

Budget 2019

Revamping for Betterment

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FBMKLCI	1,713.87
Target	1,765.00 ↓

In a nutshell, the Budget announcement has cleared earlier concerns of capital gain tax (for equity investment), inheritance tax, carbon tax and sin taxes (except for gaming tax). Nonetheless, the higher-than-expected budget deficit numbers may keep foreign investors shying away from the local equity market in the short-term due to higher depreciation pressure on Ringgit despite Government's efforts to improve the deficit numbers in the next couple of years. All in all, while the market could stage a further rebound from here, upside could be limited. Based on analysts' latest inputs of earnings estimate and target price, we have fine-tuned our FY18E/FY19F earnings growth rates to 4.2%/0.4% (from 4.2%/1.4% earlier). As for end-2018/19 index targets, we have also revised them down to 1,765/1,870 (from 1,870/1,920 previously). These index targets represent ~14.7x and 15.0x PERs to the respective FY18E and FY19F earnings estimates. The major downgrades in index target were due to: (i) lower target PER of 15.0x instead of 15.5x earlier (for top-down approach) to account for pressure over Ringgit and foreign outflow, and (ii) downgrades in telcos and gaming stocks in terms of earnings estimates and target prices. As far as Budget 2019 is concerned, we reckon that (i) Property and (ii) Gaming sectors should see stronger impacts vis-à-vis others. Consumer F&B may also see some mixed impacts while for the plantation sector, it could be a non-event. Apart from reiterating our Top Picks – AEON (OP; TP: RM2.60), AIRASIA (OP; TP: RM4.05), BIMB (OP, TP: RM4.90), D&O (OP, TP: RM1.00), GAMUDA (OP; TP: RM3.35), MAYBANK (OP, TP: RM10.00), PESTECH (OP; TP: RM1.95), PPB (OP; TP: RM18.60), SERBADK (OP; TP: RM4.45), TAKAFUL (OP; TP: RM4.85) and TENAGA (OP; TP: RM17.90) – highlighted in our 4Q18 Strategy Report earlier, we also believe some of the heavily sold down stocks -HSPLANT (OP; TP: RM2.15), SLP (OP; TP: RM1.35) and UEMS (OP; TP: RM0.850) – worth considering.



The Budget: Budget 2019 will have 3 focus areas – (i) Implement institutional reforms, (ii) Ensure people's well-being, and (iii) Nurture a culture of entrepreneurship – as well as 12 main strategies to rejuvenate Malaysia's economic position as an Asian Tiger.

Macro condition: Government forecasts 2018/19 GDP growth at 4.8%/4.9% despite global uncertainties. The new Government is expected to collect RM261.8b revenue in 2019, including RM30b special dividend from Petronas. As such, the fiscal deficit is projected to be 3.7% for 2018; and for the next three years, the Government is

committed to maintain a path of fiscal consolidation to achieve a deficit of 3.4% in 2019, 3.0% in 2020 and 2.8% in 2021. Over the medium term, the Government expect the deficit to be reduced further to the region of 2%.

Increasing tax revenue: To further enhance the Government's tax revenue, services tax will be imposed on imported services. Besides, tax also is proposed for online services which will include transaction on software, music, and online advertising from Jan 1, 2020.

It is also proposed that annual gaming license fee for casinos will be raised from RM120m to RM150m p.a.. Gaming tax on casinos will also to be raised to 35% of GGR. Gaming machine dealer's license is also raised from RM10,000 to RM50,000 per year; and tax on gaming machines are also up from 20% to 30% of gross collection. At the same time, the Government will launch a Special Voluntary Disclosure Programme to allow taxpayers to voluntarily declare any unreported income as well.

As for the property sector, a 5% real property gains tax (RPGT) will be imposed, from 0% now (which is for the disposal of properties after 5 years from the date of purchase) for locals and PRs For companies and foreigners (non-PRs), RPGT will be doubled to 10% from 5% currently. However, the tax is exempted for lands, as well as low-cost and affordable housing under RM200,000. On the other hand, rate of stamp duty on property transfer worth more than RM1m will be raised by 1% from 3% currently to 4%. Meanwhile, REHDA agrees to cut house prices by up to 10% on new projects.

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The Government also propose departure levy to be imposed on air travellers leaving the country from June 1, 2019. It is proposed that the Government will impose departure levy of RM20 on travellers flying to Asean and RM40 on those going to other countries.

New proposed taxes aside, the Government will introduce a credit system for sales tax deductions from Jan 1 2019 to avoid double-taxing and lower business costs.

Cost-cutting measures: It is proposed that single vehicle/motorbike owners with engine capacity 1,500cc and below to get targeted fuel subsidy: Govt to give RON95 petrol subsidy amounting to 30 sen/litre, limited to 100 litres/month for cars; and limited to 40 litres/month for motorcycles. These measures are expected to add RM1.43b back to government revenue.

Klang Valley Double Track Project worth RM5.2b will be re-tendered via open tender, which is expected to bring bigger cost savings. Government will also to continue with Pan Borneo Highway project, subject to a cost-rationalisation study.

Asset disposals: In the short-run, the Government will set up Airport Real Estate Investment Trust to obtain up to RM4b funding via 30% equity sale. Over the medium term, the Government will sell lands on scheduled and staggered basis to the highest bidder to maximise government revenue.

Better efficiency and greater transparency: Government proposes to introduce Government Procurement Act in 2019 to ensure transparency and open competition, accompanied by open tender practices and punitive action for any abuse of power in relation to contract issuance. Government will pursue Public-private Partnership (PPP) model for land transactions via open tender.

Sector-wise, we reckon that only (i) Property and (ii) Gaming sectors have more significant impacts vis-à-vis other sectors (see Figure 1 for details). Impact to consumer F&B sub-sector could be mixed. The proposed budget may also a non-event for the plantation sector, as both the increase in minimum wage and reduction in the extension levy could see a minimal financial impact on planters under our coverage and the effects are countervailing. The implementation of B10 programme, on the other hand, while is encouraging, it is only expected to lift CPO consumption minimally by <1% of our local annual CPO production of c.20m.

- **Property:** Based on our channel checks with developers, this was less than ideal especially with the government's stance to reduce house prices by 10% given the SST exemptions. Most of the measures announced is geared at improving first-time home buyers affordability.

It also focused on slowing down the transactions in the luxury end property market (>Rm1m/unit) with higher RPGTs after the 5-year holding periods and higher stamp duties. However, of interest is the Property Crowdfunding proposal, which could provide developers an alternative end-financing avenue for their buyers; nonetheless, this has longer term implications on the property's asset quality which may inevitably affect the entire banks-property valuation dynamics - details on the amount allowable for this crowd-funding initiative will be essential to determine the impact on the sector. We are still waiting for more details from the New National Affordable Housing Policy, which is supposed to be out soon. Until then, we continue to reiterate NEUTRAL with a slightly more negative bias on developers - we note there are selective buys emerging like **UEMS (OP; TP: RM0.850)**, **IOIPG (OP; TP: RM1.65)**, **SPSETIA (OP; TP: RM2.60)** and **UOADEV (OP; TP: RM2.15)** which are also some of our favourites at current price levels.

- **Gaming:** While the hike in taxes for the casino operator is highly anticipated, there is positive news for the NFO players as there is no hike in NFO taxes and the reduction in special draws is not new as the minister had mentioned in parliament earlier. Overall, the hike in casino tax and license fee is negative for the casino operator; thus, we cut GENTING/GENM's FY19 estimates by 5%/13% with new target prices of RM8.20/RM4.75 from RM10.85/RM5.75 previously. With new target prices, we also downgraded GENM to MP from OP while keep GENTING's OP unchanged. On the other hand, as the impact from special draws cut is immaterial at 2-3%, we keep our estimates and recommendations for BJTOTO (OP; TP: RM2.65) and MAGNUM (OP; TP: RM2.25) unchanged for now. OVERWEIGHT maintained for the sector.

Our view: In a nutshell, the Budget announcement has cleared the earlier concerns of imposing capital gain tax (for equity investment), inherent tax, carbon tax and sin taxes (except for gaming tax). Nonetheless, the higher-than-expected budget deficit numbers may keep foreign investors shying away from the local market in the short-term. Besides, judging from the deficit numbers, we see pressure on Ringgit. Based on a quick peers' comparison, we see high correlation (~70%) between deficits number in 2018 against change in forex (2016-2018) (see Figure 2). However, on a positive note, the Government has projected an improving path in deficit numbers. All in all, while market could stage a further rebound from here, upside could be limited.

Based on analysts' latest inputs of earnings estimate and target price, we have fine-tuned our FY18E/FY19F earnings growth rates to 4.2%/0.4% (from 4.2%/1.4% earlier). As for end-2018/19 index targets, we have also revised them down to 1,765/1,870 (from 1,870/1,920 previously). At our index target levels of 1,765 (for end-2018) and 1,870 (2019), they represent ~14.7x-15.0x PERs to the respective FY18E and FY19F earnings estimates.

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As for stock beneficiaries, while there are not many or we shall say it is “corporate-neutral”,

- **MBMR (OP; TP: RM3.60)** and **UMW (OP; TP: RM5.50)** should benefit from the targeted fuel subsidy, and intra-city toll hikes freeze.
- Retail players, in general such as **AEON (OP; TP: RM2.60)**, **PADINI (UP; TP: RM5.60)** and **PARKSON (OP; TP: RM0.810)** could benefit from tourism incentives as well as the newly proposed online services tax.
- Consumer Sin sectors i.e. Tobacco & Breweries – **HEIM (MP; TP: RM18.60)**, **CARLSBG (UP; TP: RM17.10)** and **BAT (UP; TP: RM28.25)** – are deemed to benefit from no additional tax or tax hike. However, note that tobacco players are still pending updates with regards to the appropriate price adjustments to incorporate sales tax, which would lead to an upward revision.
- Likewise, as the concern over implementation of carbon tax is lifted, **TENAGA (OP; TP: RM17.90)** could see a re-rating from here.

Top Picks: Apart from reiterating some of our Top Picks – **AEON (OP; TP: RM2.60)**, **AIRASIA (OP; TP: RM4.05)**, **BIMB (OP, TP: RM4.90)**, **D&O (OP, TP: RM1.00)**, **GAMUDA (OP; TP: RM3.35)**, **MAYBANK (OP, TP: RM10.00)**, **PESTECH (OP; TP: RM1.95)**, **PPB (OP; TP: RM18.60)**, **SERBADK (OP; TP: RM4.45)**, **TAKAFUL (OP; TP: RM4.85)**, **TENAGA (OP; TP: RM17.90)** – highlighted in our 4Q18 Strategy Report earlier, we also believe some of the heavily sold down stocks worth considering. This is especially true if we believe all negative could have prices in. For instance,

- **HSPLANT (OP; TP: RM2.15)** – At near -3.0 SD PBV level, HSPLANT’s share price is the most battered among its peers, likely attributable to an earlier-proposed Kretam acquisition. Pricing of the deal was deemed exorbitant, which subsequently triggered a sell-down. We believe this is overdone and share price at this level appears undervalued. Investors’ confidence should gradually recover as the deal has been terminated and we believe management is unlikely to repeat such a move again.
- **SLP (OP; TP: RM1.35)** – Its share prices have suffered unwarranted decline (-48% YTD) despite consistently meeting or exceeding expectations, unlike other plastic packagers under our coverage, which mostly came in below expectations. This current set of 3Q18 results is a testament to SLP’s improved margins and earnings, and thus we have more confidence that fundamentals are more stable going forward. Furthermore, SLP has better margins (c.15% EBIT) vs. plastic packagers under our coverage of 5-6%, and the strongest CNP growth rate of +15% (2-year average) vs. plastic packagers under our coverage of between -31% to +7%, which are valued at -1.0 SD PER and -2.0 SD PBV valuations.
- **UEMS (OP; TP: RM0.850)** – We always believe that UEMS is extremely deep in value and being one of the most bashed-down property stocks. We reckon that its Australia projects will be the main earnings drivers over the next few years with the adoption of MFRS15. We believe that 2H18 earnings momentum (Australian project deliveries, which should result in big bullet contributions over FY18-19) should excite investors and potentially see good dividends.

Appendix

Figure 1: Impacts of the 2019 Budget to Various Sectors

Sector	Impact on Sector	Announcements/Measures	Beneficiaries/Winners
<i>Automotive</i>	Neutral	<ul style="list-style-type: none"> The government will impose targeted fuel subsidy only for the RON 95 petrol price which will be floated at the same time through Automatic Price Mechanism (APM) on a weekly basis starting 2QCY19, with total allocation at RM2b for 2019. Targeted RON 95 fuel subsidy only limited to (i) individual vehicle owners with engine capacity of 1,500 cc or less, (ii) motorcycle owners of 125 cc or less, and (iii) single vehicle owners (multiple vehicle owners will not receive this benefit). However, the subsidy will be at least RM0.30 per litre, depending on petrol price, capped at (i) 100 litres per month for a car and (ii) 40 litres for a motorcycle. The Government will freeze toll hikes on all intra-city tolls around the country for 2019 and that will cost c.RM700m. The Government will also abolish toll for motorcycles for the First and Second Penang Bridge, as well as the Second Link in Johor, costing c.RM20m per annum effective 1st January 2019. 	<ul style="list-style-type: none"> We believe the impact of the targeted fuel subsidy, and intra-city toll hikes freeze to the sector will be fairly minimal given the limited targeted group. Nevertheless, potential beneficiaries will be Perodua owners given its largest exposure to engine capacity of 1,500 cc or less. Beneficiaries include MBMR (OP; TP: RM3.60) for its 22.58% stake in Perodua and UMW (OP; TP: RM5.50) for its 38% stake in Perodua. As we see a little impact from the budget to reinvigorate the sector, we maintain our NEUTRAL call on the sector with stock calls and target prices maintained.
<i>Aviation</i>	Neutral	<ul style="list-style-type: none"> Proposal of an Airport REIT. Introduction of departure levy starting June-19 (ASEAN: RM20, Others: RM40). 	<ul style="list-style-type: none"> The proposal of an Airport REIT is still at a preliminary stage which requires more clarity from the government. However, we do not think that there is any major impact to AIRPORT as the potential revenue for REIT could be from the user fee that the government is already receiving. As for the departure levy, we believe that it would have minimal impact to passenger traffic, as we do not think that the fees charged would deter people from travelling. Maintain NEUTRAL, as we keep our OP call on AIRASIA (TP: RM4.05) in anticipation of the special dividend from the proceeds of the disposal of its leasing unit. However, we upgrade AIRPORT (TP: RM8.60) from UP to MP due to the recent retracement in share price.
<i>Banking & Non-Bank Financial Institutions</i>	Neutral	<ul style="list-style-type: none"> No relevant incentives/measures were mentioned in the budget announcement. 	<ul style="list-style-type: none"> We opine that the announcements/measures in Budget 2019 have immaterial impact to the sector. Hence, impact to bottom-line contribution should be immaterial. In view of this, we maintain NEUTRAL on the Banking and Non-Bank Financial sector with no obvious re-rating catalyst in sight. Our recommendation is premised on: (i) the continued moderation in loans growth, and (ii) a moderate economy with a protracted trade war. That said, AFFIN (OP, TP: RM2.50), ABMB

Sector	Impact on Sector	Announcements/Measures	Beneficiaries/Winners
Building Materials	Neutral	<ul style="list-style-type: none"> No relevant incentives/measures were mentioned in the budget announcement. 	<p>(OP, TP: RM4.40), AMBANK (OP, TP: RM4.50), BIMB (OP, TP: RM4.90), CIMB (OP, TP: RM6.15), MAYBANK (OP, TP: RM10.00), MBSB (OP, TP: RM1.40) and RHBBANK (OP, TP: RM5.75) are our compelling calls due to undemanding valuations.</p> <ul style="list-style-type: none"> Non-event for the Building Materials sector as Budget 2019 has no new policies/mega projects announced. Maintaining NEUTRAL stance on the building materials sector. Maintain call and TP for stocks under coverage, i.e., ANNJOO (OP; TP: RM2.35), LAFMSIA (UP; TP: RM2.40), PMETAL (MP; TP: RM5.00), ULICORP (UP; TP: RM0.675) and WTHORSE (MP; TP: RM1.75) and look to review call and TP in view of coming earnings season.
			<ul style="list-style-type: none"> Construction and completion of affordable homes (RM1.5b) Upgrading of schools (RM652.0m) Reconstruction of dilapidated schools to be funded via competitively-tendered Public Private Partnership projects (RM100.0m) Allocation towards the development and provision of training programs in Polytechnics and Community Colleges (RM206.0m) Upgrade of roads and bridges (RM926.0m) Upgrading and maintaining basic infrastructure such as roads, community halls and open spaces to New Villages (RM85.0m) Construction and upgrading of infrastructure for the supply of water, relocation, education, welfare and economic development for orang asli communities (RM100.0m) FELDA Developments Upgrade roads (RM100.0m), Water supply projects (RM160.0m), Buildings and basic infrastructure (RM35.0m)
Construction	Neutral		
Consumer	Mixed	<ul style="list-style-type: none"> Bantuan Sara Hidup (BSH) cash grants aim to continue supporting the B40 group, which would lead to contributions of RM1,420/household, higher than the previous BR1M payments of RM1,200/household. Budget initiatives towards tourism include: <ul style="list-style-type: none"> To encourage domestic tourism, a departure levy for all outbound travellers by air starting 1 June 2019. The proposed rate is 2-tiered, RM20 for outbound travellers to ASEAN countries and RM40 to countries other than ASEAN. RM100m in matching grant 	<ul style="list-style-type: none"> The BSH looks to boost spending from the lower income segment but we believe this may not contribute meaningfully to overall consumer market. On a wider scale, the abovementioned petrol subsidy would reduce consumer expenses which may translate to higher spending towards consumer goods. We are positive on tourism incentives as it would encourage a higher inflow of tourists, and the departure levy for all the outbound travellers to encourage domestic tourism, which will lead to high spending levels especially towards the discretionary retail subsector. <p>Overall beneficiaries are stocks that derive</p>

Sector	Impact on Sector	Announcements/Measures	Beneficiaries/Winners														
		<p>allocations has been earmarked for private sector to do overseas marketing campaigns;</p> <ul style="list-style-type: none"> ○ Tax-free incentives to Penang's Swettenham Pier, declaration of Pulau Pangkor as duty-free island and Pulau Langkawi's duty-free status will be further expanded; ○ 50% proceeds of tourism tax, estimated at RM50m will be granted to states to encourage tourism activities; ○ Loan facilities amounting RM500m will be provided – at 2% interest subsidy via the SME Tourism Fund with SME Bank; ○ The redevelopment and restoration of the Sultan Abdul Samad Building into an arts, cultural, & heritage hub; ○ RM20m allocation to the Malaysia Healthcare Tourism Council (MHTC) to generate 25% growth in medical tourism in a year. <ul style="list-style-type: none"> • Introduction of excise duty of 40 sen/litre to be imposed on 2 classes of packaged beverages, to be implemented on 1st April 2018: <ul style="list-style-type: none"> ○ Non-alcoholic beverages with 5g of sugar /100ml and above; and ○ Fruits and vegetable drinks containing 12g sugar/100ml and above. 	<p>sales predominantly from the domestic market, being the retail sub-segment, with highest potential beneficiaries such as the supermarket/brands stores operator (AEON, PADINI and PARKSON)</p> <ul style="list-style-type: none"> • Sugar excise duties would impact most F&B stocks. We anticipate that this would lead to price increases from 10.0-13.0 sen/can (or 3-5%, depending on size of product serving). Below is our estimated composition of beverage products towards their overall sales. <table border="1"> <thead> <tr> <th>F&B Manufacturer</th> <th>Est. sales mix from classified beverages</th> </tr> </thead> <tbody> <tr> <td>DLADY</td> <td><10% (due to most products appearing to have non-added sugar)</td> </tr> <tr> <td>F&N</td> <td>40%-50%</td> </tr> <tr> <td>NESTLE</td> <td>20%-30%</td> </tr> <tr> <td>QL</td> <td>0%</td> </tr> <tr> <td>PWROOT</td> <td>10%-20%</td> </tr> <tr> <td>SPRITZER</td> <td><10%</td> </tr> </tbody> </table> <p>While price pressures could undermine demand, we believe that the impact from this indirect tax may not be severe as the increment could be manageable to most consumers of these companies' products (i.e. middle and upper income). Still, demand from the lower income bracket could see a decline. Additionally, the re-floating of RON95 petrol rates may cause some disruption in logistics cost and may translate to either upside or downside impact on FMCGs' margins.</p> <ul style="list-style-type: none"> • At the moment, we keep our calls and target prices unchanged, pending further review with clarification from respective managements. 	F&B Manufacturer	Est. sales mix from classified beverages	DLADY	<10% (due to most products appearing to have non-added sugar)	F&N	40%-50%	NESTLE	20%-30%	QL	0%	PWROOT	10%-20%	SPRITZER	<10%
F&B Manufacturer	Est. sales mix from classified beverages																
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Gaming	Negative	<ul style="list-style-type: none"> • The taxes, fees and levy on the Gaming Industry which have not been hiked since 2005 are increased as follows: (i) casino license to be increased from RM120m to RM150m per annum; (ii) casino duties to be increased up to 35% on gross collection; (iii) machine dealer's license to be increased from RM10,000 to RM50,000 per annum; and (iv) gaming machine duties to be increased from 20% to 30% on gross collection. • However, the number of special draws will be reduced by half. 	<ul style="list-style-type: none"> • While the hike in taxes for the casino operator is highly anticipated, there is positive news for the NFO players as there is no hike in NFO taxes and the reduction in special draws is not new as the minister had already mentioned it in Parliament earlier. • Overall, the hike in casino tax and license fee is negative for the casino operator; thus, we cut GENTING/GENM's FY19 estimates by 5%/13% with new target prices of RM8.20/RM4.75 from RM10.85/RM5.75 previously. With new target prices, we also downgraded GENM to MP from OP while keeping GENTING's OP unchanged. • On the other hand, as the impact from special draws cut is immaterial at 2-3%, we keep our estimates and recommendations for BJTOTO (OP; TP: RM2.65) and MAGNUM (OP; TP: RM2.25) unchanged for now. OW maintained for the sector. 														

Sector	Impact on Sector	Announcements/Measures	Beneficiaries/Winners
Healthcare	Neutral	<ul style="list-style-type: none"> The Government has allocated RM29b (+7.8% Y-o-Y) for the health sector under operating and development expenditure of which RM10.8b is allocated to provide medicine, to upgrade and improve the quality of health services at our clinics and hospitals. For women's health protection, there is an allocation of RM20m to provide free mammogram screening, PVHPV vaccination as well as pap smear tests for 70,000 women. The Government will also allocate RM50m for the specific purpose of treating rare diseases, Hepatitis C virus, stunted growth among children, providing more haemodialysis treatments and Enhanced Primary Healthcare (EnPHC) Medical tourism in Malaysia continues to gain global recognition. The Government will also allocate RM20m for the Malaysia Healthcare Tourism Council (MHTC) to generate 25% growth in a year to collaborate with reputable private hospitals to enable the branding of Malaysia as a destination of choice for medical tourism. Separately, in partnership with the private insurance industry, the Government will pilot a national B40 Health Protection Fund to provide free protection against top 4 critical illness for up to RM8,000 and up to 14 days of hospitalisation income cover at RM50 per day starting 1 January 2019. In other words, hospitalisation income of RM700 per annum is available. Great Eastern Life Insurance has agreed to contribute the initial seed funding of RM2b to this Fund, to be managed by Bank Negara Malaysia 	<ul style="list-style-type: none"> We are positive on the B40 Health Protection Fund to provide free protection against top 4 critical illness which will benefit private hospitals operators including KPJ and IHH. However, we are concerned on the restricted amount cap which could restrict accessibility to major treatments including surgery, oncology and other chronic diseases. The proposal to promote medial tourism is mildly positive to KPJ Healthcare (Maintain OP; TP: RM1.35) considering that about 5-10% of revenue account for medical tourism. Maintain UNDERWEIGHT rating on the sector due mainly to stretched valuations.
Media	Neutral	<ul style="list-style-type: none"> To promote a world-class film production industry in Malaysia, the government will continue the Film In Malaysia Incentive (FIMI) with an allocation of RM30 million. Moreover, Khazanah Nasional Berhad (Khazanah) will provide an allocation of RM100 million for FIMI specifically applicable to film production at the Pinewood studio in Iskandar Johor. 	<ul style="list-style-type: none"> The initiative is to spur the local film industry and provide more vernacular contents. There are no clear beneficiaries/winners for the listed companies. However, given that both ASTRO (MP, TP: RM1.60) and MEDIA (UP, TP: RM0.300) are also paying an increasing attention to produce and promote local contents, its film budgeting (i.e. for producers and directors fee, production cost, etc.) could potentially be facing some mild pressures as a result of higher demand.
MREIT	Neutral	<ul style="list-style-type: none"> No relevant incentives/measures were mentioned in the budget announcement. 	<ul style="list-style-type: none"> We did not expect any significant measures for the sector in this budget as Budget 2016 already addressed the Extension of 10% withholding tax (WHT) for an additional 3 years (from CY17 to CY19).

Sector	Impact on Sector	Announcements/Measures	Beneficiaries/Winners
<i>Oil and Gas</i>	Neutral	<ul style="list-style-type: none"> No relevant incentives/measures were mentioned in the budget announcement. 	<ul style="list-style-type: none"> No change in our NEUTRAL rating for MREITs. Maintain NEUTRAL rating for the sector
<i>Plantation</i>	Neutral	<ul style="list-style-type: none"> Increasing minimum wage by RM50 to RM1,100/month nationwide, effective 1 January 2019. Reducing the extension levy for foreign workers in the plantation industry who have served for over 10 years, from RM10,000 to RM3,500 per worker per year. Implementing the Biodiesel B10 programme for the transportation sector and B7 for the industrial sector in 2019. Allocating RM30m to help smallholders obtain the Malaysian Sustainable Palm Oil (MSPO) certification. 	<ul style="list-style-type: none"> The hike in minimum wage has minimal impact on plantation companies as it only represents a 5% increase from the current level of RM1,050. We understand that many planters under coverage are already paying above the minimum wage. Labour cost accounts for 20-40% of total expenses. The reduction in extension levy has minimal financial impact on plantation companies as the extension is for a 3-year period. Assuming an average wage of RM3,000/month for foreign workers under this category, the levy reduction would only ease the 3-year wage cost by 6%. However, this would encourage plantation companies to focus on the welfare of their foreign workers and retain them for a longer period in Malaysia. The implementation of Biodiesel B10 programme is expected to absorb about 550-600k of CPO per year, an additional 150-200k MT from current c.400k MT under the B7 mandate. The additional CPO consumption for biodiesel is insignificant (<1%) compared with our local annual CPO production of c.20m. The allocation of RM30m for smallholders' MSPO certification is expected to increase the availability of sustainable FFB supply for plantation companies with oil mills. Larger plantation companies often source FFB from smallholders on top of their own estates. Smallholders account for c.40% of total oil palm planted area in Malaysia. Some customers emphasize the need of sourcing CPO from a sustainable (certified) estate. Overall, we deem the Budget 2019 a non-event for the plantation sector as it has minimal financial/operational impact on planters under our coverage. Maintain NEUTRAL.
<i>Plastics & Packaging</i>	Neutral	<ul style="list-style-type: none"> Pioneer incentive of 70% or investment tax allowance of 60% for 5 years for companies producing environment friendly plastic from bio resin and bio polymer. Encouraging green technology by expanding the list of green assets which qualifies for the Green Technology Investment Allowance (GITA) Increase of minimum wage to RM1,100 (from RM1,000). 	<ul style="list-style-type: none"> As certain plastic packagers look to increase environmental friendly plastic, we believe this incentive may be applicable, but we do not expect any significant impact to earnings for now. We note that the amount claimable is miniscule vs. plastic packagers' capex allocations and; thus, expect no significant impact to bottom-line. Minimum impact to earnings of <2% to FY19E as most plastic packagers are already paying workers above minimum wage. We maintain UNDERWEIGHT on plastic packagers.

Sector	Impact on Sector	Announcements/Measures	Beneficiaries/Winners
Property	Neutral	<ul style="list-style-type: none"> REHDA committed to reducing house prices by 10% given the SST exemption of construction and building materials. Waive all stamp duty charges for 6 months starting 1-Jan-2019 for first time purchases of homes valued between RM300,001-RM1m/unit as part of the National Home Ownership Campaign where developers will offer a minimum price discount of 10%. For first-time home-buyers purchasing residential properties priced up to RM500,000, the Government will exempt stamp duty up to RM300,000 on sale and purchase agreements as well as loan agreements for a period of two years until December 2020. For first-time home-buyers with household income of RM5,000 or less, the Government will allocate RM25 million to Cagamas Berhad to provide mortgage guarantees to enable borrowers to obtain higher financing from financial institutions, inclusive of down payment support. These measures are expected to give between 7% and 11% cost savings to the house buyers, before taking into consideration any promotional discounts which may be offered by the property developers. To assist the lower income group earning not more than RM2,300 per month to own a house for the first-time, a fund amounting to RM1 billion will be established by Bank Negara Malaysia, to help them to purchase affordable homes priced up to RM150,000. The fund will be made available from 1 January 2019 at participating financial institutions, namely AmBank, CIMB, Maybank, RHB and BSN through a concessionary financing rate as low as only 3.5% per annum. The RM1 billion fund is available for two years or until the allocation is exhausted. The stamp duty on the transfer of property valued at more than RM1,000,000 will increase from 3% to 4%. The Real Property Gains Tax rates will be revised for disposals of properties or shares in property holding companies after the fifth year as follows: (a) for companies and foreigners, the rate shall be increased from 5% to 10%; and (b) for Malaysian individuals, the rate shall 	<ul style="list-style-type: none"> Policies are supportive of B40 and M40 groups. We view the housing policies of Budget-2019 to be supportive to the B40 and M40 segments in terms of promoting home ownerships while we are also glad that the residential overhangs, particular those priced at RM250k/unit and below (73% of the RM22b residential overhang), are also being addressed via stamp-duty waivers and concessionary financing rates for the very low-income segment. The market had widely anticipated that Budget-2019 would be extremely 'rakyat' friendly, which was the case. Developers who are also largely positioned with housing projects priced below RM500k/unit (e.g. MAHSING, HUAYANG) also benefits from the stamp-duty waivers; but we believe this will only at best increase the odds of developers meeting their sales targets and sustaining it at current levels in the future. This is because the lending momentum to the sector remains challenging with deteriorating urban affordability. REHDA has also committed to lower house prices by 10% in line with the SST exemptions on construction/building materials, which we believe will inevitably result in further margin compressions for developers as the cost-savings do not have a linear relationship with margins. Also, buyers may adopt a 'wait-and-see' stance to enjoy the full effects of this reduce house price, implying that sales could slow down for the remaining part of the year. The only silver lining is that as it is, many developers are already offering rebates/discounts and are experiencing margin compressions, implying that this measure will at best result in margins being maintained if not weakened. It also implies that the property sector's ROE, and hence valuations, may take much longer to recover; recall in previous sector reports, we noted that the KLPRP's ROE has de-rated significantly and is now on par with the KLCON's ROE. The upcoming first-of-its-kind "property crowdfunding" scheme for first home buyers (to launch in 1Q19 after SC's clearance) could be a swing-factor for the sector, depending on how extensive this scheme will be, and thus, more details are required before we can determine the efficacy of this scheme. Yesterday, the Prime Minister launched the new crowdfunding platform, FundMyHome.com (powered by EdgeProp), which features c. 1,000 homes priced below RM500k/unit which is currently funded by institutional investors. We think this could boost sentiment for the sector in the near term although we believe that if not done properly, could create systemic risks for the sector and

Sector	Impact on Sector	Announcements/Measures	Beneficiaries/Winners
		<p>be increased from 0% to 5%. However, low cost, low-medium cost and affordable housing with prices below RM200,000 will be exempted.</p> <ul style="list-style-type: none"> Putrajaya will allow the private sector to engage in a new "peer-to-peer lending scheme" that will allow first-time home buyers to adopt the "property crowdfunding" model. Lim says this will likely be a world first and will be regulated by the Securities Commission (SC). As an example, a buyer can purchase a home worth RM250,000 by paying only RM50,000 while the balance is financed by investors through the peer-to-peer scheme. The scheme is expected to be launched in Q1 2019 after getting the Securities Commission's (SC) clearance. (VIII) The real Public Private Partnership (PPP) model for public projects based on land swap transactions would be implemented using an open tender mechanism and not direct negotiations. 	<p>the economy in the long-run.</p> <ul style="list-style-type: none"> With property valuations dropping to historical trough levels and given clarity from the Budget-2019, we think that the bashed-down big-boys are worth a relook for rebound plays given the following factors: (i) relatively better earnings sustainability and less margin risks due to overseas drivers or land sales, (ii) dividend yields which are a premium to sizeable MREITs, (iii) historical low Fwd PER/PBV levels which means most of the earnings risks has been priced-in, (iv) big-boy players. We upgraded CALLs to OUTPERFORM (from MARKET PERFORM) for the following: IOIPG, UEMS, SUNWAY, MAHSING, UOADEV, SIMEPROP while we maintained OUTPERFORM on SPSETIA. In the meantime, we anticipate more details from the New upcoming National Affordable Housing Policy, and clarity on P2P property crowd funding schemes. Reiterate NEUTRAL on Developers as it will take a while for valuations to properly recover back to historical mean levels even though it is at very low levels now which may be capped by the risk of margin compressions. Real re-ratings will only come if we see; (i) margin recoveries, (ii) outperformance in sales targets.
Power Utility	Neutral	<ul style="list-style-type: none"> All households which consume RM20 or less of electricity usage per month are fully subsidised by the Government. The Government intends to make this policy more targeted where only the poor and hardcore poor registered with e-Kasih will qualify. In doing so, the Government is able to increase the subsidy to RM40 per month benefiting 185,000 accounts, with the allocation of RM80m. An allocation of RM694m and RM738m to supply electricity and water, respectively, to rural and remote regions. In order to encourage the use of green energy, the Government will expand the list of green assets which qualifies for the Green Technology Investment Allowance (GITA) from 9 assets to 40 assets in the MyHijau directory. 	<ul style="list-style-type: none"> This budget is neutral to the sector as the allocation is not likely to have a meaningful impact to the industry as well as to TENAGA (OP; TP: RM17.90). Maintain OVERWEIGHT rating on the sector with TENAGA being the top pick while PESTECH (OP; TP: RM1.95) as an alternative play.
Rubber Gloves	Neutral	<ul style="list-style-type: none"> Minimum wage raised by 4.8% to RM1,100 effective 1 Jan 2019 instead of RM1,050 as previously announced in Sept 2018. According to Budget 2019, RM3b Industry Digitalisation Transformation Fund will be created with a subsidised interest rate of 2% under Bank Pembangunan Malaysia Berhad. The purpose of this fund is to accelerate 	<ul style="list-style-type: none"> Ceteris Paribus, assuming 'a no cost pass-through' scenario, the minimum wage policy is expected to hit glove players' bottom-line by 3-5% based on our back-of-the-envelope calculations. Labour accounts for 9% of the overall production cost. Based on our estimates, players just need to raise ASPs by 1-2% to mitigate the increase in minimum wage. Overall the reliance on workers has gradually reduced over the past few years via

Sector	Impact on Sector	Announcements/Measures	Beneficiaries/Winners
		<p>the adoption of smart technology consisting of driving automation, robotics and artificial intelligence in the industry.</p> <ul style="list-style-type: none"> Reduced dependency on low-skilled foreign labour via implementation of a new tiered levy system where the levies charged will be higher for employers with a higher percentage of foreign workers. 	<p>automating production processes, including double former dipping line with touch-screen interface, mechanical stripping system (removing nitrile gloves from hand moulds) and glove puller and stacker system.</p> <ul style="list-style-type: none"> We are neutral on the proposed Industry Digitalisation Transformation Fund since glove players have already embarked on the automation journey several years ago. Reiterate UNDERWEIGHT due to rich PER valuations and flat sequential earnings growth. Anecdotal evidence suggests that rubber gloves stocks' share price rally was led largely by massive PER expansion as earnings growth has been pedestrian over the past eight quarters. Concern of potential oversupply is looming, demand tapering off and competition could put pressure on ASPs and hence margins.
<i>Shipping, Ports & Logistics</i>	Neutral	<ul style="list-style-type: none"> The government intends to convert 380 acres of land in Pulau Indah into a Free Trade Zone to support and catalyse and increase shipping and logistics activities in Port Klang. The new FTZ will serve as a natural extension to Port Klang Free Zone. The land will be developed through a joint-venture or solely by the private sector. 	<ul style="list-style-type: none"> We believe this may be a longer term play assuming once the FTZ is completed (est. in more than 3 years time), it may help improve transshipment volumes for WESPORT, and MMCCORP's Northport in Port Klang. However, we do not expect any impact to earnings in the near term pending further details. We make no changes to our NEUTRAL sector outlook.
<i>Sin</i>	Positive	<ul style="list-style-type: none"> Reinstating of the "smoke-free" zones to be enforced in 1st Jan 2019. Besides the above, no relevant incentives/measures were mentioned in the budget announcement. 	<ul style="list-style-type: none"> No news is good news for the sin sector, which is under pressure from the rise of illicit products in the market. No further pressures from excise duties will allow brewers (HEIM: MP, TP: RM18.60, CARLSBG: UP, TP: RM17.10) to continue adjusting to the reintroduction of sales and services tax which is particularly detrimental to their on-trade segment. However for tobacco players (BAT: UP, TP: RM28.25), there is still a pending development with regards to the formal quantum of price increment for cigarette packs from sales taxes.
<i>Technology</i>	Mixed	<ul style="list-style-type: none"> To pluck loopholes in the taxation system especially in the digital space, the Government has proposed tax reforms as follow: (i) imported services (in this context: architecture, graphic design, IT and engineering design services) will be subjected to Service Tax, (ii) for online services imported by consumers, the foreign service providers will be required to be registered with the Royal Malaysian Customs, charge and remit the relevant Service Tax on the transactions with effect from 1 January 2020. Examples of these services will include, but are not limited to downloaded software, music, video or digital advertising. 	<ul style="list-style-type: none"> POSITIVE. The rationale of the tax reforms is to provide a level playing field between international and local businesses in the digital sector (Potential beneficiaries: Asia Media Group Bhd (NR) and PUC Bhd (NR)), by neutralising the cost disadvantage faced by physical retailers against their virtual storefront counterparts, especially those operated by foreign entities.

Sector	Impact on Sector	Announcements/Measures	Beneficiaries/Winners
Telecom- munications		<ul style="list-style-type: none"> To accelerate adoption of Industry 4.0, a blueprint titled "Industry4QRD" which aims to make Malaysia the prime destination for high-tech industries has been introduced. Meanwhile, the measures that will have a meaningful and imminent positive impact to public listed companies are as follow: (i) RM3b Industry Digitalisation Transformation Fund with a subsidised interest rate of 2% under Bank Pembangunan Malaysia Berhad will be created (ii) matching grants will continue to be provided through its High Impact Fund with emphasis of activities such as R&D, obtaining international certification and standards, modernizing and upgrading of facilities and tools and licensing or purchase of new or high technology, (iii) double tax deduction will be provided to upgrade the marketability of local graduates and the skill-level of the Industry 4.0-related workforce To address the need and importance of a living wage in an environment of rising costs, the minimum wage will be raised to RM1,100 per month for the whole of Malaysia starting 1 January 2019. Meanwhile, the government will also implement a new tiered levy system where the levies charged will be higher for employers with a higher percentage of foreign workers to reduce dependency on low-skilled foreign labour. 	<ul style="list-style-type: none"> POSITIVE. As this is to accelerate the adoption of smart technology consisting of driving automation, robotics and AI in the industry, we expect such initiatives to benefit the OSAT players [under our coverage i.e. MPI (MP; TP: RM12.20), UNISEM (AO, TP: RM3.30), KESM (MP, TP: RM18.40), D&O (OP, TP: RM1.00) and EMS players i.e. SKPRES (OP, TP: RM1.45) and PIE (TP: OP, RM2.00)] as well as NOTION (UP, TP: RM0.600)] and other peers in the long term as we understand that the abovementioned companies are working towards adopting the Industry 4.0 model. NEGATIVE. The minimum wage hike of RM50 to RM1,100 (a mere 5%) has very minimal impact to the OSAT and EMS players as most of them are already paying above the minimum wage. On the new tiered levy system, though the details are scarce to make the quantum justification, EMS players [i.e. SKPRES (OP, TP: RM1.45), PIE (TP: OP, RM2.00), VS (NR), ATAIMS (NR)] could be negatively impacted given the higher percentage of foreign workers as their labour force.
	Neutral	<ul style="list-style-type: none"> To promote digital economy, the government will implement the National Fiber Optic and Connectivity Plan (NFCP) with an allocation of RM1bil. The plan aims to develop the nation's broadband infrastructure. In addition, the target broadband service speed is 30mbps in rural areas and remote areas within five years to enable Malaysia to achieve world-class infrastructure at an affordable price. The Government will also enforce the Mandatory Standard Access Pricing (MSAP) to reduce fixed line broadband prices by at least 25% by the end of 2018. 	<ul style="list-style-type: none"> While the initiative is not new, the budget has provided a better clarity in terms of the project funding. TM (rating and TP currently under review: current rating is MP with TP of RM3.10) could potentially be easing off some of the financial stress in terms of the infrastructure building angle. More Universal Service Provision (USP) projects are expected to be introduced and will likely benefit the infrastructure and network supporting service providers such as OCK (OP, TP: RM0.75) and Redtone (Not Rated) due to higher telecom tower demand and network configuration work under the USP projects. Besides, more telecom towers would required to be built or shared given that the authority has set a target to provide gigabit-speed Internet services for selected high-impact and strategic industrial areas by 2020, and all state capitals by 2023. Maintain NEUTRAL call for the sector.

Source: Kenanga Research

Figure 2: Peers Comparison of

Country	Current Account (% of GDP)		Fiscal Balance (% of GDP)		Overall Surplus/(Deficits)		GDP Growth %		Exchange Rate USD/LC (eop)			Chg in FX ('16-'18) (%)	Rating		
	2017	2018F	2017	2018F	2017	2018F	2017	2018F	2016	2017	2018F		Moody's	S&P	Fitch
Malaysia	3.1	3.0	-3.0	-3.7	0.1	-0.7	4.9	4.8	4.49	4.05	4.15	-7.6%	A3 (Stable)	A- (Stable)	A- (Stable)
Indonesia	-1.7	-2.4	-2.9	-2.3	-4.6	-4.7	5.1	5.2	13,473.00	13,555.00	15,079.00	11.9%	Baa2 (Stable)	BBB- (Stable)	BBB (Stable)
Thailand	10.5	9.0	-3.5	-2.8	7.0	6.2	3.9	4.4	35.84	32.57	32.70	-8.8%	Baa1 (Stable)	BBB+ (Stable)	BBB+ (Stable)
Philippines	-0.8	-1.5	-2.2	-2.8	-3.0	-4.3	6.7	6.4	49.60	49.85	54.50	9.9%	Baa2 (Stable)	BBB (Positive)	BBB (Stable)
Vietnam	2.5	3.4	-5.7	-4.6	-3.2	-1.2	6.8	6.9	22,761.00	22,698.00	23,400.00	2.8%	Ba3 (Stable)	BB- (Stable)	BB (Stable)
Singapore	18.8	19.0	-0.3	-0.3	18.5	18.7	3.6	3.3	1.45	1.34	1.38	-4.8%	Aaa (Stable)	AAA (Stable)	AAA (Stable)
Brazil	-0.5	-0.8	-8.9	-7.2	-9.4	-8.0	1.0	1.4	3.26	3.31	3.85	18.1%	Ba2 (Stable)	BB- (Stable)	BB- (Stable)
Russia	2.1	5.5	-1.7	1.5	0.4	7.0	1.5	1.8	61.54	57.69	67.00	8.9%	Ba1 (Positive)	BBB- (Stable)	BBB- (Positive)
India	-1.9	-2.6	-3.5	-3.4	-5.4	-6.0	7.1	7.3	67.92	63.87	73.13	7.7%	Baa2 (Stable)	BBB- (Stable)	BBB- (Stable)
China	1.3	0.6	-3.7	-3.7	-2.4	-3.1	6.9	6.6	6.95	6.51	7.00	0.7%	A1 (Stable)	A+ (Stable)	A+ (Stable)

Source: Bloomberg, Focus Economics, Kenanga Research

Note: LC (local currency), eop (end of period)

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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