POST GENERAL ELECTION 15

Wait is over

MIDF Research Team
research@midf.com.my

EXECUTIVE SUMMARY

- **As no single coalition managed to surpass the simple majority number, a unity government between Pakatan Harapan, Barisan Nasional and Borneo Pact is finally founded**
- **However, since the formation of unity government comprise of three major coalitions, there are risks of political instability in the next five years. In fact, it is unclear whether the new unity government will only include initiatives from PH manifesto or a combination of programmes from both PH and BN manifestos. Nevertheless, it is a good start to look at PH manifesto**
- **We keep our economic forecast at +8% for 2022 and +4.2% for 2023**
- **Fuel subsidy to remain status quo with additional pro-consumption measures**
- **Consumer sector a clear winner with various assistance promised in the manifesto. Production incentives and Export Incentives could also benefit the sector**
- **Sarawak and Sabah related would likely be a beneficiary including Sarawak and Sabah based construction sector. But possibly more prudent DE could moderate the construction sector**
- **Telecommunication sector might see prolonged uncertainty on 5G**
- **Two factors working in tandem in FBM KLCI performance yesterday – started with possible good news from the US Fed and then removal of one domestic uncertainties**
- **Investors' attention would soon revert outward following jubilant rally as expectation on Fed actions to influence short-term market sways**
- **We raise our FBM KLCI year-end 2022 PER valuation target (from 14.9x) to 15.2x and our point target (from 1,520 points) to 1,550 points. Nevertheless, we maintain our preliminary FBM KLCI year-end 2023 PER valuation target at 14.9x and our point target at 1,700 points**

A. POST GENERAL ELECTION 15 (GE15) ANALYSIS

A lifetime in politics. The saying goes "24 hours is a long time in politics". Hence, these past four days must seem like a lifetime. Our initial baseline view of a PN-GPS-GRS-BN coalition was on the basis of statements made after the end of GE15. However, given the fluidity of the situation and many events that transpired since then, it turned out that the government was formed with a coalition of PH-BN-GPS-GRS-Warisan.

Dato' Seri Anwar Ibrahim declared PM10. Given that the government was formed with PH as the lead coalition, Dato' Seri Anwar Ibrahim was named by the YDPA Agong as the 10th Prime Minister (PM10). As such, we analysed Pakatan Harapan's (PH) manifesto to see what might be in store for Malaysian economy and equity market. Although there might be tweaks to cater for issues championed by its coalition partners, we believe that it is a good place to start.

B. ECONOMIC ANALYSIS OF PH MANIFESTO

A unity government finally formed. As no single coalition managed to surpass the simple majority number, a unity government between Pakatan Harapan, Barisan Nasional and Borneo Pact is finally founded. Having a government formed after the national election, we view this as positive development for the Malaysia's economy because the formation of the

government will eventually lead towards an eventual retabling and review of the national Budget 2023. At this juncture, it is a critical time for Malaysia to ensure recovery from the global pandemic to be sustainable amid uncertainties on the external front going into 2023, with the global economy is surrounded with slowdown risk, global tightening of monetary policy, elevated commodity prices and geopolitical conflicts.

Can the unity government last for five years? Since the formation of unity government comprise of three major coalitions, there are risks of political instability in the next five years. If BN were to exit the government in the near term, PH and Borneo Pact can still govern but with a razor-thin majority. We opine that major and longer-term economic policy reforms may not take place smoothly because each party and coalition in the unity government has different interest and reform agenda. In fact, it is unclear whether the new unity government will only include initiatives from PH manifesto or a combination of programmes from both PH and BN manifestos.

We keep our economic forecast at +8% for 2022 and +4.2% for 2023. After recording stronger than expected GDP growth in 3QCY22 at +14.2%yoy, we now foresee Malaysia's economy to expand by +8% this year. Even if we assume the QoQ% growth to be stagnant in the final quarter (i.e. the level of activities in 4QCY22 to be the same as in 3QCY22), we should expect the full-year GDP growth at +7.7%. As for next year, we forecast the economy to expand by +4.2%, mainly underpinned by improving domestic demand, steady consumer spending, lower unemployment rate and stable inflationary pressure. On top of private sector spending, we believe the expansionary fiscal spending will also contribute positive to GDP growth next year. On another note, the moderation in 2023 GDP growth mainly reflects drag from softer external trade performance as global outlook stays cloudy. Furthermore, we project growth rate to be more normalized due to the absence of low-base effect.

Fuel subsidy to remain status quo with additional pro-consumption measures. We view headline inflation rate to soften from +3% in 2022 to +2.3% in 2023 as the newly-formed government is predicted to keep current fuel subsidy as status quo. With improvement in global supply chain and normalization in commodity prices, the subsidized fuel prices will continue to limit inflation rate from surging. Recent data also shows slower producer price inflation, indicating smaller cost pressures and consequently easing the pressures for local businesses to increase selling prices. On top of that, as highlighted in the Pakatan Harapan manifesto, the PH-led government aims to reduce prices via industry cartel crackdowns and increase production incentives especially for agriculture sector. If the RM2,208 assistive basic income scheme, as proposed in the BN manifesto, were to be included into next year's budget, this will also be positive to support consumption especially for the low-income segment.

