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BUDGET 2027 REVIEW

The Rakyat Dividend - *More in Pockets, More in the Pipeline*

Strategy Report

EXECUTIVE SUMMARY

- Budget 2027 delivers a record RM459.8b fiscal package, while keeping consolidation intact with the deficit narrowing to 3.3% of GDP.
- Growth remains resilient at 4.2%-5.2%, anchored by domestic demand, investment and a healthy labour market.
- The rakyat takes centre stage: RM16bn for STR-SARA, meaningful personal tax relief and a higher RM2,000 minimum wage.
- Consumer staples and value retail emerge as clear winners, led by 99 Speed Mart, MR D.I.Y., Nestlé and Leong Hup.
- The investment cycle remains alive, supported by TNB's RM15bn grid programme, renewable energy, AI and semiconductor initiatives.
- Construction stays firmly in play, backed by transport, water and regional infrastructure spending.
- Property receives a timely lift from stamp-duty exemptions and RM20b in housing guarantees.
- Overall, Budget 2027 is pro-growth, rakyat-focused and equity-supportive, reinforcing MBSB Research's end-2027 FBM KLCI target of 1,850 points.

POTENTIAL BENEFICIARIES:

	Rec.	Price (RM) @9/10/26	Target Price (RM)	Price Return	Dividend Yield	Total Returns
Consumer						
99 Speed Mart	BUY	3.19	4.37	37.0%	1.3%	38.3%
Mr D.I.Y.	BUY	1.25	2.13	70.4%	4.3%	74.7%
Leong Hup	BUY	0.725	1.03	42.1%	3.9%	45.9%
Nestlé	BUY	90.16	116.1	28.8%	3.1%	31.9%
Utilities/RE						
Tenaga Nasional	BUY	12.88	16.31	26.6%	4.3%	30.9%
Samaiden	BUY	3.05	3.72	22.0%	0.8%	22.8%
YTL Power	BUY	5.65	5.98	5.8%	1.4%	7.3%
Construction						
Gamuda	BUY	5.09	5.6	10.0%	2.0%	12.0%
Sunway Con.	BUY	7.71	9.18	19.1%	6.1%	25.1%
IJM Corporation	BUY	2.82	3.32	17.7%	9.9%	27.7%
Malayan Cement	BUY	5.55	9.53	71.7%	2.7%	74.4%
Property						
Mah Sing	BUY	0.955	1.15	20.4%	5.2%	25.7%
Matrix Concepts	BUY	1.09	1.33	22.0%	6.6%	28.6%
Technology						
Inari Amertron	BUY	2.77	2.95	6.5%	2.7%	9.2%
Healthcare						
Pharmaniaga	BUY	0.92	1.44	56.5%	5.7%	62.2%

Source: Bloomberg, MBSBR

A. ECONOMIC COMMENTARY AND ANALYSIS

ECONOMIC OUTLOOK: GDP GROWTH TO MODERATE TO +4.2-5.2% IN 2027

GDP growth to moderate to +4.2-5.2% in 2027

Malaysia's economic growth is expected to moderate next year. Based on the government's projection, Malaysia's GDP growth is forecast at +4.2–5.2% in 2027 (2026f: +4.8–5.3%). With the midpoint at +4.7% (2026e: +5.1%), the government's 2027 growth forecast is slightly stronger than our preliminary in-house projection of +4.6%. Domestic demand is expected to remain the primary driver of growth, expanding by +5.1%, supported by sustained expansion in private consumption (+4.8%) and private investment (+7.1%).

Household spending should continue to benefit from favourable labour market conditions, continued employment and income growth, alongside measures announced under Budget 2027 to strengthen household purchasing power. These include higher STR/SARA allocations of RM16b, reductions in personal income tax rates, an increase in the individual tax relief threshold and expanded tax reliefs. The increase in the minimum wage to RM2,000 per month effective June 2027 will also provide additional support to household incomes, while enhanced stamp duty exemptions will improve housing affordability for first-time buyers. Meanwhile, private investment is projected to grow by +7.1%, supported by approved investment projects, data centre developments and ongoing national development initiatives.

Although exports are expected to continue expanding in 2027, growth is likely to moderate from the exceptionally strong pace this year. At the same time, imports are expected to remain supported by sustained investment activity, particularly purchases of capital goods, alongside continued demand for intermediate inputs to support manufacturing and export-oriented production. Nevertheless, uncertainties surrounding global demand, geopolitical developments and tighter trade policies could weigh on external trade growth next year.

Services to lead growth, while construction remains resilient

By sector, the services sector is expected to remain the key contributor to economic growth, expanding by +5.2% in 2027 (2026e: +5.5%), supported by resilient private consumption and initiatives to boost growth in the digital economy. Meanwhile, growth in the manufacturing sector is projected to normalise to +4.1% (2026e: +6.2%), on the back of more moderate growth for export-oriented industries. The construction sector is expected to grow steadily at +5.7% (2026: +6.1%), underpinned mainly by growth in the non-residential buildings, particularly data centres in Selangor, Johor and Negeri Sembilan, as well as specialised construction activities. For the primary industries, the agriculture sector is expected to rebound to +0.5% (2026e: -2.1%). Output for several agriculture sub-sectors will likely stabilise and pick up next year as key industries, such as oil palm and rubber, rebounding from weather-related disruptions this year. The mining sector is expected to expand at a more modest pace of +1.2% (2026: +2.6%), mainly driven by higher LNG demand from both domestic and external markets.

Resilient demand to support household spending

Private consumption is projected to expand by +4.8% in 2027 (2026e: +5.0%), supported by favourable labour market conditions, continued employment and income growth, as well as sustained government assistance programmes such as STR and SARA. Labour market conditions are expected to remain healthy, with the employment growth to pick up to +2.0% (2026e: +1.7%). The positive employment growth will be supported by continued labour demand and job creation across domestic-oriented sectors, with more than 80% of the job opportunities in the services and manufacturing sectors. The healthy labour market conditions is expected to keep the unemployment rate low at 3.0% in 2027 (2026e: 3.0%). In addition, household spending should continue benefiting from targeted government support measures, including cash assistance programmes, civil service salary adjustments and tax-related incentives aimed at easing cost-of-living pressures.

Table 1: Malaysia's GDP Growth 2025-2027

	2025	2026[e]		2027[f]	
		MOF	MBSBR	MOF	MOF
Real GDP	**5.2**	**4.8 - 5.3**	**5.1**	**4.2 - 5.2**	**4.6**
By Expenditure:					
Private Consumption	5.3	5.0	5.0	4.8	4.8
Private Investment	9.4	7.8	6.2	7.1	6.8
Public Consumption	5.3	3.8	6.2	3.2	4.5
Public Investment	10.3	7.7	7.6	6.8	5.8
Real Exports	4.9	11.4	8.9	3.0	2.5
Real Imports	6.3	11.0	7.8	3.5	3.5
By Sector:					
Agriculture	2.2	(2.1)	1.2	0.5	0.9
Mining	0.6	2.6	(3.5)	1.2	0.2
Manufacturing	4.5	6.2	3.5	4.1	3.3
Construction	12.2	6.4	12.2	5.7	9.7
Services	5.4	5.5	4.9	5.2	4.8

[p] preliminary forecast
Source: MOF; MBSBR

Inflation projected higher at +1.8-2.8% in 2027

Inflation is expected to remain manageable in 2027 despite continued external cost pressures and geopolitical uncertainties. Headline CPI inflation is projected by the government at +1.8–2.8% in 2027 (2026: +1.5–2.5%). Our in-house forecast is for headline inflation to average around +2.0–2.4% in 2027, broadly within the government's projected range. Higher energy prices, supply-side disruptions and risks to global shipping routes could contribute to firmer transportation, logistics and production costs, with the lagged pass-through of higher input prices potentially sustaining inflationary pressures, particularly in early 2027. At the same time, resilient domestic demand, continued income growth and stronger consumer spending may provide some support to underlying price pressures. Nevertheless, inflationary pressures are expected to remain broadly contained. Existing subsidy mechanisms, including BUDI MADANI, together with government price-control measures and stable domestic supply conditions, should mitigate the pass-through of higher global commodity and energy prices.

Current account surplus to remain below 2% of GDP

The current account balance (CAB), according to the government forecast, will record larger surplus of +RM41.8b in 2027 (2026e: +RM41.3b), contributed by higher trade surplus (+RM148.4b; 2026e: +RM143.8b) in contrast to wider deficit in the primary income account (-RM94.6b; 2026e: -RM90.2b). Based on these projected figures, we estimate the CAB to GDP ratio will stabilize around +1.8% (2026: +1.9%; 2025: +1.6%), remaining below +2.0% for the 5th consecutive year. We concur with the government's projection that the current account balance shows a more stable development after a strong pick-up in the trade account this year. Given the strong order book, we expect E&E exports will continue to grow next year. Together with higher shipments of selected commodities, we expect the external trade resilience to keep CAB in surplus. However, the improvement in the CAB-to-GDP ratio may be capped by strong imports, on the back of growing domestic economic activities, and sustained deficits in primary and secondary accounts.

OVERVIEW OF GOVERNMENT FINANCES

Federal Government's budget is nearly RM460b for 2027

The total size of Budget 2027 is larger than our estimate of RM440.9b. The government tabled a budget of RM459.8b (or 19.8% of GDP), representing a +3.6% increase in government spending (2026e: +7.6%). The higher allocation reflected increased operating expenditure (OE), particularly for emoluments, retirement charges, debt service charges, and supplies and services, as well as higher development expenditure (DE).

Public spending remains expansionary

Expansionary fiscal policy will sustain positive public sector contributions to GDP growth. Guided by the 13th Malaysia Plan (13MP), private sector investment will remain a key driver of economic expansion, complemented by active project implementation by GLCs and GLICs. In line with the requirements of the FRA 2023, the government is also committed to maintain DE at around 3% of GDP, with emphasis on programmes aimed at improving productivity, public service delivery, socio-economic resilience and the well-being of the rakyat.

Table 2: Government Finance 2025-2027

	RM Billion			YoY%		
	2025	2026[e]	2027[f]	2025	2026[e]	2027[f]
Revenue	336.1	363.6	380.8	3.5	8.2	4.7
Operating Expenditure	330.7	363.1	376.8	2.9	9.8	3.8
Current Balance	5.3	0.6	4.0			
Gross Development Expenditure	81.9	81.0	83.0	(2.5)	(1.1)	2.5
Net Development Expenditure	80.5	79.1	81.5	(2.1)	(1.8)	3.0
Overall, Balance	(75.3)	(78.5)	(77.5)			
as % of GDP	*(3.7)*	*(3.6)*	*(3.3)*			

[e] estimate [f] forecast (excluding Budget 2027 measures)
Source: MOF; MBSBR

INCREASED GOVERNMENT REVENUE ON THE BACK OF GROWING ECONOMY

Higher revenue from improved tax collections and compliance

Federal Government revenue is projected to increase by +8.2% to RM363.6b in 2026, before moderating to +4.7% to RM380.8b in 2027. The slower growth is expected despite ongoing measures to broaden the tax base and strengthen compliance. Tax revenue remains the main contributor, accounting for 77.2% of total revenue in 2026, with its share projected to increase to 78.0% in 2027. The stronger-than-budgeted revenue performance in 2026 was supported by better economic activity and elevated oil prices. Going forward, revenue collection will benefit from improved administrative efficiency, the phased implementation of e-invoicing, enhanced SST collections and continued tax compliance reforms. Meanwhile, non-tax revenue is projected to increase at a slower pace of +1.1% to RM83.8b in 2027, following growth of +8.7% in 2026.

Direct taxes expected to grow faster followed by higher PITA

Direct tax collection is projected to grow by +5.8% to RM191.0b in 2026, before moderating to +4.6% to RM199.9b in 2027. The improvement is expected to be broad-based across major tax components, except petroleum income tax (PITA), which is projected to remain unchanged at RM20.5b in 2027 with the Brent crude oil prices projected to moderate to USD78pb in 2027 from RM85pb in 2026. Continued improvements in corporate earnings, wage growth and tax compliance, supported by the phased implementation of e-invoicing, will underpin tax collections.

