Budget 2020

Engineering Inclusive Growth

FBMKLCI	1,556.84
Target	1,642.00↔

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Budget 2020 turned out to be mostly positive for corporate Malaysia. Most measures announced were business and people friendly. The clear sector winners are Technology, Consumer, and Property. Technology gains because of generous grant incentives for digitalisation of SMEs operations coupled with 10-year tax exemptions for selected E&E companies, incentive for adoption of e-Wallet and extended period of capital allowances for automation initiatives. Consumer gains from measures to boost employment, VMY2020 and goodies in the form of Bantuan Sara Hidup (BSH) to lower income groups and special payments to those in the civil service by year-end. Property, because of the introduction of Rent-to-Own financing scheme and lowering of the threshold on unsold stocks of high-rise property for foreign ownership from RM1m to RM600k. We see banks benefitting too from measures to support SMEs and the property sector. We make no changes to earnings forecasts and but raised our sector call on Property from Neutral to Overweight as prices of many stocks in the sector have fallen well below their respective target prices. Based on our analysts' latest inputs of earnings estimates and target prices, we maintain our FY19E/FY20E earnings growth rates of -3.1%/6.5% with a year-end target for FBMKLCI at 1,642 points. This index target represents ~16.3x FY20F earnings estimate. We reiterate our Top Picks – ABMB (OP, TP: RM3.45), BAUTO (OP, TP: RM2.75), CARLSBG (OP, TP: RM28.70), CIMB (OP, TP: RM6.45), HARTA (OP, TP: RM5.85), KOSSAN (OP, TP: RM5.25), MISC (OP, TP: RM8.80), MPI (OP, TP: RM12.10), PWROOT (OP, TP: RM2.30), and TAKAFUL (OP, TP: RM6.85).

The Budget: SMEs. B40. Sabah & Sarawak. Youth & Employment. These are what stood out for us as major beneficiaries of Budget 2020 announced on Friday 11th Oct. Counter-cyclical, the mildly expansionary measures are to be funded by relaxing the earlier 3.0% budget deficit to 3.2% instead – an expense not beyond means but necessary in light of the current risks to growth. Emphasis on the Shared Prosperity Vision 2030's three socio-economic agendas of: (i) narrowing the wealth gap; (ii) creating a high value economy; and (ii) making Malaysia a leading Asian economy ring clear in the measures that were announced.

No major sector loser: Raising the minimum wage from RM1,100 to RM1,200 apply only in major cities and would affect only low-skilled labour intensive businesses in cities. The reduction in number of special draws for NFOs from 11 to 8 per year has negligible impact on the bottom line. On the contrary, further measures to curb illegal gambling via higher minimum mandatory penalties of fines and jail terms for both illegal gamblers and operators should raise the legal NFOs' market share.

Tech is a big winner: Firstly, matching grants offered to SMEs to digitise business operations are expected to accelerate installations of electronic Point of Sales (e-POS), electronic payroll and Enterprise Resource Planning (ERP) systems, all of which are within the domain of stocks such as GHL Systems (NR) and Revenue Group (NR). Secondly, a 10-year tax exemption to E&E companies investing in selected knowledge-based services and the extension of capital allowance for manufacturing and services sectors automation initiatives to the year of assessment 2023 encourage higher level of automation investments. This would benefit the likes of MPI (OP, TP: RM12.10), D&O (OP, TP: RM0.625) and KESM (OP, TP: RM8.70) - our favourites. And thirdly, a RM450m fund to encourage the take up of e-wallet would encourage greater transactions at electronic Point of Sales.

Consumer wins too: RM450m was set aside to fund identity verified e-wallet take up by Malaysians above 18 years old earning below RM100k annually. This scheme is effectively a RM30 per e-wallet giveaway to be redeemed between 1 Jan and 29 Feb 2020 which is expected to benefit 15m Malaysians. If successful, this would raise e-wallet penetration well beyond the current 8% estimated by Nielsen. Besides e-gateway service providers, beneficiaries of this initiative are convenience store operators, and prime in our list is MYNEWS (OP, TP: RM1.55). Others would be SEM (MP, TP: RM1.35) and QL (UP, TP: RM6.30) (via Family Mart). Consumption is helped by increased allocation for subsidies and social assistance from RM22.3b in 2019 to RM24.2b. Here, the BSH (Bantuan Sara Hidup) scheme that benefits 3.9m households will be allocated RM5bn and expanded to cover 1.1m low income single individuals above the age of 40. Topping this are increased monthly COLA of RM50 (amounting to additional allocation of RM350m) for support group and special payments to members of armed forces, police and fire rescue as well as government retirees before year-end. RM1.1b was also allocated to the Ministry of Tourism, Arts & Culture to promote the VMY2020 campaign. We see this benefitting CARLSBG (OP, TP: RM28.70) and HEINEKEN (MP, TP: RM24.25). Other beneficiaries include MAHB (MP, TP: RM8.70) and AIRASIA (MP, TP: RM1.70).