More support for developments in Sarawak & Sabah. The unity government is seen solid with the participation of Borneo Pact. Under the manifesto blueprint of Pakatan Harapan, the two states are expected to benefit via receiving more economic incentives in order to reduce unemployment rates, improve basic infrastructure facilities, ensuring Malaysia Agreement 1963 to be implemented, and provide autonomy power for the state governments on health and education sectors. In 2021, Sabah and Sarawak contributed 5.7% and 9.5% respectively, to Malaysia's economy. Looking at the combined contribution of 15.2% is lower than 16.6% in 2015, this suggests the developments in East Malaysia has not been as fast as in other states in Malaysia. In addition, Pakatan Harapan proposes to promote greater international trade activities in Sabah particularly by giving a free trade zone status to Kota Kinabalu Industrial Park (KKIP), POIC Lahad Datu and Sipitang Oil & Gas Industrial Park (SOGIP). This is more or less in tandem with our thematic report on Sabah state economy, Exploring Sabah's Economic Pearls. Promoting stronger growth in East Malaysia will also be in line with the 12th Malaysia Plan's development agenda which is to reduce the development gap between states and regions.

Free toll highways but with no exact timeline. In the manifesto blueprint, Pakatan Harapan promises to reduce toll charges on gradual basis particularly PLUS and LPT2 highways. Without mentioning specific timeline, the reduction end goal is to fully abolish toll charges for these two highways. For consumers and businesses, we opine the toll charges reduction is positive as it will taper down transport inflation and overall price growth.

Prioritization is key to avoid ballooning fiscal deficit. We remain cautious on the fiscal capability to finance pro-consumption spending plans such as more subsidies and incentives. Larger spending plans will leader to wider fiscal deficit if not matched with new source of fiscal revenues. While the fiscal reforms such as changes to the taxation system would be difficult to be passed, the government may be forced to rely on more borrowings to finance the bigger deficit. Otherwise, the government will have to reduce or completely scrap several allocations in the Budget 2023 document that

was tabled earlier. Adhering to the longer-term fiscal consolidation path, we believe the government needs to prioritize spending programmes with high multiplier effect such as continuation of infrastructure projects, incentives for businesses and employment, and support for upskilling and training. Boosting fiscal space will be key to ensure the government has the capacity to provide fiscal stimulus when the future economic crisis comes.

C. SECTORAL REVIEW

POSITIVE

1. Banking Sector (Maintain POSITIVE)

PH Manifesto Measures	Remarks
100% stamp duty exemption for first time homeowners for properties priced below RM500k	This could be positive for residential mortgage growth, though its impact is unlikely to be significant. RM250-500k mortgage growth has seen good pick up in the year, boasting a +9.1% YTD annualised growth level.

2. Construction Sector (Maintain POSITIVE)

PH Manifesto Measures	Remarks
Though not stated explicitly in the manifesto, we can expect PH to be more prudent in their expenditure for development and infrastructure projects	With another change of the powers that be, this may result in a potential review of plans that are already in the pipeline, which could delay its execution progress or termination, such as what was seen after 2018. The potential revival of the KL-Singapore High Speed Rail (HSR) for example, could be placed in the back-burner. We however, expect the upcoming MRT3 to go on, as it is the crucial final piece to complete Kuala Lumpur's urban rail network and the key mega project to give the construction sector a boost. The total construction cost for MRT3 is expected to be RM34.2b and project owner MRT Corp is currently evaluating tenders received. We expect **Gamuda (BUY, TP: RM4.71)**, **IJM Crop (BUY, TP: RM2.18)** and **Sunway Construction (BUY, TP: RM1.87)** to be front-runners of the main contracts. We are still POSITIVE on the construction sector with MRT3 as the bright spot, apart from the easing building material prices and the gradually improving foreign labour shortage problem.
Tackling dilapidated schools	There is a commitment to upgrade or renovate dilapidated schools and to construct new buildings through modular construction and IBS. Though the Budget 2023 that was tabled in October may not be adopted by PH, it provides a good guidance on the extent of which such works are needed, which are: i) RM1.1b for maintenance and upgrading of national, vernacular and religious schools ii) RM1.2b for upgrading dilapidated schools in East Malaysia (123 in Sabah, 182 in Sarawak) iii) RM430m for the construction of five new schools – Sabah, Sarawak, Terengganu, Cyberjaya, Selangor We expect **Gabungan AQRS (BUY, TP: RM0.52)** to be a beneficiary of this given its track record in building schools and also **Sunway Construction (BUY, TP: RM1.87)**, which has a strong precast segment with two manufacturing plants in Johor.
Infrastructure plan and	PH aims to prioritise drainage infrastructure plans, flood mitigations and sustainable development. Flooding has long been an issue in Malaysia and we believe flood mitigation

PH Manifesto Measures	Remarks
sustainable development	related projects are vital ones that will be given the go ahead without much hassle. Among such projects that were highlighted in Budget 2023 were: i) RM2b for the construction of dual-purpose reservoir along Klang River and Rasau River ii) RM562m sabo dam project at 46 locations iii) RM500m for the additional phase of the integrated river basin management in Sungai Golok
Basic infrastructure	Part of PH's manifesto includes the upgrading of basic infrastructure such as water, electricity, sewerage systems and roads in all industrial parks in the Peninsula and also in Sabah. The improvement of roads is particularly important to enhance connectivity as a means of attracting investments and the growth of various industries. While not mentioned in the manifesto, we hope these efforts would also spread to Sarawak as the state requires about 7,530km of new roads while 3,487km need upgrading, just to ensure that the whole state is fully connected. The beneficiaries for such development in Sarawak would be **Cahya Mata Sarawak (BUY, TP: RM1.37)** being the sole cement supplier in the state which is also involved in construction, and also **KKB Engineering (BUY, TP: RM1.50).**

