maintain our FBM KLCI end-2022 target at 1,520 points** or PER22 of 14.8x. Similarly, we maintain our preliminary FBM KLCI end-2023 target at 1,700 points or PER23 of 14.8x.

## A. ECONOMIC COMMENTARY AND ANALYSIS

**Malaysia's GDP growth set to range at +4.0~5.0% for 2023.** The Government of Malaysia foresee the economy to expand at the range of +4.0~5.0% for 2023, a moderation from +6.5~7.0% in 2022. Domestic demand including expansionary fiscal policy is projected to continue supporting the economic growth while the Government is seen less optimistic on external trade sector, possibly due to expected-weak global growth in 2023.

**Expecting slower external trade performances amid global uncertainties.** World Trade Organisation (WTO) and International Monetary Fund (IMF) have lowered its 2023 forecasts on global trade and economic growth. Tightening monetary policy in many countries, elevated inflationary pressure and geopolitical tensions are among downside risks affecting global trade to grow at tepid pace next year. Hence, the Government of Malaysia expect lower real exports growth of +1.6% in 2023 as compared to +8.8% in 2022E. In our view, we believe there is possible upward surprise for Malaysia's external trade sector particularly via commodity outbound shipments and faster-than-expected reopening of China's economy.

**Domestic demand to stay firm and steady.** As domestic economic recovery continues, Malaysia's private consumption expenditure is expected to grow steadily by +6.3% in 2023 (2022E: +8.7%). Through Budget 2023, the Government lends extra support for consumer demand via individual income tax cut by 2.0% particularly those with annual income of RM50~100K per annum. In addition, the Government is optimistic that tourism-related activities to improve further next year amid higher foreign tourists' arrival. The Government also provide various incentives to boost domestic tourism in post-pandemic era. Apart from that, the Government expect steady pick-up in real estate, motor vehicles and retail purchases moving forward underpin by improving labour market and positive real wage growth.

**Investment spending to stay upward.** Private investment is projected to pick-up strongly by +3.7% in 2023 (2022E: +3.0%) as Malaysia continues to benefit from expanding global demand, elevated commodity prices and strengthening domestic economy. Capital spending on technology improvement in manufacturing and services sectors is expected to increase. Similarly, we believe investment spending in the primary sectors will see solid uptick given that commodity prices are expected to stay buoyant and attractive.

**With huge development expenditure, construction growth set to expand higher.** Public investment is projected to continue growing above +2.0% among others attributed by public infrastructure projects such as MRT3, Pan-Borneo Highway, ECRL, LRT3 and RTS Link. In addition, upgrade of non-residential buildings and facilities will further boost investment spending as well as construction sector.

**Oil price forecast at elevated levels.** As of 9MCY22, average Brent crude oil price is at USD104.6pbd and CPO price at RM5,556 per tonne. Oil-related revenue is estimated to record higher-than-forecasted for this year as oil price assumption was at USD66pbd during the tabling of Budget 2022. As for next year, the government assume the oil price to average at USD90pbd, slightly lower than our in-house forecast (Brent Oil Price: USD96pbd and CPO: RM3,500 per tonne). In terms of government revenue, the 2023 oil-related income should register lower than 2022's due to the lower oil price forecast. Nevertheless, we view the projected oil price still attractive and buoyant for mining sector. The Government expect mining and agriculture sectors to expand firmly next year by +1.1% and +2.3% respectively. We opine lesser maintenance & repair works will boost mining production while better labour supply would assist higher agriculture output in 2023.

**Inflationary pressure to remain stable at +2.8~3.3%.** Headline inflation rate is estimated to average at +3.1% for this year. Looking into 2023, the Government foresee average inflation rate at range +2.8~3.3%. Despite the lower oil price forecast, inflation rate is expected to remain at around +3.0%. We believe pressure from food inflation to be lesser next year following better global supply and expected Ringgit appreciation. This indicates that there would be a gradual shift towards targeted subsidy mechanism. We foresee the Government may raise the ceiling prices of retail fuel RON95 and Diesel while providing cash assistance to B40 in the near term.

**Continuous economic recovery to push jobless rate lower at 3.5~3.7%.** Following upbeat growth prospects, Malaysia's labour market recovery to stay on course. Jobless rate is projected to trend at lower range of 3.5~3.7% in 2023 (2022E: 3.8~4.0%). Even though still higher than 2019's unemployment rate 3.4%, the government expects the number of low-skilled foreign workers and expatriates to return to pre-pandemic levels in 2023. On top of that, the government provide wage incentives initiative to encourage and attract local talents, for example MySTEP program.

## Table 1: GDP by Expenditure and Sector (YoY%)

| | 2021 | 2022E | 2023F |
|---|---|---|---|
| **Real GDP** | **3.1** | **6.5~7.0** | **4.0~5.0** |
| **By Expenditure** | | | |
| Private Consumption | 1.9 | 8.7 | 6.3 |
| Private Investment | 2.6 | 3.0 | 3.7 |
| Public Consumption | 5.3 | 1.0 | 2.0 |
| Public Investment | (11.3) | 2.2 | 2.1 |
| Real Exports | 15.4 | 8.8 | 1.6 |
| Real Imports | 17.7 | 8.7 | 1.4 |
| **By Sector** | | | |
| Agriculture | (0.2) | 0.1 | 2.3 |
| Mining | 0.3 | 2.1 | 1.1 |
| Manufacturing | 9.5 | 6.3 | 3.9 |
| Construction | (5.2) | 2.3 | 4.7 |
| Services | 1.9 | 8.2 | 5.0 |

Source: MOF; MIDFR

**Tax revenue to increase despite reduction in personal income tax.** While overall fiscal revenue would be lower than this year, total collection from tax revenue in 2023 is expected to increase to RM152.6b coming from higher collection from both direct and indirect taxes. Despite the 2ppt reduction in personal income tax, total collection from direct tax is expected to increase on the back of improving trade and domestic economic activities. While the Government decided not to continue Cukai Makmur (or Prosperity Tax), the estimated increase in tax collection looks rather optimistic amid concerns that Malaysia, as a trading nation, would be impacted by external slowdown. However, we think this is achievable if growth in domestic economy can be sustained, cushioning the potential downside risk from the external uncertainties.

**Expansionary budget with record high allocation for DE.** The largest expansionary budget of RM372.3b for 2023 tabled by the government today also come with increased allocation for development expenditures (DE). A total allocation of RM95b will push DE to a new record high, and the first in 13 years that DE covers a quarter of government spending. The higher DE will include RM16.5b allocation for infrastructure projects in the transport industry. Other measures include repair and maintenance of federal and state roads and government buildings; and more support for developments in Sarawak and Sabah, with planned projects such as upgrade of hospitals, better road network, support for transport services, and expansion of container port in Sepanggar Bay.

**Expected reduction in subsidies.** Federal government forecasts its operating expenditures (OE) to shrink next year mainly due to reduction in subsidy spending. This can be attributed to smaller subsidy allocation for fuel in view of the correction in commodity prices, and Government's assumption of crude oil prices which will average relatively lower at USD90pb. Furthermore, this indicates the Government's intent to shift towards targeted subsidy allocation in the longer run. On the other hand, apart from the increase in debt services charges, another major OE item that is projected to increase next year is emoluments (+4.9%). Higher emoluments, which is already the largest component in OE, will cover a bigger share or 33.3% of total OE in 2023(2022: 30.4%).