Property: The introduction of Rent-to-Own (RTO) financing scheme will see the financing of up to RM10b by financial institutions with support via a 30% government guarantee (RM3b) help first time prospective buyers of homes below RM500k through a 5-year rent agreement with an option to purchase after the first year at fixed price. Funding home purchases will be helped further as the government will allow pre-retirement withdrawals for the Private Retirement Schemes (PRS) for healthcare and housing like that which is allowed by the EPF. And, to help ease overhang of high rises, the government will lower the threshold of high-rise property prices in urban areas for foreign ownership from RM1m to RM600k. This would apply only to unsold inventory of urban high rises. This should help Johor-based property developers and high-rise developers in the likes of ECOWLD (OP, TP: RM0.75), UOADEV (OP, TP: RM2.75), MAHSING (OP, TP: RM1.00) and UEMS (OP, TP: RM0.85). While we are keeping our earnings forecasts for now, we note the potential upside bias on earnings in light of such encouraging measures to support the sector. We raise our sector call from Neutral to OW due mainly to property share prices having fallen well below their respective target prices.

Banks with meaningful exposure to SMEs benefit from incentives for this sector: Some of the challenges faced by banks lending to SMEs have been related to concerns over vulnerable credit quality and a general lack of credit worthy borrowers. Budget 2020 has come up with measures to help them financially by raising the threshold of chargeable income subject to the reduced tax rate of 17% from RM500k to RM600k. Matching grants are also offered for digitising business operations that help raise operational efficiencies. Noteworthy also is the increased in government guarantee for Bumiputera SMEs, export-oriented SMEs and those investing in automation and digitalisation from 70% to 80% under the Skim Jaminan Pinjaman Perniagaan. This would help lower credit risks and enlarge the circle of SMEs qualified for bank financing – a win-win situation for lenders and borrowers. Another incentive saw the ceiling for Market Development Grant raised from RM200k to RM300k annually for SMEs to take part in export fairs in an effort to promote exports by SMEs. Banks especially those with meaningful exposures to SME lending would benefit from these measures that serve to strengthen SMEs finances and chances of success. Currently, SME loans make up RM330b or approximately 19% of system loans. Notable beneficiary is ABMB (OP, TP: RM3.45).

Increased allocations for Sabah & Sarawak: For 2020, Sabah and Sarawak will receive the largest portion of development expenditure amounting to RM 5.2b and RM4.4b, respectively. Together they account for about 17% of total development expenditure. East Malaysia benefits from the increased allocation for rural development for the country from RM9.7b to RM10.9b. Beside the on-going Pan Borneo Highway, allocation for rural water and electrification projects amounts to nearly RM1b. Rural roads development there take up another RM550m (out of total RM1b for rural roads throughout the country). Winners here are CMS (NR), Sarawak Cable (NR), HSL (MP, TP: RM1.40)

For the construction sector, only two projects were singled out to be revived – the JB-Singapore Rail Transit System (RTS) and the Bandar Malaysia project at Sungai Besi on better terms for the government. A revival of the MRT3 and/or HSR that would have been a major catalyst for the sector did not materialise. Elsewhere, the proposed development – for which a feasibility study will be called - of Rail Infrastructure and highways around Port Klang, Northport and Westport – at an estimated capex of RM8.3bn should benefit the likes of PESTECH (OP, TP: RM1.75), GKENT (OP, TP: RM1.15), KIMLUN (OP, TP: 1.35) and MUHIBAH (OP, TP: RM3.20). More impactful on smaller construction players would be the government's focus on inculcating a 3R mindset – Repair, Replace and Restore – on management of public property where allocation for this purpose was raised from RM6.3b to RM10.5b for restoration of public assets.

Our view: On balance, Budget 2020 was mildly bullish for the market in our view. There were no major drawbacks. If any it would be that HSR and MRT3 were omitted, fewer special draws for punters and the RM50m grant to seed the development of a 5G Ecosystem looks to be insufficient. We expect a revisit of HSR and MRT3 next year, with a fair chance of revival. It is also pleasing to note that nearly 80% of the RM37b in one-off GST and tax refunds – amounting to RM29.5b have been returned and that leaves RM7.5b left to be returned and to be put to work.

Top Picks: ABMB (OP, TP: RM3.45), BAUTO (OP, TP: RM2.75), CARLSBG (OP, TP: RM28.70), CIMB (OP, TP: RM6.45), HARTA (OP, TP: RM5.85), KOSSAN (OP, TP: RM5.25), MISC (OP, TP: RM8.80), MPI (OP, TP: RM12.10), PWROOT (OP, TP: RM2.30), and TAKAFUL (OP, TP: RM6.85).