3. Consumer Sector (Maintain POSITIVE)

PH Manifesto Measures	Remarks
Production incentives. Providing ample incentives to increase the production of food and basic essentials. This is a long-term solution to alleviate market pressures caused by rising prices. With higher production, costs can be brought down	The initiative to provide offer enough incentives to boost staple food production will benefit poultry companies such as **QL Resources (BUY, RM5.62) and Leong Hup International (NEUTRAL, TP: RM0.47)**. We believe that the government would most likely extend the subsidies for chicken breeders and egg producers (which are set to expire at the end of December 2022) to assure a timely and enough supply of chicken and eggs in Malaysia.
Bantuan Sara Hidup (BSH). Continuing the Bantuan Sara Hidup program to help overcome living costs. **Childcare Subsidies.** The current living situation for Malaysians is undoubtedly challenging and many women are making great sacrifices by working to acquire income for their families while also being tasked with raising young children. In response, childcare subsidies will be given to working women from the B40 and M40 categories. **Elderly Friendly Schemes**. Formulating schemes that are elderly friendly. This would encompass Jom Shopping vouchers worth RM100.	The various initiatives, including continuing the allocation of BSH, childcare subsidies, and RM100 of Jom Shopping vouchers for the elderly, would increase consumer spending on essential items, particularly by reducing the burden of inflationary pressure imposed on customers. We think that consumer staples with household brand names are expected to be the big winner from the various subsidies introduced. This includes staple producers like **Nestle Malaysia (NEUTRAL, TP: RM137.80), F&N (BUY, TP: RM29.70), Hup Seng Industries (BUY, TP: RM0.79), Leong Hup International (NEUTRAL, RM0.47), QL Resources (BUY, RM5.62)** and **Spritzer (BUY, TP:RM2.54).** Meanwhile, we opine that only selected consumer discretionary companies will be benefitted, notably retailers like **Aeon Co (BUY, TP: RM1.81).** Given that Aeon's General merchandise store (GMS) and supermarket divisions provide a one-stop shop for households to meet their everyday necessities.

PH Manifesto Measures	Remarks
Free Breakfast. Targeted free breakfast programmes for pupils in schools will also be enhanced to ensure that pupils from poor households are not left behind. UNICEF estimates that nutritional problems among children doubled during the COVID-19 pandemic. HARAPAN will increase the allocated funds for the current free breakfast program. This is an important step to ensure that more than 500,000 recipients will be provided with the nutritions needed for every single day in their schooling session. **Universal Child Benefits.** The issue of stunted growth among children in Malaysia is at a critical level and it has been reported to be worse than the rate of stunted children in Gaza and Iraq today. The high price of milk has excluded many parents from providing milk and Nutritional food in the first 1,000 days after the birth of their children. To solve this problem, every newborn will be given cash benefits that will be deposited monthly to the parents' account up to the age of 6 years old. **Family Support.** Cash assistance will be provided for each child every month up to 6 years of age to overcome the lack of nutrition that occurs during an important phase of development. This will help to avoid the issue of stunting. **Nurturing Happy Families.** 1 out of 5 children under the age of five are suffering from stunted growth. Monthly assistance for every family will be provided based on the number of children below the age of 6 years old. This is done to help impoverished families and ensure that the children are healthy and their growth unimpeded.	Multiple initiatives to enhance the nutrition of students, newborns, and children under the age of six, which includes cash benefits and assistance deposited into parents account to ease the difficulty of continuing to provide milk for children up to the age of six. Given that milk and milk products provide a solid mix of critical nutrients, we believe that firms such as **Nestle Malaysia (NEUTRAL, TP:RM137.80)** and **F&N (BUY, TP:RM29.70)** will be benefitted. Nestle provides a variety of milk products under the brand names NESTLÉ simply milk, NESTLÉ OMEGA PLUS, NESTLÉ Everyday, and NESTLÉ NESPRAY. Meanwhile, F&N Magnolia sells dairy products such as pasteurised milk, UHT milk, and sterilised milk.
Minimum Wage Policy. A structured minimum wage policy plan to achieve the status of a high-income nation. This plan must be executed with proper support to ensure that every stakeholder is adequately prepared.	This will benefit low-to-middle-income consumers by expanding their discretionary income. Increased disposable income will inevitably lead to increased private consumption of both basic and discretionary goods. As a result, most of the consumer companies under our coverage will benefit from this, except for export-oriented companies such as **Rhong Khen International (NEUTRAL, RM1.23)** and **Asia File (BUY, TP: RM1.96).** On the flip side, a hike in the minimum wage may result in greater manufacturing costs for consumer firms, that are mostly labor-intensive. However, by introducing the wage increase structurally with a progressive rate of increment over time, manufacturers and

PH Manifesto Measures	Remarks
	retailers would be adequately prepared for the higher labor cost. For instance, this might motivate businesses to incorporate digitization and automation into their operations to reduce their reliance on labor. Moreover, we believe that consumer staple firms with inelastic demand will have a manageable impact they will be able to pass on the cost to customers through price adjustments. Namely, **Nestle Malaysia (NEUTRAL, TP: RM137.80), F&N (BUY, TP:RM29.70), Hup Seng Industries (BUY, TP: RM0.79), Leong Hup International (NEUTRAL, RM0.47), QL Resources (BUY, RM5.62)** and **Spritzer (BUY, TP:RM2.54).**
Human Resource. Overcoming labour shortage by streamlining the recruitment process for foreign workers to ensure that MSME operations can continue without disruptions.	This planned initiative would reduce the time and expense of recruiting foreign labor. Hence, labor-shortage companies like **Hup Seng Industries (BUY, TP: RM0.79)** and **Rhong Khen International (NEUTRAL, RM1.23)** would benefit from this.
Export Incentives. Preparing more export incentives to encourage international trade such as tax incentives for triple deductions on expenditure related to business movement for encouraging export; providing grants and incentives for online marketing or marketing campaigns by local companies to increase global sales.	Export-oriented consumer companies, such as **Rhong Khen International (NEUTRAL, RM1.23)** and **Asia File (BUY, TP: RM1.96),** would profit the most from the export incentives. This is because, as of FY2021, Rhong Khen exports more than 99% of its products to developed countries. Meanwhile, export sales accounted for nearly 74% of Asia file's total sales in FY22. Also, we opine that companies like **Nestle Malaysia (NEUTRAL, TP: RM137.80), F&N (BUY, TP: RM29.70), Hup Seng Industries (BUY, TP: RM0.79), Leong Hup International (NEUTRAL, RM0.47), QL Resources (BUY, RM5.62), Spritzer (BUY, TP: RM2.54)** and **Panasonic Manufacturing Malaysia (SELL, TP: RM21.20)** will be benefitted. This is due to the abovementioned companies exporting products to overseas.

