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ROAD TO GENERAL ELECTION 15

Assessing potential impact of the run-up to GE15

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KEY HIGHLIGHTS

- **After months of murmurs and rumours, the YDP Agong has consented to the request by YAB Prime Minister and UMNO Vice President, Dato' Sri Ismail Sabri Yaakob to dissolve the parliament yesterday**
- **The voter turnout percentage in GE13 and GE14 were estimated to be 84.8% and 82.3% respectively. However, if we were to transpose the current voter age and registration law onto previous GEs, we estimate the voter turnout percentage will be lower at 57.9% and 56.3% respectively. We postulate that the percentage of voter turnout in GE15 may be similar to the levels seen in past GEs**
- **As we have observed, there might not be any correlation between percentage of voter turnout and the eventual winners of a given general election. We believe that besides voting along party lines, bread and butter issues such as welfare, jobs and income will be more important factors**
- **The conventional wisdom was that our market would get excited with the mere mention of a general election. However, ever since the 2000's, we observed that market performance (i.e. the FBM KLCI) prior to an election have been mixed, and price action seems to come in after an election**
- **While GE15 may excite politically, for the equities market, we expect external factors to continue hold sway over equity market sentiment**
- **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 continued positive GDP growth in 2023. Hence, our FBM KLCI end-2022 target at 1,520 points or PER22 of 14.8x**
- **Given that market sentiment may be weak in the run-up to GE15, tactically we believe that investors should look for sectors that are more agnostic towards the result of the election, such as the banking sector**

ANALYSIS OF PREVIOUS GENERAL ELECTIONS

Parliament dissolved. After months of murmurs and rumours, the YDP Agong has consented to the request by YAB Prime Minister and UMNO Vice President, Dato' Sri Ismail Sabri Yaakob to dissolve the parliament. The announcement was made yesterday by YAB PM and with this Malaysia will be heading towards the 15th General Elections (GE).

Howls turned louder recently. It has not been much of surprised that GE election have been called this year. Although we believed that it was more opportune to hold it next year, we did not discount the possibility of it being called this year. This stems from a few events that happened such as the Registrar of Society allowing UMNO to amend its constitution to hold party election 6-month after the GE, and the strong win by Barisan Nasional (BN) in the last two by-elections; in Melaka and Johor, which increased the confidence of those within UMNO that BN could win a comfortable majority in the GE. There is also the notion that there will be a low turnout if GE is called this year which would benefit BN. However, based on recent data, this could be a fallacy.

Turnout in Johor state election was low, but was it? Based on the number of voter turnout in the latest Johor state election this year, the turnout percentage was estimated to be 54.9% which was lower than the state election in 2018 (estimated 75.7%). However, if we analysed the actual turnout, it was higher by +3.6% to 1,426,573. The discrepancy was due to higher voter base as a result of automatic voter registration which came into effect on 15 December 2021.

Possible similar voter turnout percentage for GE15. The voter turnout percentage in GE13 and GE14 were estimated to be 84.8% and 82.3% respectively. This was when voters had to be 21 years and above, and registered to vote. However, if we were to transpose the current voter age and registration law onto previous GEs, we estimate the voter turnout percentage will be lower at 57.9% and 56.3% respectively (note: we based our estimate on population estimate of 20 years and above as there is no breakdown of population aged 18-19 year old). In fact, this have been the percentage voter turnout since the mid-90's. We postulate that the percentage of voter turnout in GE15 may be similar to the levels seen in past GEs.

Table 1: Past GEs voter statistics

Election Year	Voter turnout (no.)	Registered voter (no.)	Estimated aged 20+ population (no.)	Voter turnout as percentage of registered voters (%)	Voter turnout as percentage of aged 20+ population (%)	GE winners
1959	1,564,542	2,133,272	3,441,684	73.3	45.5	Alliance
1964	2,116,015	2,681,895	3,864,692	78.9	54.8	Alliance
1969	2,539,200	3,450,000	4,389,609	73.6	57.8	Alliance
1974	3,138,364	4,178,914	5,159,721	75.1	60.8	BN
1978	3,809,946	5,059,689	5,998,764	75.3	63.5	BN
1982	4,585,548	6,081,628	6,986,582	75.4	65.6	BN
1986	5,052,157	6,791,446	8,102,690	74.4	62.4	BN
1990	5,784,000	8,000,000	9,414,817	72.3	61.4	BN
1995	6,216,145	9,101,237	11,140,170	68.3	55.8	BN
1999	6,627,901	9,564,071	12,665,266	69.3	52.3	BN
2004	7,209,756	9,756,097	14,675,065	73.9	49.1	BN
2008	8,299,733	10,922,139	16,731,801	76.0	49.6	BN
2013	11,256,573	13,268,002	19,435,257	84.8	57.9	BN
2018	12,299,514	14,940,624	21,864,025	82.3	56.3	PH