Appendix

Impacts of the 2020 Budget to Various Sectors

Sector	Impact on Sector	Announcements/Measures	Beneficiaries/Winners
Automotive	**Neutral**	• Excise duty exemption of 50% for locally assembled vehicles to be given to tour operators for the purchase of qualified new tourism vehicles to amplify the economic benefits of Visit Malaysia Year 2020 (VMY 2020). • Targeted fuel subsidies as below. All luxury vehicles will not be qualified to receive the targeted subsidies. (i) Passenger cars with 1,600cc engine capacity and below; or (ii) any car above 1,600cc must be more than 10 years old; or (iii) a qualified motorcycle with 150cc and below; or (iv) any motorcycles above 150cc must be more than 7 years old. • The targeted fuel subsidy will be launched in Peninsular Malaysia with two eligible categories: (i) for eligible recipients of the Bantuan Sara Hidup (BSH), the petrol subsidy receivable will be RM30/month for car owners and RM12/month for motorcycle owners; and (ii) for non-BSH recipients, motorists will receive a special Kad95 which allows them to enjoy the fuel subsidy at a discount of 30 sen/litre limited to 100 litres/month for cars or 40 litres/month. Kad95 will be implemented progressively during the 1Q20. • Upon commencement of the fuel subsidy scheme, RON95 and diesel retail prices will be gradually floated. The fuel subsidy will kick in whenever the RON95 market price determined is above RM2.08 per litre but no fuel subsidy will be given if otherwise. • Motorists in Sabah and Sarawak will continue to enjoy a price ceiling of RM2.08/litre for RON95 and RM2.18/litre for diesel. • Reducing Highway Toll Burden (refer to Property and Construction sector comment for details).	• We believe that the impact of 50% excise duty exemption for tour operators under VMY 2020 is fairly minimal to the sector given its niche market/one-off sales effect in the commercial vehicle division and most likely to benefit the auto leasing market. • We believe the maximum cost savings on fuel for both BSH and non-BSH recipients is RM30/month for car owners will have little impact on the sector as the floated RON95 market price will post a limitation in consumer spending. • On the other hand, motorists in Sabah and Sarawak will continue to enjoy a price ceiling of RM2.08/litre for RON95 and RM2.18/litre for diesel which should spark some buying interest for vehicles over there. • We believe that Government measures in *Reducing Highway Toll Burden (refer to Property and Construction sector comment for details)* is positive in reducing car ownership cost in the long-term, while providing short-term benefit to existing car owners to cushion the impact of floated RON95 fuel prices. • Nevertheless, potential beneficiaries will be Perodua and Proton owners given their largest exposure to affordable "qualified" vehicles and engine capacity of 1,600cc or less. Beneficiaries include MBMR (MP, TP: RM4.40) for its 22.58% stake in Perodua and UMW (MP, TP: RM5.45) for its 38% stake in Perodua, while DRBHCOM (MP, TP: RM2.60) with its 49.9%-owned Proton. • As we see minimal impact from the budget to reinvigorate the sector, we maintain our NEUTRAL call on the sector with stock calls and target prices maintained.
Aviation	**Positive**	• For Visit Malaysia 2020 (VMY2020), the Government is targeting to achieve 30m tourist arrivals. • To fulfil the aspirations of VMY2020, the Government has allocated RM1.1bn to the Ministry of Tourism,	• The beneficiaries of tourism-related measures are expected to be Malaysia Airports Holdings Berhad (MAHB) (MP, TP: RM8.70) and AirAsia (MP, TP: RM1.70). • While we like MAHB as an attractive play on

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		Arts and Culture, including an allocation of RM90m to drive awareness, promotions and programmes for the VMY2020 campaign. A substantial portion of the departure levy collected will be allocated for tourism infrastructure projects.	the propensity for air travel in the region due to rising per capita income, the stock has risen 32% over a 52-week period and is currently trading at rich valuations of 25x on FY19E earnings and 22x on FY20E earnings. Over the horizon, there is potential earning or rating upgrade catalysts upon the release of the final consultation paper on the implementation of RAB in mid-October.
Banking & Non-Bank Financial Institutions	**Neutral to Positive**	• No relevant incentives/measures were mentioned in the budget announcement. • However there were a few incentives/measures that will at least benefit the households segment supporting further credit demand from this segment such as: (i) wage incentives for hiring of unemployed graduates, returning women workers and workers to replacing low-skilled foreign workers, (ii) creating 350k additional jobs and reduce dependency of foreign workers by 130k, (iii) raising the minimum wage to RM1,200, (iv) expanding the Bantuan Sara Hidup (BSH) scheme, and (v) expanding the Rent-to-Own (RTO) scheme. • Expanding the healthcare infrastructure coupled with further infrastructure spending in East Malaysia will support the construction sector, albeit small. • Measures to support SMEs via matching grants to incentivise automation and export initiatives, raising government guarantees under SJPP and more generous tax allowances should help more SMEs to secure bank loans and lower credit risks. • In the insurance space, the budget looks to expand the scope of the MySalam initiative (launched in 2019) to provide increased coverage to individuals up to age 65 (from 55) and 45 critical illnesses (from 36).	• We opine that the announcements/measures in Budget 2020 will have a minimal impact to the sector but is positive overall given the threat of a full-blown trade war. The sector will still be supported by the resilient economy driven by a resilient household as more job seekers enter the job market. • In view of this, we maintain **OVERWEIGHT** on the Banking and Non-Bank Financial sector. • Our recommendation is premised on: (i) loans growth to be resilient supported by a resilient households and accommodative interest rates, (ii) a resilient economy, lower unemployment and expanding wage earners driving credit demand, and ((iii) accommodative interest rates and higher wage earners reducing the risk of low asset quality; hence, we expect lower credit charge which is supportive of earnings. That said, **AFFIN (OP, TP: RM2.45)**, **ABMB (OP, TP: RM3.45), AMBANK (OP, TP: RM4.75)**, **BIMB (OP, TP: RM4.80), CIMB (OP, TP: RM6.45), MAYBANK (OP, TP: RM9.70), MBSB (OP, TP: RM1.10), PBBANK (OP, TP: RM25.2** and **RHBBANK (OP, TP: RM6.05)** are our compelling calls due to undemanding valuations. • In the insurance space, we are upbeat on the government's stance to ease the financial burden and widening the health protection of the population. However, the initiatives are mostly skewed towards the B40 population group in which our covered stocks have low participation. Hence, we do not see this as a threat to our top pick, **TAKAFUL (OP, TP: RM6.85)**
Building Materials	**Neutral**	• No relevant incentives/measures were mentioned in the budget announcement.	• Non-event for the Building Materials sector as Budget 2020 has no new incentive/ measure for the building materials industry. • However, we are positive toward government's announcement in the construction and property sectors, which help to boost the demand for building materials, hence improving the demand issue face by the industry. • Maintaining **NEUTRAL** stance on the building materials sector. • Maintain call and TP for stocks under coverage, i.e., **ANNJOO (UP, TP: RM1.10),**