4. Healthcare Sector (Maintain POSITIVE)

PH Manifesto Measures	Remarks
Healthcare Policies and Overall Budget Allocation • Shifting from "sick care" (cure) to "healthcare and wellness" (prevent) • Public Health Budget up 5% of GDP within 5 years, in line with population growth, life expectancy and current health needs • Health Commission to draft and monitor the implementation of the "National Health Reform Plan" with EPU, MoF, MoH and MoE	The Healthcare sector has been a major priority for the nation, as it directly affects the people disregarding age, race and religion. The Covid-19 pandemic had acted as a catalyst for the sector's readiness against communicable (CDs) and non-communicable diseases (NCDs), as well as for the welfare of the aging population, and the need for advanced medications and medical equipment. Rare diseases are also on the rise, prompting for more access to hospital and clinical treatments, most notably for the people living in rural and highly populated areas. All in, we believe a robust Healthcare Commission with cohesive planning in collaboration with the ministries involved, private firms and NGOs. We also believe that doubling the current allocation of RM36 billion to RM77 billion up is fair for the timeline of 5 years, considering the further expenses expected for the medical supplies, medical devices and medical worker recruitments and training required in the future in line with the population growth and mortality rate.

PH Manifesto Measures	Remarks
	The challenge of inflationary pressures on pharmaceutical ingredients, medical equipment and generally on inpatient treatments in hospitals and clinics is likely to be mitigated with the increased healthcare budget.
Increase Access to High Quality Healthcare • More health clinics in densely populated areas with a high poverty level • Healthcare programmess that emphasize disease prevention services (eg. door-to-door screening in low-cost residency) • Strategic interventions and collaborations for the urban poor and people in remote areas • Focusing on primary care, health screening, education, well-being and public health against NCDs • Reducing waiting times for health services, modernising healthcare facilities and increasing flexibility in operating hours at densely populated areas • Strengthening primary care and prevention through a capitation-based system of General Practitioners where families are covered by a system of family doctors	NCDs are consistently the main causes of death in Malaysia. Excluding Covid-19-related illness, in 2021, 19.2% of total deaths is attributable to cardiovascular diseases (CVD), 15.7% to chronic respiratory diseases (CRD), 12% to cancer and 2.2% to diabetes melitus. To date, there were over 49,000 new cancer cases recorded, and the cancer incidence in Malaysia is expected to double by 2040. Meanwhile, coronary heart disease deaths in Malaysia reached nearly 39,000 cases. Most NCDs are expected to rise every year in number of cases, subsequently in number of deaths. Hence, early screening and preventive care are important in assuring the population is safeguarded by the onset of these diseases. Concentration on high quality care and treatment for NCDs, while also improving the timely access to these services, will continue to benefit the people and consequently the healthcare providers and pharmaceutical companies in the long run.
Expanding and Upgrading Healthcare Institutions and Infrastructure • Expand the coverage of specialist medical services such as Cardiac Unit and Cancer Unit to general hospitals in densely populated areas and remote areas especially in Sandakan and Tawau, Sabah, and central and Northern Sarawak • Improve medical laboratories and facilities in Sabah	Facilities in rural Sabah and Sarawak will continue to receive priority for healthcare access under the National Development Incentives. Part of the incentives include access to specialised healthcare services for rural regions in both districts, especially regarding NCDs, surgeries and prenatal treatments and deliveries. We believe allocated funds for the improvement of such facilities will add into Sabah and Sarawak economic developments, while assisting in capacity building with enhanced R&D medical facilities.
Adding into Specialty Healthcare Needs (including Mental Health)	The Covid-19 pandemic had proven that mental health treatments are much needed for the general public. Access to treatments are often scarce, in