Source: Election Commission, Department of Statistics, UN, MIDFR

Percentage voter turnout may not be the best indicator of winners, nor popular votes. As we have observed, there might not be any correlation between percentage of voter turnout and the eventual winners of a given general election. Pakatan Harapan (PH) won GE14 on a modified voter turnout of 56.3% while BN won on much higher percentage voter turnout prior to 1995 (GE9). Therefore, expected percentage voter turnout may not be the best indicator. Similarly, popular votes, where PH won GE15 and BN won GE14 with popular votes of 45.7% and 47.4% respectively. We believe that besides voting along party lines, bread and butter issues such as welfare, jobs and income will be more important factors.

What to be of Budget 2023. We opine that one possible dampener to the tabling of Budget 2023 is the dissolution of parliament and call for GE this year. We opine that will lead to delay on the passing of the Budget, which will need to be re-tabled by the new government. However, this was not the first time Malaysia had seen the dissolution of parliament right after the tabling of a Budget. The last time this happened was in 1999, when then YAB PM, Tun Mahathir dissolved the parliament after tabling of the Budget which was subsequently utilized as an election tactic. It seems that the same paybook is being utilized this time around. The only difference is that BN had a stronger majority leading into the 1999 election.

POTENTIAL MARKET IMPACT ON RUN-UP TO GE15

Myth of the election rally. The conventional wisdom was that our market would get excited with the mere mention of a general election. However, ever since the 2000's, we observed that market performance (i.e. the FBM KLCI) prior to an election have been mixed, and price action seems to come in after an election. For example, there was a relief rally such in 2013 after the concerns that there might be a change of government then but BN eventually won, and poor market performance in 2008 and 2018 due to negative surprises; BN lost two-third majority for the first time and change in government respectively. Only in 2008 that there seems some sort of a "election play" but on a negative trend as there were murmurs that BN will lose its two-third majority – which it happened so. We believe investors are now more concerned about the resultant (political, societal, and economic) stability post-election, and less on pre-election goodies and promises.

Table 2: Price movement one month before up to date of election

Year	FBMKLCI	FBM70	FBM Small Caps	Construction	Consumer	Property	Industrial	Tech	Plantation	Finance
1978	17.6%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1982	4.7%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1986	-5.0%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1990	-8.1%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1995	1.8%	n.a.	n.a.	0.9%	0.1%	-2.7%	-1.6%	n.a.	-1.1%	2.4%
1999	0.4%	1.2%	-1.6%	0.2%	0.4%	-2.4%	1.2%	n.a.	2.5%	0.8%
2004	5.0%	3.9%	4.3%	4.3%	4.4%	5.6%	4.6%	0.8%	12.8%	3.7%
2008	-8.4%	-10.6%	-8.4%	-15.0%	-5.3%	-13.2%	-7.4%	-2.8%	-3.8%	-8.7%
2013	0.4%	-0.9%	-4.5%	-3.3%	-0.1%	-2.7%	1.0%	-4.4%	-0.4%	-0.3%
2018	-0.2%	-0.1%	2.3%	1.7%	-1.0%	1.6%	-0.6%	-0.7%	-1.1%	0.5%

Source: Bloomberg, MIDFR

Table 3: Price movement 3-days after the election (price movement from election date to 3 days after)