## Table 2: Government Finance 2021-2023

| | RM Billion | | | YoY% | | |
|---|---|---|---|---|---|---|
| | 2021 | 2022$^{e}$ | 2023$^{f}$ | 2021 | 2022$^{e}$ | 2023$^{f}$ |
| Revenue | 233.8 | 285.2 | 272.6 | 3.9 | 22.0 | (4.4) |
| Operating Expenditure | 231.5 | 284.7 | 272.3 | 3.1 | 23.0 | (4.3) |
| **Current Balance** | **2.2** | **0.5** | **0.2** | - | - | - |
| Development Expenditure | 64.2 | 71.8 | 95.0 | 25.1 | 11.7 | 32.3 |

| | RM Billion | | | YoY% | | |
|---|---|---|---|---|---|---|
| | 2021 | 2022e | 2023f | 2021 | 2022e | 2023f |
| Covid-19 Fund | 37.7 | 28.8 | 5.0 | (0.8) | (23.6) | (82.6) |
| **Overall Balance** | **(98.7)** | **(99.5)** | **(99.1)** | - | - | - |
| Overall Balance as % of GDP | (6.4) | (5.8) | (5.5) | - | - | - |

Source: MOF; MIDFR

## Table 3: Federal Government Revenue 2021-2023

| | RM Billion | | | YoY% | | |
|---|---|---|---|---|---|---|
| | 2021 | 2022e | 2023f | 2021 | 2022e | 2023f |
| **Tax Revenue** | **173.7** | **198.2** | **205.6** | **12.5** | **14.1** | **3.7** |
| Direct Tax | 130.1 | 147.2 | 152.4 | 15.6 | 13.1 | 3.5 |
| Corp. Income Tax | 79.8 | 84.7 | 88.9 | 59.5 | 6.2 | 4.8 |
| Personal Income Tax | 27.1 | 30.6 | 33.6 | (30.6) | 13.3 | 9.8 |
| Petroleum Income Tax | 11.6 | 19.3 | 16.2 | (9.4) | 66.8 | (16.1) |
| Indirect Tax | 43.6 | 51.0 | 53.2 | 4.1 | 17.1 | 4.3 |
| **Non-tax Revenue** | **60.0** | **87.0** | **67.0** | **(15.0)** | **44.9** | **(23.0)** |
| **Total Revenue** | **233.8** | **285.2** | **272.6** | **3.9** | **22.0** | **(4.4)** |
| Total revenue as % of GDP | 15.1 | 16.7 | 15.0 | - | - | - |

Note: f Revenue in 2023 excludes Budget 2023 measures
Source: MOF; MIDFR

## Table 4: Federal Government Expenditures 2021-2023

| | RM Billion | | | YoY% | | |
|---|---|---|---|---|---|---|
| | 2021 | 2022e | 2023f | 2021 | 2022e | 2023f |
| **Operating Expenditures (OE)** | **231.5** | **284.7** | **272.3** | **3.1** | **23.0** | **(4.3)** |
| Emoluments | 85.9 | 86.5 | 90.8 | 3.4 | 0.8 | 4.9 |
| Retirement charges | 29.1 | 28.7 | 29.1 | 5.7 | (1.4) | 1.4 |
| Debt service charges | 38.1 | 43.1 | 46.1 | 10.4 | 13.2 | 7.0 |
| Supplies & services | 24.9 | 33.3 | 32.0 | (15.0) | 33.6 | (3.8) |
| Subsidies & social assistance | 23.0 | 58.9 | 42.0 | 16.6 | 155.6 | (28.7) |
| **Development Expenditures (DE)** | **64.3** | **71.8** | **95.0** | **25.1** | **11.7** | **32.3** |
| Economic | 31.8 | 37.4 | 54.1 | 9.0 | 19.6 | 44.4 |
| Transport | 13.0 | 14.1 | 16.5 | 1.6 | 8.6 | 16.7 |
| Social | 22.6 | 22.2 | 25.2 | 63.5 | (1.9) | 13.5 |
| Security | 7.5 | 8.8 | 10.8 | 29.6 | 16.7 | 23.8 |
| **Total Expenditures (OE+DE)** | **277.8** | **356.5** | **367.3** | **0.7** | **28.3** | **3.0** |
| Total expenditures as % of GDP | 19.2 | 20.8 | 20.2 | - | - | - |

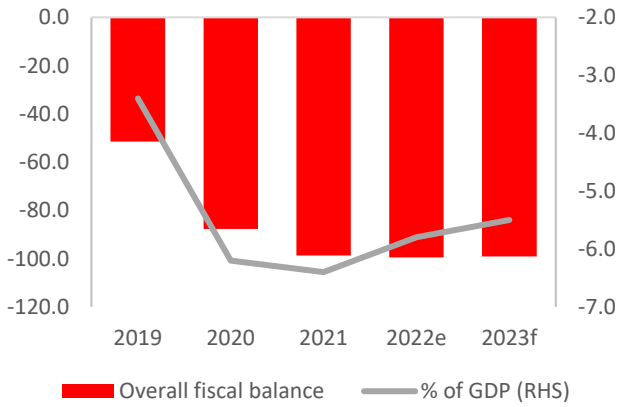
Source: MOF; MIDFR

**Fiscal deficits to drop to -4.4% of GDP in medium term.** Government aims to improve fiscal space and bring down the size of fiscal deficits from -6.4% of GDP in 2021 to -4.4% of GDP in the next 3 years i.e. 2023-2025. It remains committed to bring down the deficit towards the targeted -3.5% of GDP as outlined in the 12MP. For 2023, fiscal deficit is expected to drop to -5.5% of GDP, where this will be achieved via sustained economic growth as well as keeping fiscal

deficit relatively unchanged at RM99.1b (2022e: RM99.4b). Based on the Government finance estimate for next year, although there will be reduced allocation for OE (-4.3%) and smaller Covid-19 Fund (-82.6%), the size of overall deficit would be little changed because 2023 fiscal revenue is estimated to be -4.4% lower than this year. We opine that the reduced deficit size to -5.5% of 2023 GDP is feasible on the back of sustained economic growth. Furthermore, the improved fiscal space will provide flexibility for the Government to offer fiscal stimulus should the country faces another crisis amid fears of potential global slowdown next year.

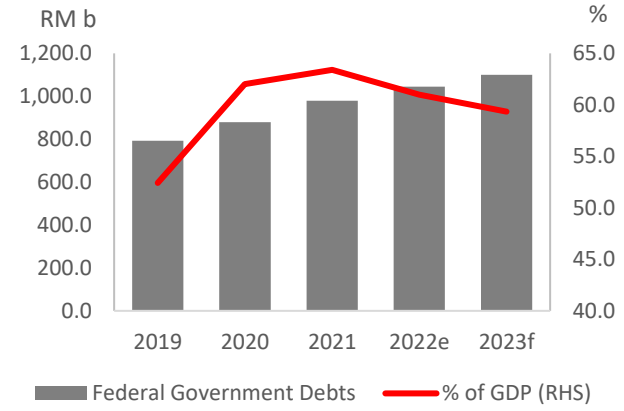
**Continued reliance on debts to finance deficits, with higher debt service charges.** Given the continued deficit, we expect the net increase in government's borrowing next year will be around RM99b. Although the risk to government finance from external vulnerabilities is lower given the smaller portion of external debts (less than 5% of total government debts), a larger amount of OE will be allocated for debt servicing. The size of debt services charges, which will reach RM46.1b, is going to reach 16.9% of total OE next year. This takes away the ability of the Government to spend and therefore support the economy because larger allocation is needed to services growing debts. There is possibility that the service charges will continue to grow as the Government is also affected by the broad rise in borrowing costs. Nevertheless, we expect the ratio of federal government debts to GDP will drop to below 60% in 2023 on the back of sustained GDP growth.

