BUDGET 2023

Anchoring Domestic Demand

MIDF Research Team
research@midf.com.my

EXECUTIVE SUMMARY

1. DOMESTIC ECONOMY

Malaysia's GDP growth set to expand at +4.5% for 2023. The government of Malaysia foresee the economy to expand by +4.5% for 2023, a moderation from +8.7% in 2022. Domestic demand including expansionary fiscal policy is projected to continue supporting the economic growth.

Expecting slower external trade performances amid global uncertainties. The government predicts lower real exports growth of +3.1% in 2023 (1st Edition Budget 2023: +1.6%) as compared to +12.8% in 2022.

Domestic demand continues to anchor growth. As domestic economic recovery continues, Malaysia's private consumption expenditure is expected to increase steadily by +6.1% in 2023 (1st Edition Budget 2023: +6.3%). Continuous recovery in labour market, improving income growth and strengthening of tourism activities amid China's reopening will fuel private consumption and domestic demand.

2. PUBLIC SECTOR FINANCE

Deficit to GDP to shrink faster to -5.0% of GDP this year and -3.2% by 2025. According to update fiscal outlook, the government is sticking to its fiscal consolidation path, with the size of fiscal deficit to decline to -5.0% of GDP this year.

Higher tax collection despite reduced rates for M40 and SMEs. Total tax collection will increase further to RM218.3b, but overall fiscal revenue to fall by -1% to RM291.5b on lower dividends from PETRONAS and BNM.

Still larger allocation for DE. The RM388.1b expansionary budget tabled by the government today is even larger than RM372.3b budget document tabled in Oct-22, with even larger allocation of RM97b for development expenditure (DE) which will still cover more than a quarter of government spending.

3. MOVING FORWARD

Consumer sector to benefit from continued assistance. We expect the various financial aid, subsidies, and initiatives provided to the B40 income group, and the civil servants will support domestic demand and boost consumer spending on essential items. As such, we anticipate that the cash assistance will boost sales for consumer-staple-related companies.

Construction sector is a clear winner with another record-breaking DE. With the higher DE, the most obvious beneficiary of Budget 2023 will be the construction sector. We expect 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.

Announcements relating to capital markets may help to reinvigorate the local capital market. The proposed capital gains tax on the disposal of non-listed shares may attract more listings. Moreover, the Securities Commission would facilitate more secondary market for private market instruments to improve liquidity and enable better price discovery. We also like the fact that the issuance of dual-class shares would be permitted in order to encourage the listings of local high growth technology companies.

External factors to continue hold major sway over equity market sentiment. However, in the near-term, we expect external factors to continue hold major sway over equity market sentiment. Especially on the prevalent uneasiness over possible postponement in the Fed pause thus greater downward pressure on output growth, hence higher likelihood of recession. We posit the risk asset markets and equity in particular are tilting sideways or even down in the short term.

However, in the medium term, we expect the risk-on mode to return after the anticipated Fed pause. Hence, we maintain our **FBM KLCI end-2023 target at 1,700 points** or PER23 of 14.9x.

A. ECONOMIC COMMENTARY AND ANALYSIS

Malaysia's GDP growth set to expand at +4.5% for 2023. The government of Malaysia foresee the economy to expand by +4.5% for 2023, a moderation from +8.7% in 2022. Domestic demand including expansionary fiscal policy is projected to continue supporting the economic growth while the government foresee slower external trade sector growth. However, the government is slightly optimistic on external trade sector as compared to the first edition of Budget 2023. The latest forecast is based on actual figures of 2022 and considering the sooner-than-expected China reopening.

Expecting slower external trade performances amid global uncertainties. Many international institutions including World Trade Organization (WTO) and International Monetary Fund (IMF) are expecting slower global trade and economic growth for this year. Tightening monetary policy in many countries, elevated commodity prices and geopolitical tensions are among downside risks affecting global trade to grow at tepid pace in 2023. Hence, the government of Malaysia forecast lower real exports growth of +3.1% in 2023 (1st Edition Budget 2023: +1.6%) as compared to +12.8% in 2022. 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 China's economic growth.

Domestic demand continues to anchor growth. As domestic economic recovery continues, Malaysia's private consumption expenditure is expected to increase steadily by +6.1% in 2023 (1st Edition Budget 2023: +6.3%). Continuous recovery in labour market, improving income growth and strengthening of tourism activities amid China's reopening will fuel private consumption and domestic demand. The government highlight that Sumbangan Tunai Rahmah cash aid for B40 and special financial assistance to civil servants and government pensioners would support household spending especially in 1HCY23. On top of that, the government lends extra support for consumer demand via individual income tax cut by 2.0% particularly those with annual income of RM50-RM100K per annum. The government expect steady pick-up in distributive trade, transportation & storage, ICT, F&B, accommodation, finance and insurance subsectors moving forward underpin by improving labour market and positive real wage growth.

Higher private investment spending. Private investment is projected to pick-up strongly by +5.8% in 2023 (1st Edition Budget 2023: +3.7%) as Malaysia continues to benefit from expanding global demand, elevated commodity prices and strengthening domestic economy. In addition, lower domestic political temperature is among the key attractive factors. 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 record-high development expenditure, construction sector to get busier. Public investment is projected to continue growing above +7% (1st Edition Budget 2023: +2.1%) among others attributed by public infrastructure projects such as KVDT Phase 2, Pan-Borneo Highway, ECRL, LRT3 and RTS Link. In addition, increase of residential, non-residential buildings and facilities will further boost investment spending as well as construction sector. The 5G roll-out also will boost civil engineering subsector.

Oil price forecast slashed by USD10pbd. For 2022, average Brent crude oil price was at USD100.6pbd and CPO price at RM5,161 per tonne. As for this year, the government is seen less optimistic on Brent crude oil price at USD80pbd (1st Edition Budget 2023: USD90pbd). 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 agriculture and mining sectors to expand firmly next year by +1.1% and +1.2% respectively (1st Edition Budget 2023: +2.3% and +1.1% respectively). The government expect oil palm, livestock and fishing sectors to increase steadily meanwhile rubber and forestry & logging subsectors are predicted to post negative growth in 2023. Apart from elevated energy prices, the completion of new pipeline projects in Sarawak is seen to benefit and able to uplift mining output in 2023.

Inflationary pressure to remain stable at +2.8-3.8%. Despite of lower oil price forecast, inflation rate is expected to remain at +3.2%. The government highlight of fluctuations in foreign exchange rates and prolonged supply disruptions affecting the outlook of inflation. We believe pressure from food inflation to be lesser this year following better global & domestic supply chains and modest appreciation of the Ringgit. The government raised its subsidies & social assistance allocation from RM44b (15.4% of total OPEX) in the 1st Edition of Budget 2023 to RM58.6b which is equivalent to 20.3% of

OPEX (2022: 23%). Judging from that, we believe the government will keep the current fuel subsidy mechanism until end of this year. If the targeted subsidy scheme were to be implemented, 4QCY23 will be the earliest kick-off period.

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 (2022: 3.8%). Even though still higher than 2019's unemployment rate 3.3%, the government expect post-pandemic recovery momentum to sustain and further expansion of all economic sectors which will demand more workers. On top of that, the government remain committed to create more high-paying and high-productivity jobs via attracting quality investments and expedite digitalisation.

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

	2021	2022	2023[f]
Real GDP	**3.1**	**8.7**	**4.5**
By Expenditure			
Private Consumption	1.9	11.3	6.1
Private Investment	2.6	7.2	5.8
Public Consumption	5.3	3.9	1.0
Public Investment	(11.3)	5.3	7.0
Real Exports	15.4	12.8	3.1
Real Imports	17.7	14.2	2.3
By Sector			
Agriculture	(0.2)	0.1	1.1
Mining	0.3	3.4	1.2
Manufacturing	9.5	8.1	3.9
Construction	(5.2)	5.0	6.1
Services	1.9	10.9	5.3

Source: MOF; MIDFR

Deficit to GDP to shrink faster to -5.0% of GDP this year and -3.2% by 2025. According to update fiscal outlook, the government is sticking to its fiscal consolidation path, with the size of fiscal deficit to decline to -5.0% of GDP this year. This is a quicker fall (vs. Oct-22 estimate: -5.5% of GDP) due to both the smaller size of deficit that the government aims to achieve (2023f: -RM93.9b; 2022: -RM99.5b) as well as the stronger-than-expected GDP growth last year (at +8.7%), which exceeded government's forecast of +6.5% to +7.0%. The smaller deficit will be realized mainly through reduced budget for operating expenditures (OE), in contrast to higher allocation for development expenditure (DE). Although there is no more allocation for Covid-19 Fund, this did not translate into significant decline in spending because of the larger budget for DE. Ultimately, the government reiterated its projection that the size of fiscal deficit will consolidate to -4.1% of GDP based on the Medium-Term Fiscal Framework for 2023-2025, and down to -3.2% by 2025.

Higher tax collection despite reduced rates for M40 and SMEs. With the actual collection last year was higher than estimated, the government keeps an optimistic projection that the total tax collection will increase further to RM218.3b. The main source will be from direct taxes on both corporate income and personal income. In particular, the government anticipates the collection from Prosperity Tax for the Assessment Year 2022 will be received this year. In contrast, other sources of income from petroleum income tax, indirect taxes and even non-tax income are projected to be lower than last year. The decline in petroleum-related income is closely linked to the projected decline in oil prices as well as less dividend from PETRONAS. Overall fiscal revenue is expected to fall by -1% to RM291.5b mainly because of reduced collection in non-tax revenue, taking into account lower dividends from PETRONAS and BNM.

Table 2: Government Finance 2021-2023

	RM Billion			YoY%		
	2021	**2022[p]**	**2023[f]**	**2021**	**2022[e]**	**2023[f]**
Revenue	233.8	294.4	291.5	3.9	25.9	(1.0)
Operating Expenditure	231.5	292.7	289.1	3.1	26.4	(1.2)
Current Balance	**2.2**	**1.7**	**2.4**	370.7	(25.6)	41.8
Development Expenditure	64.3	71.6	97.0	25.1	11.4	35.5
Covid-19 Fund	37.7	31.0	0.0	(0.8)	(17.9)	(100.0)
Overall Balance	**(98.7)**	**(99.5)**	**(93.9)**	12.7	0.8	(5.6)
Overall Balance as % of GDP	(6.4)	(5.6)	(5.0)	-	-	-

Source: MOF; MIDFR

Table 3: Federal Government Revenue 2021-2023

	RM Billion			YoY%		
	2021	**2022[p]**	**2023[f]**	**2021**	**2022[e]**	**2023[f]**
Tax Revenue	**173.7**	**208.8**	**218.3**	**12.5**	**20.2**	**4.6**
Direct Tax	130.1	153.5	164.1	15.6	18.0	6.9
Corp. Income Tax	79.8	82.1	96.4	59.5	2.9	17.4
Personal Income Tax	27.1	33.8	35.3	(30.6)	24.9	4.5
Petroleum Income Tax	11.6	23.4	18.2	(9.4)	102.4	(22.1)
Indirect Tax	43.6	55.3	54.1	4.1	26.8	(2.1)
Non-tax Revenue	**60.0**	**85.6**	**73.2**	**(15.0)**	**42.5**	**(14.4)**
Total Revenue	**233.8**	**294.4**	**291.5**	**3.9**	**25.9**	**(1.0)**
Total revenue as % of GDP	15.1	16.5	15.4	-	-	-

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

Still larger allocation for DE. The RM388.1b expansionary budget tabled by the government today is even larger than RM372.3b budget document tabled in Oct-22, with even larger allocation of RM99b for development expenditure (DE) (inclusive of contingency savings of RM2b) which will still cover more than a quarter of government spending. Excluding the RM2b in contingency savings, the higher DE allocation will be directed mostly to Economic Sector (share: 56.7% of total DE), with additional RM1b or total allocation of RM17.6b for the transport industry. While the government stresses its intention to find ways to save and further reduce the estimated cost for MRT3 development, there will be development of Sanglang Port in Perlis and proposed plan to develop in Pulau Carey, Klang. In addition, we expect the higher DE will be used for previously announced infrastructure projects such as KVDT Phase 2, ECRL, LRT3 and 5G rollout.

Subsidies to be reduced from last year. The size of operating expenditures (OE) is projected to be reduced by -4.3% from 2022, which will be largely explained by the reduced allocation for subsidies & social assistance. Although the estimated reduction in subsidies will be equivalent to -RM8.8b from the amount spent last year, the size of reduction was smaller than -RM16.9b reduction initially planned in the earlier budget document tabled back in Oct-22. To a certain extent, we see this as more gradual withdrawal of subsidies following the government commitment to offer a rakyat-friendly fiscal budget. We believe this also corresponds to the expected reduction in oil subsidy as Brent prices projected to average lower at USD80pb (2022: USD99pb), even lower than USD90b imputed in the previous forecast in Oct-22. However, it was not mentioned about the plan to move towards targeted subsidy scheme for the oil subsidy allocation, which is in line with our expectation that the Government is still reviewing the possible options to be rolled out.

Debt service charges will increase to 15.9% of OE. On the other hand, apart from higher allocation for emoluments and retirement charges, among components under OE which is projected to increase this year will be debt services

charges. Although the amount will increase to RM46.1b which is the same amount estimated in Oct-22, it will cover a larger portion or 15.9% of OE in 2023. We maintain our call that there is a need to reduce reliance on debts so the size of debt service charges to OE will not grow bigger, which will use up fiscal space to spend on other expenses. Emoluments remains as the largest component in OE, which will cover a bigger share or 31.4% of total OE in 2023 (2022: 30.4%).

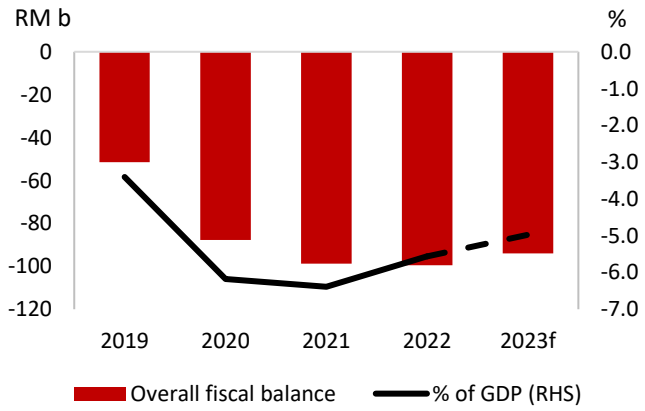
Table 4: Federal Government Expenditures 2021-2023

	RM Billion			YoY%		
	2021	**2022[p]**	**2023[f]**	**2021**	**2022[e]**	**2023[f]**
Operating Expenditures (OE)	**231.5**	**292.7**	**289.1**	**3.1**	**26.4**	**(1.2)**
Emoluments	85.9	87.8	90.8	3.4	2.3	3.4
Retirement charges	29.1	31.4	31.1	5.7	7.9	(1.0)
Debt service charges	38.1	41.3	46.1	10.4	8.4	11.7
Supplies & services	24.9	34.7	32.0	(15.0)	39.2	(7.7)
Subsidies & social assistance	23.0	67.4	58.6	16.6	192.3	(12.9)
Development Expenditures (DE)	**64.3**	**71.6**	**97.0**	**25.1**	**11.4**	**35.5**
Economic	31.8	39.1	55.0	1.9	27.0	(13.8)
Transport	13.0	16.6	17.6	1.1	5.0	7.1
Social	22.6	21.1	26.5	(5.3)	12.0	8.8
Security	7.5	8.2	11.5	0.1	6.1	(1.3)
Total Expenditures (OE+DE)	**295.8**	**364.3**	**386.1**	**7.2**	**23.2**	**6.0**
Total expenditures as % of GDP	19.1	20.4	20.4	-	-	-

Source: MOF; MIDFR

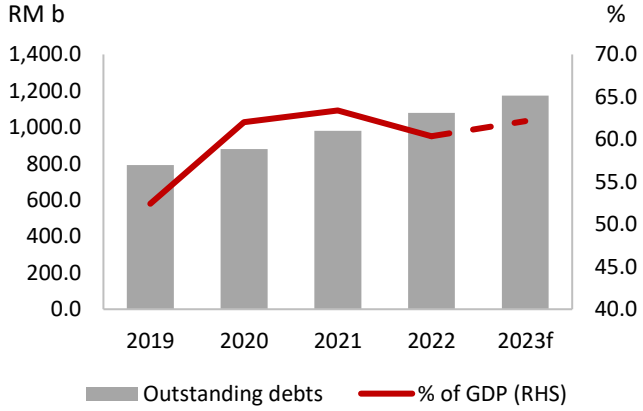
Deficit means reliance on debts to finance development spending. While the smaller size of fiscal deficit will result in a quicker consolidation towards -5.0% of GDP, we estimate the outstanding amount of government debts will grow further mainly to cover development spending plans. If the full amount of RM93.9b to be covered by new debts, we estimate this will cause the ratio of government debt to GDP to increase to 62% of GDP in 2023 (2022: 60.1% of GDP). However, based on the government's intention to improve its fiscal and debt management (to give priority to finance spending with high impact to the economy), this may translate into smaller net increase in government debts. The government will need to take a more proactive action to ensure debts will not grow out of control which will limit fiscal space, especially when debt services charges becomes a larger portion of operating expenditures.

Chart 1: Fiscal balance (in RM b)



Source: MOF, MIDFR

Chart 2: Federal Government Debts (in RM b)



Source: Macrobond, MOF, 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 2025 Extension of import, excise and sales tax exemption for CKD EVs till 31st December 2027	NA	We are broadly positive on the extensive EV incentives in Budget 2023. The 2-year extension of the import and excise duty exemption for CBU EVs (from the original expiry of December 2023 previously) is most welcome and should encourage further EV take-up in the country. Similarly for CKD EVs, there is a 2-year extension till December 2027 (from the original expiry of December 2025) for the current import duty exemption on CKD components as well as excise duty and sales tax exemption on CKD EVs. Though the extensions are much shorter than the MAA's previous request for a 10-year extension, we believe it could still incentivize the OEMs to expedite introduction of locally assembled EVs, in particular, the national cars. Beyond the OEM-centered policy however, we are cognizant of the time and effort required to develop the extensive domestic supply chain for this significant industry shift (particularly for Perodua which is highly localized). As EVs are still in the seeding stage in Malaysia, we expect more aggressive new launches to take place over the next 36 months, enhancing the mix and price range in the market. We stick to our view that it is critical to introduce EVs at Malaysia's 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. Current potential beneficiaries of the EV incentives are **BAuto (BUY, TP: RM2.67)**, **MBM Resources** (via subsidiary Federal Auto which is a dealer of the Volvo brand - **BUY, TP: RM4.70**), **Sime Darby (Non-Rated)** and **Tan Chong Motor (NEUTRAL, TP: RM1.19)** given the 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 this year, while **UMW (BUY, TP: RM5.00)** is largely expected to launch the Toyota bZ4X EV crossover in FY24. Meanwhile, the income tax exemption and ITA for EV charging equipment manufacturers could incentivize investments into local charging equipment production, allowing the country to tap on growth of this segment of the EV ecosystem. The charging industry is expected to expand along with growth of the domestic EV population, but we stress again that meaningful growth of the local EV population is subject to models that can break into the mass market price points.
100% income tax exemption (2023 till 2032) and Investment Tax Allowance (ITA) of 100% for 5 years for EV charging equipment manufacturers	NA	
Tax deduction for companies renting non-commercial EVs on rental amounts of up to RM300K effective from year of	NA	The incentive for rental of non-commercial EVs could spur demand for EV subscriptions we believe, providing a potentially good alternative to outright EV purchases which require high initial capital layout and long-term financial commitment by the consumer. Tan Chong Motor is

Measures	Allocation (RM'm)	Remarks
assessment 2023 till 2025		already offering the Nissan Leaf for subscriptions and could be a beneficiary of improved take-up of this service. We believe the incentive could lead other OEMs to follow-suit, especially during this introductory stage of EVs in the country.
A 2-percentage points reduction in income tax rate for resident individuals at the chargeable income band of RM35,001 to RM100,000	NA	The proposed reduction in income tax rate for the middle-income earners is likely to: (1) Improve net salaries which will improve borrowing capacity, (2) Improve consumers' disposable income. These bode well for auto demand and should be a positive catalyst for the broader sector.

2. BANKING SECTOR (Maintain POSITIVE)

Measures	Allocation (RM'm)	Remarks
Strategic sector financing for SMEs via guarantees by Syarikat Jaminan Pembiayaan Perniagaan (SJPP)	20,000	Provides a buffer to SME loan delinquency. Most notable beneficiary will be SME-specialist **ABMB (BUY, RM4.36).**
SME financing via BNM guarantees	10,000	
Various allocations to tackle financial scams	-	These include: 1) Allocations to the National Scam Response Centre 2) The creation of a "kill switch" operable by the customers

3. CONSTRUCTION SECTOR (Maintain POSITIVE)

Measures	Allocation (RM'm)	Remarks
Gross development expenditure allocated for 2023	97,000	The planned gross development expenditure for 2023 is the highest in the history of Malaysia's annual budget, representing a significant increase of +35.1% over RM71.8b last year. The Government's commitment remains in pump priming the economy in a post-Covid world and this can be effectively executed via the construction sector, considering its strong linkages with other economic sectors. Ensuring fair and equitable award of jobs is the top of the Government's priority with the Prime Minister stressing on tenders. Though no mega projects were announced except for the revision of costs to the MRT3, a slew of infrastructure works and public utilities, which we will elaborate below. 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. A rise in construction activities also augurs well for cement manufacturers such as **Malayan Cement (NEUTRAL, TP: RM2.61)** being the dominant player in the peninsula and **Cahya Mata Sarawak (BUY, TP: RM1.47)**, being the sole cement manufacturer in Sarawak.

Measures	Allocation (RM'm)	Remarks
Mass Rapid Transit 3 (MRT3) Circle Line review	45,000	One thing that is clear from this announcement in the Budget is the certainty of MRT3 being constructed, though we should expect further delays as the Government is currently reviewing the project with an aim to bring the cost down from RM50b to RM45b. Cost reductions would come from potential realignment, which also determines the land that needs to be purchased by the Government, on top of reducing the number of stations or altering station specifications. It was previously reported that the construction cost for MRT3 was expected to be RM34.3b, RM5.6b for project management, RM8.4b for land acquisition and RM1.9b for other costs. Our top picks for the three main MRT3 packages are **Gamuda (BUY, TP: RM5.04), Sunway Construction (BUY, TP: RM2.00)** and **IJM Corp (BUY, TP: RM1.90).**
Road infrastructure projects		Road-related infrastructure projects make up the bulk of construction-related allocation in the Budget. With various jobs spread across the country, these provide good job replenishments for both small and large contractors alike.
1) Maintenance and upgrading of Federal roads	2,700	
2) Smaller road maintenance packages for G1-G4	300	
3) Upgrading and construction of rural and inter-village roads	1,500	
4) Construction of new road from Habu to Tanah Rata, Cameron Highlands (Pahang)	480	
5) Upgrading road from Jalan Tun Hamzah to the junction of Semabok Lebuh AMH (Melaka)	300	
6) Construction of road and Sungai Sepang bridge connecting Bukit Pelandok (Port Dickson) and Sungai Pelek (Sepang)	160	
7) Construction of an overtaking lane on the Senai Desaru Expressway; upgrading of the North-South Expressway from Yong Peng Utara to Senai Utara (Johor) from four to six lanes	525	
8) Expediting Pan Borneo Sabah and the Sarawak-Sabah Link Road, involving more than 1,000km	20,000	
East Malaysia		
Development expenditure for	6,500	The development expenditure allocated for Sabah and Sarawak

Measures	Allocation (RM'm)	Remarks
Sabah		includes RM1b for the development of border towns facing Kalimantan - Kalabakan in Sabah and Ba'kelalan in Sarawak. Coupled with the public amenities allocation, these bodes well for Sarawak-based companies such as **Cahya Mata Sarawak (BUY, TP: RM1.47)** and **KKB Engineering (BUY, TP: RM1.50)**
Development expenditure for Sarawak	5,600	
Allocation for public amenities in Sabah and Sarawak, involving projects such as roads, lampposts, water supply and electricity	2,500	
Flood mitigation projects		Torrential downpours leading to floods are massive issues that affect thousands of Malaysians annually therefore, flood mitigation projects are among critical projects that the Government needs to carry out. While it is a fair playing field as tenders would have to be called, we can expect the bigger names in the sector to vie for the larger sized packages. Among them are **Gamuda (BUY, TP: RM5.04)** which is renowned for building the SMART tunnel, **IJM Corp (BUY, TP: RM1.90)** and **MRCB (BUY, TP: RM0.40)**
1) Flood mitigation plan in Sungai Johor, Kota Tinggi	NA	
2) Construction of dual-purpose resorvoir along the Klang River and Rasau River (Selangor)	2,000	
3) Phase 3 of the integrated river basin management in Sungai Golok (Kelantan)	500	
4) Three more flood mitigation projects	NA	
Education projects		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: RM0.44)** and **WCT Holdings (BUY, TP: RM0.57)** to be beneficiaries in this space.
1) Upgrading buildings and infrastructure at 380 dilapidated schools, particularly those in Sabah and Sarawak	920	
2) Maintenance of facilities (toilets, wiring, and irrigation) and replacement of furnitures and equipments in all types of schools	900	
3) Construction of seven new schools including SMK Nabalu (Sabah), SMK Dudong (Sarawak), SK Paya Dusun (Terengganu) and SMK Denai Alam (Selangor)	560	
4) Upgrading of infrastructure and replacement of obsolete equipments at public universities	436	

Measures	Allocation (RM'm)	Remarks
Healthcare		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: RM1.90**) and **WCT Holdings (BUY, TP: RM0.57).**
1) Construction of women and children's block with a 476-bed capacity in Hospital Melaka	700	
2) Upgrading 26 hospitals, including the expansions of Kuala Kangsar Hospital, Jelebu Hospital and Pontian Hospital	NA	
3) Upgrading of 400 dilapidated clinics	280	
Airport expansion projects		While no figures were revealed, the Prime Minister said it would be much lower than the cost to build a new airport in Kulim, which is estimated to be RM7b. Among companies with track records of airport-related jobs are **Gamuda (BUY, TP: RM5.04), Sunway Construction (BUY, TP: RM2.00**) and **WCT Holdings (BUY, TP: RM0.57)**. We believe these jobs would be in the tunes of billions, which is large enough to excite most industry players.
1) Penang International Airport expansion	NA	
2) Subang Airport expansion	NA	
Port developments		The development of Sanglang Port is to enable it handle cargo petroleum and bulk cargo. The idea of a main hub in Carey Island is to solidify Port Klang as the main port hub in Southeast Asia. Development of port infrastructures improves connectivity, generating more economic activities in the particular states. Contractors with experience building ports are **Gamuda (BUY, TP: RM5.04, WCT Holdings (BUY, TP: RM0.57)** and **Muhibbah Engineering (SELL, TP: RM0.47).**
1) Construction of Sanglang Port in Perlis	NA	
2) Building of new coastal erosion structures between Kuala Sanglang (Perlis) and Kuala Jerlun Kubang Pasu (Kedah)	NA	
3) Development of a main port on Carey Island by the private sector	NA	
Education projects		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: RM0.44)** and **WCT Holdings (BUY, TP: RM0.57)** to be beneficiaries in this space.
1) Upgrading buildings and infrastructure at 380 dilapidated schools, particularly those in Sabah and Sarawak	920	
2) Maintenance of facilities (toilets, wiring, and irrigation) and replacement of furnitures and equipments in all types of schools	900	

Measures	Allocation (RM'm)	Remarks
3) Construction of seven new schools including SMK Nabalu (Sabah), SMK Dudong (Sarawak), SK Paya Dusun (Terengganu) and SMK Denai Alam (Selangor)	560	
4) Upgrading of infrastructure and replacement of obsolete equipments at public universities	436	
Housing projects 1) Several new Program Perumahan Rakyat (PPR), benefitting 12,400 people	367	We except smaller sized contractors to benefit from these job flows.
2) Construction of 4,250 units of Rumah Mesra Rakyat	358	
3) Maintenance of Rumah Keluarga Angkatan Tentera and refurbishment of quarters and institutions under the Home Ministry	500	
4) Construction of 7,000 houses under Program Satu Anggota Satu Rumah (SASaR) in Kuala Lumpur	NA	
Others Maintenance and upgrading of non-Muslim houses of worship	50	

4. CONSUMER SECTOR (Maintain POSITIVE)

Measures	Allocation (RM 'm)	Remarks
Sumbangan Tunai Rahmah (STR) • Max RM2.5k for households with monthly income less than RM2.5k, depending on the number of children. • RM350-RM600 for single individuals and elderlies. • Additional RM600 in the form	7,600	The various financial aid, subsidies, and initiatives provided to the B40 income group, and the civil servants will increase their household income and boost consumer spending on essential items, particularly by reducing the burden of inflationary pressure imposed on the B40 group. We anticipate that the cash assistance will boost sales for consumer-staple-related companies. This includes **F&N (BUY, TP: RM33.50), QL Resources (BUY, TP: RM6.30), Leong Hup International (BUY, TP: RM0.80), Hup Seng Industries (BUY, TP: RM0.88)**

Measures	Allocation (RM 'm)	Remarks
of food baskets and vouchers for basic food items worth RM100/month for the poorest STR recipients.		and **Nestle Malaysia (NEUTRAL, TP: RM139.50).** Furthermore, we believe **Aeon Co. (BUY, TP: RM1.90)** will benefit from cash assistance as customers purchase necessities at Aeon malls.
e-Tunai Belia Rahmah Credit for youths from 18 to 20 years old	400	
Special Aidilfitri Financial Assistance in Apr 2023 • RM700 to all civil servants below Grade 56 and contractors. • RM350 for Government pensioners	NA	
Bantuan Kanak-kanak	408	
Program Penyeragaman Harga for Sabah, Sarawak, and Labuan	40	
Nursery subsidy of RM180 per month for civil servants. Raise the monthly income eligibility limit for households to RM7k.	NA	
Inisiatif Pendapatan Rakyat (IRP)	750	This allotment to the Ministry of Economy is intended to empower the poor to increase their income potential. We believe that better wage prospects for the poor will boost domestic consumer spending on necessities. The beneficiaries are **F&N (BUY, TP: RM33.50), QL Resources (BUY, TP: RM6.30), Leong Hup International (BUY, TP: RM0.80), Hup Seng Industries (BUY, TP: RM0.88), Aeon Co. (BUY, TP: RM1.90),** and **Nestle Malaysia (NEUTRAL, TP: RM139.50).**
Menu Rahmah • Sale of sets of dishes at a price of RM5	NA	The introduction of various Rahmah initiatives and continuous distribution of necessities to help the poor and vulnerable will provide support to the B40 income group especially by easing the pressure brought on by inflation. We think that consumer staples with a household brand name are expected to be the big winner in supplying basic goods. Namely, **F&N (BUY, TP: RM33.50), QL Resources (BUY, TP: RM6.30), Leong Hup International (BUY, TP: RM0.80),** and **Nestle Malaysia (NEUTRAL, TP: RM139.50).**
Jualan Rahmah • Offers basic goods at prices up to 30% cheaper than the market	100	
Bakul Rahmah • Includes necessities items such as rice, sugar, cooking oil, flour, condensed milk, rice vermicelli, and egg with a value of RM100/m	NA	

Measures	Allocation (RM 'm)	Remarks
• For Heads of hardcore poor households		
Program Community Drumming • Expand the distribution of necessities to 25 new areas such as Paloh and Passin, Sarawak, Pasir Raja, Terengganu and Kuala Krai, Kelantan.	225	
Income tax reduction for M40: • Reduced by 2% for taxable income between RM35k–RM100k. **The higher Income tax rate for high incomes:** • Increased by 0.5–2% for taxable income between RM100k–RM1m.	NA	The income tax reduction for the M40 income group and the civil servant will raise the disposable household income of the group, particularly by reducing the burden on households with mortgage debt. Households will now have more money to spend, which inevitably increases consumption. Given the current rising inflation and interest rate environment, we are cautious that households will be more selective with their spending, favouring essential items above durable. As such, we anticipate stable growth in the product demand for **F&N (BUY, TP: RM33.50), QL Resources (BUY, TP: RM6.30), Leong Hup International (BUY, TP: RM0.80), Hup Seng Industries (BUY, TP: RM0.88)** and **Nestle Malaysia (NEUTRAL, TP: RM139.50)** will remain stable. Contrarily, the tax cut will benefit general merchandise stores like **Aeon Co. (BUY, TP: RM1.90)**.
Rancangan Makanan Tambahan (RMT)	777	The greater allocation of RMT and preschool food programmes to cover the cost of providing nutritious meals to the students and pre-schooler. Given that food like milk, milk products, chicken, and eggs offer a provide solid mix of nutrients. Hence, we think that the biggest winner will be beverages and poultry players with household brand names. Namely, **F&N (BUY, TP: RM33.50), Nestle (NEUTRAL, TP: RM139.50), Leong Hup International (BUY, TP: RM0.80)** and **QL Resources (BUY, TP: RM6.30).**
Preschool Food Programme	108	
Luxury Goods Tax	NA	The implementation of a luxury goods tax with a certain value limit according to the type of luxury goods, including luxury watches and luxury fashion items. We believe that this will have an impact on the rental income received by **AEON Co (BUY, TP: RM1.90)**'s Property Management Services ("PMS") division. Recall that the rental collected for the PMS division is a mix of fixed rental and variable income (a portion of which is obtained from tenant sales). Hence, reduced tenant sales will result in lower rental collections. However, the impact is manageable because rental income from fashion-related tenants accounted for only 21% of total PMS sales in FY22, which is equivalent to 3.1% of total Aeon revenue.

Measures	Allocation (RM 'm)	Remarks
Accelerated Capital Allowance (ACA)	NA	The implementation of various allowances and income tax exemptions encourages businesses to adopt production through automation and digitalization. Note that F&B producers, poultry players, retailers and furniture manufacturers are labour-intensive industries. Overall, automation and digitalization of business operations will reduce reliance on labour, lowering labour costs and increasing earnings. As such, the biggest players are **F&N (BUY, TP: RM33.50), Leong Hup International (BUY, TP: RM0.80), QL Resources (BUY, TP: RM6.30), Spritzer (BUY, TP: RM2.64), Hup Seng Industries (BUY, TP: RM0.88), Aeon Co. (BUY, TP: RM1.90), Nestle (NEUTRAL, TP: RM139.50),** and **Rhong Khen International (NEUTRAL, TP: RM1.35).**
100% Exemption of income tax on capital expenditure.	NA	
LTAT provides 70 acres of plantation land to improve domestic corn grain agriculture	NA	LTAT provides 70 acres of plantation land to improve domestic corn grain agriculture. Note that corn and soybean meal are the primary components of poultry feed, with both corn and soybean meal imported from abroad and thus price dependent on global commodity prices. In the long run, this initiative would reduce local poultry farmers' reliance on imported corn and soybean meal for animal feed. The biggest winners are **Leong Hup International (BUY, TP: RM0.80)** and **QL Resources (BUY, TP: RM6.30).** Given that both Leong Hup and QL are Malaysia's leading importers of feed raw materials,
Agrifood projects in collaboration with several State government	30	

5. GLOVE Sector (Maintain NEGATIVE)

Measures	Allocation (RM'm)	Remarks
Program Pembangunn Kawasan Bertanam Getah Perkebun Kecil	315.5	Budget 2023 includes various initiatives and programmes that aim to boost the production of rubber trees in Malaysia. In the long run, we believe that increased rubber tree production in Malaysia will benefit glove makers under our coverage. In this case, local glove manufacturers might purchase natural rubber from nearby rubber farmers rather than importing it from Thailand, which would result in higher transportation expenses. Note that Malaysia is the largest natural rubber importer from Thailand. The higher local supply of natural rubber will lower import input costs and improve margins. The companies that will benefit are **Hartalega (NEUTRAL, TP: RM1.60), Kossan Rubber (SELL, TP: RM0.88)** and **Top Glove (SELL, TP: RM0.42).**
Cuplump Modified Bitumin (CMB)	50	
Accelerated Capital Allowance (ACA)	NA	The implementation of various allowances and income tax exemptions encourages businesses to adopt production through automation and digitalization. The automation and digitalization of business operations will improve efficiency and productivity while decreasing reliance on

Measures	Allocation (RM'm)	Remarks
100% Exemption of income tax on capital expenditure.	NA	foreign labour. We believe that all glove companies covered by our coverage will benefit from this by reducing their reliance on foreign labour. The beneficiary companies are **Hartalega (NEUTRAL, TP: RM1.60), Kossan Rubber (SELL, TP: RM0.88)** and **Top Glove (SELL, TP: RM0.42).**

6. HEALTHCARE SECTOR (Maintain POSITIVE)

Measures	Allocation (RM'm)	Remarks
Ministry of Health: Allocation increase by +24.8%yoy; the second biggest increases among ministries	36,300	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. 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 more access to hospital and clinical treatments, subsequently to more developments and improvements for the sector.
Pharmaceuticals: Procurement of medicines, reagents, vaccines and consumables (+12%yoy)	4,900	The demand in the pharmaceuticals as a whole is expected to normalize, after the threat of the Covid-19 pandemic had gradually diminished in CY22. Additionally, the disruption in the industry had prepared room for growth in line with: (i) the growing of the aging population, (ii) increasing prevalence of non-communicable diseases (NCDs) and chronic diseases, and (iii) better access to healthcare services and products. We are positive with the trajectory taken by the local pharmaceutical industry for the short-mid-term. We opine that the demand for drugs to treat NCDs, chronic diseases and rare illnesses will continue to increase as the population aged. Given all the measures taken for the pharmaceutical subsector, we strongly believe **Pharmaniaga (BUY, TP: RM0.77)** would continue to gain the benefits from these allocations.
Healthcare Workers: New appointment of over 1,500 permanent and contract medical workers, dentists and pharmacists	3,000	Healthcare professionals had long been dissatisfied by workplace issues faced in the healthcare system. Worryingly, in a 2022 survey by CodeBlue, 73% (approximately 1,600 respondents) had thought of quitting the sector. This is a sign of the potential challenges in government hospitals in retaining healthcare professionals. 8 in 10 respondents of the survey expressed that they are overworked and underpaid, with 74% are in total burnout.

Measures	Allocation (RM'm)	Remarks
		While we believe this allocation could assist in adding into staff shortages, other challenges still remain, including: (i) burdening programmes and services on top of actual work, (ii) unfair pay, (iii) underfunded facilities and insufficient equipment that disrupt patient care. Nevertheless, this will be the first step to lighten the burden of healthcare professionals, before addressing hierarchy issues and infrastructure flaws.
Healthcare Facilities: • Procurement of generators to 10 hospitals • Replacement of obsolete medical equipment • Acquisition and maintenance of medical equipment in all government clinics under the Medical Equipment Enhancement Tenure (MEET) • Construction of hospital block in Malacca Hospital for women and children with a capacity of 476 beds to reduce congestion in main building • Upgrading projects for 26 hospitals, including the expansion of Kuala Kangsar (Perak), Jelebu Hospital (Negeri Sembilan) and Pontian Hospital (Johor) • Welfare hospitals registered as a private limited company will be given tax exemption in accordance to Jaminan is given tax exemption if its income is equal to its welfare	10 100 160 700 N/A N/A	For Budget 2023, one of the largest allocations goes to the replacement, repair, retrofit and maintenance of existing facilities and equipment, as a collective. Priority to healthcare access also remains to be given to facilities in remote, rural and suburban areas. We believe the allocation for the repair and enhancement of clinics and hospitals, as well as additional power generation and equipment acquisition and maintenance, are in tandem with the increase in demand for medical services. CDs and NCDs treatments are expected to remain high in demand for the year, in correlation to an uptrend in aging population. As such, we believe **IHH Healthcare (BUY, TP: RM7.65)** is expected to be one of the hospital networks that could leverage, not only on the expansion projects of its healthcare facilities and accessibility, but also on the tax exemption. Reflected the group's commitment in supporting the community, especially evident through the recent earthquake emergency call in Turkey. Prior to the event, IHH had also collaborated with the following NGOs and social enterprises to reach out to local communities as they navigate through the socio-economic challenges post-pandemic.

Measures	Allocation (RM'm)	Remarks
expenditure	N/A	
• Tax reduction of up to 10% of aggregate income to charitable hospital donors		
• Repair and maintenance project for 400 clinics	approx. 615	
Mental Health: • Establishment of the National Mental Health Center of Excellence	34.5	The battle against mental health issues continue post-pandemic. The most recent epidemiological data, identified that the prevalence of mental disorders among adults was approximately 33% - a 3-fold increase in comparison with 10% prevalence rate identified in 30 years ago. The rural region of East Malaysia had the highest prevalence at 43%, followed by the capital Kuala Lumpur, where the prevalence rate is at 40%. Mental illness is one of the leading causes of disability and health loss in Malaysia, accounting for 9% of total disability-adjusted life-years (DALYs) of adults, which could affect about RM4.5b or more to the general economy. We believe increasing initiatives and awareness of mental health problems by NGOs, government agencies and healthcare workers will lead to the betterment in managing mental disorders, and as such, we opine that the large allocation for this subsector is fair.
• MyMYNDA mental health wellbeing improvement programme	34	
Dentistry: • Mobile dentistry clinic	10.6	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. We believe the allocation is far for this subsector, and opens for more opportunities to improve access and affordability of dental health.
• Procurement of 10 units of 3D printing machines to produce dentures to shorten patient visits to the government dental clinic from 5 to 2	10	
Healthcare Screening and Treatment: • Pilot project for mammogram and cervical cancer screening using a new PCR method under the collaboration of the ROSE Foundation with University of Malaya and University Malaysia Sarawak	N/A	Overall, there were 48,639 new cancer cases recorded in Malaysia in CY21, and the cancer incidence in Malaysia is expected to double by CY40. Meanwhile, coronary heart disease deaths in Malaysia reached 36,729 or 21.86% of total deaths. While the numbers are 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 which are often treatable in the early stages, 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. In line with the prioritised welfare of the citizens, allocation for the

Measures	Allocation (RM'm)	Remarks
• Implementation of diagnostic studies and clinical trials for cervical and bowel cancer through the use of artesunate to the University of Malaya towards the production of affordable medicine and treatment for all	5	diagnostic studies and clinical trials to the NCDs will provide the opportunity for further development of affordable medicine and treatment. Additionally, the widely available addiction treatment and therapy, most notably for nicotine addiction, will assist in the reduction of smoking and support the government's smoking and vaping ban.
• Exemption from import duty and sales tax on nicotine replacement therapy	N/A	
Healthcare Schemes: • Madani Medical Scheme and Healthcare Card for B40 group to reduce congestion at hospitals	120	With the liquidation of the MySalam scheme, in tandem with the end of the Covid-19 pandemic, the government introduced a new medical scheme with the priority aim to reduce congestion in hospitals. The overcrowding is expected to remain with the return of inpatient visits, after the diminished fear for Covid-19 and a delayed demand for NCDs treatments and cure. Coupled with the increased number of healthcare workers and outsourcing of patients, we believe the scheme would help the citizens while also adding to the revenue for healthcare providers in the short-to-midterm. Moreover, the healthcare screenings under the PEKA B40 scheme continues to be utilised for diabetic patients. The government is also committed in tabling MOH's GEG initiative, as well reinforcing the Control of Tobacco Products and Smoking Bill, which we believe could slowdown the correlation of aging and NCDs, thus preventing a higher mortality rate, especially to the younger generation from developing a smoking habit. This initiative also indirectly contributed to the reduction of waste and pollution, in the long run.
• Intensification of health screenings, including for diabetes, through the "Peduli Kesihatan" Scheme for B40 Group (PEKA B40)	80	
• Tabling of the Control of Tobacco Products and Smoking Bill, as well as the Generational Endgame (GEG)	N/A	
Community Welfare: • Mobile health clinic expansion to cancer screening facilities	N/A	In the time of a rising aging population worldwide, demand for treatment options for diseases relating to old age, such as Alzheimer's, Parkinson's and cancer is expected to increase as well. Additionally, the care and treatment for neuro-developmental disorders, while advanced, had not been cost-effective. Hence, we believe accessibility to chronic diseases and genetic disorder management is important to ensure the healthcare sector continues to be supported in the long run. For this measure, hospitals such as **KPJ Healthcare (BUY, TP:RM1.48)** could fill in the demand for the caring of the elderly, children and the disabled, in collaboration with the government and NGOs. With the group's recently opened Damansara Specialist Hospital (DSH2), the capacity to fulfil the community's health and welfare continues to be robust.
• Tax relief limit on medical treatment expenses has been increased from RM8,000 to RM10,000. The scope of relief also covers the cost of rehabilitation of neuro-developmental disorders (Autism, Down Syndrome and Specific	N/A	

Measures	Allocation (RM'm)	Remarks
Learning Disabilities) with a maximum coverage of RM4,000		

7. MEDIA SECTOR (Maintain POSITIVE)

Measures	Allocation (RM'm)	Remarks
Allocation to promote the marketing of local art products and encourage the production of more creative work under *Dana Kandungan Digital.*	102	We anticipate that these initiatives will enhance the growth of superior animated series and films, leading to advantages for media companies that have their own film production and distribution divisions, specifically **Astro** (Astro Shaw) **(BUY, TP: RM0.95)** and **Media Prima** (Primework Studios) **(BUY, TP: RM0.60)**. Nevertheless, the impact of this initiative on these companies' revenue will be modest in the immediate future.
Import duties and sales tax exemption for the purchase of film equipment.	NA	

8. OIL AND GAS SECTOR (Maintain POSITIVE)

Measures	Allocation (RM'm)	Remarks
Training: Emulation of the Penang Skills Development Center model to pilot programmes involving Federal TVET institutions with a target of 50 companies; mainly from among GLCs. One of the companies expected to be involved is PETRONAS for its operations in Pengerang, Kimanis, Batu Rakit and Miri	NA	Technical and Vocational Education and Training (TVET) in Malaysia emphasises employment opportunities and industrial practices. TVET is the first stepping stone to fulfil industrial demands and promoting economic development, as well as producing skilled workforce. Skilled labour shortage in the oil and gas industry (particularly in the upstream and midstream) has been an issue since before the pandemic and worsened during the prolonged lockdowns. Although we are in a post-pandemic phase, the talent crunch in the industry continues to weigh in. We opine that with TVET's collaboration with energy giant PETRONAS, such competency and experience gap issues can be further minimised. Additionally, TVET is an important platform in achieving the UN's Sustainability Development Goals, as well as upholding the advocacy of the Environmental, Social and Governance (ESG) initiatives undertaken by major companies. Previous Budget 2022 had addressed efforts to encourage upskilling and training in relation to ESG, and we believe this will continue for the oil and gas industry.
Infrastructure: Supporting the development an aggregate port in the Sanglang, Perlis to handle petroleum cargo and bulk cargo	NA	This initiative was proposed in 3QCY22, in a bid to add value to the Kedah and Perlis economy. Sanglang, located in the Perlis-Kedah border, has the potential to be developed with a deep-sea port with a strategic placement as both local and international petroleum product trade point. We opine that this port will be in a strategic location for petroleum product storage for the Northern region, with the Malaysia-

Measures	Allocation (RM'm)	Remarks
		Thailand Joint Development Area to a be a primary source, as it is closer and possibly cheaper to build an onshore pipeline to terminals in Sanglang than to Kerteh, Terengganu; consequently, minimising the timing and operation cost to cater to the demands in the Northern area.

9. PLANTATION SECTOR (Maintain NEUTRAL)

Measures	Allocation (RM'm)	Remarks
Automation matching grants	50	A baby steps to upscale automation practice in the sector. We believe this measure will help smallholders and players to have better control over its business operational and estate activities.
Palm Oil sustainability assistance	80	We are on the view this initiative positively promotes the sustainability of the palm industry and intensify the Anti-Palm Oil Campaign.
Subsidies and incentives for paddy farmers comprises: • Padi huma Paddy price • Fertilisers • Subsidies for paddy huma	1,600	This measure will ease paddy farmers burden in the business operational and manuring activities.
Special Aid from Bernas Special Aid for paddy farmers • 3 months allowance of RM200	60 228	A cash-handout assistance that will take care paddy farmers welfare during off seasons. In addition, 30% of the profits from the sales of imported rice go to the paddy growers.
Rubber production incentive's activation price level begins at RM2.50/kg to RM2.70/kg	350	This measure will increase minimum income of rubber tappers.
Monsoon season special Aid • Four months allowance of RM800	256	A cash-handout assistance that will take care smallholders welfare during monsoon season.
Digital AgTech Program	10	Promoting smallholders' adoption of technology.
Acceleration of capital allowance and 100% income tax exemption on Agri tech usage	NA	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.
Utilization of 800 acre abandoned lands of FELDA, FELCRA and RISDA	NA	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.
Cooking Oil Stabilization Scheme Program (COSS)	502	In view of the elevated CPO prices, we believe the program's continuation and improvement is welcome because it will benefit consumers' well-being and lessen inflationary pressure.

10. POWER SECTOR (Maintain NEUTRAL)

Measures	Allocation (RM'm)	Remarks
Extension of Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) application deadline till 31st December 2025, to further extend the incentive period from 3 to 5 years	NA	We are positive on the broad incentives for green technology adoption which indirectly benefits 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 in the past. The expansion of the GTFS scheme should help further facilitate and lower the cost of financing for green technology projects (which includes RE and EVs among others). In the same light, the new funding facilities by BNM should provide incremental 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 as part of their low carbon transition, which should benefit players in this segment such as G-Sparx (under **Tenaga – BUY, TP: RM10.00**), **Solarvest (Non-Rated)** and **Samaiden (Non-Rated)**.
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 limit	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	
Tax incentive for companies undertaking carbon capture and storage (CCS) in-house activities: (1) ITA of 100% for 10 years, (2) Full import duty and sales tax exemption on CCS equipment, (3) Tax deduction for allowable pre-commencement expenses for 5 years Tax incentive for companies undertaking CCS services: (1) ITA of 100% for 10 years, (2) 70% tax exemption for 10 years, (2) Import duty and sales tax exemption on CCS equipment Tax deduction of fees for CCS services	NA	Being one of the highest emitting sectors in the country, a key risk for the power sector is the potential introduction of carbon pricing policies. This is an especially pertinent issue for generation players that have high exposure to coal generation such as **Malakoff (Non-Rated)** and **Tenaga**. Tax incentives for CCS utilisation and service provision will assist carbon reduction initiatives for existing coal (and gas) power plant operators, though at this point, underlying cost of CCS is still far too high for broad-based adoption without impacting end-electricity cost, in our opinion.
Implementation of public projects involving road, lighting, water and electricity supply projects in Sabah and Sarawak	2,600	Allocation for electricity supply projects in Sabah could partly go into the upgrade of the existing electricity grid which is expected to improve the ability to transfer power to under-supplied regions, particularly to East Sabah. This is positive for existing IPPs in Sabah as it is likely to increase electricity demand hence improve plant load factors. **Ranhill (BUY, TP: RM0.67)** is a potential beneficiary being the largest IPP in Sabah with a 30% market share.

11. PROPERTY SECTOR (Maintain NEUTRAL)

Measures	Allocation (RM'm)	Remarks
Government to support development of Iskandar Malaysia in Johor through establishing special zone for financial services. Incentives and packages will be offered to attract foreign direct investment to Iskandar Malaysia and to attract knowledge workers to stay at Malaysia.	N/A	The measures are expected to boost development in Iskandar Malaysia. Property developers that have exposure to Iskandar Malaysia namely **UEM Sunrise (NEUTRAL, TP: RM0.25) and Sunway Berhad (NEUTRAL, TP: RM1.64)** are expected to benefit from the higher FDI and migration of knowledge workers to Iskandar Malaysia. Note that UEM Sunrise has remaining landbank of 3,735 acres in Iskandar Puteri while Sunway Berhad has ~1,600 acres of landbank in Johor.

12. TECHNOLOGY SECTOR (Maintain POSITIVE)

Measures	Allocation (RM'm)	Remarks
Allocated under the SMEs and small-scale traders digitalization grant scheme to support business automation and digitalization activities.	100	We believe that these initiatives, coupled with continued investments in 5G infrastructure, will improve Malaysia's semiconductor ecosystem, cultivate local talent in the industry, and promote a more efficient and tech-savvy public service. Semiconductor companies like **Inari (BUY, TP: RM3.20), Unisem (BUY, TP: RM3.72)** and **Gtronics (BUY, TP: RM1.31)** stands to benefit from the better semiconductor ecosystem in the country.
Allocated under MDEC to train more small-scale farmers to adapt to technology under the the Digital AgTech program.	10	
Established a Special Task Force for Agency Reform (STAR), headed by the Chief Secretary to the Government, to enhance government services digitally and reduce bureaucratic complications.	NA	
Upgrade the MyGovCloud service to ensure effective cloud computing services in the public sector.	NA	

13. TELECOMMUNICATION SECTOR (Maintain NEUTRAL)

Measures	Allocation (RM'm)	Remarks
Allocated for JENDELA to implement digital connectivity in 47 industrial areas and 3,700 schools.	725	We believe these measures will assist in the transition from 4G to 5G networks and reduce the discrepancy in the quality of internet service between rural and urban areas. JENDELA will also hasten the plan to improve internet connectivity by widely deploying mobile, fiber, and fixed wireless access, with both public and private stakeholders investing equally. The implementation of 5G technology is expected to provide a
Allocated for the Malaysian Research & Education Network (MYREN) program to improve the connectivity of the internet in Malaysian higher education institutions.	35	

Measures	Allocation (RM'm)	Remarks
Provide free internet access in 56 selected public housing projects (PPR) for the benefit of the local communities.	NA	better user experience and potentially attract foreign investors to industries with automated production. We prefer investments in fixed line services **TM (BUY, TP:RM7.10)** rather than mobile services, because the former has better growth on leasing its fiber to DNB for 5G deployment. However, there are still ongoing risk on 5G policy and regulatory frameworks.

14. TRANSPORTATION SECTOR (Maintain NEUTRAL)

Measures	Allocation (RM'm)	Remarks
Aviation		
Upgrading and expanding Penang and Subang airports	NA	This initiative will be spearheaded by **Malaysia Airports Holdings Berhad (MAHB) (NEUTRAL, RM7.45)**. Recall that the Subang Airport Rejuvenation Plan (SARP) was recently approved by the cabinet and MAHB is due to submit a working business plan by end-1QCY23. Overall, we view this positively as the number of passenger arrivals had far exceeded the maximum capacity of these 2 airports prior to the pandemic. Additionally, the terminal upgrades will enable local airlines to start new direct flight routes, thus increasing the passenger traffic.
Increasing accessibility at 7 airports in Sabah and Sarawak	NA	This measure should benefit wheelchair bound MASWings passengers.
Subsidising air transport services in rural 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.
Incentives to promote the tourism sector	250.0	• RM115.0m has been earmarked for matching grants to encourage tourism promotional activities and international sporting and cultural events. • Additionally, RM40.0m has been allocated to encourage charter flight services to attract foreign travellers from new markets. This will be in collaboration with MAHB and international airlines for the launch of direct routes from these new markets. These measures should benefit MAHB as it supports the recovery of both the domestic and international passenger traffic.
Port & Logistics		
Letting the private sector develop the main port at Carey Island, Port Klang	NA	The Westports 2 (W2) expansion project will likely receive the go-ahead first as the concession agreement is expected to be finalised by mid-CY23 at the earliest. Recall that the W2 project entails the development of 8 new terminals which will double **Westports Berhad**'s **(NEUTRAL, RM3.90)** handling capacity to 28m TEUs. We opine that the proposed 3rd mega port in Selangor will likely serve to complement the operations of Northport and Westports in Port Klang.

Measures	Allocation (RM'm)	Remarks
		Although, this will likely be more of a longer-term plan considering capacity is not an issue, the higher port throughput attributable to said projects should benefit the logistics players especially **Swift Haulage (BUY, TP: RM1.05)** as it is a dominant player in the container haulage space.
Supporting the development of Sanglang Port, Perlis for the handling of petroleum and bulk cargoes	NA	The feasibility study on the port development was first conducted in Sep-22. In a previous proposal submitted to the state government, the plan includes a land-bridge project to Songkla, Thailand. The aim was to shorten the travel time between the Straits of Malacca and the Gulf of Thailand. Although this proposed development is not expected to materially impact any of the port & logistics player, it is expected to add value to the Kedah economy, supported by the establishment of the Kedah Port Authority.

C. STRATEGY

Equity Market

Anchoring domestic demand. Budget 2023 was tabled on the backdrop of expected slower global economic growth arising from stubborn inflationary pressures, continued tightening of monetary policies of central banks across the world and ongoing geopolitical tensions. Hence, Budget 2023 aims to tackle the issues of cost of living, while reforming Malaysia's economy for a more inclusive growth including strengthening the country's ESG agenda. We opines that Budget 2023 aims to provide support to the Rakyat to safeguard the continued well-being of the vulnerable segments in light of issues pertaining to high cost of living, and spur income growth.

Consumer sector to benefit from continued assistance. The various financial aid, subsidies, and initiatives provided to the B40 income group, and the civil servants will increase their household income. We expect that this will support domestic demand and boost consumer spending on essential items, particularly by reducing the burden of inflationary pressure imposed on the B40 group. As such, we anticipate that the cash assistance will boost sales for consumer-staple-related companies.

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 RM97b from RM71.6b in 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 support 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.

Tech 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 as cognizant of the opportunities that might stem from changing geopolitical realities. If this were to come to fruition, then we believe our tech sector will benefit from the increase investments in these areas.

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 this year's earnings.

Market Outlook

At the headline level, expect higher expenditures and bigger revenue than earlier projections… The total spending in Budget 2023 is now proposed at RM386.1b (-2.3%yoy) or 3.7% higher than the earlier proposal of RM372.3b (-3.4%yoy). Moreover, the amount allocated for gross development expenditure of RM97.0b (35.5%yoy) is 2.1% higher than the earlier proposal of RM95.0b (32.3%yoy). Meanwhile, the total revenue for next year is estimated at RM291.5b (-1.0%yoy) or 6.9% higher than the earlier estimate of RM272.6b (-4.4%yoy). Thus, projecting a fiscal deficit (less RM0.7b loan recovery) of RM93.9b in 2023 vis-à-vis the earlier projection of RM99.1b.

…as well as lower fiscal deficit to GDP ratio. The percentage of fiscal deficit to GDP is expected to decline from -5.6% in 2022 to -5.0% in 2023 (earlier from -5.8% to -5.5%) as the economy is now officially forecasted to grow by 4.5% (earlier between 4.0% to 5.0%) in 2023. Hence, the nation's sovereign risk would not likely be compromised despite the further accumulation of fiscal debt. Overall, no material negative surprises in Budget 2023 at its headline level.

At the granular level, the proposed capital gains tax on the disposal of non-listed shares may attract more listings in the local equity bourse. Moreover, the Securities Commission would facilitate more secondary market for private market instruments to improve liquidity and enable better price discovery. Additionally, the issuance of dual-class shares would be permitted in order to encourage the listings of local high growth technology companies. We reckon these announcements to act as catalysts that would help to reinvigorate the local capital market. It seems the knee-jerk reaction of local equity market to the Budget 2023 was rather positive as the FBM KLCI recovered from an intraday low of 1,448 points midday to close at 1,457 points on Friday.

External factors to continue hold major sway over equity market sentiment. However, in the near-term, we expect external factors to continue hold major sway over equity market sentiment. Presently, the main cues coming out of Wall Street are that (1) inflation pressures are ebbing but at a slower than expected pace, and (2) the US Fed is likely to continue raising rate at normalized 25bp pace in its upcoming meetings, however (3) the US Fed is anticipated to pause its rate hike only after the June meeting.

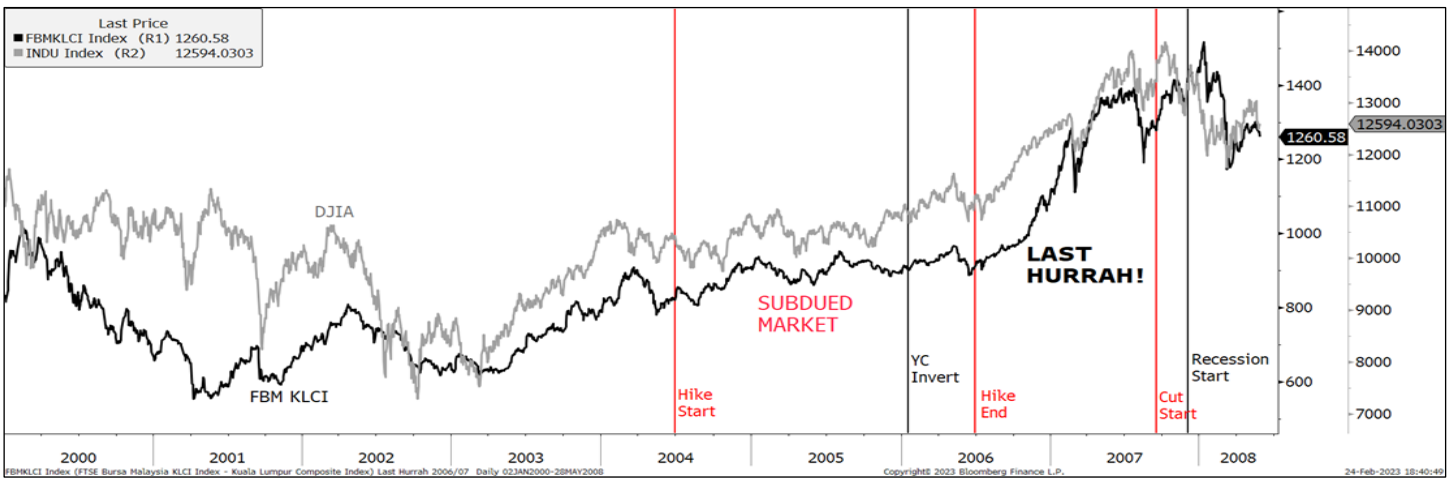
Equity market to remain edgy in the short-term. Due to the prevalent uneasiness over possible postponement in the Fed pause thus greater downward pressure on output growth, hence higher likelihood of recession, we posit the risk asset markets and equity in particular are tilting sideways or even down in the short term.

However, in the medium term, we expect the risk-on mode to return after the anticipated Fed pause. Empirically, the intervening period between the end of US Fed rate hikes and the impending recession could prove attractive for equity market, kind of a "last hurrah", principally due to two factors, namely:

(1) unwinding or subsiding pressure on equity required return (as the upside risk diminishes) with the end of tightening cycle, and

(2) in the meantime, corporate earnings are likely to remain buoyant as the supposed recession is yet to manifest and is possibly one (or more) year away.

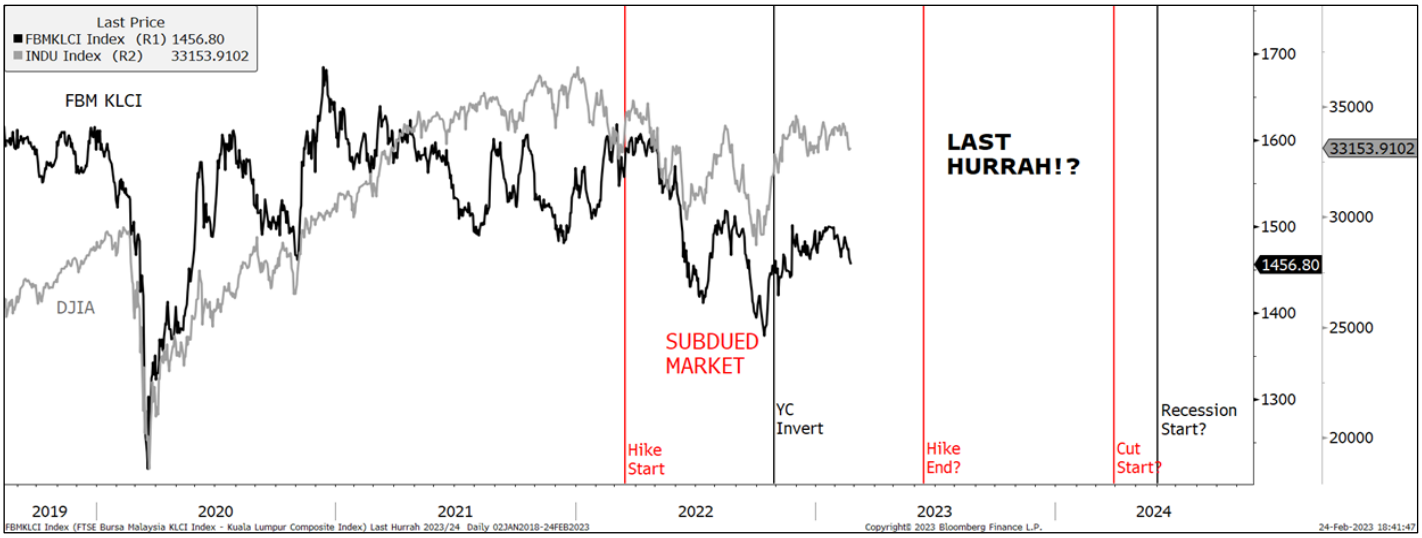
DJIA and FBM KLCI: Big rally post rate pause in 2006



Source: MIDFR, Bloomberg (G709)

European markets buoyancy... In fact, it must be noted that European equity markets have somewhat decoupled and continued to remain buoyant despite the recent hiccups on the US inflation front. For example, UK's FTSE100 and French CAC40 are trading at all-time high levels while the German DAX and pan-European STOXX600 are at levels prior to the onset of Russia-Ukraine war. We may argue that the "last hurrah" hypothesis is beginning to take hold among the European equities.

DJIA and FBM KLCI: Rally post rate pause in 2023?



Source: MIDFR, Bloomberg (G710)

...may portend to similar upswings in other regions. On this score, the other key regions namely North America and Asia may be considered as laggards. But it is not farfetched to envision that they would also, sooner or later, follow on the footsteps of the Europeans.

We maintain our FBM KLCI end-2023 target at 1,700 points or PER23 of 14.9x.

Top picks of possible winners of Budget 2023. Since we believe that the consumer sector (particularly consumer stapled) and construction sectors to be the obvious winners of Budget 2023, we opine that it is worthwhile for investors to look at stocks in these sectors. Besides this, the continued focus in technology and the efforts to attract FDIs in the E&E sector may benefit listed semiconductor companies. In addition, we opine that Bursa Malaysia may be a beneficiary of the possibility of the domestic capital market being reinvigorated by measures announced. Below is our top picks of possible winners of Budget 2023:

	Rec.	Price (RM) @ 24/2	Target Price	Price Return	Dividend Yield	Total Returns
AEON Co.	BUY	1.35	1.90	40.7%	3.9%	44.6%
Fraser & Neave	BUY	27.20	33.50	23.2%	2.4%	25.6%
QL Resources	BUY	5.67	6.30	11.1%	0.8%	11.9%
Gamuda	BUY	4.20	5.04	20.0%	11.9%	31.9%
IJM Corp	BUY	1.61	1.90	18.0%	3.7%	21.7%
Sunway Construction	BUY	1.68	2.00	19.0%	3.6%	22.6%
Inari Amertron	BUY	2.45	3.20	30.6%	5.1%	35.7%
Globetronics	BUY	1.09	1.31	20.2%	8.7%	28.9%
Unisem	BUY	3.13	3.72	18.8%	3.2%	22.0%
Bursa Malaysia	BUY	6.55	7.30	11.5%	4.4%	15.9%

Source: MIDFR, Bloomberg

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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