Index	FBMKLCI	FBM70	FBM Small Caps	Construction	Consumer	Property	Industrial	Tech	Plantation	Finance
1978	0.7%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1982	0.0%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1986	2.2%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1990	4.0%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1995	-3.3%	n.a.	n.a.	-2.9%	-3.3%	-5.9%	-3.8%	n.a.	-4.1%	-3.9%
1999	-1.8%	-2.5%	-3.2%	-3.3%	-1.7%	-3.3%	-3.3%	n.a.	0.1%	-1.1%
2004	0.5%	0.0%	-0.1%	-0.2%	1.0%	-0.5%	-0.1%	-0.3%	1.2%	0.4%
2008	-9.5%	-9.4%	-8.6%	-15.8%	-4.9%	-9.2%	-6.8%	-5.4%	-9.0%	-7.8%
2013	3.4%	4.4%	5.3%	6.9%	2.1%	6.4%	2.3%	3.6%	2.1%	4.0%
2018	0.2%	-1.0%	2.1%	-12.9%	4.9%	-0.3%	2.3%	5.6%	0.7%	0.6%

Source: Bloomberg, MIDFR

Table 4: Price movement one month after (price movement from date of election to one month after)

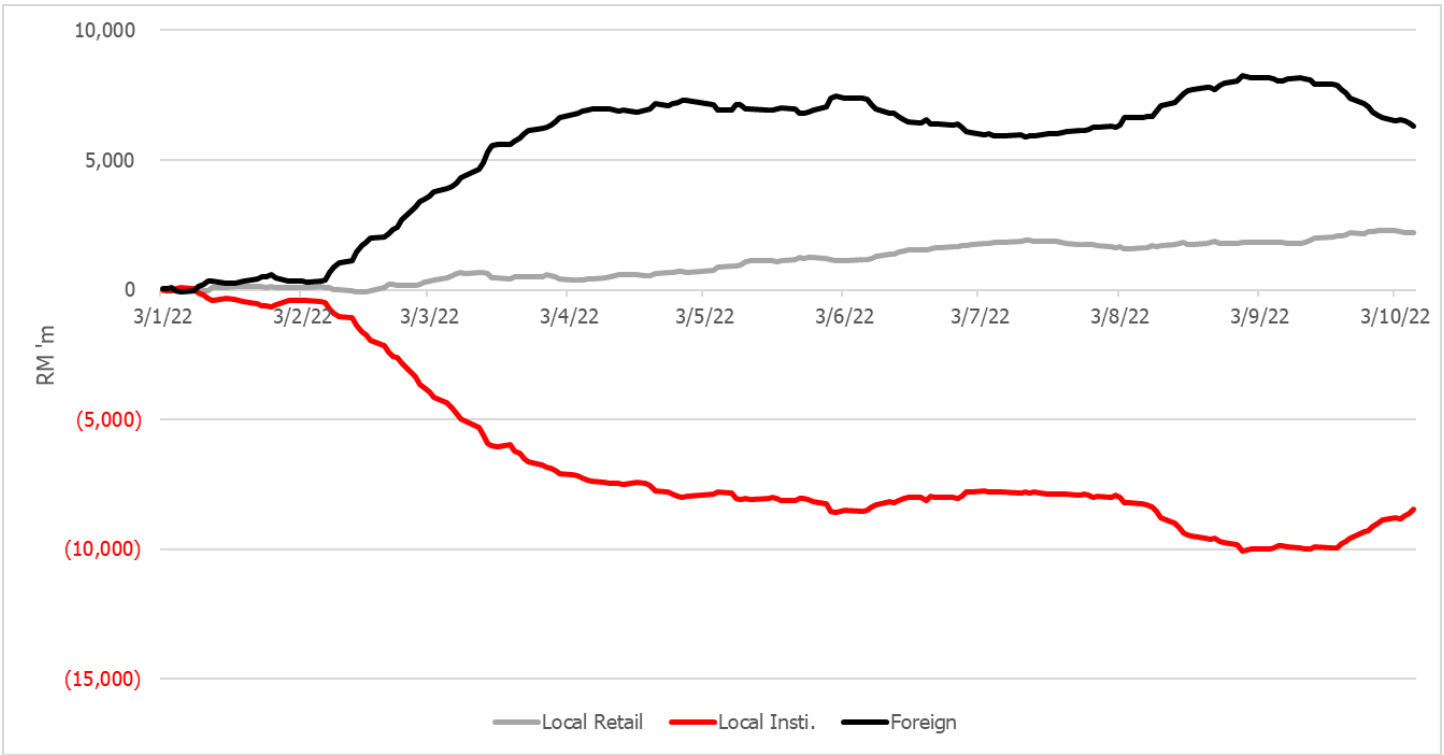
Index	FBMKLCI	FBM70	FBM Small Caps	Construction	Consumer	Property	Industrial	Tech	Plantation	Finance
1978	4.9%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1982	-0.8%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1986	11.8%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1990	0.0%	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1995	5.3%	n.a.	n.a.	9.3%	2.9%	0.3%	1.0%	n.a.	0.3%	10.4%
1999	7.9%	7.1%	4.9%	1.9%	8.0%	3.3%	7.9%	n.a.	5.5%	6.2%
2004	-5.4%	-5.9%	-5.5%	-6.8%	-2.7%	-6.5%	-4.1%	-8.1%	-4.5%	-7.4%
2008	-5.8%	-7.2%	-5.2%	-9.0%	0.2%	-10.1%	-3.9%	-2.8%	-8.0%	-1.8%
2013	4.2%	12.2%	24.1%	17.5%	7.0%	22.6%	8.3%	17.9%	2.6%	6.1%
2018	-3.8%	-2.4%	-0.6%	-26.7%	8.5%	-0.9%	-0.5%	15.4%	-1.4%	-1.8%