**Chart 1: Fiscal balance (in RM b)**




Source: CEIC, MIDFR

**Chart 2: Federal Government Debts (in RM b)**




Source: CEIC, MIDFR

## B. SECTORAL REVIEW

### 1. AUTOMOTIVE SECTOR (Maintain POSITIVE)

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| Extension of import & excise duty exemption for CBU EVs till 31st December 2024 | NA | We are broadly positive on the extensive EV incentives in Budget 2023. The 1-year extension of the duty exemption for CBU EVs (from the original expiry of December 2023 previously) is most welcome, though much shorter than MAA's request for up to 10 years extension. |
| Approved Permit Fee exemption for EV imports until 31st December 2023 | NA | A positive surprise was the exemption for AP fees, estimated at RM10K per AP, which should help drive down costs further for EVs. The magnitude (or percentage) of cost savings would be more meaningful moving down the EV price points in the market.<br>As EVs are still in the seeding stage in Malaysia, we expect |

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| 100% income tax exemption (2023 till 2032) and Investment Tax Allowance for EV charging equipment manufacturers | NA | more new launches to take place over the next 12-24 months, enhancing the mix and price range in the market. Nonetheless, we stick to our view that it is critical to introduce EVs at mass market price points (of <RM90K on our estimates) in order to achieve meaningful take-up and drive scale to reach critical local assembly volume requirements. |
| 50% excise duty exemption on CKD vehicle purchases for tourism (rental cars and tour buses) | NA | Potential beneficiaries of the EV incentives are **BAuto (BUY, TP: RM2.36)**, **Sime Darby (Non-Rated)** and **Tan Chong Motor (NEUTRAL, TP: RM1.20)** given a growing range of EV models offered by these players. Proton (subsidiary of **DRB-Hicom – Non-Rated**) also stands to benefit once its Smart EV models are launched next year.<br><br>Meanwhile, the 50% duty exemption for CKD vehicle purchases for rental cars should benefit a broad base of low to mid-range priced models offered by the national and mass market non-nationals. Potential beneficiaries include **UMW (BUY, TP: RM4.88), MBMR (BUY, TP: RM4.28), DRB-Hicom** and **Tan Chong Motor**. |

## 2. BANKING SECTOR (Maintain POSITIVE)

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| Strategic projects via BPMB | 4,500 | Most funds allocated will be via Development Financial Institutions (DFIs). Nevertheless, listed banks may be indirectly impacted via cash handouts and other initiatives to drive spending. |
| Strategic sector financing for SMEs via SJPP | 9,000 | |
| Allocations to tackle financial scams | N/A | This should help with the recent spike in local money scams.<br>1) Setting up a national centre for scam response, which will be working alongside financial institutions.<br>2) Tighten safety procedures for internet banking, to stop the use of OTP for high-risk transactions.<br>3) Platform for public to report suspicious numbers and persons<br>4) Increase the overall level of financial literacy awareness to reduce risk of falling victim. |

## 3. CONSUMER SECTOR (Maintain POSITIVE)

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| The **Bantuan Keluarga Malaysia (BKM)** scheme will be continued and expanded to:<br>• RM2,500 for households with a monthly income of less than RM2,500 and supporting 5 or more children.<br>• RM1,000-RM2,000 for households with a monthly income of less than RM2,500 and no more than four children.<br>• RM500-RM1,250 for households' monthly earning between RM2,500-RM5000, depending on the number of children.<br>• RM350-RM600 for single individuals and elderlies.<br>• RM500 for single parents. This indicates that BKM aid for single parents totaled RM3,000 (vs.RM2,500 in 2022) | 7,800 | The **RM7.8b** allocated for BKM in **Budget 2023** is smaller than the RM8.2b allocated in Budget 2022. However, the disposable income of the B40 category, which has a median income below RM4,850/month, will continue to increase. This is supported by the: (1) government's effort to reduce the burden of households with many children, (2) electricity bill subsidies to household and (3) various financial and cash assistance for civil servants. Accordingly, a rise in disposable income for households will fuel an increase in the consumption of products and services, which in turn boosts product demand and corporate sales.<br><br>We opine that the spending on consumer staples remains inelastic and hence, companies that offer a wide range of items, such as **F&N (BUY, TP: RM29.70)** and **Nestle Malaysia (NEUTRAL, TP:RM141.50)**, will benefit from the cash assistance. Nevertheless, the allocation of BKM will only benefit selected consumer discretionary products, particularly retailers such as **Aeon Co (BUY, TP: RM1.87)** that offers private brand products, which are typically more affordable than branded goods.<br><br>We continue to be cautious about **Panasonic Manufacturing Malaysia (SELL, TP: RM21.20**) and **Rhong Khen International (NEUTRAL, TP: RM1.23).** Given the slowdown in the global economy, we think that consumers may still be hesitant to make "big purchases" such as furniture and consumer electronics. |
| Electricity bill subsidies up to RM40 will be expanded to household with a monthly income of RM1,169 and below (previous RM980 and below) | N/A | |
| **Civil servants:**<br>• Special salary increases of RM100 for civil servants Grade 11 to 56.<br>• Special financial assistance of maximum RM700 to civil servants grade 56 and below.<br>• RM600 of Aidilfitri cash assistance for civil servants, to be paid on March 2023. | 1,500<br><br>1,300 | |
| Income tax rates reduced by 2% for taxable income between RM50k and RM100k, specifically:-<br>• Taxable income between RM50,000-RM70,000 is | N/A | The M40 category's discretionary income will increase thanks to lower tax rates. This was further supported by the (1) e-Pemula M40 initiative, and (2) e-Pemula initiative.<br><br>Households will now have more money to spend, which inevitably results in an increase in consumption. This will |

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| subject to an income tax rate of 11% (previously 13%)<br>• Taxable income between RM70,000-RM100,000 is subject to an income tax rate of 19% (previously 21%)<br>• Taxable income range of RM250,000-RM400,000 will combined with RM400,000-RM600,000, and is subject to an income tax rate of 25%. | | increase product demand, and boost company sales. The lower tax rates for consumers will therefore favour retailers that predominantly cater to middle-class groups, such as **Aeon Co (BUY, TP:RM1.87)** and **Padini Holdings (NEUTRAL, TP:3.00).**<br><br>**QL Resources (BUY, TP:RM5.62)** will also benefit, supported by increased customer spending at the Family Mart, which boosts the revenue of its Convenience store chain (CVS) divisions. |
| RM100 of e-wallet credit for M40 group, with annual income of less than RM100k, under the e-Pemula M40 initiative. | 800 | |
| RM200 of e-wallet credit for youth 18-20years old or full-time students 21-years and above under the e-Pemula initiative. | 400 | |
| Multi-tiered levy for foreign workers to promote automation and reduce dependency on foreign labours | NA | Companies with a high number of foreign workers will be subject to a higher levy rate, especially plantation and construction businesses. This is to encourage the use of automation and reduce dependency on foreign labor. Given that plantations, construction, and manufacturing are often the sectors with a high labor intensity. There is currently a labour shortage in both the discretionary and consumer goods industries, especially in the production facilities. Hence, the increased levy charge will incur higher costs for businesses and eventually depress the margin.<br><br>On a positive note, majority of consumer staples under our coverage have been investing their capital expenditure (CAPEX) in automating their production line. This includes **F&N (BUY, TP: RM29.70), Nestle Malaysia (NEUTRAL, TP: RM141.50),** and **Spritzer(BUY, TP: RM2.54).** Moving forward, we foresee more capex allocation be allocated to automation to reduce the levy costs. |