PH Manifesto Measures	Remarks
• Establishing programmes for critical illnesses and hospitalisation to include mental health assessment, care and counselling • Amending Section 309 of the Penal Code to no longer make attempted suicide a criminal act • Improving holistic mental health care and expanding insurance scheme coverage to cover mental health treatments	addition to the public stigma of mental health as a punishable crime. 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. The measures taken to will ensure an overall well-being of the people, while also presenting opportunities to healthcare providers to include and expand its mental health units in their premises. Pharmaceutical companies is also likely to leverage on the study and manufacture of selective serotonin reuptake inhibitors (SSRIs) and selective serotonin & norepinephrine inhibitors (SNRIs) drugs in the course of mental health treatment. We believe companies like **Pharmaniaga (BUY, TP: RM0.87)** and **Duopharma Bhd (NC)** would gain the benefits from this demand.
Expanding Elderly Care • Focusing on and preparing for the Aging Nation Agenda by 2030 where more than 15% of the country's population will be 60 years old and above • Capacity building and training to achieve a Caregiver Support Ratio (CgSR) which commensurate with the increase in aging population by 2035	In the time of a rising aging population worldwide and in Malaysia, demand for care facilities with expertise relating to old age, such as Alzheimer's, Parkinson's, cancer and other chronic diseases, is expected to increase as well. For this measure, hospitals such as **KPJ Healthcare (BUY, TP:RM1.18)** and **IHH Healthcare (BUY, TP:RM7.96)** which are well equipped to ensure the focus on elderly healthcare and wellness, could fill in the promise to focus on the demand, in collaboration with the government.
Improving Healthcare Sector Workforce • Establish a Health Services Commission to strengthen the management of human resources, staffing, training and career development of healthcare workers in part to solve contractual doctors' issues • Professionalise the care sector to include nursing and physio-theraphy subsectors • Government hospitals to operate in shifts as is the practice in some countries to enable specialist services to be provided to every level of society and to optimize the use of government health and medical facilities	The welfare of medical workers across all units in the healthcare sector, in tandem with funds and policies, determines the successful implementation of the other initiatives under the healthcare measures to be taken under the governing body. We believe a strong union among doctors, nurses, therapists, engineers, researchers, and non-ancillary workers in healthcare premises continue to play a vital role in ensuring that the shortages of these professionals would not happen in the face of an unprecedented global health emergency. Nurses and therapists are expected to be in high demand in line with the increase in CDs and NCDs cases projected, as well as an increase in aging population. Medical technologists are also needed to maintain and improve, not only medical equipment in the event of a semiconductor shortage, but also digital healthcare in the continuously shifting AI technology in the healthcare system.

5. Media Sector (Maintain POSITIVE)

PH Manifesto Measures	Remarks
1) establish a Media Council to safeguarding media freedom and the welfare of members of the media, 2) amend the Whistleblower Protection Act to allow whistle blowers to directly expose misappropriations and wrongdoings to the media, and 3) review and repeal draconian provisions of acts that can be abused to restrict free speech. channels and alternatives.	We do not think the measures are significant enough to leave an impact to our media companies' earnings as it emphasizes more on freedom in contents writing for journalist or reporters. Nonetheless, we remain POSITIVE on our media sector as domestic demands is expected to recover and thereby, encourage businesses to spend more on advertising activities, propelling advertising expenditure (ADEX) to move uptrend. According to the same Statista, the total ADEX in Malaysia is expected to be RM6.18b in 2022. A huge portion of the ADEX will be allocated for digital (61%), followed by TV (15%), out-of-home (12%), radio (7%), and lastly print (5%). Thereby, with or without these measures, we opine that our media companies will continue to have a good prospect moving ahead in view of better ADEX environment.

6. Oil and Gas Sector (Maintain POSITIVE)

PH Manifesto Measures	Remarks
Expanding Sabah and Sarawak's Oil and Gas Industry Free Trade Zones in Kota Kinabalu Industrial Park (KKIP), Lahad Datu POIC and Sipitang Oil & Gas Industrial Park (SOGIP)	SOGIP is located in the most strategic part of western Sabah, in close proximity to Brunei and Labuan, as well as major shipping lanes. It has 1645ha of land and 1000ha of sea land of up to 25 meters of water depth which could be utilized for vessel anchorage. SOGIP is Sabah's first oil and gas complex focusing on petrochemicals. Its petrochemical plant is made to cater for the manufacture and storage of urea, ammonia, methanol and their derivatives. The complex is also equipped for the storage of crude oil feedstock, as well as fabrication operations for shipping, onshore and offshore infrastructures. This gives SOGIP an advantage to receive feedstock supply from nearby gas terminals. We believe new exploration contracts within Sabah has the potential to increase the demand for refinery and storage in SOGIP. Furthermore, deepwater exploration in Gumusut-Kakap had yielded its first crude oil production, which could feed the terminals in Kimanis by at least 300,000bpd, consequently increase the petrochemical operations in SOGIP.
Renewable Energy Initiatives for a Clean and Sustainable Nation • Increase investment in renewable energy to reach the target of 50% of the total primary energy supply (TPES) • Incentives to private premises including housing to switch to solar energy • Encourage green projects	For the Oil and Gas industry, energy security has long been a contentious issue. Energy security and measures for more ESG-friendly operations and advancements were frequently mentioned in conjunction with proposals for renewable and clean energy. While oil and gas are part of Malaysia's bread and butter, we opine that government allocations for renewables and clean energy projects will assist in events of a disrupted energy security caused by unforeseen geopolitical tensions, natural disasters and depletion of regional oil and gas reserves in the future. Since clean energy is still regarded as a young industry in Malaysia, it is crucial to allocate a significant amount of funding to the sector in order to better understand how to utilise this source of energy alongside future oil and gas productions.

PH Manifesto Measures	Remarks
and ensure 20% of 10,500 public premises to be allocated for energy efficient and renewable energy installation projects as part of large-scale infrastructure spending	