Corporate income tax (CITA) remains the largest contributor to direct tax revenue. CITA collection is projected to increase by +4.0% to RM101.7b in 2026, before growing further by +4.8% to RM106.6b in 2027, supported by sustained corporate earnings. Meanwhile, personal income tax collection is expected to rise by +6.2% to RM51.8b in 2027, underpinned by positive wage growth and a healthy labour market. Nevertheless, the higher individual tax relief threshold and reductions in selected personal income tax rates under Budget 2027 could partly offset revenue gains. Revenue collection will continue to benefit from intensified taxpayer audits, compliance enforcement and the broader e-invoicing rollout.

For 2026, the stronger CITA collections are supported by the phased implementation of e-Invoice, which surpassed 1.8b transactions by Aug-26, enhancing tax compliance and reducing leakages. Individual income tax is expected to rise +7.2% to RM48.8b this year, while PITA is

projected to grow +13.7% to RM20.5b amid higher oil prices (2026e: USD85pb; Budget 2026: USD60-65pb). Collections from stamp duty and RPGT are also expected to increase to RM11.7 billion and RM2.6 billion, respectively, supported by sustained property market activity.

Indirect taxes supported by SST collection, but growth to moderate

Indirect tax revenue is projected to increase by +13.2% to RM89.7b in 2026, before moderating to +8.3% to RM97.2b in 2027. The improvement in 2026 reflects stronger service tax collections, projected to rise by +26.1% to RM38.2b, supported by higher receipts from food and beverage, digital services, insurance and takaful, and maintenance services. Sales tax revenue is expected to increase by +12.6% to RM28.8b, supported by sustained wholesale and retail trade activities. Looking ahead, SST collections should remain the key driver of indirect tax revenue, while continued tourism activities under Visit Malaysia Year 2026, extending into 2027, and the SEA Games could provide additional support to domestic spending and tax receipts. Nevertheless, regional uncertainties remain a downside risk to international tourist arrivals.

Investment income to remain well supported in 2027 despite moderation from 2026

Non-tax revenue is projected to increase by +8.7% to RM82.8b in 2026, supported by higher investment income and receipts from licences and permits, in line with the government's efforts to reduce reliance on unsustainable revenue sources. Growth is expected to moderate to +1.1% in 2027, bringing non-tax revenue to RM83.8b. Revenue from licences and permits is estimated to increase to RM15.5b in 2026 and further to RM17.2b in 2027. Meanwhile, investment income is projected to rise strongly by +8.4% to RM46.1b in 2026, before increasing further to RM46.6b in 2027, mainly supported by dividend contributions from PETRONAS (RM32b), BNM (RM7b), Khazanah (RM3b) and KWAP (RM6b). Looking at oil-related fiscal receipts, petroleum revenue is expected to reach RM61.2b in 2027, accounting for 16.1% of total federal revenue. This projection is supported by higher PETRONAS dividends, despite the government's assumption of more moderate crude oil prices in 2027. On the other hand, non-petroleum revenue is forecast to grow by +3.5% to RM319.6b, reflecting the positive impact of structural tax reforms in broadening the fiscal base. This trajectory reinforces medium-term fiscal resilience while ensuring sustainable funding for public expenditure.

Table 3: Federal Government Revenue 2025-2027

	RM Billion			YoY%		
	2025	**2026[e]**	**2027[f]**	**2025**	**2026[e]**	**2027[f]**
Tax Revenue	**259.8**	**280.8**	**297.1**	**8.2**	**8.1**	**5.8**
Direct Tax	180.6	191.0	199.9	5.2	5.8	4.6
Corp. Income Tax	97.8	101.7	106.6	5.4	4.0	4.8
Personal Income Tax	45.6	48.8	51.8	10.9	7.2	6.2
Petroleum Income Tax	18.1	20.5	20.5	(12.0)	13.7	0.0
Indirect Tax	79.3	89.7	97.2	15.7	13.2	8.3
Non-tax Revenue	**76.2**	**82.9**	**83.8**	**(9.7)**	**8.7**	**1.1**
Total Revenue	**336.1**	**363.6**	**380.8**	**3.5**	**8.2**	**4.7**
as % of GDP	*16.6*	*16.6*	*16.4*			

[e] estimate [f] forecast (excluding Budget 2027 measures)
Source: MOF; MBSBR

OPTIMISED FEDERAL GOVERNMENT EXPENDITURE

Operating expenditure increased in 2026 as subsidies and social assistance were raised

Federal Government expenditure is projected at RM459.8b in 2027, equivalent to 19.8% of GDP and representing a +3.6% increase from 2026. Operating expenditure (OE) will account for RM376.8b, or 81.9% of total spending, while RM83.0b is allocated for development expenditure (DE). In 2026, OE is projected to increase by +9.8% to RM363.1b (2025: RM330.7b), largely reflecting higher spending on subsidies and social assistance amid

elevated fuel prices. The increase also reflects continued commitments to emoluments, retirement charges, debt service and supplies and services.

Targeted subsidies to improve spending efficiency

Spending on subsidies and social assistance is projected to moderate by -2.3% to RM72.7b in 2027, following a sharp increase of +34.7% to RM74.5b in 2026. The moderation reflects continued efforts to improve subsidy targeting and expenditure management through measures such as BUDI95, BUDI Diesel, and the Electronic Cooking Oil Subsidy System (eCOSS). Nevertheless, the government remains committed to supporting households, with RM16b allocated for STR and SARA in 2027, up from RM15b in 2026. These measures will help cushion cost-of-living pressures while supporting domestic consumption.

RM83b allocated for 2027 development expenditure

The RM83.0b allocation for DE in 2027 is slightly below our expectations of RM85–90b, but RM2.0b is higher than the 2026 allocation. The economic sector receives the largest share at 45.4%, followed by social (33.7%), security (14.7%), and general administration (6.2%). Within the economic sector, transport remains the largest beneficiary, with RM17.6b allocated to improve connectivity and national competitiveness. Key infrastructure projects include the Penang LRT Mutiara Line, Pan Borneo Highway Sabah, Ayer Molek (Larkin) train station in Johor, and nationwide federal road slope stabilisation works. These investments, alongside approximately 1,500 newly approved programmes and projects, will continue to support construction activity, improve connectivity and strengthen Malaysia's long-term productive capacity.

GEAR-UP initiatives continue to remain a key driver

Public investment is projected to expand by +6.8% in 2027, supported by continued implementation of infrastructure projects, higher federal development expenditure and sustained capital spending by GLICs and GLCs. In particular, investment commitments under the GEAR-UP initiative, which targets RM120b in domestic direct investments between 2024 and 2028, are expected to provide additional stimulus to public investment activities. Under Budget 2027, GLICs will mobilise RM25b in domestic investments, particularly in infrastructure, technology, energy transition and other strategic sectors, supporting domestic economic growth while enhancing the country's long-term productive capacity. Key initiatives include RM1.2b in semiconductor investments by Khazanah and KWAP, support for technology startups through MTDC's SemiconStart Programme, and RM2.1b under the NIMP Fund, Dana Pemacu and MTC Fund to strengthen mid-tier companies. In addition, Khazanah and TERAJU will establish a RM250m Dana Ciptawan to support Bumiputera companies. These efforts will complement the broader GEAR-UP investment commitments and support Malaysia's medium-term economic development.

Social assistance measures to bolster household spending and domestic demand

In Budget 2027, the government continues to prioritise improving living standards and expanding socioeconomic assistance to promote a more dignified and inclusive livelihood for Malaysians. Key measures include the continuation and enhancement of cash assistance programmes, namely Sumbangan Tunai Rahmah (STR) and Sumbangan Asas Rahmah (SARA). Under Pillar 1, Budget 2027 provides more than RM80b for subsidies, assistance and incentives, including an expanded RM16b allocation for STR/SARA. The enhanced assistance includes monthly SARA support of up to RM150 for 9 million STR recipients, alongside two RM100 payments for 13 million non-STR adults. To ease cost-of-living pressures, particularly for the M40, the individual income tax relief threshold will increase from RM9,000 to RM12,000, while tax rates for chargeable income between RM70,001 and RM150,000 will be reduced by one percentage point. Tax reliefs will also be expanded to cover postnatal care, elderly care and selected digital services. Meanwhile, the national minimum wage will increase to RM2,000 per month effective June 2027, with an exemption for MSMEs with annual sales below RM50m, complemented by a RM2,500 monthly minimum wage for semi-skilled workers and graduates. Other measures include automatic EPF registration at age 18 and a RM160m

co-funded package with Grab to enhance income protection for e-hailing and p-hailing workers. Overall, the enhanced STR/SARA assistance and wage measures are expected to support household purchasing power and consumer spending, with positive spillover effects for local retailers and small businesses.

Equitable state development & infrastructure

The government also emphasises on equitable regional development and critical infrastructure expansion to support growth across states while addressing longstanding structural issues. Federal allocations to Sabah and Sarawak will reach historic highs at RM18.7b and RM16.2b, respectively, complemented by a higher interim Special Grant of RM1.5b under Article 112D and RM3.3b for road projects in both states, including the Trans Borneo Highway and Sarawak-Sabah Link Road. Industrial and technology hubs are also prioritised across Peninsular Malaysia. Penang is being developed as a technology finance hub through a RM100m Strategic Investment Fund established by Khazanah and InvestPenang, while Perak's industrial development will be supported by the Lumut Maritime Industrial City (LuMIC) and Automotive Hi-Tech Valley in Tanjong Malim, with tax deductions of up to RM5m for qualifying vendor relocation expenditure. Meanwhile, Kedah continues to attract high-tech investments at Kulim Hi-Tech Park, complemented by efforts to strengthen agricultural productivity under the MADA Five Seasons in Two Years Rice Planting Project. Urban transport bottlenecks will also be addressed through the Elevated Autonomous Rapid Transit (e-ART) system in Johor Bahru, alongside RM100m for Klang Valley flood mitigation and DBKL's RM400m allocation for urban rejuvenation and green spaces. Housing affordability will be further supported by full stamp duty exemptions for first homes priced up to RM500,000, with partial exemptions for properties priced up to RM750,000.

Food security and energy transition

Budget 2027 reinforces national preparedness and long-term economic resilience by accelerating energy transition and strengthening national food security initiatives. To safeguard energy supply, Tenaga Nasional Berhad (TNB) will invest RM15b in national grid expansion, complemented by UEM Lestra's RM1b commitment to hybrid energy and storage projects and KWAP's RM1b Dana Iklim+ for green investments. Meanwhile, food security measures provide comprehensive support to strengthen domestic supply chains and agricultural output. Total assistance for paddy farmers amounts to RM2.62b, equivalent to approximately RM4,300 per hectare, covering subsidies for seeds, fertilisers, pesticides, ploughing and paddy prices. The harvesting incentive will double to RM100 per hectare per season, while the RM300 ploughing incentive will be maintained and extended to Sabah and Sarawak. Irrigation upgrades are progressing under the MADA Five Seasons in Two Years paddy cultivation project, alongside the expected completion of the Pedu Dam rehabilitation project by end-2027 and RM20m for foliar fertilisers to restore soil fertility. Federal-state agri-food partnerships are allocated RM300m to expand community-level projects, including red tilapia farming in Batang Ai, Sarawak, and dairy production in Mersing, Johor, targeting 50% of Johor's milk output by 2030. Furthermore, over RM1b in financing will be made available through Agrobank, Bank Rakyat, and SKM to support agricultural productivity and technology adoption. Small-scale fishermen will benefit from an increase in special sampan licences from 17,000 to 20,000, while rubber smallholders will receive a higher Rubber Production Incentive (IPG) threshold of RM3.30/kg. The allocation for farm road repairs will also double to RM100m.

MSME Empowerment and Capacity Development

Micro, Small and Medium Enterprises (MSMEs), which contribute roughly 40% of GDP and employ 8 million workers, will receive additional fiscal relief through a one-percentage-point reduction in corporate income tax rates. The tax rate will be lowered to 14% on the first RM150,000 of taxable income and to 16% for the RM150,000–RM600,000 tier, providing annual tax savings of up to RM6,000 for approximately 300,000 MSMEs. Financial support will also be strengthened through an expanded pool of loans and financing guarantees totalling

RM57b, including RM32b in SJPP and CGC guarantees, RM10b in BNM financing facilities, and RM6.6b in microfinancing through AIM (RM3b), TEKUN (RM1.3b) and BSN (RM1.7b), alongside other financing programmes. To enhance market access, export capacity, and technological modernisation, MATRADE will receive RM60m, while BPMB will provide RM1b in export financing. Meanwhile, RM142m will be allocated to strengthen the NADI digital platform, complemented by measures to support technology adoption and digitalisation. Domestic MSMEs will also benefit from stronger protection against unfair competition through the proposed E-Commerce Bill, alongside targeted tax incentives such as RM10 stamp duty on P2P financing agreements and the extension of accelerated capital allowances for locally produced machinery and ICT equipment until 2030. Matching grants of up to RM5,000 will also be provided to MSMEs seeking halal certification for the first time.

Table 4: Federal Government Expenditures 2025-2027

	RM Billion			YoY%		
	2025	**2026[e]**	**2027[f]**	**2025**	**2026[e]**	**2027[f]**
Operating Expenditures (OE)	**330.8**	**363.1**	**376.8**	**2.9**	**9.8**	**3.8**
Emoluments	101.5	108.4	111.6	5.7	6.9	2.9
Retirement charges	38.6	42.8	44.6	7.4	11.0	4.2
Debt service charges	53.7	57.3	61.0	6.4	6.7	6.5
Supplies & services	42.2	41.6	45.1	12.0	(1.3)	8.2
Subsidies & social assistance	55.3	74.5	72.7	(18)	34.7	(2.3)
Development Expenditures (DE)	**81.9**	**81.0**	**83.0**	**(2.5)**	**(1.1)**	**2.5**
Net Development Expenditure	**80.5**	**79.1**	**81.5**	**(2.1)**	**(1.8)**	**3.0**
Economic	38.8	37.1	37.7	(10.7)	(4.2)	1.4
Transport	17.7	17.2	17.6	(13.5)	(2.7)	1.9
Social	27.6	27.4	28.0	7.8	(0.5)	2.0
Education & Training	14.1	14.0	13.6	12.1	(1.2)	(2.9)
Health	6.1	6.7	6.9	3.4	9.9	3.6
Security	11.9	11.8	12.2	3.0	(1.1)	3.8
Total Expenditures (OE+DE)	**412.7**	**444.1**	**459.8**	**1.8**	**7.6**	**3.6**
as % of GDP	*20.4*	*20.3*	*19.8*			

[e] estimate [f] forecast (excluding Budget 2027 measures)
Source: MOF; MBSBR

CONTINUED COMMITMENT TO FISCAL CONSOLIDATION AND MODERATING BORROWINGS

Fiscal deficit projected to narrow further to -3.3% of GDP

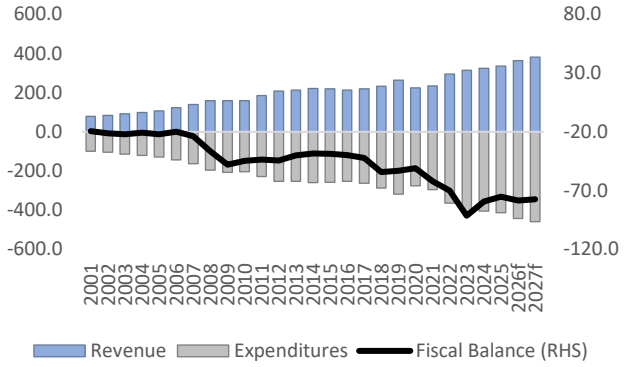
The government remains committed to its fiscal consolidation agenda, with the fiscal deficit projected to narrow further to -3.3% of GDP in 2027 (2026: -3.6%). In absolute terms, the fiscal shortfall is expected to decline marginally to -RM77.5b (2026: -RM78.5b), supported by continued revenue growth and prudent expenditure management. We opine that the improvement in the deficit ratio will also be partly driven by sustained expansion in nominal GDP, while the government continues to prioritize development spending, with a higher allocation of RM83b in 2027 (2026: RM81b).

Nevertheless, fiscal consolidation remains challenging amid heightened geopolitical uncertainties and elevated energy prices, which could increase subsidy requirements and constrain the government's fiscal flexibility. The updated medium-term fiscal deficit projection of -3.1% of GDP for 2027–2029 also suggests a more gradual consolidation path, although the government remains confident that the ongoing fiscal consolidation will bring down the deficit to smaller than 3.0% of GDP over the medium term.

Borrowings to moderate, but outstanding government debt to increase further

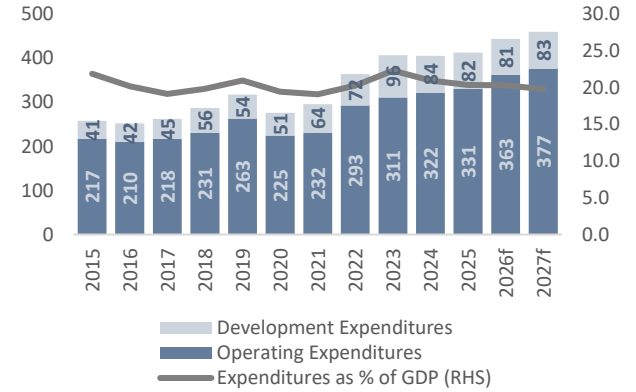
Despite the continued fiscal deficit, we expect the government's borrowing requirements to remain manageable, supported by a well-established domestic bond market and sustained demand from domestic institutional investors. We estimate the gross government borrowings would moderate to around RM184-188b in 2027 (2026e: RM207.1b), while net borrowings are expected to decline slightly to RM74.6b (2026e: RM78.5b) in line with the smaller fiscal deficit. Financing will remain predominantly sourced from the domestic market through the issuance of Malaysian Government Securities (MGS) and Malaysian Government Investment Issues (MGII), limiting exposure to foreign currency risks. Nevertheless, outstanding government debt is expected to increase further from RM1.38t as at end-Jun 2026, while government-guaranteed debt, which stood at RM352.9b at end-2025, represents an additional contingent fiscal liability. Although the debt stock will remain elevated, sustained nominal GDP growth, prudent debt management and strong domestic institutional demand should help contain the debt-to-GDP ratio and support medium-term debt sustainability. The government projects the Federal Government debt-to-GDP ratio to decline further to 63.7% in 2027 (2026e: 64.0%; 2025: 65.2%).

Chart 1: Fiscal Revenue, Expenditures and Balance (RM b)



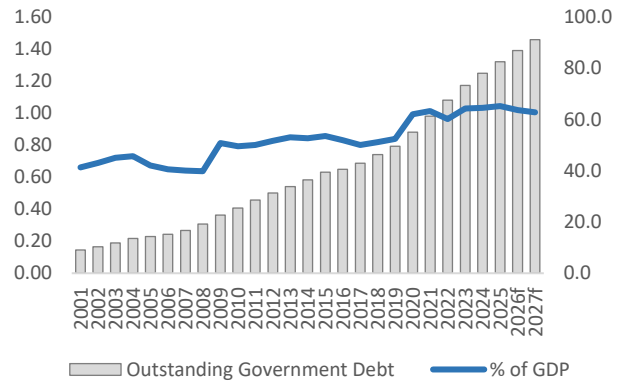
Source: Macrobond, MOF, MBSBR

Chart 2: Total Government Expenditure % of GDP and Development & Operating Expenditure (RM b)



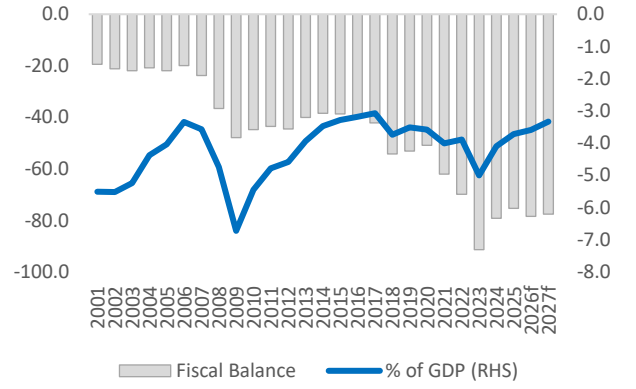
Source: Macrobond, MOF, MBSBR

Chart 3: Fiscal Balance (in RM b and as % of GDP)



Source: Macrobond, MOF, MBSBR

Chart 4: Outstanding Government Debts (RM b)



Source: Macrobond, MOF, MBSBR

B. SECTORAL REVIEW

I. AUTOMOTIVE ..... Maintain NEUTRAL

Analyst: Amalia Zarir

Measures	Allocation (RM'm)	Remarks
Fuel subsidies remain substantial.	40,000	• The government recently restored the monthly BUDI MADANI fuel quota to 300 litres from 200 litres, effective Sep-26, while maintaining subsidised RON95 petrol and diesel prices at RM1.99/litre and RM2.10/litre, respectively. • Continued fuel subsidies should help cushion consumers against elevated energy costs, supporting disposable incomes and vehicle affordability.
Tax deductions of up to RM5.0m on eligible relocation costs will be granted to wholly Malaysian-owned automotive vendors relocating to the Automotive Hi-Tech Valley (AHTV) in Tanjong Malim, for expenses incurred between 1 January 2027 and 31 December 2030.	n/a	• Over the longer term, this should strengthen the automotive ecosystem through greater supplier localisation and supply chain integration, particularly benefiting PROTON and its vendor network.
Green tax incentives will be extended until 31 December 2030, offering investment tax allowances of up to 100% for qualifying green technology projects, EV charging infrastructure and green assets for own use.	n/a	• This could encourage further investment in EV charging infrastructure, supporting the development of Malaysia's EV ecosystem. • Greater charging accessibility could help alleviate range anxiety and encourage EV adoption, potentially benefiting EV distributors over the longer term, although the near-term impact on vehicle sales is likely to be limited.

II. CONSTRUCTION ..... Maintain POSITIVE

Analyst: Soong Ming San

Measures	Allocation (RM'm)	Remarks
Development expenditure **Projects focused on:** **Penang** 1. Construction of NICE integrated elderly care centre **Johor** 1. Implementation of elevated Autonomous Rapid Transit (e-ART) in Johor Bahru	83,000	• The Development Expenditure (DE) allocation came in higher at RM83b (+2.5%yoy) from RM81b in Budget 2026. • Budget 2027 is largely in line with expectations, with continued emphasis on basic infrastructure, water supply, roads and public facilities rather than new mega projects. • While supportive of construction and building materials demand, Budget 2027 largely extends existing infrastructure programmes, with the proposed elevated e-ART in Johor Bahru among the notable new projects. • Water infrastructure and industrial facilities should also provide further contract opportunities. • Given limited fiscal headroom, private investments in data centres and industrial developments remain key growth drivers, including

2. Upgrade of road access from Sedenak interchange to support Nexus Sedenak under JS-SEZ
3. Construction of Specialist Clinic Complex and Day Treatment Centre at Hospital Sultanah Aminah
4. Replacement of SJK(T) Ladang Pamol, Kluang
5. Construction of affordable housing in Kulai
6. Development of Pengerang Biorefinery through a joint venture

Perak

1. Development of Lumut Maritime Industrial City and Automotive Hi-Tech Valley in Tanjong Malim
2. Construction of Integrated Health Complex in Gerik
3. Construction of SK Seri Chemor, Ipoh
4. Construction of a 100-bed Orang Asli hostel in Kinta

Kedah

1. Further development of Kulim Hi-Tech Park
2. Development of NCT InnoSphere, a 122-acre heavy vehicle, engineering and logistics hub
3. Construction of private-sector access from Bukit Kayu Hitam immigration complex to Inland Container Depot
4. Upgrade of tourism facilities at Lembah Bujang

Kelantan

1. Planning of Lebir Dam and construction of Machang Water Treatment Plant
2. Implementation of Sungai Golok Phase 2 flood mitigation project
3. Construction of Orang Asli kindergartens at Kampung Angkek and Pos Belatim, Gua Musang
4. Construction of a bus terminal at the Kota Bharu ECRL station.

the RM1.25b New Economy Venture Fund for DC and logistics assets in Elmina and the potential RM12b Nexus Sedenak investment.

- We see Gamuda as well positioned for larger transport and water infrastructure packages, while IJM Corp and SunCon could benefit from further industrial and DC developments.
- We maintain our **POSITIVE** stance on Construction, with top picks **Gamuda (BUY, TP: RM5.60), IJM Corp (BUY, TP: RM3.32)** and **SunCon (BUY, TP: RM9.18).**

Melaka

1. Implementation of Sungai Rambai River rehabilitation and flood mitigation works
2. Construction of affordable housing in Paya Rumput
3. Construction of Pusat Permata Kurnia for children with autism

Negeri Sembilan

1. Construction of new road linking KLIA and Bandar Enstek
2. Upgrade of Pajam–Nilai–Salak road
3. Construction of Integrated Health Complex in Rembau
4. Construction of affordable housing in Nilai

Pahang

1. Development of industrial infrastructure along the ECRL corridor in Bentong
2. Development of housing near KotaSAS station
3. Construction of Pusat Permata Kurnia for children with autism
4. Upgrade of tourism facilities at Taman Negara

Perlis

1. Development of infrastructure at Chuping Valley and NCER Agribio Economic Zone

Terengganu

1. Construction of regional sewage treatment plant and sewerage network in Kuala Terengganu
2. Implementation of Sungai Kemaman flood mitigation project
3. Construction of new matriculation college in Marang
4. Construction of affordable housing in Lembah Pertang

Selangor 1. Development of data centres and logistics assets at Elmina through the RM1.25b New Economy Venture Fund 2. Construction of Kompleks Sekolah Bandar Serenia, Sepang 3. Construction of SJK(C) Bandar Mahkota Cheras 4. Construction of flood retention ponds and river maintenance works in the Klang Valley, with RM100m allocated. **Federal Territories** 1. Implementation of Klang Valley Double Track 2 rail project 2. Construction of 22km of covered pedestrian walkways in Kuala Lumpur 3. Upgrade of parks, public facilities and public housing under DBKL 4. Restoration of Menara Dayabumi, Kuala Lumpur Railway Station and KTMB headquarters 5. Construction of at least 2,500 Rumah MADANI units on government land in Belfield 6. Development of Bandar MADANI Bukit Jalil		
<u>East Malaysia Development allocation</u> **a) Sabah** 1. Continued construction of Pan Borneo Sabah Phase 1B 2. Continued construction of Sarawak–Sabah Link Road 1 3. Implementation of Southern Link transmission project 4. Construction of new preschool building at SK Bulu Silou, Keningau 5. Upgrading of dilapidated schools and tourism facilities at Danum Valley 6. Upgrading of airports in Kota Kinabalu, Tawau and Sandakan 7. Upgrading of border roads connecting Sabah and Kalimantan		• Both Sabah and Sarawak will continue to benefit from higher Federal allocations of RM18.7b (+RM1.1b yoy) and RM16.2b (+RM1.1b yoy), respectively, although the state-specific development expenditure breakdown was not disclosed. • The two states remain the largest recipients of Federal allocations, with RM3.3b earmarked for road projects, including the Trans Borneo Highway, Pan Borneo Sabah Phase 1B and Sarawak–Sabah Link Road 1. • Another RM350m has been allocated for Federal Road maintenance by G1–G4 contractors. • Continued infrastructure spending in Sarawak should support cement demand, benefiting **Cahya Mata Sarawak (NEUTRAL, TP: RM1.04),** the state's sole cement producer.

b) Sarawak 1. Construction of Trans Borneo Highway, Miri section 2. Construction of Trans Borneo Highway, Limbang and Lawas sections 3. Continued construction of Sarawak–Sabah Link Road 1, targeted for completion by end-2027 4. Development of infrastructure for the proposed Sibu Special Economic Zone 5. Implementation of flood mitigation works in Kuching 6. Construction of Dental Specialist Centre in Kuching 7. Construction of NICE integrated elderly care centre 8. Upgrading of border roads towards Tebedu–Entikong 9. Upgrading of Miri Airport and STOLports in Long Banga and Ba'Kelalan		
c) Road projects in Sabah and Sarawak	3,300	• Pan Borneo and SSLR1 targeted for completion by end-CY27. Construction of Pan Borneo Sabah Phase 1B and Sarawak–Sabah Link Road 1 remains ongoing, with both targeted for completion by end-CY27. Meanwhile, the Letter of Acceptance for the Miri section of the Trans Borneo Highway has been issued, while the Limbang and Lawas sections are expected to be awarded by end-CY26. • These projects should sustain road construction activities and demand for cement and other building materials across East Malaysia.
d) Maintenance of Federal roads by G1–G4 contractors in Sabah and Sarawak	350	

III. CONSUMER ..... Maintain POSITIVE

Analyst: MBSB Research team

Measures	Allocation (RM'm)	Remarks
STR & SARA 2027 • SARA of up to RM150/month or RM1,800/year for all STR recipients • RM100 SARA MADANI twice for up to 13m Malaysians aged 18+ who are not STR recipients	16,000 (from 15,000)	• The higher allocation should provide the clearest direct support to lower- and middle-income household consumption. • We expect the strongest read-through for groceries and essential spending, benefiting **99 Speed Mart (BUY, TP RM4.37), AEON (BUY, TP RM1.61), Nestlé Malaysia (BUY, TP RM116.10), F&N (NEUTRAL, TP RM25.71) and QL Resources (NEUTRAL, TP RM4.11).**

• SARA usage expanded to wet and fresh goods at 216 FAMA markets • Small SARA merchants targeted to increase to 10,000 by end-2026		• The broader merchant base and inclusion of fresh produce may spread SARA spending across more channels rather than concentrating it solely among larger retailers.
Personal income-tax relief • Individual relief raised from RM9,000 to RM12,000 • Selected resident income-tax bands cut by -1.0ppt • Medical, parental-care, sports, education and lifestyle relief scopes widened	n/a	• The Government estimates the measures could provide up to RM1,600 of additional disposable income for ~5m taxpayers. • This provides a more direct M40 consumption catalyst than previous Budgets, with potential upside for **AEON (BUY, TP RM1.61)**, **MR D.I.Y. (BUY, TP RM2.13), Padini (BUY, TP RM1.63) and Oriental Kopi (BUY, TP RM1.34).**
Minimum wage increase • National minimum wage raised from RM1,700 to RM2,000/month from Jun-27 • Minimum wage of RM2,500/month proposed for semi-skilled workers and graduates • MSMEs with sales below RM50m exempt from the RM2,000 wage floor	n/a	• Positive for household income and lower-income spending, but more mixed for listed consumer companies given higher payroll costs. • Labour-intensive retailers such as **99 Speed Mart, AEON, MR D.I.Y., and Padini** face higher operating costs, making productivity and operating leverage increasingly important. • For consumer earnings, the wage increase is therefore a demand positive but margin headwind
Jualan Rahmah MADANI & Jualan Agro MADANI • 35,000 events targeted • 30,000 Jualan Rahmah events • 5,000 Jualan Agro events • Fresh products offered at up to 30% below prevailing prices	750 (from 630)	• Supports household purchasing power by lowering effective prices for essentials. • Jualan Agro provides an additional distribution channel for chicken, fish, vegetables and fruits, offering some indirect support to integrated food producers such as **Leong Hup International (BUY, TP RM1.03) and QL Resources.** • The programme may also create some price competition for conventional grocery retailers during promotional periods.
JKM, elderly and disability assistance • JKM assistance of RM3.3b • Senior Citizens Assistance raised to RM1.3b for almost 200,000 recipients • OKU assistance raised to RM1.5b for >300,000 recipients • Carer allowance raised to RM600/month	3,300	• Adds another layer of recurring income support for vulnerable households where propensity to spend on essentials is high. • Positive for mass-market staples and neighbourhood retail, particularly **99 Speed Mart and AEON**.
Early Schooling Aid • RM200 per pupil • 5.3m pupils	1,000	• The increase from RM150 provides a seasonal consumption boost around the school-opening period.

		• Likely beneficiaries include **AEON, MR D.I.Y. and Padini** through school-related apparel, household and general merchandise spending.
PTPTN repayment relief • Repayment deferral for borrowers earning ≤RM2,500/month • Minimum RM50 repayment for incomes of RM2,500-3,000/month • 10% discount for qualifying regular payers	n/a	• Deferral and RM50 minimum cover >400,000 borrowers in 2027 • Positive mainly for affordable discretionary and mass-market spending rather than staples.
My50 / MyKomuter50 transport support • My50 continued • MyKomuter50 introduced • Free passes for schoolchildren, OKU and children under six	n/a	• Lower commuting costs provide another modest buffer to disposable income, particularly for urban households. • Supports retail and F&B footfall around transit-oriented locations.
Paddy and rice support • Paddy assistance covering seeds, fertiliser, pesticides, ploughing and paddy pricing • Harvesting incentive doubled to RM100/ha/season • Ploughing incentive extended to Sabah and Sarawak • RM20m foliar fertiliser programme	2,620	• Reinforces domestic rice production and farmer incomes, supporting food availability and limiting imported-food vulnerability. • **PPB Group (BUY, TP RM11.20)** offers the clearest listed grains exposure, though the direct earnings transmission remains limited.
Fisheries and aquaculture • Subsidised diesel maintained at RM1.65/litre • Catch incentives and living allowance of up to RM300/month • Special fishing licences expanded • Aquaculture financing through Agrobank	218	• Supports fishing costs, small-scale producer income and domestic fish supply. • Positive for food-security resilience and indirectly supportive for **QL Resources** through its integrated marine-products exposure.
Federal state agrofood projects	300	• Supports localisation of fish and dairy supply and reduces dependence on imported food over time. • Positive read-through for domestic food-security development, with potential industry relevance for **F&N** and **QL Resources**, although the direct earnings impact is likely gradual.
Supplementary Food Programme • School meals for >800,000 pupils	870	• Creates institutional demand for basic food products while supporting child nutrition. • Potential indirect beneficiaries include poultry, dairy and packaged-food suppliers such as **Leong Hup**, **QL Resources**, **F&N** and **Nestlé Malaysia**, subject to procurement participation.
Sales tax refund for manufacturers • Proposed refund mechanism expanded to locally purchased	n/a	• Potentially positive for manufacturers exposed to feed and agricultural inputs by lowering effective input costs. • Relevant to **Leong Hup** and **QL Resources**, although the actual impact will depend on the final eligibility mechanics.

machinery, equipment and selected raw materials • Specifically includes raw materials for animal feed, fertiliser and pesticides		
Tourism and culture • Visit Malaysia campaign extended • Tourism promotion and events • Jetty and heritage-site upgrades • Cultural programmes	935	• Provides continued policy support for tourism-linked consumption. • Beneficiaries include **AEON**, **Oriental Kopi**, **F&N**, **Spritzer (NEUTRAL, TP RM2.92)** and **Life Water (NEUTRAL, TP RM1.63)** through mall traffic, F&B and beverage consumption.
International & charter flight matching grants • Scope widened to cruise ships, ferries and tour buses • Focus on new direct routes from China, India, Central Asia and Europe	n/a	• Improves tourism connectivity and could raise visitor spending if route additions translate into sustained arrivals. • Positive mainly for tourism-exposed malls, cafés, beverages and convenience retail rather than the entire consumer sector.
SEA Games & ASEAN Para Games 2027	240	• Adds another event-driven tourism and consumption catalyst in CY27. • Likely beneficiaries include **AEON**, **Oriental Kopi**, **F&N**, **Spritzer** and **Life Water** through higher visitor traffic and beverage/F&B demand.
Langkawi & Labuan duty-free limit • Purchase limit raised to RM10,000 • Minimum 48-hour stay	n/a	• Supports tourist retail spending and strengthens the value proposition of both destinations. • Positive for broader tourism-linked consumption, though listed-company exposure is limited.
Entertainment and creative-sector support • >RM130m for film, music and content • Full entertainment-duty exemption for local films and theatre in the Federal Territories	>130	• Supports local content production and cinema traffic. • Positive for **PPB Group** through GSC, particularly if higher domestic-content output translates into stronger attendance.
NUR MADANI energy-efficient appliance rebate • Rebate up to RM200 for energy-efficient air-conditioners and refrigerators	n/a	• Provides a small direct incentive for household durable purchases. • **AEON** could benefit through electrical and household-goods sales.
Housing and first-home support • Full stamp-duty exemption on homes up to RM500,000 • Partial exemption up to RM750,000 • SJKP guarantees of up to RM20b for 80,000 first-home buyers	20,000 guarantees	• Supports household formation and may provide secondary demand for furniture, home improvement and general merchandise. • Potential beneficiaries include **MR D.I.Y.** and **AEON**, although the read-through is indirect.

Foreign e-commerce regulation • Government examining measures against unfair competition and unsafe products • e-Commerce Bill to strengthen platform and seller accountability	n/a	• Potentially supportive for domestic retailers if enforcement narrows the cost and regulatory advantage of cross-border sellers. • Relevant to **MR D.I.Y.**, **Padini** and **AEON**, although the final impact depends on the eventual legislation.

IV. HEALTHCARE ..... Maintain POSITIVE

Analyst: MBSB Research team

Measures	Allocation (RM'm)	Remarks
Ministry of Health: Allocated budget is in line with Health White Paper (HWP), Madani Economy Framework and New Industrial Master Plan (NIMP) 2030.	**47,700**	• The allocated budget is a +2.6% from the allocation in Budget 2026 • Despite the growth, it represents one of the smaller percentage increases in recent fiscal cycles • Budget 2027 explicitly operationalizes the core pillars of the Health White Paper (HWP) approved by Parliament, alongside the Madani Economy Framework and New Industrial Master Plan (NIMP) 2030: • To summarise, the budget incentives based on HWP are as follows: ○ **Pillar 1 – Service Delivery:** hospital HSA specialist wing, +400 ambulances, PPP HSOP outsourcing ○ **Pillar 2 – Disease Prevention:** PeKa B40 expansion, Program BuAi, commercial driver NCD vouchers ○ **Pillar 3 – Health Financing:** Pelan MediAsas, EPF Akaun Sejahtera for Premiums, SME Premium Subsidies ○ **Pillar 4 – Governance and Tech:** MCMC EMR Expansion, e-CKAPS Digital Private Licensing, JKR Pre-Approved Plans • The overarching theme for the sector is structural modernization and capacity optimization. The budget emphasizes on: (i) human capital sustainability, (ii) PPP convergence (under HSOP and MediAsas), and (iii) digital infrastructure and logistics. • However, we also noted that potential implementation risks and bottlenecks may present themselves in the form of: (i) procurement and transiency risks, (ii) smaller budget increment against rising medical inflation, (iii) workforce maldistribution, (iv) interoperability barriers in EMR rollout, and (v) unforeseen cost overruns through PPP.
Medical Infrastructure and Facilities: • Maintenance and repair across all public hospitals and clinics, including remaining dilapidated clinics. • 9 new healthcare facilities, including:	1,200 n/a	• These incentives are expected to support the upcoming DRG system that is planned for rollout in early CY27. • Utilizing JKR Pre-Approved Plans (JKR-PAP) eliminates prolonged design phases, allowing direct quotation for contracts which circumvents unwieldy open tender cycles (often take 6–12 months).

○ Specialist Clinic Complex and Day Care Centre at Hospital Sultanah Aminah, (Johor) ○ Dental Specialist Centre (Kuching, Sarawak) ○ Integrated Health Complex (Gerik, Perak) ○ Integrated Health Complex (Rembau, Negeri Sembilan)		• This fast-tracks small-to-medium repair and clinic construction projects into immediate execution, aligning with the government's ongoing infrastructure support for dilapidated clinics (*klinik daif*) in rural areas. • Meanwhile, the strategic new hospital projects are expected to address chronic overcrowding in major urban hubs and bridge the specialist access gap in semi-rural and East Malaysian regions.
• New infrastructure projects—including clinics, quarters, and hostels valued up to RM5m using JKR Pre-Approved Plans—can proceed via direct quotation to avoid procurement delays	n/a	• The dedicated allocation for the maintenance of public healthcare infrastructure is expected to restore basic hygiene, safety and working conditions for healthcare workers and patients in underserved rural communities, subsequently encouraging medical graduates to accept work and housemanship in these areas and further preventing worker shortages. • Nevertheless, we opine there would be flaws to these incentives, especially under the JKR-PAP, including: (i) bypassing open tenders could raise price inflation and encourage the lack of transparency, (ii) failed adaptation of infrastructure newbuilds in different geography and climate, and (iii) operational bottlenecks that causes delay sub-standard workmanship and abandonment. • Additionally, rapidly building and upgrading facilities does not solve the acute shortage of medical specialists and nurses; both issues must be solved hand-in-hand. • To overcome the risks, we opine that strict oversight, and auditing mechanism will need to be further addressed by MOH along with its implementation. • For these incentives, we believe that **KPJ Healthcare (BUY, TP:RM3.70)** has the advantage, as improved public infrastructure could increase demand for additional healthcare services, and given KPJ's widespread footprint across Malaysia, we noted that the group could receive the spillover.
Medical Workers: • Over 9,000 contract doctors will be offered permanent positions; medical graduates completing their housemanship will be directly offered permanent Medical Officer (MO) positions	n/a	• Transitioning contract doctors into permanent MOs directly tackles the systemic discontent in career progression, pension/EPF security and postgraduate specialization. • The main goal of these incentives is to prevent doctor migration to foreign or private sectors. • To note, it is estimated that Malaysia is suffering a deficit of nearly 11,000 specialist doctors, with 1,109 medical specialists and more than 3,500 medical officers resigned from the MOH.
• Increase in post-basic incentive for paramedics and nurses (from RM100 to RM200)	9.4	• Doubling post-basic incentives is expected to encourage nurses and paramedics to gain sub-specialization certifications (ICU, paediatrics, oncology, emergency care), consequently raising clinical care standards in the public sector.
• Increase in Air Health Services incentive for frontliners involved in air medical services (from RM30 to RM50 per hour)	n/a	• Meanwhile, Air Health Services incentives and dedicated doctor housing alleviate hardship conditions, facilitating the posting of medical staff to Sabah, Sarawak, and deep rural Peninsular Malaysia.

• 18 KKM Training Institutes will receive clinical simulation equipment to train over 20,000 trainees and medical personnel	n/a	• Additionally, training of senior care workers creates a structured talent pipeline to support Malaysia's rapidly aging demographic. • However, we noted that permanent status does not automatically resolve geographic distribution issues. • Public healthcare facilities in rural or East Malaysian districts frequently suffer high "no-show" rates when staff are transferred away from urban centres. • While permanent posts solve the baseline workforce issue, unless university hospitals and training centres expand specialist slots, medical officers will face severe bottlenecks when trying to become specialists. • Under these incentives, we believe **KPJ Healthcare (BUY, TP:RM3.70)**, with its KPJ University division, is well-positioned through its nursing college network to absorb government-funded training programs for aged care and post-basic nursing certifications.
• Construction and maintenance of government quarters, which specifically includes housing for doctors	2,300	
• Special monthly incentives provided to healthcare education officers alongside extended social protection coverage (PERKESO) for caregivers and voluntary welfare workers	n/a	
• Training of 8,000 workers in senior care via HRD Corp	40	
Medical Services and Delivery: • Outsourcing patients to other facilities, including the use of private operating theatres by the public sector	200	• Utilizing private operating theatres and outsourcing procedures (elective surgeries, diagnostic imaging, cardiac interventions) immediately slashes waiting times at crowded public hospitals without having the need to establish greenfield facilities. • Increasing sessional hours and flexibility for retired public specialists and private doctors allows the public sector to tap senior clinical expertise at a fraction of the cost of full-time retention, mitigating the impact of specialist brain drain. • Meanwhile, the new ambulances could reduce critical pre-hospital emergency response delays, and improve survival outcomes in acute cases (trauma, cardiac arrests, stroke) across semi-urban and rural regions. • Modernizing and expanding public haemodialysis facilities reduces the physical and financial burden on end-stage renal disease (ESRD) patients, minimizing travel times for thrice-weekly treatments. • To note, currently over 50,000 active patients require regular dialysis or renal replacement therapy in Malaysia. • Downside risks to these incentives include: (i) prolonged reliance on private sector without DRG pricing controls could rapidly drain the allocated budget, (ii) operational complexities regarding medical indemnity coverage, clinical governance and schedule reliability for retired specialists, and (iii) maintenance cost overruns for expanded ambulance fleet. • Healthcare service providers like **IHH Healthcare (BUY, TP:RM10.18)** and **KPJ Healthcare (BUY, TP:RM3.70)** are well poised to benefit from the PPP in major urban centres and suburban areas.
• Increased maximum hours/flexibility for retired government specialists and private specialists serving in public healthcare	n/a	
• Procurement of modern equipment, including the acquisition of 400 new ambulances and upgrades of haemodialysis facilities nationwide	770+	

Digital Healthcare: • MCMC will expand the Electronic Medical Record (EMR) system across health facilities nationwide	1,000	• Expanding the EMR system nationwide enables real-time patient data sharing across primary health clinics and tertiary public hospitals, subsequently eliminating duplicate diagnostic testing, minimizing medication errors and speeding up emergency interventions.
• Hospital Pakar USM will adopt robotic surgery technology for patients in the East Coast and Northern Peninsula	n/a	• The robotic surgery initiative is in line with HWP in providing an option of high-precision, faster and minimally invasive procedures for populations in the East Coast and Northern Peninsula, inevitably reducing the need for long travels and additional non-medical expenses.
• Digital Licensing (e-CKAPS Portal) allowing fully online licensing processing for private healthcare facilities, targeting up to a 65% reduction in processing time	n/a	• We also noted that the e-CKAPS Portal will reduce the holding costs for private operators opening clinics, ambulatory centres, and diagnostic facilities, spurring higher private sector investment while reducing congestions in the whole healthcare system. • Risks for incentives are largely structural, in the form of cybersecurity and data privacy vulnerabilities (for EMRs), high capital and maintenance costs (for robotic surgery) and digital divide and interoperability gaps (for both EMR and e-CKAPS). • Given that **IHH Healthcare (BUY, TP:RM10.18)** and **KPJ Healthcare (BUY, TP:RM3.70)** are already well-established in terms of its advancement in medical technology, we opine that the roll out of the improved e-CKAPS will continue to assist these groups in accelerating the licensing for their new specialist wings.
Medical Costs: • Pelan MediAsas to be introduced in January 2027 to offer affordable, predictable hospital billing based on diagnosis and treatment types	n/a	• The planned implementation of the Diagnosis-Related Group system in CY27 creates predictable hospital bills, further preventing itemized price-gouging in private facilities. • This also enables consumers and insurers to easily compare procedure costs across different private hospital networks, driving competitive pricing.
• EPF members under 55 can pay health premiums using Akaun Sejahtera	n/a	• Allowing the tap into Akaun Sejahtera for insurance premiums lowers the cash barrier for working-class households, subsequently expanding private healthcare coverage without eating into monthly salaries.
• For SMEs with fewer than 75 workers, the government will subsidize RM200 per employee for the first-year premium (capped at 50 employees per company)	n/a	• Increasing the Medical Assistance Fund (*Tabung Bantuan Perubatan*) directly aids low-income patients requiring non-standardized specialized treatments, rare-disease drugs or specialized implants, indirectly improve accessibility. • However, while these incentives are expected to elevate the public sector, we opine there would be risk of margin squeezes and service layering within the private sector.
• Standardized and transparent hospital bill categories starting 2027	n/a	• Additionally, MediAsas may still exclude coverage for pre-existing medical conditions.
• Increase in Medical Assistance Fund allocation (from RM40m to RM60m)	60	• Patients with chronic long-term conditions like diabetes and hypertension may find the basic plan insufficient, forcing them back into overcrowded public hospitals.

Targeted Care:
• **Oncology:**
  ○ Under PeKa B40, free health screenings, medical equipment support, and cancer treatment incentives for STR recipients and spouses aged 40 and above will be provided
  ○ Continued support for free HPV vaccinations, mammogram subsidies and cervical cancer screenings under the National Population and Family Development Board (LPPKN)
	80	• Expanding PeKa B40 screening, medical equipment support, and cancer incentives (RM1,000 upon treatment completion) alongside LPPKN's free HPV vaccines and mammograms catches malignancies early.
		• To note, the National Cancer Institute reported that an overall lifetime risk of a Malaysian developing cancer grew from 1 in 10 to 1 in 8 in the past 7 years, with 65.1% of all cancer case are diagnosed at late stages.
		• This incentive for oncology also significantly improves 5-year survival rates and mitigates catastrophic out-of-pocket medical debt for B40 households.
		• Meanwhile, Program BuAi helps help reverse falling national fertility rates and reduces birth incidence of major Thalassemia, lowering lifelong public healthcare management costs.
		• To note, current total fertility rate (TFR) in Malaysia has declined to 2 children per woman over the past 50 years, from 5 children per woman in the 1970s.
		• Specialized early intervention centres for autism and Down syndrome within the public sector may still be a novice-level initiative, but it is an apt one as it could help special needs individuals to improve their livelihood, further giving them more purpose as a citizen.
		• While these incentives can be seen as extensions to existing programmes, the risks of awareness gaps and low uptakes by the B40 group, capacity constraints in special needs centres, and demand for fertility treatments inn public facilities may still be persistent.
		• We noted that under the targeted care in oncology, the benefit in pharmaceuticals like **Pharmaniaga (BUY, TP:RM1.44),** which has the capability to distribute and supply HPV vaccines to LPPKN and oncology pharmaceuticals to MOH.

• **Fertility:**
  ○ Under Program BuAi, affordable fertility treatment services are offered for up to 2,000 couples and men's wellness services to 42,000 men
  ○ Free genetic screening programs expanded to include husbands and child carriers to reduce the risk of major thalassemia births
	80	

• **Special Needs:**
  ○ Construction of two new specialized centres (Pusat Permata Kurnia) in Melaka and Pahang dedicated to education, early intervention, and therapy for autistic children
  ○ Upgrading 15 PDK facilities into Specialized Therapy Centres specifically equipped for registered individuals with Down Syndrome
	n/a	

• **General Wellbeing:** ○ PERKESO health screening vouchers for commercial vehicle drivers to assess physical and psychological health risks before driving	n/a	

Aged Care: • Service tax rate for senior care services reduced from 8% to 6%, with full exemption for care fees up to RM96,000 annually	n/a	• Reducing the service tax directly lowers out-of-pocket costs for families utilizing private nursing homes, assisted living and day-care centres. • The i-Emas scheme encourages retirees to shift from lump-sum withdrawals to structured monthly payouts, which mitigates the risk of exhausting life savings within 3–5 years while allowing remaining balances to compound dividends over time. • The Senior Citizens Bill establishes formal legal definitions regarding financial exploitation and abandonment, protecting the elderly from aged care neglect. • The downside risks to these incentives include: (i) low financial literacy to utilise i-Emas, (ii) inadequate enforcement budgets and support for the Senior Citizens Bill, (iii) unaffordability for premium care to pass tax exemption, and (iv) inability to retain geriatric specialists and certified elderly care nurses in NICE hubs. • To note, basic assisted living cost an average of RM2,500-3,500 per month, nursing care an average of RM3,500-6,000 per month, dementia care an average of RM6,000-8,500 per month and premium retirement homes of up to RM15,000 per month.
• Two Integrated Care Expertise Centres (NICE) to be built in Penang and Sarawak to serve as hub facilities for senior care, research, and specialized training	n/a	
• A dedicated Senior Citizens Bill (RUU Warga Emas) will be drafted to provide a comprehensive legal framework addressing elder care and protection against neglect as Malaysia prepares to become an aged nation	n/a	
• Increase in Senior Citizen Financial Assistance to benefit roughly 200,000 recipients	1,300	
• EPF members reaching ages 55 and 60 can opt for the i-Emas scheme, which provides monthly payout options, so the remaining principal continues to earn compounding dividends	n/a	

Other Incentives:
• **Tax Relief:**
  ○ Individual tax relief for medical treatment has been expanded to cover postnatal care services
  ○ Tax relief for the care of parents and grandparents has been broadened to cover all care expenses rather than being restricted strictly to medical treatment
  ○ Tax relief under lifestyle/wellness now includes coverage for the cost of vaccinations
	n/a	• Broadening medical relief to include confinement centres, postnatal nurses and lactation consultants reduces the immediate out-of-pocket burden for young family's post-childbirth.
		• Given that Malaysians are often home caregivers to their elderly parents, expanding relief beyond strict clinical medical bills to cover all care expenses (adult diapers, specialized home nursing, day-care centres, mobility aids) provides significant financial breathing room.
		• Meanwhile, blockchain-based tokenization lowers the minimum investment entry threshold (traditionally RM1,000 to RM10,000+ for institutional sukuk) to micro-amounts, allowing everyday citizens to purchase fractional government sukuk, which is subsequently flowed into specific social priorities, such as public healthcare upgrades or new medical complexes
		• Risks to these incentives are minimal and are only constrained to the documentation issues for tax relief (which can be prevented

• **Tokenized Retail Savings Sukuk Funding:** ○ The government is introducing tokenized retail savings sukuk using blockchain technology, allowing citizens to specifically choose to direct their investment funds toward key national priorities, including health/healthcare	n/a	through awareness and guidance) and digital illiteracy for the sukuk (which could be opted out by low-risk investors).
Pharmaceuticals: A Halal Certification Match Grant is provided to empower Halal Micro, Small, and Medium Enterprises (MSMEs) specifically operating in the pharmaceutical and cosmetics sectors to expand their market reach	25	• First time applicants are offered matching grants of up to RM5,000, backed by a dedicated RM25m funding pool specifically aimed at empowering Halal MSMEs expanding into higher-value sectors like pharmaceuticals, nutraceuticals, and cosmetics. • This initiative marks a strategic shift toward high-margin life science sectors, supporting both the New Industrial Master Plan (NIMP) 2030 and the Halal Industry Master Plan 2030 (HIMP 2030). • Obtaining Halal certification from JAKIM for pharmaceuticals requires stringent compliance, cleanroom audits, raw material traceability and lab testing, while unlocking global and OIC export markets. • However, we noted that the risk to this incentive is the capital needed, the regulatory constraints (notably from the National Pharmaceutical Regulatory Agency (NPRA)) and complex raw material sourcing. • **Pharmaniaga (BUY, TP:RM1.44),** possessing cold-chain logistics and halal supply-chain management capabilities, could largely assist MSMEs in distributing certified products to local retail chains and government hospitals; making them a major beneficiary to this incentive.
Medical Devices and Equipment: Under high-value sector investments, a total of RM2.1b across Dana NIMP, Dana Pemacu KWAP and Dana MTC Khazanah is utilized to strengthen the capability of mid-tier companies, explicitly including the medical devices subsector	2,100	• This policy aims to shift Malaysia's medical device industry from low-margin OEM manufacturing (rubber gloves and basic consumables) into high-value medical technology, including electro-medical devices, surgical instruments, diagnostic equipment and orthopaedic implants. • Mid-tier companies (revenues typically RM50m-500m) often exceed the threshold for SME soft loans but lack the scale to access international private equity or primary listings, hence this incentive pool gives them growth capital without adding debt. • Additionally, this capital also helps to absorb the cost of stringent international regulatory approvals (such as US FDA 510(k), EU CE Mark/MDR and Japan PMDA). • Malaysia's strong semiconductor and E&E ecosystem could also provide an immediate advantage toward the development of medical electronics, imaging hardware, and IoT health sensors.

		• Nevertheless, the risks remain on: (i) prolonged regulatory testing before commercialisation (>5 years), (ii) limited global market access and hospital adoption, and (iii) shortages of skilled technician and bioengineers. • Glovemakers like **Kossan Rubber Industries (BUY, TP:RM1.79)** and **Hartalega (BUY, TP:RM1.73)** looking to diversify their product lines could benefit the most from this incentive. • Additionally, medical device manufacturers like **UMedic (BUY, TP:RM0.43)** could leverage on their existing products and continue to fill in the gaps in medical device and equipment demand through this incentive.

V. OIL & GAS ..... Maintain POSITIVE

Analyst: MBSB Research team

Measures	Allocation (RM'm)	Remarks
PETRONAS Dividends: This payout forms a significant part of the government's non-tax revenue, representing roughly 8.4% of total projected federal revenue for 2027.	n/a	• The RM32b PETRONAS dividend contribution for 2027 forms a cornerstone of non-tax revenue (roughly 8.4% of the RM380.8b projected total federal revenue). • Drawing on national energy profits provides direct revenue to fund public services, social safety nets (STR/SARA cash assistance), and development expenditure without needing to raise corporate taxes or broaden tax bases, while narrowing the national fiscal deficit target toward 3.3% of GDP in 2027. • Additionally, oil revenues give the government room to fund emergency public interventions, infrastructure programs or energy subsidies during periods of global economic volatility. • However, we remain vigilant on the impact of Brent crude oil and LNG price swings on this dividend, as well as the potentiality of reinvestment capital depletion for offshore operations and energy transition projects. • While high dividend payouts trim PETRONAS' total cash reserves, guaranteed federal dividend demand may incentivise PETRONAS to maintain domestic production volumes, benefiting OGSE players, especially **MMHE (BUY, TP:RM0.59)** which handles heavy engineering fabrication which can support PETRONAS' ongoing and upcoming offshore capital deployment.
Fuel Subsidy: • The monthly eligibility quota for BUDI95 remains at 300L per month. • The quota for jeeps and pickup trucks under BUDI Diesel is set at	**40,000**	• In CY26, the Ministry of Finance (MOF) indicates that fewer than 1% of BUDI95 users (~100,000 drivers) and only about 7% of BUDI Diesel users (~15,000 drivers) exhaust their full monthly allocations.

400L per month, with around 15,000 users fully utilizing the quota.		• This proves the 300L/400L thresholds comfortably accommodate standard commuting, family trips and essential driving without creating out-of-pocket stress for ordinary households. • However, the fixed volume quotas combined with pegged retail pump prices is expected to expose the budget to sharp spikes in global crude prices. • While we do not expect Brent oil prices to remain above USD100pb for long, short-term movements amid the uncertainties of the geopolitical conflicts in the Middle East could compress fiscal budget for the fuel subsidy and risk a reallocation of the overall budget from other sectors. • Nevertheless, the predictable, subsidized retail fuel quotas could sustain consumer footfall across service stations, hence making **Petronas Dagangan (BUY, TP:RM23.79)** a main beneficiary. • As Malaysia's largest fuel retail network, the group benefits from guaranteed volume throughput under BUDI95 and BUDI Diesel.
PETRONAS Procurement: • Government-Linked Companies (GLCs) and PETRONAS are targeting RM58b in procurement from Bumiputera companies. • Effective CY27, the GLCs and PETRONAS procurement guidelines (which have not been revised since CY06) will be modernized and updated, wherein vendor success will be measured through company growth, innovation, and entry into new markets.	n/a	• Updating the guidelines un-anchors procurement from traditional static equity thresholds or passive vendor lists. • Measuring vendors on R&D, innovation, and export expansion incentivizes Bumiputera firms to build real operational capabilities rather than relying on sub-contracting or middleman models. • This incentive also secures cash flow and revenue visibility for domestic vendors. • Additionally, the procurement mandate aligns with expanded liquidity schemes, such as the CAKNA II financing facility, further enabling smaller contractors to monetize GLC invoices quickly at low stamp duty rates to manage working capital. • Downside risks to this are: (i) transition disruption and bottlenecks (given that the guidelines had not been changed for over 20 years), (ii) disproportionate share of the pool (given that both champions and micro companies are eligible), (iii) operational margin squeezes from demanding tech adoption and innovation, and (iv) unclear assessment scorecards. • OGSE players like **Deleum (BUY, TP:RM1.22)** is a main beneficiary of this incentive, considering the group's specialized engineering and well services are capable to win higher-value primary service contracts under PETRONAS' updated framework.

PETRONAS Expansion:
• **Oil and Gas Fields:**
  ○ PETRONAS is expanding its investment in LNG Canada Phase 2, strengthening Malaysia's position in the international LNG supply chain.
  ○ Successful petroleum discoveries in Suriname
	n/a	• **LNG Canada Phase 2:** PETRONAS holds a 25% equity stake in +RM94.7b expansion, giving the group direct access to North American natural gas resources, further creating the capability to fulfill long-term LNG supply contracts to North Asian markets.
		• **Suriname & Turkmenistan:** Strategic positions in Suriname (deepwater oil/gas) and the Galkynysh Field provide long-term reserve replacement ratios, insulating PETRONAS against domestic field depletion.

reported, and expected to gain more in CY27 ○ Collaborative opportunities opening in the Galkynish Field in Turkmenistan (one of the world's largest natural gas fields). • **Pengerang Integrated Complex (PIC):** ○ Full ownership transition to PETRONAS, solidifies Pengerang as a strategic national asset, optimizing the value chain for high-value products and ensuring fuel supply security.		• **Complete Supply Chain Integration at Pengerang (PIC):** Assuming 100% ownership of PRefChem (by acquiring Saudi Aramco's equity stake) streamlines decision-making, operational alignment, and value-chain integration across the 300,000bpd refinery and downstream specialty petrochemical plants. • Downside risks include: (i) capital intensity and execution risks in fields abroad, and (ii) operational risks, maintenance costs and refining margin fluctuations in PIC • Additionally, the expansion of long-term fossil fuel assets exposes PETRONAS to carbon taxation, Scope 1 and 2 emission compliance costs and stranded asset risks amid the global net-zero targets of 2030. • All in all, we believe the expansion of global LNG and deepwater assets generate high demand for specialized marine logistics, cryogenic transport, and offshore support vessels. • **MISC (BUY, TP:RM9.22)**, as PETRONAS' primary maritime logistics arm, is directly positioned to win long-term charter contracts for newbuild LNG carriers servicing LNG Canada and international gas export routes. • Additionally, consolidating full ownership at Pengerang leads to increased local plant turnaround, maintenance, and facility modification contracts, which could benefit **Dialog Group (BUY, TP:RM2.57)** (as a tank terminal operator and engineering service provider) and **Petronas Chemicals (BUY, TP:RM5.28)** (for seamless feedstock integration and expanded capacity from PRefChem's polymer and olefin plants).
Clean Energy Transition: • The KWAP Climate Fund is allocated to support decarbonization, renewable transition and green energy initiatives—offering diversification opportunities for local OGSE service providers pivoting toward clean energy infrastructure. • A joint venture between PETRONAS, Eni and Euglena to produce low-carbon fuels, including Sustainable Aviation Fuel (SAF), Hydrotreated Vegetable Oil (HVO), and bio-naphtha.	1,000 n/a	• The allocation by KWAP provides a concessionary capital for traditional OGSE players, subsequently helping them to transition from legacy brownfield maintenance to clean energy contracts. • Meanwhile, the joint venture between PETRONAS Mobility Lestari, Enilive (Eni), and Euglena targets a production capacity of ~12,500bpd of Sustainable Aviation Fuel (SAF), Hydrotreated Vegetable Oil (HVO) and bio-naphtha. • Additionally, leveraging Euglena's microalgae technology alongside waste-to-fuel processing (used cooking oil, animal fats) moves Malaysia away from first-generation palm-oil biodiesel toward advanced, non-food-competing feedstocks for transportation fuel. • Structural risks to these incentives include feedstock supply chain volatility, high capital costs, long technology gestation periods and greenwashing. • For KWAP's Climate Fund, we believe **Dialog Group (BUY, TP:RM2.57)** directly benefits from providing dedicated tank storage, jetty facilities, and liquid bulk handling for SAF, HVO and bio-naphtha feedstocks. • Meanwhile, **Petronas Dagangan (BUY, TP:RM23.79)** holds the domestic distribution advantage for blending and supplying SAF

		directly to commercial airlines at KLIA and regional airports, while **MISC (BUY, TP:RM9.22) is** well-positioned to operate specialized parcel tankers for international shipping of biofuels and renewable feedstocks.

VI. PLANTATION ..... Maintain POSITIVE

Analyst: MBSB Research team

Measures	Allocation (RM'm)	Remarks
Financial aids for paddy farmer	2,600	• Approximately RM4,300/ha will be provided to benefit paddy farmers through incentives for seedlings, fertilisers, pesticides and ploughing, alongside support through the paddy floor price.
Oil Palm replanting fund	200	• A new RM200m financing facility has been introduced to support replanting costs for areas of up to 40 ha. • Repayments are deferred until the palms reach four years of age (young maturity), with borrowers paying only 2% interest and the government subsidising the balance.
Hybrid financing for PO smallholders	100	• The incentive has been reduced by RM20m (Budget 2026: RM120m; Budget 2025: RM100m) to provide financial assistance to over 4,500 smallholders, particularly for replanting to rejuvenate the age profile of their oil palm trees.
Allocation for farm road development and maintenance	100	• The additional RM50m represents a relatively decent increase over Budget 2026's RM50m allocation. • We view this as a welcome continuation of support for smallholders' efficiency, helping improve FFB evacuation and palm oil operations.
Minimum wage hike of RM2,000	-	• This is anticipated to weigh on PO companies. • While skilled harvesters earn an average of >RM3,000/head, a sizeable proportion of general and upkeep workers still receive the minimum wage. • These 2 groups (General & Upkeep workers) combined account for roughly 50% of the total workforce - normal practise.

VII. PROPERTY ..... Maintain NEUTRAL

Analyst: Jesssica Low Jze Tieng

Measures	Allocation (RM'm)	Remarks
100% stamp duty exemption on both the loan agreement and instrument of transfer (MOT) for first-time homebuyers purchasing residential properties valued at RM500,000 and below Expanded stamp duty relief for residential properties priced between RM500,001 and RM750,000. Full stamp duty exemption on the first RM500,000 of the property value and a 50% stamp duty exemption on the remaining amount.	n/a	• The 100% stamp duty exemption for first homes priced up to RM500,000 is an extension of an existing homeownership incentive introduced in previous Budgets. • However, Budget 2027 introduces a new enhancement by extending stamp duty relief to first homes priced between RM500,001 and RM750,000, where buyers will enjoy a full exemption on the first RM500,000 of the property value and a 50% exemption on the remaining amount. • We see that to be beneficial to property buyers as many affordable and reasonably sized homes in urban areas fall within this price range. • We view this measure positively as it helps reduce the upfront cost of purchasing a home, thereby improving housing affordability and supporting demand from first-time homebuyers. • Potential winners are developers that have high exposure to affordable housing segment namely **Mah Sing Group (BUY, TP: RM1.15)** and **Matrix Concepts (BUY, TP: RM1.33)**.
Financing guarantees of up to RM20b through Syarikat Jaminan Kredit Perumahan (SJKP)	n/a	• The measure is expected to benefit approximately 80,000 first-time homebuyers by improving access to housing financing. We believe it will encourage homeownership and support housing affordability, particularly for self-employed individuals and those without fixed income. However, we do not expect a significant immediate impact on the property sector, as the initiative is mainly focused on facilitating financing access rather than driving a substantial increase in property demand.
RM1b allocation for affordable housing initiatives, including the Rumah Mesra Rakyat and Program Residensi Rakyat schemes	1,000	• The allocation is aimed at supporting the government's affordable housing agenda and increasing the supply of affordable homes nationwide. As the initiatives are largely government-led housing programmes, we do not expect a material direct impact on listed private property developers.
The continued implementation of major infrastructure projects such as the Johor Bahru-Singapore RTS Link, MRT3, East Coast Rail Link (ECRL) and Penang Mutiara LRT Line. Introduced a new travel initiative specifically for KTM users called the MyKomuter50 pass.	n/a	• The infrastructure projects are expected to support the property sector by improving connectivity and enhancing the attractiveness of nearby residential and commercial developments. RTS link will benefit developers with exposure to Johor namely **Sunway Berhad (Neutral, TP: RM4.62), Eco World Development Group (Neutral, TP: RM1.85), Mah Sing Group (Buy, TP: RM1.15) and UEM Sunrise (non-rated).** • Developers with TOD projects near KTM stations should benefit. The developers that have TOD projects near KTM station are **Mah Sing Group (Buy, TP: RM1.15)** with M Aurora near Old Klang Road KTM stations, **Sunway Berhad (Neutral, TP: RM4.62)** with Seremban Sentral TOD project next to KTM Seremban station.

VIII. REIT ..... Maintain POSITIVE

Analyst: Jessica Low Jze Tieng

Measures	Allocation (RM'm)	Remarks
Allocation of RM935m for tourism and culture as it extends the Visit Malaysia campaign into 2027.	RM935m	• Retail-focused REITs with malls located in key tourist destinations, such as **Pavilion REIT (Buy, TP:RM2.00), KLCCP Stapled Group (Neutral, TP: RM8.80), Sunway REIT (Buy, TP: RM2.39) and IGB REIT (Buy, RM2.90)**, are expected to benefit from higher tourist arrivals, which could support shopper traffic and tenant sales. • REITs with hotel assets, such as **Pavilion REIT (Buy, TP:RM2.00), KLCCP Stapled Group (Neutral, TP: RM8.80) and Sunway REIT (Buy, TP: RM2.39)**, are expected to benefit from higher tourist arrivals, which could support hotel occupancy and room rates.

IX. TECHNOLOGY ..... Maintain NEUTRAL

Analyst: Martin Foo Chuan Loong

Measures	Allocation (RM'm)	Remarks
Penang is being put on the map as the Nation's Technology Finance Centre. Khazanah and InvestPenang will set up a Strategic Investment Fund to back semiconductor and advanced manufacturing companies in their early stages of growth.	100	• The move will further support the growth of the semiconductor industry in Malaysia into higher-value activities such as IC design and advanced packaging. This will inadvertently help to defend the country's competitiveness in the regional and global technology supply chain.

X. TELECOMMUNICATION ..... Maintain NEUTRAL

Analyst: Martin Foo Chuan Loong

Measures	Allocation (RM'm)	Remarks
The JENDELA project is strengthening the nation's internet connectivity, with a total investment of RM5b. For 2027, the focus is to bring 4G to every Orang Asli Village, by ensuring internet access along 7,000 kilometres of roads and 1,700 kilometres of railway as well as the roll out the MADANI Submarine Cable (SALAM). Note that the project was first mooted under Budget 2026 with a cost of RM2b.	N/A	• This will be continuation of Jendela Phase 2. We view that the nationwide internet access target will primarily benefit **Telekom Malaysia Bhd (Neutral, TP:RM8.31)** as it will further expand TM's infrastructure reach. TM should benefit from the fibre expansion and backhaul opportunities. There should also be positive spillover effect **to OCK Group Bhd (NR)** as well as **Reach Ten Holdings Bhd (NR)** who are telco infrastructure providers. • Regarding SALAM, in July 2026, the Malaysian Communications and Multimedia Commission (MCMC) has invited eligible licenses to submit draft proposal for the SALAM initiative, a strategic national project under the Universal Service Provision framework. The Salam

		initiative is a 5,582km undersea cable network designed to strengthen Malaysia's connectivity and support the expansion of 5G, AI, cloud infrastructure and data centres. • TM has expressed its interest to participate in the project. We also do not discount the possibility that **Time Dotcom Bhd (NR)** may also participate given its history of domestic and international subsea cable investments. To recall, both TM and Time have previously partnered on the SKR1M project which was launched in September 2017.
The government is planning a Sovereign AI Cloud to keep citizens' data and the country's strategic information under Malaysian control		• In July 2026, Prime Minister Datuk Seri Anwar Ibrahim said Malaysia needs to set up a sovereign cloud to safeguard critical security and personal data while remaining open to global digital investments as Southeast Asia becomes increasingly dependent on critical digital technologies and infrastructure. • To recall a RM2b allocation was made under Budget 2026 for a National Sovereign AI Cloud via the MCMC. **Telekom Malaysia** might lead the push with the consideration of using Huawei hardware (Ascend 910C chip). We believe **YTL Power** may be a potential beneficiary in this space as well, leveraging on its data centre infrastructure and AI cloud capabilities. Meanwhile, **Dagang NeXchange Berhad (DNEX)** has also partnered with **Gamuda** to deliver the sovereign network solutions.

XI. TRANSPORTATION ..... Maintain NEUTRAL

Analyst: Amalia Zarir

Aviation

Measures	Allocation (RM'm)	Remarks
The Visit Malaysia Year 2026 (VM2026) campaign will be extended into 2027.	935	• Sustained tourism promotion is expected to support inbound tourist arrivals and passenger traffic growth. • This should benefit **AirAsia X Berhad (Non-rated)** through stronger travel demand, potentially supporting higher load factors and improved aircraft utilisation. • We also view the extension positively for **Capital A Berhad (BUY, TP: RM0.53)**, as higher tourist arrivals could spur demand for its travel-related services, benefiting its aviation-linked and digital businesses through increased transaction volumes and greater cross-selling opportunities across its ecosystem.

Port & Logistics

Measures	Allocation (RM'm)	Remarks
Commercial vehicles will be required to adopt telematics systems for speed and location monitoring, alongside pre-trip alcohol interlocks.	n/a	• Implementation will remain voluntary until CY27, pending the establishment of an enforcement database. • We view the measure as broadly neutral for logistics operators under our coverage, as their fleets are already equipped with telematics systems for speed monitoring and fleet management. • Potential longer-term benefits could come from improved operational efficiency and road safety.
Green tax incentives will be extended until 31 December 2030, offering investment tax allowances of up to 100% for qualifying green technology projects, EV charging infrastructure and green assets for own use.	n/a	• The incentives could help offset capital expenditure on fleet electrification, potentially lowering operating costs over the longer term.

XII. UTILITIES (POWER) and RENEWABLE ENERGY ..... Maintain POSITIVE

Analyst: Royce Tan Seng Hooi

Measures	Allocation (RM'm)	Remarks
Installation of solar streetlights in villages and rooftop solar panels at welfare homes and places of worship.	n/a	This will be undertaken by **Tenaga Nasional (BUY, TP: RM16.31)**, which will generate opportunities for smaller scale/unlisted contractors.
Devolution of electricity regulatory powers to Sabah	600	While the devolution of powers is not a new initiative, this underscores the commitment of the Federal Government to provide funding to ensure the continuity of electricity supply in Sabah, where system reliability remains an important consideration. This should be supportive for Tenaga Nasional's majority-owned Sabah Electricity and power producers such as **Ranhill Utilities (NEUTRAL, TP: RM2.84)**.
Installation of static synchronous compensator (STATCOM) systems at the Dam Road and Segaliud main intake substations	204	This is expected to strengthen the voltage regulation and system stability, which is relevant to Sabah's grid reliability and to accommodate more renewable generation. This presents potential opportunities for MEP companies such as **MN Holdings (N.R.)** and **Jati Tinggi (N.R.)**.
Southern Link transmission-line project	n/a	This is the continuation of a long-term measure to ensure reliable electricity supply in Sabah.
Strengthening of the national grid	15,000	The initiative is part of **Tenaga Nasional's** ongoing capex under RP4 to ensure the country's growing electricity demand can be met reliably through enhancements to the grid.

Petronas and Tenaga Nasional to participate in cross-border projects under the ASEAN Power Grid	n/a	Malaysia's longer-term ambitions in regional electricity interconnection and cross-border energy trade could open up opportunities for transmission infrastructure and energy trading, including renewable energy exports.
Energy storage project in KLIA and a 1GW hybrid-energy project in Johor	1,000	Rather than a fresh investment, we believe this reaffirms the continued implementation of these projects. The 1GW hybrid-energy project in Johor is one of the flagship projects under the NETR.
Climate Fund	1,000	KWAP to deploy RM1b to green projects such as renewable energy and decarbonisation.
Centralised solar parks for government buildings	1,500	A sizeable avenue for new solar deployment, which creates opportunities for Bumiputera construction, engineering and maintenance firms.
150MW LSS6 of solar capacity for Bumiputera companies	n/a	While not an allocation by the government as developers have to bid for the quota allocation, this is meant to support Bumiputera companies' participation in the clean-energy industry.
Flooding and clean water supply in Kelantan	n/a	The Lebir Dam project is being planned as a long-term solution, alongside the construction of the Machang Water Treatment Plant and replacement of ageing pipes.
Perak and Penang water supply	n/a	The Federal Government has successfully brokered an agreement between the Perak and Penang state governments through a 40-year Bulk Water Supply Agreement. This is part of the Northern Perak Water Supply Scheme to transport water from Kerian to Penang. Recall that in Jul-26, Prasarana Air dan Irigasi Perak Sdn Bhd, an indirect 50% JV involving **Gamuda (BUY, TP: RM5.60)**, inked the agreement with Perbadanan Bekalan Air Pulau Pinang Sdn Bhd for the supply from Mar-32 to 2072. Gamuda would be able to benefit from potential construction earnings and recurring water supply earnings.
National Non-Revenue Water programme	2,500	We note that this is a five-year programme from 2025 to 2030 which has been approved by the Cabinet in Jul-24, for the replacement of 1,900km of critically ageing pipes, which is expected to sustain opportunities for pipe manufacturers and water engineering contractors. **Ranhill Utilities (NEUTRAL, TP: RM2.84)** may be a potential beneficiary through Ranhill SAJ which will benefit from government matching grants for NRW-reduction initiatives and also through Ranhill Water Services which may benefit from NRW contracts.
Our view		We view that the measures announced under Budget 2027 for Utilities and Renewable Energy are more focussed on facilitating infrastructure investments, which is largely corporate funded rather than direct fiscal allocations. Nevertheless, we do not view this as a concern, given that investments in power infrastructure and renewable energy are supported by regulated returns and long-term power purchase agreements (PPAs). We maintain our **POSITIVE** stance on the sector, underpinned by the structural growth in electricity demand, particularly from data centres and industrial expansion, which should sustain

		investments in power generation and transmission infrastructure. Meanwhile, the continued push towards energy transition, supported by initiatives such as LSS6, BESS adoption and the CRESS acceleration package should provide a sustained pipeline of opportunities for renewable energy developers and EPCC contractors. We have **BUY** calls on **Tenaga Nasional (TP: RM16.31)**, **YTL Power International (TP: RM5.98 - Under Review)**, **Samaiden (TP: RM3.72)** and **Pekat (TP: RM2.46 - Under Review).**

C. STRATEGY

I. EQUITY MARKET

Within expectations

Budget 2027 came in broadly within our expectations as we anticipated a record-sized, moderately expansionary Budget, a 3.3%-3.5% fiscal deficit, continued reliance on targeted fiscal support and tax-administration reform, and an investment cycle led by infrastructure, energy, utilities, AI-related capacity and advanced manufacturing.

The only difference was the composition of expenditure where Budget 2027 is shaping up to be more operating-expenditure-led and less development-expenditure-led than anticipated. We expected development expenditure of RM85b-RM90b, but it came in at RM83bn. Instead, the larger-than-expected Budget size is driven principally by operating expenditure, which rises to RM376.84bn and accounts for 82% of total federal spending

Sustain growth and household purchasing power without abandoning fiscal consolidation

In our view, the Budget's principal message is that the Government intends to sustain growth and household purchasing power without abandoning fiscal consolidation. Its aims to move Malaysia further into AI, semiconductors, clean energy, advanced manufacturing and digital services. At the same time, it aims to ensure that the gains from investment and reform are made more visible through higher wages, wider assistance, better services and more balanced regional development.

From an equity-strategy perspective, the most relevant themes are consumer staples and value retail, construction and infrastructure, utilities and electrification, AI and semiconductors, healthcare, tourism, financial services and food security. From this, we believe that the strongest beneficiary is consumer staples and value retail, because household assistance is large, direct and explicitly usable for essential goods. The strongest structural investment winner is Tenaga Nasional Berhad and the grid-electrification ecosystem, while construction remains positive but selective because federal development expenditure increases only modestly.

Consumer staples and value retail main beneficiary this time around

Unlike previous Budgets, consumer sector is arguably the clearest direct earnings channel from the Budget (vs construction previously). The RM16b STR-SARA allocation, two RM100 SARA payments for non-STR adults, wider use of SARA for fresh food, expansion of participating grocery stores and RM750m for Jualan RAHMAH and Agro MADANI should direct incrementally spending towards essential food, groceries and low-ticket household products.

The RM15b grid-investment commitment by Tenaga Nasional Berhad, together with energy storage, renewable-energy incentives, solar investment and growing demand from AI infrastructure and data centres, provides one of the clearest medium-term capital-expenditure themes.

Utilities and renewable energy another main beneficiary

Construction benefits from RM83b of federal development expenditure, transport projects, rural roads, water infrastructure, hospitals, schools, housing, Sabah and Sarawak projects, and additional investment by GLICs, statutory bodies and PPPs. However, the call should remain selective, because development expenditure increases only modestly and RM7.5b of procurement is reserved for smaller Bumiputera G1-G4 contractors.

Selective construction and building materials still benefit

We opine that the Budget favours scale, essential demand, regulated capital expenditure, strong order books and commercially proven technology capabilities. It is less supportive of companies relying solely on thematic association or operating in labour-intensive businesses without productivity or pricing power.

Scale and essential demand

II. MARKET OUTLOOK

The Budget 2027 is crafted to ensure continued fiscal support to the economy while maintaining fiscal discipline. Total expenditures shall be raised to RM460b next year vis-à-vis (revised estimate of) RM444b in 2026. Meanwhile, Malaysia's fiscal position is expected to improve further next year on the back of improved fiscal collection and continued output growth. In this regard, the deficit-to-GDP ratio is projected to decline further to -3.3% in 2027 (2026e: -3.6%) and well on track to meet the medium-term target of -3.0%.

Bigger budget allocation and improving fiscal position.

The government's commitment to fiscal discipline and an improved leverage position will help lower sovereign risk premiums and boost the valuation of Ringgit-denominated risk assets. Consequently, this will heighten their attractiveness to both local and foreign investors.

Fiscal improvement favourable to Ringgit assets.

Going into next year, we expect Malaysia's economy to remain robust, with our preliminary GDP growth forecast at +4.6% for 2027. Alongside the baseline expectation of resilient macroeconomic performance, market consensus forecasts the FBM KLCI to register healthy earnings growth of +6.6%yoy next year.

Continued earnings growth next year.

Underpinned by baseline expectations of resilient macroeconomic performance and healthy earnings growth in 2027, equity valuations are expected to improve. We also believe the local equity market will benefit from an anticipated easing of geopolitical tensions in the Middle East, with Brent crude oil prices projected to decline toward the USD75-85pb range.

Better valuations on easing geopolitical situation.

We reiterate our preliminary baseline FBM KLCI end-2027 target of **1,850 points** (or PER27 of 15.4x). Moreover, our preliminary baseline end-2027 targets for FBM Emas Shariah and FBM 70 are pegged at **13,600 points** (or PER27 of 18.0x) and **20,000 points** (or PER27 of 16.5x), respectively.

Preliminary 2027 targets.

Despite the recent local equity market downswing which was largely driven by persistent net foreign selling, we expect the situation to reverse later in this final quarter. We remain positive on domestic macroeconomics and corporate earnings prospects heading into next year, as well as an anticipated easing of geopolitical tensions in the Middle East.

Reversal of recent downswing.

Nonetheless, we now deem our FBM KLCI end-2026 target of 1,770 points an optimistic case, with a downward bias toward the psychological 1,700-point level. Likewise, our FBM Emas Shariah and FBM 70 end-2026 targets of 12,900 points, and 18,600 points, respectively.

Prevailing 2026 targets deem optimistic.

Below are our top picks:

	Rec.	Price (RM) @9/10/26	Target Price (RM)	Price Return	Div. Yield	Total Returns	Budget 2027 Rationale
Consumer							
99 Speed Mart	BUY	3.19	4.37	37.0%	1.3%	38.3%	Direct SARA and essential-grocery spending exposure
Mr D.I.Y.	BUY	1.25	2.13	70.4%	4.3%	74.7%	Affordable household products and disposable-income support
Leong Hup	BUY	0.725	1.03	42.1%	3.9%	45.9%	Poultry and egg demand plus food-security support
Nestlé	BUY	90.16	116.1	28.8%	3.1%	31.9%	Branded consumer staples exposure to household support and essential food demand
Utilities/RE							
Tenaga Nasional	BUY	12.88	16.31	26.6%	4.3%	30.9%	Beneficiary of grid investment and rising power demand
Samaiden	BUY	3.05	3.72	22.0%	0.8%	22.8%	Solar, storage and energy-transition opportunities
YTL Power	BUY	5.65	5.98	5.8%	1.4%	7.3%	Power generation, water and digital infrastructure exposure to DC and AI demand
Construction							
Gamuda	BUY	5.09	5.6	10.0%	2.0%	12.0%	Large and complex transport, water and infra. packages
Sunway Construction	BUY	7.71	9.18	19.1%	6.1%	25.1%	Infrastructure, advanced industrial and DC construction
IJM Corporation	BUY	2.82	3.32	17.7%	9.9%	27.7%	Roads, civil works and industrial-supporting infrastructure
Malayan Cement	BUY	5.55	9.53	71.7%	2.7%	74.4%	Broad proxy for infrastructure and construction volumes
Property							
Mah Sing	BUY	0.955	1.15	20.4%	5.2%	25.7%	Best direct fit with first-home and sub-RM750,000 incentives
Matrix Concepts	BUY	1.09	1.33	22.0%	6.6%	28.6%	Affordable housing, Negeri Sembilan exposure
Technology							
Inari Amertron	BUY	2.77	2.95	6.5%	2.7%	9.2%	Selective semiconductor exposure to AI-related demand
Healthcare							
Pharmaniaga	BUY	0.92	1.44	56.5%	5.7%	62.2%	Public pharmaceutical procurement and healthcare supply

Source: Bloomberg, MBSBR

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MBSB INVESTMENT BANK: GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	The stock price is expected to rise by >10% within 3 months after a Trading Buy rating has been assigned due to positive news flow.
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	The stock price is expected to fall by >10% within 3 months after a Trading Sell rating has been assigned due to negative news flow.

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