## 4. CONSTRUCTION SECTOR (Maintain POSITIVE)

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| **Gross development expenditure (DE) allocated for 2023** | 95,000 | The planned gross DE for 2023 is the highest in the history of Malaysia's annual budget, representing a significant increase of +32.3% over RM71.8b last year. We view that this marks the Government's agenda to support the economy, and this can effectively be done through the strengthening of the construction sector, considering its strong linkages with other economic sectors. We opine that Budget 2023 provides much support for the sector with opportunities in store for both large and smaller contractors. We maintain our **POSITIVE** view on the construction sector. |
| **Transport and road infrastructure projects:**<br>1) Pan Borneo Highway, Gemas-Johor Electrified Double Track, ECRL, RTS Link and the Central Spine Road | 16,500 | As we expected, there was no new mega projects announced by the Government except for the MRT3, of which the contracts are expected to be awarded before the end of 2022. The allocation of RM3.3b for the mega rail project may seem small, but recall that there is an upfront financing requirement by the main contractors for at least two years or 10% of the total cost for MRT3. The front runners in our view, are **Gamuda (BUY, TP: RM4.71), IJM Crop (BUY, TP: RM2.18)** and **Sunway Construction (BUY, TP: RM1.87)**. The improvement of connectivity remains vital for the Government, as seen by massive allocations towards building, upgrading and maintenance of highways and roads. We can expect a significant portion of road projects in Sarawak given the high allocation of RM11.4b. In order to fully connect the rural areas in the state, Sarawak needs about 7,530km of new roads while 3,487km of roads are in need of upgrading. Among potential beneficiaries of these projects, including the Pan Borneo Highway, are **KKB Engineering (BUY, TP: RM1.50), Cahya Mata Sarawak (BUY, TP: RM1.37)** and **WCT Holdings (BUY, TP: RM0.57).** |
| 2) Upgrading and maintenance of Federal roads and Government buildings | 11,400 | |
| 3) Allocation to Malaysian Road Records Information System (Marris) to repair roads, bridges and drains damaged by floods (20% of funding allowed to be used outside of scope) | 5,200 | |
| 4) MRT3 | 3,300 | |
| 5) Upgrading the Senai Utara-Pandan portion of the North-South Expressway in Johor Bahry from four lanes to six lanes | 510 | |
| **Education projects**<br>1) Maintenance and upgrading works for national, vernacular and religious schools | 1,100 | With the progression towards normalcy post-Covid, students have returned to schools and universities and there are some that are in need of maintenance and upgrading works, with plans also in place for the construction of five new schools. We expect **Gabungan AQRS (BUY, TP: RM0.52)** and **WCT Holdings (BUY, TP: RM0.57)** to be beneficiaries in this space as the former has track record of building schools while the latter constructed the UiTM Kuala Selangor campus. |
| 2) Upgrading of dilapidated schools to replace wooden buildings involving 123 projects in Sabah and 182 projects in Sarawak | 1,200 | |
| 3) Construction of five new schools - SMK Nabalu (Sabah), SMK Dudong (Sarawak), SK Paya Dusun (Terengganu), SK Cyberjaya 2 and | 430 | |

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| SMK Denai Alam (Selangor) | | |
| 4) Upgrading and maintenance of facilities at public universities | 300 | |
| 6) Maintenance of facilities for sekolah agama rakyat tahfiz schools and pondok religious schools | 150 | |
| 5) Upgrading facilities and teaching mateaids at special needs schools | 20 | |
| **Flood mitigation projects** | | |
| 1) Construction of dual-purpose resorvoir along the Klang River and Rasau River (Selangor) | 2,000 | |
| 2) Sabo dam project at 46 locations nationwide | 562 | |
| 3) Addtional phase of the integrated river basin management in Sungai Golok (Kelantan) | 500 | |
| **Healthcare projects** | | |
| 1) Construction of hospitals, clinics and new facilities, including procurement of new equipments - Hospital Maran (Pahang), women and children's block in Hospital Melaka and five new Klinik Kesihatan in Linggi (Negri Sembilan), Penampang (Sabah) and Sepupok (Sarawak) | 1,800 | The Covid-19 pandemic has raised the importance of having a robust healthcare system and sufficient networks of hospitals and clinics. Companies under our coverage that have track records of building hospitals are **IJM Corp (BUY, TP: RM2.18**) and **WCT Holdings (BUY, TP: RM0.57).** |
| 2) Upgrading of hospitals and dilapidated clinics and replacement of aging equipments (priority given to healthcare facilities in the rural areas of Sabah and Sarawak) | 420 | |
| **Housing projects** | | |
| 1) New Program Perumahan Rakyat (PPR) in Marang (Terengganu) and Arau (Perlis), benefitting 12,400 people | 367 | |
| 2) Construction of 4,250 units of Rumah Mesra Rakyat | 358 | |

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| **Rural infrastructure projects**<br>1) 500km of rural and inter-village roads from Kampung Orang Asli Bawong Kuala Kangsar to Rancangan Penempatan Semula Kemar (Perak) | 1,500 | |
| 2) Building 85 new bridges nationwide to replace aging bridges | 54 | |
| **Government facilities and other projects**<br>1) Small and medium projects, including RM500m specially for G1 to G4 contractors | 3,700 | Positive for short to medium term job flows which would benefit smaller sized contractors, which have been impacted by the dearth of jobs due to Covid-19. **Gabungan AQRS (BUY, TP: RM0.52)** is no stranger to taking on government building projects while over in Sarawak, we expect **KKB Engineering (BUY, TP: RM1.50)** and **Cahya Mata Sarawak (BUY, TP: RM1.37)** to be among the beneficiaries, especially for the water supply infrastructure and road projects. |
| 2) Expansion of Sapangar Bay Container Port | 250 | |
| 3) Upgrading border towns in Bukit Kayu Hitam (Kedah), Tebedu and Bakelalan (Sarawak), including building of new roads from Kalabakan (Sabah) to Simanggaris (Indonesia) and upgrading of Jalan Serian-Tebedu (Sarawak) to the Indonesia border | 150 | |
| 4) Maintenance, upgrading and building sports faciltiies nationwide | 145 | |
| 5) Maintenance works for Rumah Keluarga Angkatan Tentera (RKAT), new RKAT of various classes at the Butterworth Air Base (Penang) and 12 ongoing RKAT construction | 118 | |
| 6) Third phase of the Samalaju Water Supply Infrastructure project (Sarawak) | 100 | |
| 7) Continuation of the Tanjung Manis Halal Hub development (Sarawak) | 59 | |
| 8) Maintenance and upgrading works of Royal Malaysian Police quarters | 42 | |
| 9) Resumption of construciton of three Prisons Department quarters - Labuan Correctional Centre and | 28 | |

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| the Correctional Academy of Malaysia | | |
| 10) Development of digital traffic hub and alternative data centre on a 200 acre land in the Delapan special border economic zone (SBEZ) | 25 | |
| 11) Building of drag race circuits | 20 | |
| 12) Setting up of two new Urban Transformation Centres (UTC) and maintenance of existing UTCs | 20 | |

## 5. GLOVE SECTOR (Maintain NEUTRAL)

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| Multi-tiered levy on foreign staffs to encourage automation and lessen reliance on them | NA | All companies under Glove sector are expected to be impacted by the multi-tiered levy structure. This includes **Hartalega (NEUTRAL, TP:RM2.58)**, **Kossan Rubber (NEUTRAL, TP:RM1.28)**, **Supermax (SELL, TP:RM0.65)**, and **Top Glove (SELL, TP:RM0.54).** Local glove manufacturers are currently operating at a narrow margin due to various challenges, such as bottoming average selling prices (ASPs), lower demand, intense competition, and rising input costs. We believe that the additional levy would unnecessarily raise the cost of manufacturing gloves and eventually reduce the profit margin. Given that the glove manufacturer now takes prices rather than sets them. |

## 6. HEALTHCARE SECTOR (Maintain POSITIVE)

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| **Ministry of Health:**<br>Allocation increase by +11.4%yoy; one of the biggest increases among ministries | 36,100 | The Healthcare sector has been a major priority for the nation. The Covid-19 pandemic had been a catalyst to the nation's preparedness against communicable diseases (CDs) and non-communicable diseases (NCDs), as well as the welfare of the elderly and the demand for medical devices and pharmaceuticals.<br>We believe the increase in allocation is fair considering that the risk of inflation continues to challenge the supply and prices for medicines, pharmaceutical ingredients, medical devices and healthcare workers. In addition to the rise of NCDs caused by poor lifestyle choices and increased sugar and oil consumption, rare diseases and the aging population are also on the rise, prompting for |