7. Plantation Sector (Maintain POSITIVE)

PH Manifesto Measures	Remarks
Agricultural Land Reform	We can reform farmlands through partnerships with the National Land Council (Majlis Tanah Negara) to help farmers request or lease land for the purpose of farming and breeding livestock.
Modern and Smart Farming	Increasing and encouraging the use of technology in the agricultural sector by providing grants or accessible loans. Supporting research and development (R&D) efforts in the farm and agro-food sectors, on top of boosting the commercialisation of research products.
Malaysia as an Agricultural Exporter	Identifying agricultural products with the potential to be developed for export so that farmers can benefit from higher income. We will explore and expand the global market for Malaysian agricultural products.
Attracting Investors and Young Agropreneurs	Facilitating tax exemptions for investments in the farming sector, whether for companies or small-scale farmers. Enhancing Young Agropreneur Program (Program Agropreneur Muda) and talent-matching programmes to help youths that are interested in the modern farming sectors.
Farmers' and Fishermen's Welfare	Transferring "input" subsidies to "output" subsidies in a stage-by-stage manner by encouraging higher production. HARAPAN will further increase Skim Subsidi Harga Padi (SSHP) from RM360 per ton to RM500 per ton. Subsidy cards or e-wallets will be introduced to provide farmers the freedom in procuring farming inputs.
	Our thoughts We are positive on the list of initiatives, though much of the emphasis on export idea to push nation agenda becoming agricultural exporter, these measures will not have any immediate and impact on companies under our coverage but do bringing and encourage small farmers to tab on global market particularly among durian farmers. However, we do applause the new facilitating tax exemptions as well as modern and smart farming measures that 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. Through the 2021 Budget, a total of RM4.79b has been allocated to MAFI to further

PH Manifesto Measures	Remarks
	boost the country's agriculture and food industry sectors. A total of RM1.53b was approved for subsidies and incentives for national rice production specifically for 300,000 rice farmers. We are in the view further increase in Skim Subsidi Harga Padi (SSHP) by HARAPAN from RM360/ton to RM500/ton will expedite the county to achieve the goal of rice self-sufficiency (SSL) of 75% in 2025 and 80% in 2030.

8. Technology Sector (Maintain POSITIVE)

PH Manifesto Measures	Remarks
1) to provide one stop Digitalisation Centre for MSMEs to apply for digitalisation incentives 2) to increase productivity for MSMEs by providing grants or incentives e.g. on technological equipment, tools/solutions for digital marketing, consultancy and technical services 3) to raise allocation for venture capital financing to encourage entrepreneurs in high value technology fields.	We remain POSITIVE on our technology sector in view that those measures could boost MSMEs' readiness and competitiveness to adopt innovative- disruptive-compelling technology and business model and consequently encourage more usage and adoption of 5G technology. According to Ericsson, the opportunity for the enterprise market to expand through digitalization and high-performance mobile connectivity for applications, including connected vehicles, real-time automation and autonomous robotics is at a 25% CAGR from 2022-2030. Therefore, we opine that technology transformational solutions for enterprise will accelerate adoption of 5G and contribute to our technology companies' revenue streams which involved in 5G-related services, such as Inari, Unisem and Globetronics in a long run.

NEUTRAL

9. Property Sector (Maintain NEUTRAL)

PH Manifesto Measures	Remarks
• Build affordable homes, homes for rent and low to medium cost house. • Increase of rent-2-own scheme • Reintroduction of RM3b guarantee for house loan for first time home buyers buying affordable home • Extension of 100% stamp duty exemption for first time home buyers for purchase of sub-sale property below RM500k.	The measures are neural to slight positive to property market as increase house ownership through building affordable homes are in line with current government policy. Nevertheless, the increase of rent-to-own scheme and reintroduction of loan guarantee for first-time home buyers would further propel buying interest of first-time home buyers. In this context, we expect property developers that are focus on selling properties in the affordable price range namely **Mah Sing Group (BUY, TP: RM0.74)** and **Glomac (BUY, TP: RM0.48)** to benefit from the higher buying interest from first time home buyers. Extension of stamp duty exemption to sub-sale property is expected to increase vibrancy of property market despite it is expected to not impact property developers which build new properties. The measure is expected to benefit first time home buyers as it allows first time home buyers to have more options when making buying decision. In other words, buyers may opt for sub sale property which located nearer to city centre and have better accessibility while new

PH Manifesto Measures	Remarks
	development maybe further away from city centre.

10. Telecommunication Sector (Maintain NEUTRAL)

PH Manifesto Measures	Remarks
1) To broaden high speed internet penetration to the entirety of Malaysia so that internet poverty can be eradicated.	There is no fibre broadband or mobile Internet price cuts measures in the manifestos. Nonetheless, there is higher chance that DNB and SWN model to roll out 5G will be assessed again. This is because PH, being an opposition previously had once raised concerns on the risk of implementing 5G via DNB in terms of cost, transparency and governance. Nonetheless, if PH were to divert from the SWN model, to either allow DWN or individual deployment by the MNOs, it will be negatively impact telco sector given it prolonged uncertainty on the 5G rollout plan and pose reputational risk to the government. Overall, Maxis, Digi and Celcom prone to be the key beneficiaries if individual deployment were to replace SWN model given their huge market share in the mobile space and financial standing to invest in 5G rollout plan. We remain NEUTRAL view due to the uncertainty in regulatory development.

11. Transportation Sector (Port) (Maintain NEUTRAL)

PH Manifesto Measures	Remarks
Port	
Upgrading the POIC Lahad Datu Port and Sapangar Port, as well as building Kudat Port	Sapangar Bay Container Port (SBCP) is one of the ports being operated by **Suria Capital Holdings Berhad (BUY, RM1.24)** (Suria), the sole operator of the main ports in Sabah. The capacity expansion of this flagship port, from 0.5m TEUs to 1.25m TEUs, is currently in the works and is expected to complete by Feb-25 as the groundworks have started in Sep-21. In the previously tabled Budget 2023, RM250.0m was earmarked for the port expansion. The port, which handles about 70% of the state's containerised exports and imports, would be positioned as the regional hub for Brunei, Indonesia, Malaysia, Philippines, and EAST ASEAN Growth Area (BIMP-EAGA) region.
Gazetting Free Trade Zones in Kota Kinabalu Industrial (KKIP), Lahad Datu POIC and Sipitang Oil & Gas Industrial Park (SOGIP)	The plan to create a free economic zone at KKIP has been outlined in Sabah Development Corridor (SDC) Blueprint 2.0 2021-2030 with the intention of expanding it to other locations. Once in place, this move should benefit Suria as the improved ease of doing business for investors would likely translate into an influx of foreign direct investments which would then spur cargo generating activities in the state.
Solving basic infrastructure problems in all industrial parks in Sabah involving water, electricity, sewerage systems and roads by providing grants	Limited infrastructure in the state is one of the primary contributing factors to the high cost of logistics hence this issue should be addressed to lower the cost of doing business in Sabah.