Source: Bloomberg, MIDFR

External factors to continue hold sway over equity market sentiment. While GE15 may excite politically, for the equities market, we expect external factors to continue hold sway over equity market sentiment. These are (1) aggressive monetary tightening by major western central banks, (2) the Russia-Ukraine war, and (3) China economic conditions. We expect that GE15 will only add to the uncertainty and may affect sentiment negatively. 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.

Foreign funds net outflow coincided with US Fed decisions and less on politics. Foreign fund net position YTD is still positive (cumulative net inflow) but we observed net outflows in recent weeks, amounting to RM1.45b. This coincided with the continuing hawkish language from the US Fed. However, the same trend was observed in end-May to June period before seeing a net inflow again. In contrast, we observed foreign fund inflow last year in August amounted to RM1.05b during a period of political instability. We believe that GE15 may not be the prevailing factor and it is possible that we could see similar foreign flow trend observed this year when the US Fed will eventually slower its pace of rate hike, the much awaited 'pivot'.

Chart 1: Cumulative Fund Flow in Bursa Malaysia (as at 7 October 2022)



Source: Bursa Malaysia, MIDFR

Waiting for the pivot from the US Fed. We had expected the US Fed to slower its pace of rate hike after the increase in its fund rate in July-22. Subsequently, our expectation was moved to the FOMC in Nov-22 as inflation stayed stubbornly high. At current juncture, we now expect that the first pivot could happen later in Dec-22 as the US Fed continued with its hawkish language, expecting the US Fed fund rate to end at 4.15% by end of the year. However, this will be much dependent on US inflation situation. We expect that the pivot may change the outlook of the market to a more positive one as it will cause valuation to gradual improve from current levels. We should note that corporate earnings growth seems stable for now as long as recession (although still a possibility in the US) is able to be skirted.

Possible impact of GE15 - either neutral or positive outcome. During the past two years, the successive central governments have not been too stable (both being coalition of coalitions) with razor-thin majority in parliament. Hence, the country is approaching the next general election under a situation of rather high political fluidity. Nevertheless, 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. Meanwhile, the possibility of a hung parliament is likely avoided with YDP Agong as the final arbiter with constitutional power to appoint a PM from among the MPs who he believes command majority support of the MPs.

Possibly positive. Outwardly, the state elections in Melaka, Sarawak and Johor are pointing towards a more stable majority government post-GE15. Nonetheless, the situation at national level is more complex and fluid according to some political watchers. However, either way, we believe the impact of upcoming GE15 on the equity market would be either neutral or positive.