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| | | more access to hospital and clinical treatments, subsequently to more developments and improvements for the sector. |
| **Pharmaceuticals:**<br>• Procurement of medicines, reagents, vaccines and consumables (+12%yoy)<br>• Generation of income for the trading of Covid-19 vaccines<br>• Extension of tax incentive for pharmaceutical companies | 4,900<br>6,000<br>N/A | Despite Covid-19 entering its endemic phase nationwide, and that the severity of its infection had been under control, the virus still lives within our community. In turn, the infections are now of a similar nature as a common cold, which would increase demand for over-the-counter (OTC) medicines.<br><br>Given all the measures taken for the pharmaceutical subsector, we strongly believe **Pharmaniaga (BUY, TP: RM0.87)** would gain the benefits from these allocations. Considering that the group has the capacity for fill-finish Covid-19 vaccines, regional and international trade for said vaccines has the potential to continue for countries in need, gradually improving the overall economic outlook for the subsector. |
| **Healthcare Facilities:**<br>• Refurbishment of dilapidated, old and underfunded hospitals and clinics, as well as replacement of obsolete medical equipment<br>• Building of new hospitals, clinics, and facilities including the procurement of equipment, including:<br>- Maran Hospital, Pahang (costing RM350 million)<br>- The women and children building at Hospital Melaka<br>- 5 New Health Clinics in Linggi Negeri Sembilan, Penampang Sabah dan Sepupok Sarawak<br>- Mobile CT scans | 420<br>1,800 | Priority to healthcare access remains to be given to facilities in rural Sabah and Sarawak, under the National Development Incentives allocations of RM6.3b and RM5.4b respectively. We believe the allocation for building of new healthcare facilities as well as procurement for medical equipment is in tandem with the increase in CDs and NCDs cases expected for next year, as well as an increasing aging population. |
| **Mental Health:**<br>• Establishment of the National Mental Health Center of Excellence, which will integrate all parties under MyMYNDA<br>• Strengthen existing Local Social Support Centres to support issues pertaining mental health and domestic violence by providing early intervention, psychosocial advocacy and counselling | 34<br>8 | Mental health and domestic violence had been on the rise since the pandemic. The fight against mental health issues remains post-pandemic, with the continuous support between NGOs, public and private healthcare providers, on delivering awareness, prevention and treatment for mental health. |

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| **Dentistry:**<br>• Procurement of 10 units of 3D printing machines to produce dentures<br>• Expansion of income tax relief on medical treatment to include dental examination and treatment expenses up to RM1,000 under the National Dental Health Policy | 10<br>N/A | Dentistry is often overlooked in favour of other internal diseases. Nevertheless, to ensure an overall coverage in the improvement of the sector, dentistry is crucial, not only for the wellbeing of the public, but also for medical workers expertised in the subsector. Additionally, implementation of 3D technology can reduce cost and the patients' visitation time, apart from being a pioneer to other medical-related substitutes such as limb prosthetics and plastic surgery that could be further enhanced in R&D initiatives. |
| **Rare diseases:**<br>• Increased allocation to cover cost of treatment<br>• Establishment of Trust Fund for the Treatment of Rare Diseases for public donations | 25<br>N/A | To provide for the healthcare system is to also provide for treatments of rare diseases. However, the rarity of the diseases prompted an increase in treatment cost, particularly in the machineries and medicines needed for the treatment. Hence, we believe the allocation is needed, as an addition to the study and management of rare diseases. As of date, the government had identified Kuala Lumpur Hospital and Tunku Azizah Hospital as referral centres for rare diseases, which could kickstart other public hospitals and private hospitals to establish similar centres in the near future. |
| **Health Screening:**<br>• Increase screening tests through mammogram and cervical cancer screening programmes subsidies; with implementation of a new PCR method for cervical cancer screening<br>• Enhancement of the SOCSO Health Screening Program as a precaution to detect and prevent critical illnesses such as cancer and heart disease | 11<br>80 | Overall, there were 48,639 new cancer cases recorded in Malaysia in 2021, and the cancer incidence in Malaysia is expected to double by 2040. Meanwhile, coronary heart disease deaths in Malaysia reached 36,729 or 21.86% of total deaths. While the numbers is small statistically to the population, most NCDs are expected to rise every year in cases. Hence, early screening is important in assuring the population is safeguarded by the onset of these diseases, consequently provide for the cure, treatment and care of the patients. Additionally, the allocation for healthcare screening is expected to contribute to new developments in screening methods that could detect NCDs more precisely and accurately. As of date, the implementation of cervical cancer screening will be pioneered using the new PCR method initiated by the ROSE Foundation in collaboration with University of Malaya and University Malaysia Sarawak. |
| **Healthcare Schemes:**<br>• Intensification of health screenings, including for diabetes, through the "Peduli Kesihatan" Scheme for B40 Group (PEKA B40)<br>• Continuation of MySalam scheme to BKM recipients, which is open to insurance and takaful companies | 80<br>N/A | Since 2019, MySalam has approved claims related to critical illness and hospitality totalling RM734m for 1.5m B40 individuals. This includes 500,000 individuals who received compensation due to Covid-19 with a total value of RM330m. The initiative has proven to be successful among the B40 group, which could increase demand for more healthcare services, as well as improving access to healthcare facilities and expertise. |

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| **Community Welfare:**<br>• Improve mobile health services in low-cost housing areas.<br>• Provision for the welfare of the elderly.<br>• Provision of grants to support the operations of private care institutions for the elderly, children and disabled run by NGOs.<br>• Additional initiatives for the assistance to the disabled.<br>• Promotion of healthy lifestyle to reduce NCDs | 22<br>1,000<br>21<br>21<br>15 | In the time of a rising aging population worldwide, demand for care facilities with expertise relating to old age, such as Alzheimer's, Parkinson's and cancer is expected to increase as well. For this measure, hospitals such as **KPJ Healthcare (BUY, TP:RM1.18)** could fill in the demand for the caring of the elderly, children and the disabled, in collaboration with the government and NGOs. Meanwhile, promotion of a healthy lifestyle continues to be part of the healthcare |
| **Healthcare Tourism:**<br>Extension of existing tax incentives for the export of private healthcare services until 2025 | 20 | With border restrictions lifted as the nation shifted to an endemic phase, medical tourism is expected to return in line with the travel sector recovery. Malaysia Healthcare Travel Council will be given the task to strengthen Malaysia's position as a destination of choice for health tourists, hence we believe hospitals such as **IHH Healthcare (BUY, TP:RM7.96)** which has an established international footprint could reap the benefit and help improve the subsector. |
| **Medical Devices:**<br>• Provision of grants to support product development and nurture local talents in the medical device industry<br>• Kickstarting MRANTI Technology Park as a hub for health technology | 20<br>20 | The shortage of semiconductors allocated for the development and manufacturing of medical devices will be a challenge for next year. Medical equipment are expected to increase in manufacturing and operating cost. Allocating grants to enhance local engineers in the building and maintenance of these devices is crucial to offset the shortages. Meanwhile, MRANTI Technology Park is in the process of transformation towards becoming a world-class innovation hub for clusters and is expected to play the role of aecognition body for goods, services, and technologies from local R&D, which will then be prioritised under the Government's procurement of these medical devices. |

## 7. MEDIA SECTOR (Maintain POSITIVE)

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| Allocation for national e-sports development. | 13 | We anticipate that **Astro Malaysia Holding Berhad (BUY, TP: RM1.03)** and **Media Prima Berhad (BUY, TP: RM0.71)** will gain from this initiative. Both firms operate their own e-sports and gaming entertainment |

