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ANOTHER POLITICAL TSUNAMI

Assessing potential impact of GE15

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KEY HIGHLIGHTS

- **As the dust of the 15th General Elections (GE15) settled, Malaysia is left with a hung parliament, as expected by many political observers**
- **The GE15 provided a few surprising results. Perikatan Nasional (PN) won 73 seats, while Pakatan Harapan (PH) won 82 seats, forming the two biggest blocs in parliament and a chance to form the Federal Government. Meanwhile, Barisan Nasional (BN) ended with 30 seats potentially playing a kingmaker role**
- **As we expected, there will have to be a coalition of coalitions given the hung parliament situation. Gabungan Parti Sarawak (GPS) and Gabungan Rakyat Sabah (GPS) have thrown its support with PN**
- **Meanwhile, it is unclear where BN stands as its 30 seats will be able to give either PH a slim majority (112 seats) or a strong majority for PN-GPS-GRS (131 seats). All will be decided at 2pm today when the coalitions will have to submit their stands**
- **In the meantime, we expect the equity market to react adversely to this situation with a negative kneejerk reaction pulling the FBM KLCI lower and possibly breaching its psychological support level of 1,400 points**
- **However, once a new government is formed, the market is expected to duly recover**
- **Our baseline assumption is for PN to form a majority government together with GPS, GRS and also BN in short order. At this juncture, we are keeping our FBM KLCI 2022 year-end target at 1,520 points**

ANALYSIS OF GENERAL ELECTIONS

As expected, a hung parliament. As the dust of the 15th General Elections (GE15) settled, Malaysia is left with a hung parliament, as expected by many political observers. This was a change from the prior expectations before the nomination date where some were expecting a slim Barisan Nasional (BN) majority. The change was due to a swing in voters' sentiment after several missteps by BN leader including to discard a few strong personalities. As it stands, no coalition has a clear majority in the parliament.

A surprising result. The GE15 provided a few surprising results, and the foremost was how well Perikatan Nasional (PN) performed. It added 41 seats to end with 73 seats, while Pakatan Harapan (PH) lost 18 seats to end with 82 seats, forming the two biggest blocs in parliament and a chance to form the Federal Government. Meanwhile, Barisan Nasional (BN) lost 28 seats to end with 30 seats potentially playing a kingmaker role. Several key figures from all parties also lost their seats such as Nurrul Izzah, Khalid Samad Saifuddin Nasution for PH; Dato' Seri Azmin Ali, Dato' Seri Ahmad Faizal Azumu and Datuk Seri Rina Harun for PN; and YM Tengku Razaleigh Hamzah, Khairy Jamuluddin, YM Tengku Zafrul for BN, amongst others.



Source: SPR

What next? Dewan Rakyat Speaker Tan Sri Azhar Azizan Harun has urged leaders of parties that won a "substantial" number of seats in the GE15 to submit the names of parties who have agreed to join forces including independent candidates to form the next Federal Government including the candidate for 10th Prime Minister. As we expected, there will have to be a coalition of coalitions given the hung parliament situation. Gabungan Parti Sarawak (GPS) and Gabungan Rakyat Sabah

(GPS) have thrown its support with PN. With 22 seats and 6 seats respectively, the PN-GPS-GRS coalition now have 101 seats, 11 seats shy of a majority. Meanwhile, it is unclear where BN stands as its 30 seats will be able to give either PH a slim majority (112 seats) or a strong majority for PN-GPS-GRS (131 seats). All will be decided at 2pm today when the coalitions will have to submit their stands.

Split in BN? Rumours are abounded of which coalition the BN will support; it was rumoured that its leader Dato' Seri Ahmad Zahid Hamidi have met with Dato' Seri Anwar Ibrahim (leader of PH) but another rumour is that BN Members of Parliament-Elect (MPs-Elect) will not support the PH coalition. It should be noted that the Federal Constitution is party agnostic and does not indicate that an MP or MP-Elect will have to vote/support within party lines. Hence, there could be a situation that the support from BN MPs-Elect is split between PN and PH. While this may lead to their expulsion from their parties, the provision of the anti-party hopping amendment to the Federal Constitution will not apply as stated in Article 49A (2) (c).

Higher chances of PN led government? Assuming of an even split of BN's MPs-Elect, with 15 seats going to PN and PH respectively, we could possibly see PN crossing the 112 threshold (with 116 seats) to form the Federal Government. We should note here that PH-BN government may not be stable due to its slim majority. While there may be no defection in terms of party membership, BN MPs could defect in terms of support for bills, Budget and to the Prime Minster. Assuming the other smaller bloc (Warisan and Independents – DLL bloc) supports PH (7 seats) it means that it only needs 8 BN MPs to pull its support to bring down a PH government.

POTENTIAL MARKET IMPACT TO GE15

The GE15 ended with a hung parliament. At the time of writing, we reckon the various political parties are busy trying to form a majority coalition to be presented to the YDP Agong by 2pm today. While we are equally hopeful that this process would end quickly, however we cannot rule out the possibility that it may take days or even weeks to conclude.

In the meantime, we expect the equity market to react adversely to this situation with a negative kneejerk reaction pulling the FBM KLCI lower and possibly breaching its psychological support level of 1,400 points. This is based on previous experience in GE14.

Chart 1: Performance of FBMKLCI following GE14



Source: Trading View

Followed by a relief recovery. However, once a new government is formed, the market is expected to duly recover. The strength of the relief rebound would nevertheless be dependent on how stable the new coalition government is perceived by the market.

Our baseline assumption is for PN to form a majority government together with GPS, GRS and also BN in short order. At this juncture, we are keeping our FBM KLCI 2022 year-end target at 1,520 points.

Look for sectors that are more agnostic to politics. Given that market sentiment may be weak due to the hung parliament in GE15, tactically (at least for this week) 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 are **CIMB (BUY, TP: 6.16)** and **RHB (BUY, TP: RM6.94)**.

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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