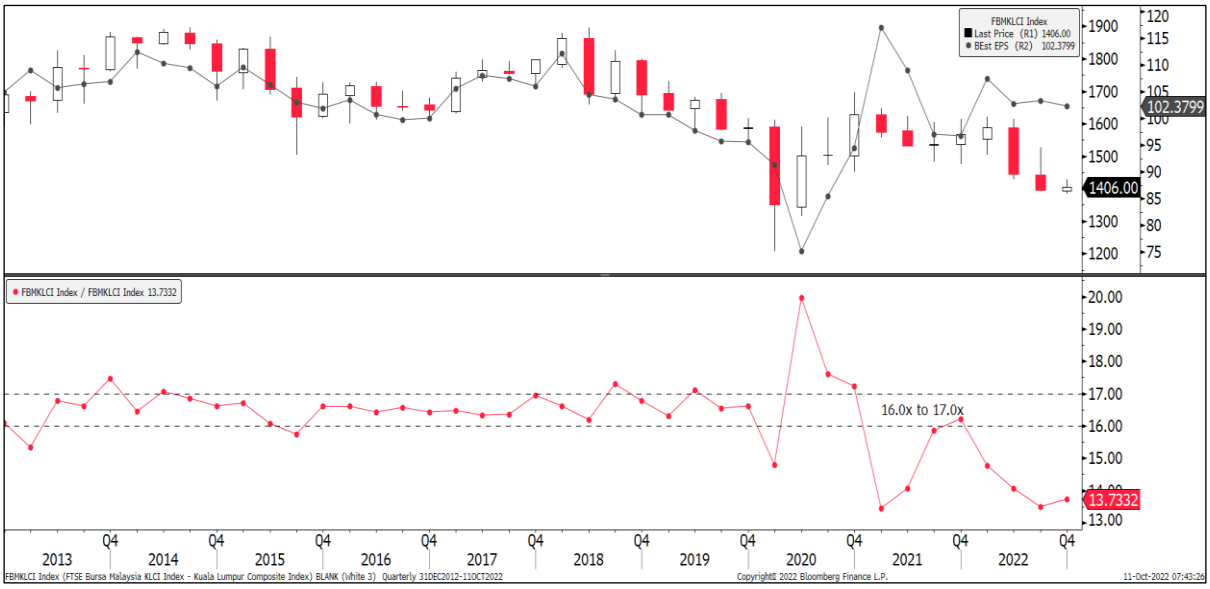
FBM KLCI END-2022 BASELINE TARGET

Baseline scenarios. Amid the backdrop of the mainly external headwinds, our baseline scenarios are as follow:

(1) the extended aggressive monetary tightening by the US Fed would heighten risk of economic slowdown and pose downside risk to equity prices, (2) the ongoing Russia-Ukraine war to remain confined within the territory of Ukraine with limited economic impact to Malaysia, (3) the authorities in China would take whatever (monetary and fiscal actions) necessary to avoid a broader fallout, thus limiting the risk of cross-border contagion, (4) general election, may not result in negative price action post-election, and (5) Covid-19 is a diminishing threat to the society and economy.

Valuation to remain depressed at below normal historical range. We foresee a situation whereby the local equity market valuation remains rather depressed (at below normal historical range) 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 macro uncertainty.

FBM KLCI: Price, Earnings & Valuation (Current Year) – 16.0x to 17.0x



Source: Bloomberg, MIDFR (G658)

Empirically between 16-17x. The FBM KLCI normally traded at between 16.0x to 17.0x current year earnings. Accordingly, the end-2022 target point (based on the latest CY2022 earnings of 103.04 points) should range approximately at between 1,650 points to 1,750 points. However, at the time of writing, the FBM KLCI is trading at 1,406 points or PER22 of 13.6x.

FBM KLCI end-2022 target at 1,520 points or PER22 of 14.8x. 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 continued positive GDP growth in 2023. However, lingering fear over further delays to the Fed pivot may result in equity valuation remains depressed at below normal historical range due to the negative effect of extended aggressive tightening on financial liquidity and macro performance. Hence, our FBM KLCI end-2022 target at 1,520 points or PER22 of 14.8x.

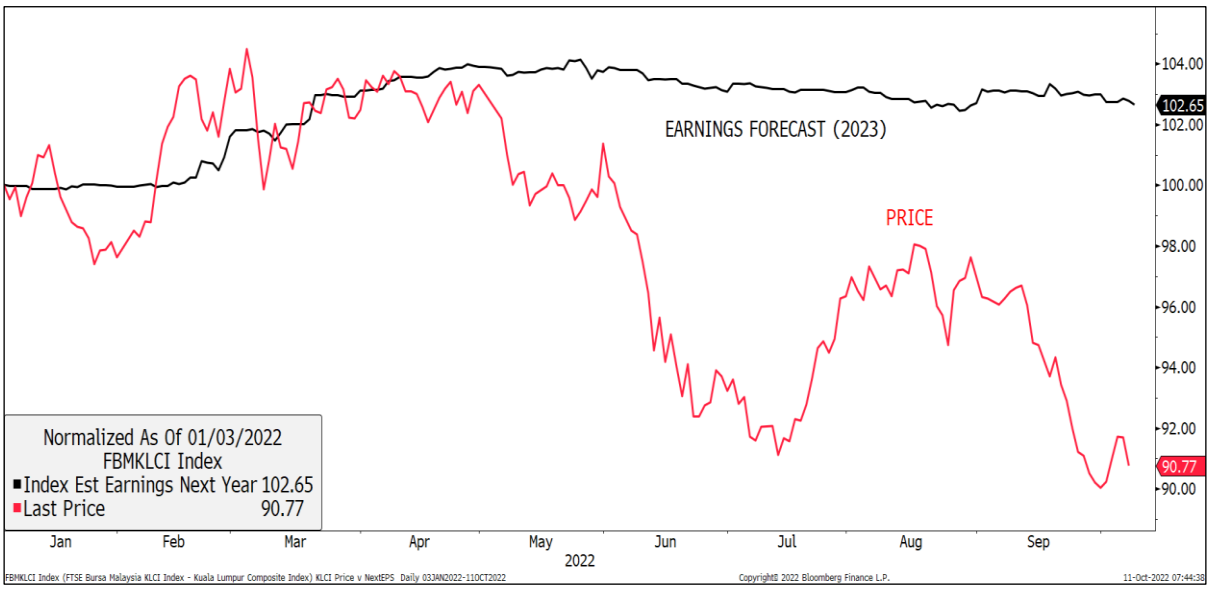
FBM KLCI: Historical & Forward Earnings

Calendar Year	Earnings (Points)	YoY (%change)
CY2023 (F)	114.87	11.48
CY2022 (E)	103.04	-1.28
CY2021	104.38	46.76
CY2020	71.13	-20.67
CY2019	89.66	-5.62
CY2018	95.00	-11.96

Source: Bloomberg, MIDFR

Going into 2023, despite rising recession risk in the US, we expect Malaysia's macro recovery to remain on track. Our preliminary forecast suggests Malaysia's GDP growth to moderate but continued rising at circa 4.2% in 2023. Along with the expectation of continued macro recovery, the market consensus is also forecasting the FBM KLCI to register +11.5%yoy earnings growth in 2023.

FBM KLCI: Indexed YTD performance of Price versus 2023 Earnings Forecast



Source: Bloomberg, MIDFR (G696)

Preliminary FBM KLCI end-2023 target at 1,700 points or PER23 of 14.8x. Having said the above, we believe the market would attach a downside risk to prevailing earnings forecast for 2023. It is notable that the earnings forecast remains unwavering since the beginning of this year despite the increasingly bearish world's macro expectations. Thus, we can expect market valuation to stay below the norm to account for the downside risk to forecasted earnings. Based on the prevailing earnings forecast, our preliminary FBM KLCI end-2023 target is pegged at 1,700 points or PER23 of 14.8x.

Look for sectors that are more agnostic to politics. Given that market sentiment may be weak in the run-up to GE15, tactically we believe that investors should look for sectors that are more agnostic towards the result of the election and with good fundamentals that are closely tied with the performance of the economy, such as the banking sector. We continue to be POSITIVE on the banking sector and going forward, we expect banks' core earning drivers to remain with strong loan growth and leading indicators, an environment still rich with liquidity to support the said loan growth, lower credit costs and OPR hike related benefits to net interest margins. Additionally, the banking sector is often synonymous with high deposit yields, with several names offering yields above >4%. This should offset headwinds: namely asset quality concerns, normalization of operating expenses, heightened deposit competition and still-weak non-interest income sources. Our top picks for the sector is **Maybank (BUY, TP: 10.41)** and **CIMB (BUY, TP: 6.16).**

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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