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| | | networks/portals, namely eGG Network and MyGameOn. However, we expect that the contribution from this group will be modest in the short term at least. |
| Allocation to support local artists under *Dana Kandungan Digital.* | 102 | We expect that this effort will boost the development of high-quality animated series and films, which will benefit media businesses with in-house film production and distribution arms, particularly Astro (Astro Shaw) and Media Prima (Primework Studios). |
| Allocation to support local film industry under *Dana Penerbitan Filem Kenegaraan (DEKAN).* | 50 | |
| Import duties and sales tax exemption for the purchase of film equipment. | N/A | |

## 8. OIL AND GAS SECTOR (Maintain POSITIVE)

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| **Clean energy:**<br>Establishment of a Venture Capital Fund to finance high-tech companies in renewable energy sectors<br><br>Establishment of GENTARI as a pioneer in clean energy<br><br>Introduction of a carbon tax | 10<br><br>N/A<br><br>10 | Energy security has long been a hot topic for the Oil and Gas sector. Renewables and clean energy were often proposed in conjunction with energy security, as well as the initiatives for a more ESG-friendly operations and developments. Clean energy is still considered a young industry in Malaysia, hence a fair allocation for the subsector is important to establish more understanding in how to leverage on this type of energy in tandem with oil and gas productions in the future. In line with this aspiration, GENTARI, a subsidiary of PETRONAS, was established as a pioneer in clean energy. As a start, GENTARI is committed to install solar panels at Government and commercial facilities by 2024 with a cumulative PV capacity of 3 megawatts and provide 500 units of EV charging stations nationwide. Meanwhile, we expect the study on the feasibility of a carbon pricing mechanism is crucial in assessing companies in their ESG ventures. |
| **Shipyard:**<br>Expansion of the Maritime and Logistics Scheme to support oil and gas, shipbuilding, and ship repair | 1,000 | Tankers and offshore vessels are vital to ensure the major oil and gas players continue to strive in line with the elevated crude oil prices. However, risks of geopolitical turmoils, hiking fuel cost and labour shortage continues to affect the shipbuilding and ship maintenance industry. Hence, we believe this measure will continue to safeguard the industry from unforeseen obstacles. **MISC (BUY, TP:RM7.48)** and **MHB (BUY, TP:RM0.54)** are expected to benefit from the expansion of the scheme. |
| **OGSE:**<br>Provision of financing guarantees | 9,000 | Since 2009, the Government, through Syarikat Jaminan |

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| for SMEs venturing in oil and gas | | Pembiayaan Perniagaan (SJPP), has assisted SMEs in obtaining bank loans by guaranteeing almost 50,000 companies with a total guarantee value of RM48b. Oil and gas service providers are expected to benefit from this measure, as exploration and production activities are expected to fully return in operations by 2023. |

## 9. PLANTATION SECTOR (Maintain Positive)

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| Orang Asli replanting project | 305 | This project will include rubber and PO replanting works that will benefit more than 2,100 native people, as well key catalyst for higher external FFB processed in Kemaman Terengganu (**TDM**), Bera Pahang (**FGV**), and Gua Musang Kelantan. |
| Agropenjara initiative | 10 | A baby steps to encourage low SSL food crops such as Chili, ginger and cabbage by utilizing 70 ha of prison land. |
| Subsidies and incentives for the agriculture and fisheries sectors:<br>• Subsidies for fertilisers, price and production<br>• Subsidies for padi huma fertilizer<br>• Fishing catch incentive | 1,800 | These measures will provide a continuous support in the form of financial assistance as well as technology uptake for the agriculture and fisheries sectors. We believe this measure will help farmers and planters to have better control over its businesses opex and higher margins. |
| Assistance for paddy farmers | 228 | |
| Monsoon assistance (BMT) for 320,000 smallholders. | 256 | We opine that these measures will not have any material impact on companies under our coverage as the incentive is to support smallholder's wellbeing and income. |
| Agricultural Protection Scheme | - | A brilliant scheme made by government that can reduce volatility and support continuity /productivity of agricultural supply. A positive call by guarding farmers investment in crops. |
| Financial innovation includes equity public funding and equity crowdfunding (ECF) to continue | - | An incremental instrument for PO producers to leverage on (for its biogas plant operator through the circular economy to generate green energy from palm oil waste) for its ESG pillar. |
| Utilization of abandoned lands of FELDA, FELCRA and RISDA | - | We view that these measures will not have any significant impact on FGV as the incentive is to encourage low SSL food crops such as Chili, ginger and cabbage by utilizing abandoned lands of FELDA, FELCRA and RISDA. |

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| Mechanization in agricultural sector:<br>• BNM's Agrofood Financing Scheme<br>• Agrovest investment program by Agrobank<br>• Dana Impak by Khazanah<br>• Digital AgTech program by MDEC<br>• Poverty Eradication Initiative | 3.5%<br>250<br>200<br>20<br>- | These measures will provide a continuous support in the form of financial assistance as well as upscale the technology uptake for the agriculture sector. We believe that this approach will assist planters have more control over their company' financial sheets, as well as facilitate the initial finance procedure for contemporary technology agricultural start-up organizations. |
| Sustainable agriculture initiative by MAFI | 56 | We believe this would support sustainable agriculture various initiatives such as the development of agro-food sustainability and availability particularly during lockdown. |
| Extended tax incentives for companies with BioNexus Status | 100% | We are on the view this initiative positively promotes modern agricultural projects that push environmentally approach. |

## 10. POWER SECTOR (Maintain NEUTRAL)

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| Potential introduction of carbon pricing mechanism – a sum of RM10m allocated in matching grants for SMEs to prepare for carbon evaluation and other related products | NA | We are positive on the broad incentives for the renewable energy (RE) sector, though much of the emphasis this time around is on the retail and SME markets compared to large scale solar. The expansion of the GTFS scheme should help further facilitate and lower the cost of financing for the green technology sector (which includes RE and EVs among others).<br><br>In the same light, the new funding facilities by BNM should also provide further liquidity for the green technology sector, especially in driving take-up by the SMEs. We expect among others, the rooftop solar sub-sector to be a potential beneficiary of increased RE take up by SMEs, which should benefit players in this segment such as G-Sparx (under **Tenaga – NEUTRAL, TP: RM8.45**), **Solarvest (Non-Rated)** and **Samaiden (Non-Rated)**.<br><br>A key risk for the power sector is the potential introduction of carbon pricing mechanism. Being one of the highest emitting sectors in the country, we see this as a potential risk for the sector, particularly generation players that have exposure to coal generation such as **Malakoff (Non-Rated)** and **Tenaga**. |
| Extension of Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) application deadline till 31st December 2025 and to further extend the incentive period from 3 to 5 years | NA | |
| Loan guarantee value under the Green Technology Financing Scheme to be increased to RM3b till 2025 and scope widened to include EV sector with up to 60% loan guarantee | 3,000 | |
| BNM facility of RM1b under the High Technology and Green Funding Facility and RM1b under the Low Carbon Transition Funding Facility to help SMEs adopt low carbon practices | 2,000 | |

## 11. PROPERTY SECTOR (Maintain NEUTRAL)

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| 100% stamp duty exemption for first-time homebuyers for purchase of properties priced RM500k and below. Buyers of first houses priced between RM500k-RM1m will enjoy 75% exemption in stamp duty. | N/A | The stamp duty exemptions were announced under Keluarga Malaysia Home Ownershp Initiative (i-MILIKI). However, the stamp duty exemption for houses priced between RM500k to RM1m is raised to 75% from 50%. We view the measures as slight positive to the property sector as it will attract more buying interest from property buyers especially first-time home buyers. This bodes well for recovery in property sales as economic activities normalized. Potential winners are **Mah Sing (BUY, TP: RM0.74) and Glomac Berhad (BUY, TP: RM0.48)** as the two property companies have high property exposure in property product within affordable price range. |