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			PMETAL (OP, TP: RM5.50), ULICORP (UP, TP: RM0.400) and **WTHORSE (UP, TP: RM1.00)**.
Construction	**Neutral**	• Repair and maintenance of roads leading to Port Klang (RM50m) • Development of Truck Depot • Development of Chuping Valley Industrial Area in Perlis by NCIA (RM50m) • Kuantan Port related projects by ECERDC (RM69.5m) • Construction of Sungai Segget Centralised Sewerage Treatment Plant in Johor by IRDA (RM42m) • Infrastructure in the Samalaju Industrial Park in Sarawak by RECODA (RM55m) • Agro-Industrial Precinct by SEDIA (RM20m) • Construction of a new cable car system to Penang Hill (RM100m) • Build rehabilitation centre in Perak by SOCSO (RM500m) • School maintenance and upgrading (RM735m) • Repairing dilapidated schools (RM783m) • Rural development projects RM10.9b) • Allowed to upgrade roads, slopes, bridges and drains utilising up to 15% or RM20 million from MARRIS funds • Upgrading 67 various institutions under the Department of Social Welfare (JKM) (RM80m) • To support the development and repair of basic infrastructure in new villages (RM85m) • Construct and upgrade hospital (RM1.6b) • Construction and upgrading of health and dental clinics (RM319m) • Renovation of medical infrastructure and facilities (RM95m) • Upgrading the rail tracks from Gorge Line between Halogilat Station to Tenom Station in Sabah (RM50m) • Upgrade the Sultan Azlan Shah Airport in Ipoh • Consider all proposals to dispose all share of PLUS Malaysia Bhd • Approved the proposed offer to acquire 4 Klang Valley highways • Flood mitigation projects (RM443.9m) and maintenance of existing flood retention ponds (RM150m) • Proceeding with the Bandar Malaysia Project, include a People's Park, with	• We are not too excited with Budget 2020 which is to expedite bulk of the mega infrastructure projects mentioned in the previous budget, which we believe have been well discounted by the market. Furthermore, we highlighted in our previous strategy report that ECRL might not have a huge impact to the big construction players especially when the main contractor is a Chinese player. While the revival of Johor-Singapore RTS is positive, we do not expect any contract news flow from that project until 2HCY20. • As our major wish on the revival of MRT3 and HSR did not materialise, **we maintain UNDERWEIGHT on the sector.** Valuation for the construction players under our coverage ranges between 6x to 11x. The rating and TP for the stocks under coverage as follows: ○ **OP – GKENT (TP: RM1.15), KIMLUN (TP: RM1.35), MUHIBAH (TP: RM3.20)** ○ **MP – GAMUDA (TP: RM3.75), HSL (TP: RM1.40)** ○ **UP – IJM (TP: RM1.80), KERJAYA (TP: RM1.20), MITRA (TP: RM0.200), SUNCON (TP:RM1.45), WCT (TP: RM0.815)**

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		an additional 5,000 units of affordable homes and greater Bumiputera participation	
Consumer	**Positive**	• Allocation of RM5b for BSH and expand the scheme to cover 1.1 million single individuals (> 40 years old with earnings <than RM2k/month). In addition, all disabled persons aged 18 years old and above, with an income < RM2k/month will be entitled to receive BSH payment of RM300. • Targeted fuel subsidies for passenger cars (refer to Automotive comment for details). • Increased in the minimum wage rate only in major cities to RM1,200 from RM1,100 per month effective 2020. • Special payment of RM500 for civil servants Grade 56 and below and for government retirees, a special payment of RM250 will be paid and this will be extended to non-pensionable veterans All will be paid before end of this year. Increase in COLA payment by RM50. • One-time RM30 digital stimulus to qualified Malaysian aged 18 and above (annual income <RM100K) via selected service providers' identity-verified e-wallet account. • For Budget Visit Malaysia 2020 (VMY2020) with a target of achieving 30m tourist arrivals, the government will continue to allocate 50% of tourism tax to respective State. A substantial portion of the departure levy collected will be allocated for tourism infrastructure projects. • Budget initiatives towards tourism include: o Allocation of RM1.1b to the Ministry of Tourism, Arts and Culture, including an allocation of RM90m for the VMY2020 campaign. A substantial portion of the departure levy collected will be allocated for tourism infrastructure projects. o Income tax exemption be given for organisers of approved arts and cultural activities, approved international sports recreational competitions, and conferences organisers. o New investments in international theme park projects will be given income tax exemption of 100% of statutory income or Investment Tax Allowance of 100% to be set off against 70% for 5 years. o Increasing tax deductions given to companies sponsoring arts, cultural	• The BSH (unchanged allocation) and targeted fuel subsidies look to relieve a certain degree of burden from the lower income segment. Albeit positive, we opine that this will not contribute meaningfully to the overall consumer market. • On a wider scale, the Malaysians@Work initiative, targeted fuel subsidy, special payment for civil servant and higher minimum wage is expected to increase disposable income and boost consumer spending especially for consumer goods. Nonetheless, the re-floating of RON95 petrol rates may cause some disruption in logistics cost, while increased minimum wage could negatively affect retailers with high presence in major cities. These may translate to either upside or downside impact on Retailers and FMCGs' margins. • We expect the one-time RM30 digital stimulus for e-wallet to encourage retailers to invest in e-wallet. For now, only AEON (OP; TP: RM1.70 and MYNEWS (OP; TP :RM1.55) has an e-wallet presence which expected to benefit from the one-off incentive in 1QFY20. • 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. Overall beneficiaries are stocks that derive sales predominantly from the domestic market, such as the retail sub-segment, with top potential beneficiaries with physical stores presence such as supermarket/brands stores and convenience store operators (AEON, PADINI, PARKSON, SEM and MYNEWS) • We are positive on the automation incentives as it would encourage manufacturers to incorporate more levels of automation into their manufacturing processes, which may lead to higher efficiency and more favourable margins. • Overall, we are positive on the government's intention to remain with the SST regime eliminating the uncertainties in term of transitioning costs.

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		and heritage activities in Malaysia from RM0.7m to RM1m per year. ○ RM25m allocation to the Malaysia Healthcare Tourism Council (MHTC) to strengthen the position of Malaysia as the preferred destination for health tourism in ASEAN for oncology, cardiology and fertility treatment. • Budget initiatives towards automation include: ○ Accelerated and automation equipment capital allowances for manufacturing sector on the first RM2m and RM4m incurred on qualifying capex extended to 2023 ○ Incentive is also expanded to include services sector on the first RM2m incurred on qualifying capex from 2020 to 2023 ○ Allocation of RM550m to provide Smart Automation matching grants to 1,000 manufacturing and 1,000 services companies to automate their business processes. This grant will be given on a matching basis up to RM2m per company. • Malaysians@Work initiative, targeted additional 350,000 jobs for Malaysians and reduce foreign workers dependency by more than 130,000, divided into into four programmes : (i) Graduates@Work. For graduates unemployed more than 12 months, who secures work will receive a wage incentive of RM500/month, for 2 years, while hiring incentive for employers up to RM300/month each new hire, for 2 years; (ii) Women@Work. The wage incentive for returning women workers is RM500/month, and hiring incentive for employers up to RM300/month for 2 years. The current income tax exemption for women who return to work be extended for another 4 years until 2023; (iii) Locals@Work. The wage incentive for Malaysians hired to replace foreign workers is at either RM350 or RM500/month, based on the sectors, for 2 years, and employers hiring incentive up to RM250/month for 2 years; and (iv) Apprentice@Work. is a TVET incentive programme. Additional RM100/month on existing allowance on apprenticeships.	
Gaming	**Neutral**	• To curb illegal gambling, the	• The proposed higher mandatory penalty for

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		government will propose a higher minimum mandatory penalty of RM100,000 for illegal gamblers, along with a minimum mandatory jail sentence of 6 months • For illegal operators, a higher minimum mandatory penalty of RM1m and a 12-month minimum mandatory jail sentence will be imposed • Total number of special draw for NFO will be reduced from 11 to 8 times a year from 2020 onwards.	illegal gamblers and operators should help to further curb illegal gambling activity on top of the current enforcement which bodes well for the licensed operators such as the NFO players that have been registering encouraging ticket sales since Sep 2018. • The cut in three special draws per year will have minimum impact on the NFO players (NFO) given that these special draws come with 10% additional tax which crimps profitability. We estimated three less draws will reduce NFO's top-line by slightly less than 2% or 0.5%-0.8% at the net profit level. Therefore, the shortfall should be absorbed by potential uptick in ticket sales as mentioned above. Hence, we keep our estimate and recommendation for **BJTOTO (MP; TP: RM2.80)** and **MAGNUM (MP; TP: RM2.80)** unchanged for now while remaining **NEUTRAL** on the Gaming Sector.
Healthcare	**Neutral**	• The Government allocated RM30.6b (+7% Y-o-Y) for the health sector under operating and development expenditure of which RM1.6b is for hospital upgrading including Tengku Ampuan Rahimah Hospital in Klang, Kampar Hospital and Labuan Hospital. The expansion includes expanding cardiology centres at existing hospitals such as Queen Elizabeth II hospital in Sabah while an amount of RM319m is for the construction and upgrading of health and dental clinics. In line with the principle of 3R culture, Repair – Replace – and Restore, a total of RM227m will be provided to upgrade medical equipment while RM95m will be allocated for renovation of medical infrastructure and facilities such as at Pontian Hospital. • Medical tourism in Malaysia continues to gain traction. Among the VMY2020 programmes is Malaysia Year of Healthcare Travel 2020. The Government will allocate RM25m (+25% YoY) for the Malaysia Healthcare Tourism Council (MHTC) to strengthen the position of Malaysia as the preferred destination for health tourism in ASEAN for oncology, cardiology and fertility treatment. • MySalam was a new social protection scheme introduced by the Pakatan Harapan government this year which provided 4.3m individuals with takaful coverage in the event of a critical	• We are positive on both MySalam and Skim Peduli Sihat initiatives to provide free protection in the event of a critical illness and hospitalisation. However, we understand at this juncture, these initiatives have insignificant impact to private hospitals operators including KPJ and IHH. • The proposal to promote medical tourism is mildly positive to **KPJ Healthcare (Maintain OP; TP: RM1.15)** considering that about 5% of revenue account for medical tourism. As for IHH Healthcare **(Maintain UP, TP: RM4.85),** medical tourism accounts for 6% of revenue. **Maintain UNDERWEIGHT** rating on the sector due mainly to stretched valuations.

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		illness and hospitalisation. For those diagnosed this year with a critical illness, they will receive RM8,000 cash payout, while those warded at government hospitals can claim RM50 income replacement each day for up to 14 days. All household recipients of Bantuan Sara Hidup (BSH) aged between 18 and 55 years old are automatically covered. • The Government has also launched the Skim Peduli Kesihatan (PeKA) B40 to provide screenings and early intervention for non-communicable diseases such as mental health and cancer for those aged between 50 and 60 years old. A total of 100,000 citizens have benefited from this initiative and the Government will expand coverage to those aged 40 and above.	
Media	**Neutral**	• The government recognises that digital content creates economic value, and will allocate RM20m to Malaysian Digital Economy Corporation (MDEC) to grow local champions in creating digital content, especially in e-games, animation and digital arts. • To re-cap, in the previous budget , the Digital Services Tax will be implemented with effect from 1 Jan 2020 to include services such as, but not limited to, downloaded software, music, video or digital advertising. Foreign services providers can commence registration with the Royal Malaysian Customs Department (RMCD) as of 1 Oct 2019.	• We are neutral as the digital content initiative are focused towards e-gaming which have minimal impact on MEDIA and ASTRO despite their involvement in the e-gaming industry to distribute relevant content as majority of its revenue comes from its traditional media and subscription revenue, respectively. • Meanwhile, minimal impact is to be seen from Digital Service Tax although prices from international digital players would be higher, as we believe quality content continues to be the key determinant to attracting users. • All in, no change in our **NEUTRAL** rating for the sector.
MREIT	**Neutral**	• No new incentives/measures were mentioned in the budget announcement. • The existing tax treatment for REITs is extended for an additional 6 years, until 2025	• We did not expect any significant measures for the sector in this budget. REITs are currently subjected to; (i) 10% withholding tax (WHT) for foreign institutional investors and non-corporate investors, (ii)24% WHT for non-resident corporate investors, and (iii) existing corporate tax rate for corporate investors. • No change in our **NEUTRAL** rating for MREITs
Oil and Gas	**Neutral**	• No relevant incentives/measures were mentioned in the budget announcement.	• No mention of continued special dividend from Petronas (as opposed to one-off special dividend of RM30b in 2019). This could possibly pave the way for continued/increased upstream capex for Petronas. • Value-chains to benefit from continued increased upstream capex from Petronas would include drillers (e.g. VELESTO), fabricators (e.g. SAPNRG, MMHE), maintenance players (e.g. DAYANG), as well as FPSO players (e.g. YINSON, MISC).

Sector	Impact on Sector	Announcements/Measures	Beneficiaries/Winners
			• Maintain **NEUTRAL** rating on the sector.
Plantation	**Neutral**	• Establishing a RM550m loan fund (collateral-free) at an interest rate of 2% per annum (tenure: 12 years including 4-year moratorium on repayment) for smallholders for the replanting of oil palm trees in compliance with Malaysian Sustainable Palm Oil (MSPO) standards. • Implementing the Biodiesel B20 programme for the transportation sector by the end of 2020.	• We understand that smallholders account for c.40% of total oil palm planted area in Malaysia and represent an important FFB supply source for plantation companies with oil mills. As such, the palm oil replanting (MSPO compliant) loan fund for smallholders is expected to increase the availability of sustainable FFB supply for plantation companies given the rising emphasis on the need of sourcing CPO from a sustainable (certified) estate. • The implementation of Biodiesel B20 programme for the transportation sector is expected to absorb an additional 500k MT (c.3%) of Malaysia's annual CPO production, bringing total absorption to c1.3m MT (c.7%), which is within our expectations. However, we are not overly excited, given targeted implementation by end-2020. • All-in, we deem Budget 2020 as a non-event again for the plantation sector as it has minimal financial/operational impact on planters under our coverage. Maintain **UNDERWEIGHT.**
Plastics & Packaging	**Neutral**	• Customised Packaged Investment Incentive and Accelerated Capital Allowance and automation equipment capital allowance for manufacturing sector on the first RM2 million and RM4 million incurred on qualifying capital expenditure is extended to the year of assessment 2023. • • Increase of minimum wage rate only in major cities to RM1,200 (from RM1,100).	• We believe these incentives may be applicable, but we do not expect any significant impact to earnings for now as packagers are already enjoying other tax incentives (ie. Reinvestment Allowance) while the bulk of capex spending has already been done in the past 3 years. We note that the amount claimable is not overly significant and with other tax incentives already in place we do not expect a significant impact to bottom-line. • Minimum impact as most plastic packagers' plants are located in industrial areas outside of major cities while the impact to earnings is <2% to FY20E earnings assuming this were to affect the players, as most are already paying workers above the minimum wage. • We maintain **NEUTRAL** on plastic packagers.
Property	**Positive**	• Rent-to-Own financing scheme i) financing of up to RM10bn will be provided by the financial institutions with the support from the Government via a 30% or RM3b guarantee. ii) purchase of first home up to RM500,000 property price. iii) applicant will rent the property for up to 5 years and after the first year, the tenant will have the option to purchase the house based on the price fixed at the time the tenancy agreement. iv) provide stamp duty exemptions.	• We are positive on Budget 2020 for developers given government's strong will in resolving the property overhang situation, through measures like reducing property prices from minimum of RM1.0m to RM0.6m for foreign ownership. This would bode well for developers, as they now have a larger target market to clearing their inventories. • That aside, we also laud the government for their commitment in assisting Malaysians in owning a property through the Rent-to-Own financing scheme with RM10b financing from financial institution of which RM3b is guaranteed by the government. We believe that should this Rent-to-Own scheme picks up momentum, we do not rule out the possibility

Sector	Impact on Sector	Announcements/Measures	Beneficiaries/Winners
		• Real Property Gain Tax (RPGT): Disposal of properties after 5 years onwards, Government will revise the base year for asset acquisition at 1 January 2013 for asset acquired before 1 January 2013 as compared to the previous base year of 1 January 2000 • Reduce supply overhang of condominiums and apartments: Government will lower the threshold on high-rise property prices in urban areas for foreign ownership from RM1m to RM600,000. • Assist youth in purchasing house: i) extend the Youth Housing Scheme administered by Bank Simpanan Nasional from 1 January 2020 until 31 December 2021; ii) offers a 10% loan guarantee through Cagamas; and iii) RM200 monthly instalment assistance for the first two years limited to 10,000 home units. • Maintenance of Public Housing: i) repair and refurbishment (RM100m) ii) Safe City Initiative (Bandar Selamat) (RM15m) • Public Sector Home Financing Board. Free personal accident insurance (up to RM100,000 coverage) for two years to new government housing loan borrowers. • Repair and maintain the public service quarters: Refurbishment of Malaysian Armed Forces family housing units (RKAT) (RM150m) and PDRM quarters (RM250m).	of the formation of Residential REITs in the future. Policies are supportive to B40 and M40 groups. • With property valuations dropping to historical trough levels and given clarity from the Budget 2020, we think that the bashed-down big-boys are worth a look for rebound plays given the following factors; (i) dividend yields which are a premium to sizeable MREITs, (ii) historical low Fwd. PER/PBV levels which means most of the earnings risks has been priced-in. **Hence, we upgrade our sector call to OVERWEIGHT from NEUTRAL.** ○ **OP – ECOWLD (TP: RM0.750), IOIPG (TP: RM1.65), MAHSING (TP: RM1.00), SIMEPROP (TP: RM1.10), SPSETIA (TP: RM1.85), SUNSURIA (TP: RM0.760), UEMS (TP:RM0.835), UOADEV (TP: RM2.15)** ○ **MP – HUAYANG (TP: RM0.335), LBS (TP: RM0.495), MRCB (TP: RM0.700), SUNWAY (TP: RM1.60)** ○ **UP – AMVERTON (TP: RM1.00), MAGNA (TP: RM0.710)**
Rubber Gloves	**Neutral**	• The Government proposes to increase the minimum wage rate, only in major cities, by 9% to RM1,200 per month from RM1,100 effective 2020. • Accelerated capital allowance (1st RM2m) and automation equipment capital allowance (1st RM4m) for the manufacturing and services sector for the assessment years of 2020-2023.	• At this juncture, we are unsure of whether glove players are impacted by the minimum wage since their plants are located in Klang, Sungai Buloh, Sepang and Batang Berjuntai. • For illustrative purposes, *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 8-10% of the overall production cost. Based on our estimates, players just need to raise ASPs by 2% to mitigate the increase in minimum wage. Overall the reliance on workers has gradually been reduced over the past few years via automating production processes, including

Sector	Impact on Sector	Announcements/Measures	Beneficiaries/Winners
			double former dipping line with touch-screen interface, mechanical stripping system (removing nitrile gloves from hand moulds) and glove puller and stacker system. • We are positive on accelerated capital allowance but due to the sheer size the capex of the rubber gloves manufacturers which most likely have been utilised. • **FReiterate Overweight.** Our investment case is based on: (i) our analysis that the new capacity expansion industry-wide is slower-than-expected, which should help maintain the supply-demand equilibrium, (ii) expected earnings growth driven by new capacity expansion and higher ASPs, and (iii) US-led uptick in demand due to trade war where the US accounts for between 28%-55% of glove players group sales. • Our Top Pick in the sector is HARTA (OP; TP: RM5.85). We like HARTA for: (i) its “highly automated production processes” model, which is moving from ‘good’ to ‘great’ as they are head and shoulders above peers in terms of better margins and costs reduction, (ii) constantly evolving via innovative products development, and (iii) its nitrile gloves segment, which is booming. • We also like Kossan because it is trading at an unwarranted 28% discount to peers’ PER average considering that its net profit growth is the highest at 23.7% compared to peers’ average at 12%. Our TP is RM5.25 based on 25.5x FY20E EPS (+1.0SD above 5-year historical forward mean).
Shipping, Ports & Logistics	**Neutral**	• The Government will allocate RM50m for the repair and maintenance of roads leading to Port Klang. Feasibility studies to commence on the Serendah-Port Klang Rail Bypass for cargo shipments and the Klang Logistics Corridor, a dedicated privatised highway connecting Northport and Westport for commercial vehicles, with both projects estimated to cost RM8.3b. • Port Klang is expected to reach full capacity in the next five years. For the next phase of growth, the Government is undertaking an in-depth feasibility study on the development of Pulau Carey. This is to make Port Klang a regional maritime centre and cargo logistics hub combining manufacturing, distribution, cargo consolidation, bunkering and ship repairs.	• We believe the better road and rail connectivity would help improve efficiencies and performance of the ports which may help improve transhipment volumes for WESTPORT and MMCCORP’s Northport in Port Klang. However, we do not expect any impact to earnings in the near term pending further details. • We are unsure of the prospect for a new port at Carey Island considering ample capacity from WESTPORT’s long-term planned expansion. Recall, WESTPORT is expanding its Westports 2, which is anticipated to be executed in three phases, with first phase covering CT10, CT11 and CT12. Though no specific details have been laid out yet, we opine the land reclamation for Phase 1 will likely commence from FY20 onwards. On the flipside, a new port at Carey Island could have a negative impact to both players i.e. North

Sector	Impact on Sector	Announcements/Measures	Beneficiaries/Winners
			Port and Westport. • We make no changes to our **NEUTRAL** sector outlook.
Sin	**Positive**	• For Budget Visit Malaysia 2020 (VMY2020) with a target of achieving 30m tourist arrivals, the government will continue to allocate 50% of tourism tax to respective State. For further information, please refer to consumer sector commentary. • No relevant incentives/measures were mentioned in the budget announcement.	• The lack of further pressures from excise duties is good news for the sin sector, which is under pressure from the rise of illicit products in the market, especially with the illicit cigarettes taking up more than 60% of the entire market. • Moreover, we are undoubtedly positive on the tourism incentives as it would spell higher expectations for robust tourist arrivals and increased domestic tourism. This ought to help spur consumption for our breweries, with our top pick being **CARLSBG (OP; TP: RM28.70).**
Technology	**Positive**	• (i) 50% matching grant (up to RM5,000 per company) over 5 years, limited to first 100k SMEs that digitize business operations (i.e. electronic Point Of Sale systems (e-POS), Enterprise Resource Planning (ERP) and electronic payroll system). (ii) One-time RM30 digital stimulus (in identity-verified e-wallet) to Malaysians (aged 18 and above, with annual income <RM100k).	• As these initiatives are to accelerate the adoption of digitization such as e-payment processes, we believe GHL Systems Berhad (NR) and Revenue Group Berhad (NR) could benefit from: (i) higher sales and rental of terminals, (ii) higher transaction payment acquisitions, and (iii) higher sales/maintenance of software. In addition, given that the digital stimulus is to be used within 2 months (1-Jan-20 to 29-Feb-20), we believe GHLSYS and REVENUE could see potential earnings boost in 1QCY20.
		• RM550m grant to 1000 manufacturing and 1000 services companies (up to RM2m per company) to automate business processes. • Tax exemption (up to 10 years) for Electrical and Electronics (E&E) companies in selected knowledge-based services (5G and Industry 4.0) as well as special tax allowance for E&E companies. • Grant of RM50m for the development of 5G ecosystem.	• Overall, we are positive on the initiatives to drive automation and 5G. In the long term, these initiatives are expected to benefit the OSAT players such as MPI (OP, TP: RM12.10 – ***Top Pick***), KESM (OP, TP: RM8.70), UNISEM (MP, TP: RM2.05), D&O (OP, TP: RM0.625) and EMS players under our coverage namely PIE (MP, TP: RM1.20), SKPRES (OP, TP: RM1.15)] as well as other peers, given their direction towards Industry 4.0.
		• Proposed minimum wage hike to RM1,200/month in main cities.	• We are neutral on the proposed minimum wage hike of RM100 to RM1,200 (+9%) as we believe it has very minimal impact to the OSAT and EMS players. As we understand, most of them are already paying above the proposed minimum wage.
Telecom-munications	**Neutral**	• No new measures were introduced, as the government rides on the National Fiberisation and Connectivity Plan (NFCP) to lead telecommunication agendas. • As part of NFCP, RM250m will be allocated to boost various technologies, including via satellite broadband connectivity, especially in Sabah and Sarawak,	• While the initiative is not new, the budget has provided a better clarity in terms of the project funding. • We do not expect significant changes to the industry's landscape until the assignment of the upcoming 700MHz, 2300Mhz and 2600MHz spectrums. • Maintain **NEUTRAL** call for the sector.

Sector	Impact on Sector	Announcements/Measures	Beneficiaries/Winners
		• RM210m will be allocated to accelerate the deployment of new digital infrastructure for public buildings, particularly schools and also high impact areas such as industrial parks. Priority will be given to locations within states that are able to facilitate and expedite the implementation of the NFCP.	
Utilities	**Neutral**	• To migrate the current power purchase system towards a wholesale market in the future. Renewable energy suppliers will also be able to compete directly in the retail market. • Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) incentives will be extended to 2023. A 70% income tax exemption of up to 10 years will be given to companies undertaking solar leasing activities. • Through Energy Performance Contracting (EPC), the upfront capital investment into energy saving equipment for government buildings will be repaid through the savings in utility costs achieved. In 2020, the government will accelerate EPC implementation for government building, prioritising hospitals and education institutions. • RM587m will be allocated for rural water projects, out of which RM470m is for Sabah and Sarawak to meet our target of 99% access to clean water. • The government will spend RM500m on rural electrification, benefiting more than 30,000 rural households, with the majority of the beneficiaries in Sabah and Sarawak.	• This budget is neutral to the sector as the allocation is not likely to have any meaningful impact to the industry as well as to **TENAGA (MP; TP: RM13.40)**. Maintain **NEUTRAL** rating on the sector while **PESTECH (OP; TP: RM1.75)** is maintained as an alternative play.

Source: Kenanga Research

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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