12. Utilities Sector (Maintain NEUTRAL)

PH Manifesto Measures	Remarks
Tabling of the Climate Change Act	The Climate Change Act will set targets for carbon emissions and forest coverage by 2040. As it is, Malaysia is a signatory of the Paris Agreement with a target of reducing carbon intensity by 45% (unconditional) by 2030 versus 2005 levels. The path to decarbonisation for the power sector is well laid out via a target of increasing RE to 31% of total generation capacity mix by 2025 and 40% by 2035. Meanwhile, the first coal PPA is expected to expire in 2029 with a total 7,056MW of coal capacity estimated to fall off the grid by 2040.
Increasing investment in RE; more incentives to be provided to private premises including homes that transition to solar energy To ensure 20% of 10,500 public premises will be given allocations for smart energy and RE installation projects as part of large-scale infrastructure expenditure	The increase in RE incentives for private premises should encourage further take-up of the net energy metering (NEM) and self-consumption (SELCO) programs, where take-up in the residential sector has been much slower compared to the commercial and industrial sectors. As NEM and SELCO involves mainly solar installations, we expect solar players (both EPCC and leasing providers) such as **Solarvest, Samaiden, Pekat, Sunview, Ranhill (BUY, TP: RM0.67)** and G-Sparx (owned by **Tenaga Nasional Bhd)** to benefit. Similarly, these players should benefit from potentially more aggressive rollout of RE installation at public premises. In the long run, the increase in self-generated power will gradually reduce reliance on power from the grid, therefore potentially impacting **Tenaga (NEUTRAL, TP: RM8.45**) negatively, albeit this will be very gradual and is long-term in nature. While Tenaga itself might benefit from higher RE installations, these are much smaller in scale relative to Tenaga's existing thermal capacity, being the incumbent power player in the local market.
Gazetting Free Trade Zones at Kota Kinabalu Industrial Park, POIC Lahad Datu and Sandakan as well as SOGIP to attract investments into Sabah	Increased investments into Sabah's industrial sector will benefit the state's power generators from higher potential electricity demand and therefore, higher dispatch. **Ranhill (BUY, TP: RM0.67)** is a key proxy to the Sabah power sector being the largest IPP with ~30% share of Sabah generation capacity with a total 380MW CCGT capacity.
Establishment of Malaysia as a regional hub for data centres	**YTL Power (BUY, TP: RM0.90)** has outlined its data center business as one of its growth areas – the group completed the acquisition of the Kulai Young Estate in Johor in January 2022 and intends to allocate a portion of the land for development of a total 500MW green data center to be powered by solar energy. The first phase of the development is expected to be completed by 2024.
Upgrading of basic infrastructure at all industrial parks including water, electrical, sewerage systems and roads	For water utilities specifically, this could indirectly enhance consumption and therefore benefit water operators. **Ranhill (BUY, TP: RM0.67)** stands to benefit - it owns an 80% stake in Ranhill SAJ, which is the sole water operator for the state of Johor.

NEGATIVE

13. Glove Sector (Downgrade to NEGATIVE)

PH Manifesto Measures	Remarks
Minimum Wage Policy. A structured minimum wage policy plan to achieve the status of a high-income nation. This plan must be executed with proper support to ensure that every stakeholder is adequately prepared	All glove companies under our coverage will be impacted, due to their labor-intensive businesses. Namely, **Hartalega (SELL, TP: RM1.78), Kossan Rubber Industries (SELL, TP: RM0.90), Supermax Corporation (SELL, TP: RM0.31),** and **Top Glove Corporation (SELL, TP:RM0.54).** However, the impact is manageable as implementing the increase in a systematic strategy over time will help companies to better prepare for the output raise. Also, the effort in integrating automation in their plants to reduce their reliance on workers will indirectly reduce the impact.
Human Resource. Overcoming labour shortage by streamlining the recruitment process for foreign workers to ensure that MSME operations can continue without disruptions.	All glove companies under our coverage will benefit. Given that glove manufacturers are labor-intensive, this initiative would successfully simplify the recruiting process for foreign workers by minimizing the process time and cost.
Export Incentives. Preparing more export incentives to encourage international trade such as tax incentives for triple deductions on expenditure related to business movement for encouraging export; providing grants and incentives for online marketing or marketing campaigns by local companies to increase global sales.	The export incentive will benefit all companies in our glove sector coverage. This is because all glovemakers export their products to other countries.

D. STRATEGY

Equity Market

Two factors working in tandem – started with possible good news from the US Fed. The market was particularly buoyant yesterday, with the FBM KLCI closing +4.04% to pass the psychological level of 1,500, to 1,501.88. We believe external factors played a key role in the performance of the FBM KLCI as the US Fed is expected to reduce the pace of its rate increase from 75bps previously to 50bps in December. This is based on FOMC meeting minutes whereby FOMC members concluded earlier this month that the US Fed needs to moderate the pace of interest rate hikes soon to reduce the risk of excessive tightening. This followed encouraging performance of regional stock markets as well.

Removal of one domestic uncertainties. In addition, we opine that the resolution of the domestic political situation was also another factor that worked in tandem with external factors. This had removed an uncertainty in the market. However, we also observe that the FBM KLCI had been resilient since GE15 despite the uncertain political situation as it only fell -0.4% (by -5.82 points) since Thursday 17 November 2022 (prior to the election) until Wednesday 23 November 2022.

Key Sectoral Impacts

Consumer sector a clear winner... with various assistance promised in the manifesto. The various initiatives, including continuing the allocation of BSH, childcare subsidies, and RM100 of Jom Shopping vouchers for the elderly, would increase consumer spending on essential items. We think that consumer staples with household brand names are expected to be the big winner from the various subsidies introduced. Meanwhile, we opine that only selected consumer discretionary companies will be benefitted, notably retailers like **Aeon Co (BUY, TP: RM1.81).** Given that Aeon's General merchandise store (GMS) and supermarket divisions provide a one-stop shop for households to meet their everyday necessities.

Production incentives. Providing ample incentives to increase the production of food and basic essentials. This is a long-term solution to alleviate market pressures caused by rising prices. With higher production, costs can be brought down and offer enough incentives to boost staple food production will benefit poultry companies. Meanwhile, Export-oriented consumer companies would benefit from Export Incentives**.**

Sarawak and Sabah related would likely be a beneficiary. Under the manifesto blueprint of Pakatan Harapan, the two states are expected to benefit via receiving more economic incentives in order to reduce unemployment rates, improve basic infrastructure facilities, ensuring Malaysia Agreement 1963 to be implemented, and provide autonomy power for the state governments on health and education sectors. In addition, Pakatan Harapan proposes to promote greater international trade activities in Sabah particularly by giving a free trade zone status to Kota Kinabalu Industrial Park (KKIP), POIC Lahad Datu and Sipitang Oil & Gas Industrial Park (SOGIP). We believe that this will benefit the state's power generators from higher potential electricity demand and therefore, higher dispatch, i.e. Sabah based utility player. It will also benefit Oil & Gas sector as well.

Sarawak and Sabah based construction sector will also benefit. Part of PH's manifesto includes the upgrading of basic infrastructure such as water, electricity, sewerage systems and roads in all industrial parks in the Peninsula and also in Sabah. Also we believe that road infrastructure works may spread to Sarawak (although not specifically mentioned in the manifesto) as the state requires about 7,530km of new roads while 3,487km need upgrading. The beneficiaries for such development in Sarawak would be **Cahya Mata Sarawak (BUY, TP: RM1.37)** being the sole cement supplier in the state which is also involved in construction, and also **KKB Engineering (BUY, TP: RM1.50).**

Possibly more prudent DE could moderate the construction sector. Though not stated explicitly in the manifesto, we can expect PH to be more prudent in their expenditure for development and infrastructure projects. This may result in a potential review of plans that are already in the pipeline, which could delay its execution progress or termination, such as what was seen after 2018. However, we expect the upcoming MRT3 to go on, as it is the crucial final piece to complete Kuala Lumpur's urban rail network and the key mega project to give the construction sector a boost.

Telecommunication sector might see prolonged uncertainty on 5G. PH, being an opposition previously had once raised concerns on the risk of implementing 5G via DNB in terms of cost, transparency and governance. If PH were to divert from the SWN model, to either allow DWN or individual deployment by the MNOs, it will be negatively impact telco sector given it prolonged uncertainty on the 5G rollout plan and pose reputational risk to the government.

We downgrade the Glove sector to NEGATIVE. All glove companies under our coverage will be impacted by the minimum wage policy, due to their labor-intensive businesses. However, the impact is manageable as implementing the increase in a systematic strategy over time will help companies to better prepare for the output raise. Also, the effort in integrating automation in their plants to reduce their reliance on workers will indirectly reduce the impact. This should offset the fundamental weakness the sector is facing at the moment.

Market Outlook

Investors' attention would soon revert outward following jubilant rally. As alluded to in our earlier post-GE15 report, the equity market is expected to recover together with the announcement of a new government. Going forward, following the jubilant rally post PM-10 announcement which saw the FBM KLCI catapulted by nearly 60 points to above 1,500 points level, we expect investors' attention to revert outward in short order.

Expectation on Fed actions to influence short-term market sways. Most equity markets around the world have been on an upward trajectory at least since earlier this month in line with the heightened expectation for a Fed pivot in its upcoming December meeting. At current juncture, the interest rate futures market is implying circa 76% probability for a 50-bp hike next month.

Strengthening Ringgit, a source of tailwind. Moreover, the US Dollar is weakening against most currencies including Ringgit since earlier this month in view of the impending Fed pivot. This situation may progressively attract foreign funds into our region and Malaysia in particular. Hence, a source of tailwind to our market.

Feel-good feeling from new government in the near term. As pledged in its election manifesto, we believe the new PH-led government would introduce some changes or re-alignments to the existing economic policies and programs. Nevertheless, its eventual (either net positive or negative) impact on the macro economy and corporate earnings may manifest mostly over the medium to longer-term. Having said that, as manifested by the massive jubilant market rally, we are cognizant of the immediate feel-good feeling engendered by the appointment of the new government on investors' sentiment which may linger over the short term.

Revise FBM KLCI year-end 2022 target to 1,550 points. Thus, we raise our **FBM KLCI year-end 2022** PER valuation target (from 14.9x) to 15.2x and our point target (from 1,520 points) to **1,550 points**. Nevertheless, we maintain our preliminary FBM KLCI year-end 2023 PER valuation target at 14.9x and our point target at 1,700 points.

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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