## 12. REIT SECTOR (Maintain POSITIVE)

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| Cash handout via Bantuan Keluarga Malaysia and reduction in personal income tax | N/A | The cash handout is expected to benefit retail REIT as tenant sales and turnover rents are expected to support by higher retail spending and higher shopper footfall. The reduction in personal income tax is also expected to increase disposable income of M40 group which will translate into higher retail spending. The higher retail spending will continue underpin recovery of retail sector as people shop at physical store. In this context, we expect pure retail REIT such as **IGB REIT (BUY, TP: RM1.78)** to benefit for cash handout. |
| Encourage domestic tourism by offering discounts and vouchers for accommodation, tourism packages, handicrafts and artwork. | 25 | The measures to promote tourism sector is positive to REITs with exposure to hotel industry such as **Sunway REIT (BUY, TP: RM1.68)** as higher domestic tourism and higher tourist arrival would support recovery of hotel industry. Besides, the higher tourist arrivals should benefit **Pavilion REIT (BUY, TP: RM1.56) and KLCCP Stapled Group (NEUTRAL, TP: RM7.15)** as Pavilion KL and Suria KLCC are tourist destinations. |
| Tourism promotion and marketing and attract high-value tourists and niche markets | 200 | |

## 13. TECHNOLOGY SECTOR (Maintain POSITIVE)

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| Allocation to the Collaborative Research in Engineering, Science and Technology Centre (CREST) to develop applications based on Radio Frequency and Bluetooth technology for the automotive industry. | 10 | This will help to improve the nation's semiconductor ecosystem and also produce homegrown talent in this industry which is very crucial for the future of E&E in Malaysia. We believe that this could benefit semiconductor companies like **Inari (BUY, TP: RM3.53), Unisem (BUY, TP: RM4.07)** and **Gtronics (BUY, TP: RM1.94).** |
| Allocation to attract high-value-added investments and generate professional employment opportunities. | 1,000 | |
| Extension of tax incentives and tax rates 15% flat tax rate for C-Suite until 2024 | N/A | We opine that this will enhance Malaysia's competitiveness to attract MNCs that want to relocate their operation due to the geopolitical uncertainty. |
| Intensify digitization and automation efforts through the promotion of e-commerce activities under MATRADE, MARA, and MDEC | 59 | This digital shift will allow realization MYDigital aspiration. |

## 14. TELECOMMUNICATION SECTOR (Maintain NEUTRAL)

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| Phase 2 of the JENDELA project to improve network coverage, including contribution from industry players. | 8,000 | This will aid in facilitating the network transition from 4G to 5G and narrow the Internet quality service gap between urban and rural areas. JENDELA will expedite the internet connection enhancement plan by extensive deployment of mobile, fibre, and fixed wireless access, with equal investment from public and private stakeholders.<br><br>The 5G landscape will offer a smoother and more pleasant user experience. It also serves to improve any industries with automated production which potentially can attract foreign investors.**TM (BUY, TP: RM6.91)** is our top selection since we believe it will gain from leasing its fibre to DNB for the 5G deployment. Lack of regulatory frameworks, monopoly, price, and clarity in DNB policy objectives are all concerns to consider. |
| Digital Nasional Berhad (DNB) to spend on infrastructure development to widen 5G internet coverage nationwide. | 1,300 | |
| Allocated for JENDELA to implement digital connectivity in 47 industrial areas and 3,700 schools. | 700 | |

## 15. TRANSPORTATION SECTOR (Maintain NEUTRAL)

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| **Aviation** | | |
| Subsidisation of air transport services in Sabah and Sarawak | 209.0 | This would relieve the financial burden of the residents and provide greater access to the air transportation services for them to get to the nearby town. |
| Improvement of facilities at 7 airports in Sabah and Sarawak | n.a. | This measure is expected to benefit about 2,300 wheelchair-bound passengers who are using MASWings. |
| Incentives to strengthen the recovery of the tourism sector | 200.0 | The Government is projecting the arrival of over 15m foreign travelers in CY23, which is expected to contribute RM47.6b in revenue. Among the initiatives, the Government aims to focus on high-value travelers from the niche market segment including ecotourism, golf, scuba, and international conventions. This should help the recovery of the international passenger traffic which merely stood at 21% in 8MCY22 relative to its 2019 level based on **MAHB's (BUY, TP: RM6.77)** data. |
| Matching grants for tourism programs | 90.0 | The funds have been earmarked for programs such as Geran Padanan Galakan Melancong (GAMELAN) which involves promotional campaigns and marketing. The matching grant is also applicable for international sporting events. |
| Encouraging charter flight services from the Middle East and East Asia | n.a. | The Government would be collaborating with MAHB and international airlines to establish new international direct routes including from West Asia and the Middle East to Malaysia via Kota Kinabalu International Airport and Penang International Airport. Similarly, this move would encourage foreign travelers to visit the country. |
| Upgrading works for ecotourism attractions | 10.0 | The Government aims to enter into joint ventures with a network of ecotourism operators to upgrade the ecotourism attractions at Gua Kelam, Perlis and the management of solid waste in Pulau Perhentian as well as to intensify activities at Taman Pertanian Jubli Perak Sultan Ahmad Shah, Pahang. We view this move positively for us to penetrate the ecotourism market as the popularity of this segment is being fueled by greater public awareness on ecological best practices by the travelling consumers. |
| Travel incentives for Malaysians to travel domestically | 25.0 | This allocation which is in the form of discounts, vouchers, and rebates of up to RM100 for accommodations, travel packages, and purchase of local handicrafts and arts was made to encourage the locals to travel domestically. This should directly benefit our main airport operator, MAHB, as it would encourage the recovery of the domestic passenger traffic which is still on the path to recovery (65% in 8MCY22 relative to 2019 levels). The local airlines including |

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| | | Capital A's AirAsia is also set to benefit from the spillover effects of the increase in domestic travel demand. |
| Support and funding for tourism industry operators | 500.0 | The Government has proposed the following initiatives: (i) BNM Tourism Financing (PTF) with RM500.0m allocation (with an increase of financing size from RM0.3m to RM0.5m), (ii) 100% tax exemption on statutory income for tour operators who guide at least 200 foreigners a year or at least 400 local tourists, (iii) excise duty exemption of 50% to be given to tourism operators on the purchase of new CKD tourism vehicles such as hire and drive cars and excursion buses and (iv) Reinvestment Allowance for selected hotel and tourism projects would be introduced under the Income Tax Act 1967. We welcome these proposals which we think would be crucial in helping the tourism industry operators get back on their feet after being one of the sectors that was hit hardest by the pandemic. |
| Transformation of the city of Kuala Lumpur | 10.0 | The fund is allocated to ThinkCity, an agency under Khazanah Nasional Berhad which would be utilised to transform Kuala Lumpur into a hub for creativity and culture. We believe that this cultural-based urban rejuvenation project would open up more revenue streams for the city and communities. |
| Making Malaysia the main destination for medical tourism | 20.0 | The existing tax incentives for the export of private healthcare services would be extended to CY25, while the Malaysia Healthcare Travel Council would be receiving a RM20.0m allocation. These measures should attract health tourists to come to Malaysia due to the competitive medical fees and modern medical facilities. In CY19, about 1.2m tourists have travelled to Malaysia for medical purposes. |
| Attracting new aerospace companies and encouraging the expansion of the existing ones | 50.0 | The existing income tax incentive and investment tax allowance would be extended until end-CY25. Matching grants worth RM50.0m would also be provided to support the aerospace components developments. Additionally, the area surrounding KLIA Sepang would be developed as an aerospace industry cluster especially for maintenance, repair, and overhaul (MRO). This would propel Malaysia to be the key strategic hub for the region's aircraft maintenance. Among the key things to look forward to, Capital A's engineering arm, Asia Digital Engineering (ADE), would be building integrated MRO facilities spanning over 380,000 sq ft under MAHB's KLIA Aeropolis development, which is expected to complete in the next 2 years. At maturity, the facilities are expected to provide heavy MRO services for up to 14 commercial aircraft at any time, including dedicated component workshops and a digital |

| Measures | Allocation (RM'm) | Remarks |
|---|---|---|
| | | product development centre. |
| **Port & Logistics** | | |
| Maritime and Logistics Scheme | 1,000.0 | Through Bank Pembangunan Malaysia Berhad (BPMB), various financing funds would be offered with an interest subsidy of 1.5% per annum. This includes the Maritime and Logistics Scheme, which has been widened to cover supporting industries for oil and gas, shipbuilding, and ship repair sectors. Guidance on the scope of the financing is still unclear, but we believe the local players would likely benefit from the lower financing costs for their capital expenditure. |
| Enforcement against the smuggling of illicit cigarettes and alcoholic products | | Among the outlined measures which would be implemented by the Multi-Agency Task Force, the government aims to limit the import of cigarettes and alcoholic beverages to valid land ports, including private jetties and the transshipment of liquor would be limited to certain ports. We do not foresee the container port operators such as **Westports (BUY, TP: RM4.00)** to be significantly impacted as these goods are likely not the main contributors to the port throughput. |
| Expansion of the Sapangar Bay Container Port (SBCP) in Sabah | 250.0 | The government has allocated RM250.0m for the expansion of SBCP, which is being operated by **Suria Capital (BUY, TP: RM1.24)**. The expansion project, which is worth almost RM1.0b and expected to complete by February CY25, will convert current quay cranes from 4 single units to 6 twin units with a substantial increase in capacity from 0.5m TEUs to 1.25m TEUs. |

## C. STRATEGY

### Equity Market

**Budget 2023 seems to be preparing for possible headwinds in 2023.** Although the threat of Covid-19 slowly wanes as Malaysia moves to an endemic stage, uncertainties in the global economy remains due to geopolitical tensions, inflationary pressures and tightening of monetary policies of central banks across the world. Therefore, the drivers for Budget 2023 – Responsive, Responsible and Reformist (3R), can be seen as preparing to provide support to the Rakyat in light of these uncertainties, while reforming Malaysia's economy for a more inclusive and sustainable growth including strengthening the country's ESG agenda. We opine that the 3R driving factor to Budget 2023 as apt given that Malaysia, being an open economy, will be impacted by global downside risk. It provides support to the Rakyat to safeguard the continued well-being of the vulnerable segments and sustainability of businesses to face the potential headwinds.

**Market beset by external factors.** Nevertheless, our market continues to be impacted by external factors, notably an aggressive US Fed, despite expected to register strong economic growth this year. While Malaysia's growth is expected to moderate next year due to external headwinds, it will be supported by robust domestic demand. In addition, we opine that economic growth of Malaysia can be seen as normalising in absence of any base effect. In the one-month and two-week run-up to the tabling of Budget 2023, the FBM KLCI fell -5.4% and -0.94% respectively. Meanwhile, the Bursa Malaysia

Construction index which usually see some sort of run-up in anticipation of a Budget tabling, fell -2.66% and -1.47% over the same period respectively. Judging by this, we postulate that US Fed action and its future decision held the biggest sway to market performance.

**Construction sector is a clear winner with another record-breaking DE.** We were not surprised by yet another expansionary Budget. However, we were pleasantly surprised by the significant increase in gross DE to RM95b from RM75.6b allocated in Budget 2022. Furthermore, there is an emphasis on the development of the nation's infrastructure which we believe to be comprehensive and may provide the necessary impetus for a more inclusive boost to the economy. With this, the most obvious beneficiary of Budget 2023 will be the construction sector where it will provide much support for the sector with opportunities in store for both large and smaller contractors. Hence, we maintain our **POSITIVE** view on the construction sector, and believe that the recent pullback in the sector may present opportunities for investors.

**Tech and O&G may also benefit.** We believe that the efforts to increase foreign direct investments (FDI) via various incentives such relocation incentive to attract affected E&E sector investors and proposing granting Pengerang a special status for chemical and petrochemical industry investment as cognizant of the opportunities that might stem from changing geopolitical realities. If this were to come to fruition, then we believe our tech and oil & gas sector will benefit from the increase investments in these areas. Meanwhile, measures to strengthen the country's ESG agenda such as the commitment to carbon neutrality by 2050 with various measures including examining the feasibility of a carbon pricing mechanism is to ensure that Malaysia's economic growth remains sustainable for future generations. Overall, we view the reformist agenda of Budget 2023 as positive.

**No continuation of Cukai Makmur.** One possible cheer for the market is that there will be no continuation of Cukai Makmur. Hence, we expect that earnings of Malaysian corporates will be robust as long as there is no global recession. While this may have already been accounted for by analysts, it may uplift sentiment by removing some uncertainty to next year's earnings.

**Uncertainties surrounding GE put a dampener to an otherwise forward-looking Budget.** In contrast, one possible dampener to the tabling of Budget 2023 is the murmurs of a possible GE this year. We opine that this may lead to delay on the passing of the Budget at best. However, on the effect of GE to the market, we expect any major price action, if any, would come after GE15. We reckon the probable outcome of GE15 would be either neutral (i.e. another razor-thin majority government), or positive (i.e. a more stable majority government) to the country.

## Market Outlook

**Record allocation for development expenditures.** The total spending (including Covid-19 Fund) in Budget 2023 is proposed at RM372.3b (-3.4%yoy). In this regard, it is notable that the record amount allocated for gross development expenditure of RM95.0b (32.3%yoy) came in at the higher end of expectation. Meanwhile, the total revenue for next year is estimated at RM272.6b (-4.4%yoy). Thus, projecting a fiscal deficit (less RM0.7b loan recovery) of RM99.1b in 2023.

**No material surprises at headline levels.** Nevertheless, the percentage of fiscal deficit to GDP is expected to decline from -5.8% this year to -5.5% in 2023 as the economy is (officially) forecasted to grow by between 4.0% to 5.0% next year. Likewise, the percentage of total government debt to GDP is expected to improve further next year from 61% in mid-2022. Hence, the nation's sovereign risk would not likely be compromised despite the further accumulation of fiscal debt. Overall, no material surprises in Budget 2023 at its headline levels.

**Meanwhile, at the granular levels,** we may see some excitements in the consumer sector due to the proposed 2% cut in personal income tax (on taxable income of up to RM100,000) which is mainly targeted at the M40 group. Moreover, as reflected by the rather outsized development expenditures, the construction sector may also benefit from the implementation of various social infrastructures (such as roads, hospitals/clinics, schools).

**External factors to continue hold sway over equity market sentiment.** However, going forward, we expect external factors namely (1) aggressive monetary tightening by major western central banks, (2) the Russia-Ukraine war, and (3) China economic conditions, to continue hold sway over equity market sentiment. In this regard, we foresee a situation whereby the local equity market valuation would remain at below normal historical range particularly due to the

consequence of US Fed extended aggressive tightening on world's financial liquidity. Additionally, equity valuation could also be impacted by higher risk attached to earnings forecasts corresponding to heightened economic uncertainty worldwide.

**Moving towards the end of this year,** we expect the local equity market valuation to crawl higher from current levels in line the expectation of positive macro (as well as corporate earnings) growth in 2023. However, lingering fear over further delays to the Fed pivot would exert downward pressure on equity valuation.

**We maintain our FBM KLCI end-2022 target at 1,520 points** or PER22 of 14.8x. Similarly, we maintain our preliminary FBM KLCI end-2023 target at 1,700 points or PER23 of 14.8x.

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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. |
| **ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell** | |
| ☆☆☆☆ | Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆☆ | Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆☆ | Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |
| ☆ | Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell |

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology