10 October 2014

MALAYSIA EQUITY

BUDGET 2015

Analysis of Federal Government of Malaysia Budget 2015

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ECONOMIC COMMENTARY AND ANALYSIS

The Budget is still a continuation of government's strive to balance between the fiscal consolidation stance and the well-being of rakyat. Fiscal consolidation is set to continue but at a pace that may be too slow to see any dramatic improvement in public finance position. Fiscal deficit is expected to narrow only slightly in absolute value and the much reduced ratio to GDP hinges on the expectation of nominal GDP to rise much faster. While we applaud the Government's effort to cushion the impact of higher cost of living on low and middle income households, the extension of BR1M with increased amount to be given can prove to be a source of vulnerability if there is a downward shock to economic growth, and in turn to fiscal revenue as it is still a form of subsidy and phasing the programme out down the road will increasingly becoming difficult.

With fiscal consolidation pace continues to be moderate, the size of debt is also unlikely to be pared down much, and again the need to ensure the ratio to GDP hinges on faster economic growth expectation. Overall, we believe the Budget could be a positive surprise for the rakyat whom would have expected a more painful spending cut measures but may pose mixed views among businesses and investors, as a stronger fiscal position is needed as we anticipate the US Fed tightening and the likely fund outflows.

1. **Despite the pledge to consolidate fiscal position, the government is actually allocating bigger quantum of increase in the total spending for Development Expenditure**. The allocation for Budget 2015 at RM273.9 billion is RM9.8 billion or 3.7% more than the previous budget. Last year, the amount allocated was only marginally higher by 1.1% from the 2013 allocation. 81.6% of the allocation or RM223.4 billion is for Operating Expenditure (OpEx) with the remaining18.4% or RM50.5 billion for Development Expenditure (DevEx). Nonetheless, it is worth to note that the Federal Government expects it can save significantly from smaller OpEx to allocate more by 14.9% for DevEx as compared to the amount spent for 2014.

Table 1: Federal Government Finance (RM million)

	2013	2014	2015
Revenue	213,370	225,094	235,219
Operating Expenditure	211,270	221,112	223,440
Current balance	2,100	3,982	11,779
Gross development expenditure	42,210	42,222	48,500
Less Loan recovery	1,526	949	1,033
Net development expenditure	40,684	41,273	47,467
Overall balance	(38,584)	(37,291)	(35,688)
Overall balance as % of GDP	-3.9	-3.5	-3.0

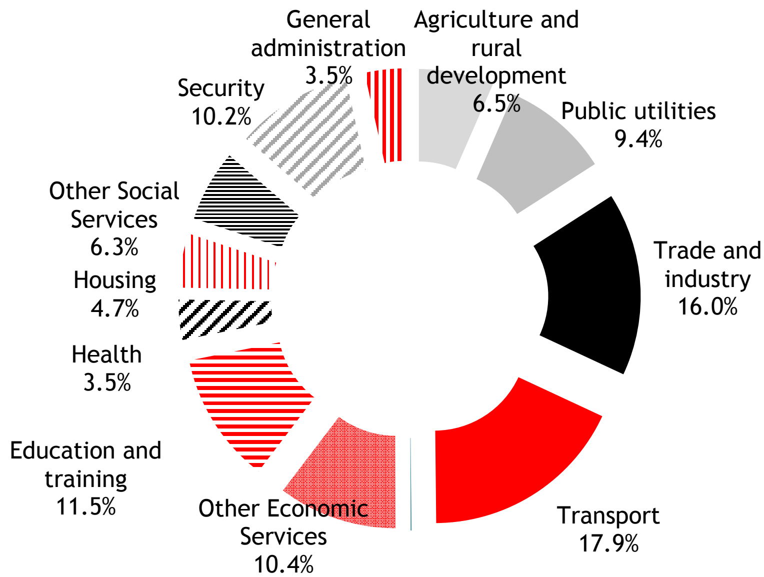
2. **Fiscal consolidation to continue but at a gradual pace.** After having introduced various measures to contain spending and thus fiscal deficits in the last year's Budget, this year's Budget does not contain any more dramatic measures to curb spending other than the 20sen hike in fuel prices effective early this month. Moreover, the big component of fiscal revamp, i.e. the Goods and Services tax (GST) was already announced last year. The subsidies amount is expected to continue to decline by 7.1% in 2015 faster than the 6.4% decline estimated for 2014. Despite the smaller subsidies and thus OpEx, with bigger rise in Current Account surplus (RM11.8 billion vs RM6.4 billion in 2014), fiscal deficit is still targeted at 3.0% of GDP or RM35.7 billion (2014: RM37.3 billion) as the government allocates the savings for more allocation for DevEx.

Table 2: Federal Government – Operating Expenditure

	RM million				YoY change		
	2012	**2013**	**2014**	**2015**	**2013**	**2014**	**2015**
Emoluments	60,016	61,001	65,357	65,652	1.6%	7.1%	0.5%
Pensions and gratuities	14,079	14,842	16,167	16,256	5.4%	8.9%	0.6%
Debt service charges	19,537	20,776	23,186	24,379	6.3%	11.6%	5.1%
Domestic	19,035	20,291	22,591	23,935	6.6%	11.3%	5.9%
External	502	485	595	444	-3.4%	22.7%	-25.4%
Grants & transfers to state governments	5,690	6,046	6,697	7,444	6.3%	10.8%	11.2%
Supplies & Services	31,963	33,860	36,421	38,099	5.9%	7.6%	4.6%
Subsidies	44,075	43,349	40,558	37,688	-1.6%	-6.4%	-7.1%
Asset Acquisition	1,770	1,415	1,406	1,457	-20.1%	-0.6%	3.6%
Refunds & write-offs	1,292	1,097	1,358	1,664	-15.1%	23.8%	22.5%
Grants to statutory bodies	15,971	14,761	16,665	16,732	-7.6%	12.9%	0.4%
Others	11,144	14,123	13,297	14,069	26.7%	-5.8%	5.8%
TOTAL	**205,537**	**211,270**	**221,112**	**223,440**	2.8%	4.7%	1.1%

3. **Bigger DevEx mostly expected to go to Social Services, with housing to see dramatic increase in allocation.** Social services will be getting a 21.4% YoY increase in allocation after seeing that declining by 4.5% in 2014. The biggest recipient will be Education and Training which accounts for 44.2% of Social Services, but the Housing sector (18.2% of Social Services) will be seeing the most dramatic increase by 148.2%. Allocation for Economic Services is budgeted to increase by 9.2% faster than the 8.7% increase in 2014. The biggest recipient will be Transport (29.7% of Economic Services) but the increase in allocation is modest at 6.7%. The most notable increase will have to be the Trade and Industry sector with allocation raised by 36.4%, accounting for 26.6% of Economic Services spending.

Chart 1: Federal Government - Development Expenditure - the components



4. **We applaud the government's move to increase BR1M but it needs to set target of phasing this out in line with a much needed more concrete fiscal consolidation plans.** We understand the need of the government to continue to help cushion the impact of higher cost of living with the extension of BR1M but given our fiscal constraint, this cannot continue indefinitely. It is rather odd to continue to pare down fuel subsidies to enhance fiscal prudence but at the same time having cash handouts which is also a form of subsidy. We hope that once the fuel subsidy rationalization is in place, the government will start to phase out the BR1M and we should be mindful of the fact that with 4 successive BR1Ms, each time with a bigger amount, it needs a stronger political will to phase out the programme down the road.

5. **Debt to GDP ratio hardly budges.** Even if the government sticks to its pledge of hitting 3.0% deficit-to-GDP ratio next year, as long as there are deficits, there will be new borrowings, contributing to accumulation of debt. Net new borrowings for 2014 is estimated to be smaller at RM37.1 billion -which is about the same size of the deficits. Adding that to the stock of debt which stood at RM539.9 billion at the end of 2013, the total debt as a ratio-to-GDP is maintained at around 53 - 54%. Looking at the historical trends whereby net new borrowings not much different from the fiscal deficits, we can expect that another 3% of GDP or worth of net new borrowings will be added to the debt stock, reflecting an increase of 6.5% YoY. As such, we need a much faster nominal GDP growth to keep the ratio below the 55% ceiling target.

6. **Real GDP is likely to slow down in 2015, although the government maintains the 5 - 6% range.** Real GDP growth is estimated to be at 5.7% in 2014, slightly higher than our call of 5.5%, before it is expected to slow down to record 5.2% growth (ours: 5.0%). Our estimation for Consumption and trade in 2014 is close to the government's estimations and the only divergence is the estimation for Gross Fixed Capital Formation (GFCF) or Fixed Investments which we expects to be slightly lower at 7.5% vs government's estimate of 8.3%. Growth is likely to be driven by Consumption in both 2014 and 2015, although the share of contribution to growth fell significantly from that recorded in 2013, given the increasing contribution from trade in 2013 and GFCF in 2015. By sector, Services is expected to continue to be robust, Manufacturing and Construction is likely to show moderating growth but still relatively strong while Mining and Quarrying is projected to rebound next year following the 2-year doldrums previously.

Table 3: Real GDP by Expenditure

	2013	2014	2015	2013	2014	2015
	YoY change			p.p. contribution to growth		
Final consumption expenditure	7.0%	5.6%	5.3%	4.48	3.69	3.44
Public	6.3%	2.1%	3.8%	0.83	0.28	0.50
Private	7.2%	6.5%	5.6%	3.65	3.40	2.94
Gross fixed capital formation	8.5%	8.3%	8.5%	2.27	2.29	2.40
Public	2.2%	2.6%	4.7%	0.25	0.28	0.50
Private	13.1%	12.0%	10.7%	2.03	2.01	1.90
Change in stocks	-125.8%	234.1%	-129.7%	-0.94	-0.43	0.76
Exports of goods and services	0.6%	3.5%	2.1%	0.59	3.09	1.85
Imports of goods and services	2.0%	3.5%	4.0%	1.66	2.91	3.20
Gross Domestic Product at purchasers' prices	4.7%	5.7%	5.2%	4.7	5.7	5.2

EQUITY MARKET

There are no new key broad measures in Budget 2015 announcement other than the reiteration of those which have already been announced in last year's budget, namely (i) implementation of GST starting second quarter next year, (ii) reduction in personal income tax rates, and (iii) a 1-ppt cut in corporate tax rate to 24% beginning 2016.

Key Sectorial Impacts

The FBM KLCI is heavily weighted by four sectors. The key sectors are (i) Banking, (ii) Telecommunication, (iii) Plantation, and (iv) Oil & Gas. Together, these sectors represent circa 3/4 of the benchmark's total weighting. In view of this, in order to gauge the direct impacts of the national budget on the stock market, our interests are duly centered on what in store for the aforementioned sectors.

Banking. The extension of tax deduction for issuing sukuk based on Ijarah and Wakalah principles to year of assessment 2018 will continue to lean interest of issuers towards raising funds via sukuk. No major direct impacts. We retain our NEUTRAL stance on banking sector. This is based on a slower loan growth for banks, the continuation of NIM pressures, normalizing credit cost and tougher operating conditions for IB.

Telecommunication. The government allocates RM2.7b to build over 1,000 new telecommunication towers and to lay undersea cables. We are of the view that telecommunication tower builders are the direct beneficiaries as the measure translates into higher construction order books. Meanwhile, we expect no major direct impacts to telecommunication service providers as they may only experience a gradual increase in subscriber base as and when the new towers are commissioned.

Plantation. The allocation of RM41m is positive to the industry as it will enhance the palm age profile which is currently skewed towards older trees. This will consequently, improve the FFB yield and to help increase CPO production moving forward. In addition, this measure is also able to lower the risk of lower palm oil supply due to land scarcity issues. For the zero export duty extension, the measure is good as it will help to reduce the current high inventory levels and to curb the downside in CPO prices. However, this measure will also cause a negative spillover to the palm oil downstream industry. The tax exemption incentivizes the upstream players to export their CPO. The increase in exports will then reduce the supply of CPO for local refiners and consequently affect their margin. We expect no major direct impacts to the plantation players.

Oil & Gas. No new budget measures announced. Thus we see no major direct impacts from Budget 2015 on the oil & gas companies.

In conclusion, we do not expect the Budget 2015 to bring much excitement to FBM KLCI in coming week.

Market Outlook

Steadfastness to fiscal goal is a market-positive step. The Budget 2015 is an attestation to the government's earlier promise to cap fiscal deficit at 3.0% of GDP for next year, and eventually to achieve a balanced budget by year 2020. Aspiration aside, more importantly it clearly outlines how the deficit target for next year shall be achieved. We believe the fiscal steadfastness will be viewed favorably by the market despite its attendant near-term impacts on growth and inflation.

The growth outlook for next year can be described as cautiously optimistic. Consumers are expected to be more restrained after the recent fuel subsidy cut and GST implementation. In view of the above, private consumption is expected to grow at a slower pace of 5.6% in 2015 from 6.5% estimated for this year. In addition, while improving external demand is expected to help underpin output, however there are concerns about the slowing pace of global economic growth. This is attested by the recent downgrade of next year's global economic growth forecast by the International Monetary Fund (IMF). Thus the official 2015 GDP growth forecast for Malaysia of 5.2% which lies at the lower end of its probable range of between 5% and 6%.

Fiscal measures may see transitory impact on price inflation. In the inflation front, the reduction in the fuel subsidy and implementation of GST may drive CPI higher at 4% to 5% in 2015. However, due to the subdued external cost environment and the strong capacity expansion over the past years, the price pressure is expected to be transitory. In addition, consumers are expected to be more restrained after the fuel subsidy cut and GST implementation hence moderating demand and thwart the rise in forward inflation expectations.

Expect minor near-term market reaction to Budget 2015. In our opinion, the budget provides no material surprises that may spur significant buying interest in the equity market. Hence we expect the short-term market undertone to continue to be dictated by the prevailing vagaries on Wall Street.

But the hitherto unseen positive secular impact on equity pricing… It must however be noted that strong government finances is of long-term strategic importance to the nation's well-being particularly with regard to (i) Malaysia's sovereign rating stability, (ii) global investor confidence, and (iii) continued ability of the government to provide adequate backstops during an economic downturn. Tying the above to equity market, it is widely recognized that equity pricing is essentially the questions of not only earnings but also that of valuation. And equity valuation, by extension, involves considerations with regard to the measure of risks and its attendant required return.

…may only manifest in due course. Therefore, over the long-term, lessening sovereign and economic risks which attract a lower required return would customarily drive market valuation higher. These valuation drivers will be propelled by improved sovereign rating stability, higher investor confidence and stronger government finances which in turn are engendered by the nation's improving fiscal underpinnings. In gist, the positive impact of Budget 2015 on the equity market may only manifest over an extended period.

We reiterate our FBM KLCI 2015 year-end target at 1,970 points, which is equivalent to 16.4x of 2015 earnings or +0.75SD above its long-term average (from 2006-present). Furthermore, we retain our FBM KLCI 2014 year-end target at 1,900 points in spite of, what we view as, a short-term cyclical pullback in the red-hot US equity market.

CONSTRUCTION, *maintain* POSITIVE

Measures	Allocation (RM)	Remarks
Rail-lines		
1. KVMRT Line 2 (56-km Selayang to Putrajaya)	23.0b	We expect **MMC-Gamuda (TP: RM5.28)** to be a front-runner for Project Delivery Partner (PDP) and official announcement to be made public by end of this year. We opine the appointment is based on their capabilities, expertise and manpower from the KVMRT Line 1. Meanwhile, the tendering is expected to be called in late next year with major contracts to be awarded from mid-2016 onwards.
2. LRT 3 (Bandar Utama to Shah Alam and Klang)	9.0b	We believe LRT 3 is a much needed project, which is to be integrated with KVMRT Line 1 at One Utama Station. We are of the view that early stage integration could avoid cost over-run and reduce the risk of any untoward incident. We expect **Sunway Holdings Bhd (Non-rated), MRCB (TP: RM2.59), TRC Synergy (Non-rated)** and **UEM Builders** to be beneficiaries from the project.
3. Upgrading the East Coast railway line (Gemas – Mentakab, Jerantut – Sungai Yu and Gua Musang – Tumpat)	150.0m	**Beneficiaries:** MRCB (TP: RM2.59)
Roads and Highways		
1. 1,663-km Pan-Borneo Highway (936 km in Sarawak and 727 km in Sabah)	27.0b	We believe **Protasco (TP: RM2.57), Hock Seng Lee (TP: RM2.14), Naim Holdings (TP: RM4.80), TRC Synergy (Non-rated) and Cahya Mata Sarawak (Non-rated)** to be major beneficiaries from this project as they are already established and have experience in road work projects in East Malaysia. We also view that they have competitive edge (in terms of costs) over other Peninsular construction companies.
2. 276-km West Coast Expressway (WCE)	5.0b	**Beneficiaries:** IJM Corp (TP: RM6.98), WCT Holdings (TP: RM2.59), TRC Synergy (Non-rated), Bina Puri (Non-rated), Mudajya (Non-rated) and Gadang (Non-

		rated)
3. 59-km Sungai Besi-Ulu Klang Expressway (SUKE)	5.3b	**Beneficiaries:** IJM Corp (TP: RM6.98), Mitrajya (Non-rated), TRC Synergy (Non-rated), Bina Puri (Non-rated) and Mudajya (Non-rated), Kimlun (Non-rated)
4. 47-km Damansara-Shah Alam Expressway (DASH)	4.2b	**Beneficiaries:** IJM Corp (TP: RM6.98), Mitrajya (Non-rated), TRC Synergy (Non-rated), Bina Puri (Non-rated) and Mudajya (Non-rated), Kimlun (Non-rated)
5. 36-km Eastern Klang Valley Expressway (EKVE/KLORR)	1.6b	**Beneficiaries:** AZRB (Non-rated)
6. 635-km of rural roads including former logging roads in Sabah and Sarawak	943.0m	**Beneficiaries:** Protasco (TP: RM2.57), Hock Seng Lee (TP: RM2.14) and TRC Synergy (Non-rated)
Affordable house		
1. 80,000 units of 1Malaysia People's Housing Programme (PR1MA)	1.3b	**Beneficiaries:** Protasco (TP: RM2.57), Sentoria, Pesona and Bina Darulaman.
2. 26,000 units of People's Housing Programme (PPR)	644.0m	**Beneficiaries:** Protasco (TP: RM2.57), Sentoria (Non-rated), Pesona (Non-rated) and Bina Darulaman (Non-rated), Bina Puri (Non-rated) and local small cap players
3. Additional 5,380 units of 1Malaysia Civil Servants' Housing (PPA1M)	-	**Beneficiaries:** Protasco (TP: RM2.57), Bina Darulaman (Non-rated), Bina Puri (Non-rated) and local small cap players
Oil & Gas		
The Pengerang Integrated Petroleum Complex project	69.0b	**Beneficiaries:** Muhibbah (Non-rated), WCT Holdings (TP: RM2.59), Eversendai (TP: RM0.99), Ho Hup (Non-rated) and Gadang (Non-rated)
Utility (Water)		
Langat 2 Water Treatment Plant to be expedited	3.0b	**Beneficiaries:** AZRB (Non-rated), Salcon (Non-rated), MMC (Non-rated) and Engtex (Non-rated)

A plus for the sector. The Government's RM50.5b allocation for development expenditure for 2015 is up by 20% from 2014's RM42b. The measures proposed in this budget are better targeted on mega infrastructure projects. These measures are in line with our expectations for the Government to continue to commit on priority infrastructure projects in 2015 to accelerate growth.

More attention on rail-line and highway projects. As expected, roads, highways, rail-line projects and affordable housing received notable allocations from the Budget 2015. We understand specific projects were singled out during the PM's budget speech. Of these, we believe construction companies, i.e. Gamuda (TP: RM5.28), IJM Corp (TP: RM6.98), Protasco (TP: RM2.57), Hock Seng Lee (TP: RM2.14), WCT Holdings (TP: RM2.59), Muhibbah (Non-rated), Mudajya (Non-rated), Mitrajya (Non-rated), Gadang (Non-rated), TRC Synergy (Non-rated), Ho Hup (Non-rated) and AZRB (Non-rated) are touted to be major beneficiaries of the projects. We also view these projects as positive to the sector as it will spawn opportunities to construction companies' to replenish order book and keep their potential earnings visibility unhindered as well as to register robust growth in the next three-four years.

Maintain **POSITIVE.** Going forward, we continue to expect to hear more developments on other large-scale projects such as the RM26b Tun Razak Exchange, RM5b PNB Warisan Merdeka Tower, RM6b Penang Third link projects, Penang Integrated Transport and power plants. With recent depression in construction companies' share prices and relatively cheap KLCON's PER of 12x, we opine this as a strategic opportunity to accumulate construction stocks. Overall, we reaffirm POSITIVE on the Construction sector. Our top picks for the sector are Gamuda (TP: RM5.28) and Protasco (TP: RM2.57).

RUBBER GLOVES, *maintain* POSITIVE

Measures	Allocation (RM)	Remarks
To increase automation in Labour Intensive Industries The Government will provide incentive in the form of capital allowance on automation expenditure according to the following categories: 1) For labour intensive industries (rubber products, plastics, wood, furniture and textiles), an automation capital allowance of 200% will be provided on the first RM4m expenditure incurred within the period from 2015 to 2017. 2) For other industries, automation capital allowance of 200% will be provided on the first RM2m expenditure incurred within the period from 2015 to 2020.	n.a.	As rubber glove manufacturers are moving towards automation, we believe that this capital allowance will benefit the current plant expansions of respective glove manufacturers. Among the glove players, we expect Top Glove to benefit from this capital allowance incentive as its current plants are lagging in terms of automation. This is in comparison with Hartalega and Kossan which have upgraded and installed automated machinery in most of its plants.

We maintain **POSITIVE** on the sector, as we believe that the demand for rubber gloves is still strong. The demand for rubber gloves is expected to remain resilient at 8%-10% p.a. This strong demand for rubber gloves is expected to outweigh the low average selling prices of gloves attributable to the decreasing price of rubber.

HEALTHCARE, *maintain* POSITIVE

Measures	Allocation (RM)	Remarks
New Facilities Construction of Hospital Dungun in T'ganu and Hospital Seri Iskandar in Perak as well as another 20 Health Clinics and 4 health clinics. Establish 30 additional 1Malaysia clinics. Replace 635 haemodialysis machines in Government hospitals and clinics. Provide medicines for patients undergoing chronic and acute haemodialysis treatment.	23.3b overall to the health services sector. 30m 45.4m	These new healthcare facilities will benefit the residents around these areas, especially the lower and middle income segments. While private healthcare providers are still the preferred option, a large segment of the population is still dependent on government healthcare facilities
Tax relief for serious diseases The tax relief for treatment of severe diseases such as cancer, kidney failure and heart attack are raised from RM5k/yr to RM6k/yr. This is available for treatments of spouse and children.	n.a.	In light of the GST imposition and higher cost of medical, we believe this should alleviate some impact on disposable income.
Combatting the dengue epidemic Prevention equipment would be purchased such as reagents, Ultra Low Volume and Mist Blower. Distribute 55k dengue test kits FOC to private clinics to expedite early detection process.	30m	This should help contain the dengue epidemic from spreading and improve community awareness son the epidemic through enhanced dengue prevention program.

Government will continue its effort to provide quality healthcare and medical services for the rakyat, ensuring all Malaysians will be able to benefit from good healthcare services.

We reiterate our **POSITIVE** view on the sector given our view of ample growth potential for the sector due to the country's changing demographic, increase in lifestyle-related illness, expanding middle class, and greater insurance penetration.

UTILITY (POWER), ***maintain*** **POSITIVE**

Measures	Allocation (RM)	Remarks
Allocation of RM1.1b to implement electricity connection for 15,000 houses in Sabah and Sarawak	1.1b	As the emphasis here is on transmission and distribution of electricity, we believe that TNB being the sole off-taker would be tasked to light up more houses in Sabah, via its 83% owned subsidiary.

We have been expecting for the government to implement the fuel cost pass through (FCPT) mechanism in which we believe it will send a positive sentiment for the sector regardless the quantum of the tariff hike. The implementation of FCPT via tariff hike was necessary to lift off the heavy financial burden carried by TNB due to the escalating fuel cost in the first half of 2014. The government has kept mum on the implementation of FCPT in which it has yet to announce anything in regard to the tariff review. Nonetheless, we have observed that the fuel cost had subsided towards the end of August 2014. Should this trend continue towards the year end, we believe that TNB would be able to claw back the extra fuel cost incurred during the first half of the year. Hence, we are of the view that tariff hike would be unlikely this year. Meanwhile, there could be another round of planting up of new plants as well as renewal of concession as the Government addresses the power requirement for Malaysia (Track 4B is yet to be announced). Furthermore, we believe that the impending listing of 1MDB's power generation unit, being the country second biggest IPP player would bring additional positive vibe to the sector. On this note, we remain POSITIVE on the Power sector.

TECHNOLOGY, ***maintain*** **POSITIVE**

Measures	Allocation (RM)	Remarks
Implementation of several related programmes including: i) Target 360 high-impact innovative products to be commercialised within the next five years; ii) Provide research funds amounting to RM290 million to implement various high-impact R&D&C programmes; iii) Rebrand SIRIM. For this, an SME Technology Penetration and Upgrading Programme and technology auditing will be implemented; iv) Introduce a new initiative namely Public Private Research Network spearheaded by	1.3b	Due to the fast changing business climate, technology companies need to constantly come up with new cutting-edge products. As such, the measure will partly address the concern of high R&D cost in the initial phase. We view that the allocation will primarily benefit small players in the industry rather than established technology companies which have the necessary financial muscle to fund its respective R&D. The funding will also help the local technology industry to move up the value chain through the creation of more value added products.

Ministry of Education in collaboration with the Malaysian Technology Development Corporation; v) Strengthen Technology Commercialisation Platform Programme by Agensi Inovasi Malaysia		

Maintain **POSITIVE** on technology sector. The measures will lead to creation of more Original Equipment Manufacturer (OEM) instead of Original Design Manufacturer (ODM). An OEM will create a design and build a product according to its own specifications. On the contrary, an ODM will design and build a product in accordance with preset specifications by another company.

OIL & GAS, *maintain* POSITIVE

In the recent 2015 Budget, there are no significant announcements relating to the oil and gas sector. However, as the mining sector of the GDP is expected to grow by +2.8% in 2015 (strongest since 2004), we remain **POSITIVE** on the oil and gas sector moving into 2015. This is indication that the domestic upstream activity in oil & gas to continue to be buoyant in 2015.

TELECOMMUNICATIONS, *maintain* NEUTRAL

Measures	Allocation (RM)	Remarks
Over 1,000 new telecommunication towers and laying of undersea cables will be build	2.7b	The High-Speed Broadband (HSBB) will continue to be implemented in areas of high economic impact, covering state capitals and selected major towns nationwide. There is an RM1.2b increase in allocation for telecommunication infrastructure from RM1.5b in the previous budget to RM2.7b. We suspect that the increase is for the laying of undersea cables. The construction of 1,000 new telecommunication towers will benefit telecommunication tower builders such as **OCK Group Bhd** and **Instacom Group Bhd** that specialise in network tower construction and leasing.

Maintain **NEUTRAL** on telecommunication sector. The increase in allocation for telecommunication infrastructure is in-tandem with the growing demand for data and voice services. Also, we are of the view that telecommunication tower builders are the direct beneficiaries as the measure translates into higher order books. Meanwhile, telecommunication service providers will only experience a gradual increase in subscriber base as and when the new towers are commissioned.

AUTOMOTIVE, *maintain* NEUTRAL

Budget 2014 was silent on the Automotive sector, including on the extension of the full exemption of excise duty for locally-assembled hybrid vehicles. As we expect the GST imposition and the soon-to-be announced new subsidy structure to impact disposable income, we believe consumers would be more discerning in new vehicle purchases as they gravitate towards vehicles which are known to be fuel efficient and commands good residual value.

We reiterate our **NEUTRAL** recommendation on the sector with BUY on our sector top pick, MBM (TP: RM3.90) which should benefit from what we foresee would be strong performance for Perodua in FY15. We also have a BUY call on TCM (TP: RM5.55) although our positive outlook on the stock is premised on its business restructuring plan materializing and the recovery of Nissan vehicle sales. We are NEUTRAL on UMW with our TP under review (TP: RM13.15) as the strong performance of its Oil & Gas, Automotive, and Equipment divisions would be offset by losses from its problematic legacy Oil & Gas businesses.

AVIATION, *maintain* NEUTRAL

Measures	Allocation (RM)	Remarks
Incentives for various programmes under Ministry of Tourism and Culture	316m	In conjunction with Malaysia – Year of Festival 2015, government set a target of 29.4m foreign tourists arrivals with expected generation income of RM89b.

In Budget 2014, the allocation for tourism industry amounted to RM4.2b for the expenditure of Visit Malaysia Year (VMY) 2013/14, building of a new air traffic management center, airports upgrade etc.

In Budget 2015, the amount allotted for the sector has been reduced to only RM316m. We believe this is sufficient to continue tourism promotional campaign efforts from FY14 and should sustain the growth momentum in tourist arrivals. We expect MAHB and domestic carriers to continue to benefit from this while we are confident on the revival of the aviation industry with the rebound in fare yield and easing jet fuel price.

We remain **NEUTRAL** on the aviation sector until we see more meaningful rebound in fare yields and the growth in tourist arrivals. We have BUYs on both AirAsia (TP: RM2.94) and AirAsia X (TP: RM0.96), and NEUTRAL on MAHB (TP: RM8.02). As we view the privatisation exercise of MAS (TP: RM0.27) by Khazanah favourably given the bleak outlook of the company, we recommend investors to ACCEPT the offer.

BANKING, *maintain* NEUTRAL

Measures	Allocation (RM)	Remarks
A new shariah-compliant investment product will be introduced in 2015 known as the Investment Account Platform (IAP). IAP provides opportunities for investors (institutional and individual) to finance entrepreneurial activities and develop viable SMEs. IAP will kick start with a startup fund of RM150m. To promote investment in IAP, individual investors will be given income tax exemption on profits earned from qualifying investment for three consecutive years.	n.a	The introduction of IAP will create a wider range of investable Islamic financial instruments raising the breadth and depth of available investable instruments in the marketplace. The income tax exemption on profits earned from qualifying investments for three years will encourage the participation of institutional and high networth individual investors in IAP.
Malaysian Government Securities (MGS) and Government Investment Issues will be listed and traded in Exchange Traded Bond and Sukuk (ETBS).	n.a	This will facilitate more tradable alternatives and raise the liquidity for MGS and Government Investment Issues in the marketplace. Also, trading volume for bonds is likely to be raised.
Deduction in tax for expenses incurred in issuing sukuk based on Ijarah and Wakalah principles will be extended for another three years from year of assessment 2016 to 2018.	n.a	We view the measure as positive in growing Islamic finance for Malaysia to become a premier international Islamic financial hub. The deduction of tax for expenses incurred in issuing sukuk based on Ijarah and Wakalah principles will contribute towards promoting a vibrant capital market. It will attract issuers to raise funds via sukuk securities which will contribute to non interest income of banks.

The measures introduced above are to create a vibrant financial market and to further strengthen the country's position towards an international Islamic financial centre. The extension of tax deduction for issuing sukuk based on Ijarah and Wakalah principles to year of assessment 2018 will continue to lean interest of issuers towards raising funds via sukuk. We remain our **NEUTRAL** stance on banking sector. This is based on a slower loan growth for banks, the continuation of NIM pressures, normalizing credit cost and tougher operating conditions for IB.

MEDIA, *maintain* NEUTRAL

Measures	Allocation (RM)	Remarks
To develop creative industries such as animation, filming, designing and cultural heritage and set up a Digital Content Industry Fund will under the Communications and Multimedia Commission	200m + 100m	The measure will benefit media players who champion content creation such as **Media Prima, Astro** and **The Star**. In our view, Media Prima would be the main beneficiary. The company owns Primeworks Studios Sdn Bhd, the largest production company in Malaysia which generates over 5,000 hours of TV content and 10 movies annually.

Maintain **NEUTRAL** on media sector. We view that the measures would not have significant impact the earnings of the local media players in the immediate term as content creations are not the main income generators.

PLANTATION, *maintain* NEUTRAL

Measures	Allocation (RM)	Remarks
Incentives for new planting and replanting to oil palm smallholders	41m	Positive to industry as it will enhance palm age profile.
Export duty exemption for crude palm oil (CPO) will be extended until December 2014	n.a.	Good for industry, but will negatively affect the downstream players.

Maintain NEUTRAL on plantation sector. The RM41m allocation is positive to the industry as it will enhance the palm age profile which is currently skewed towards older trees. This will consequently, improve the Fresh Fruit Bunches yield and to help increase the oil production moving forward. In addition, this measure is also able to minimize the risk of lower palm oil supply due to land scarcity issues. For the zero export duty extension, the measure is good as it will help reduce the current high inventory levels and to curb the downside potential in CPO prices. However, this measure will also cause a negative spillover to the palm oil downstream industry. The CPO tax exemption incentivises the upstream players to export their CPO. The increase in exports will then reduce the supply of CPO for local refiners consequently affecting their margin.

PROPERTY, *maintain* NEUTRAL

Measures	Allocation (RM)	Remarks
Youth Housing Scheme Proposal to introduce the Youth Housing Scheme – a partnership between the Government, Bank Simpanan Nasional (BSN), Employees Provident Fund, and Cagamas. The scheme offers: • Funding for a first home not exceeding RM500k to married youth aged 25-40 years with a monthly household income of RM10k and below. The financing period is capped at 35 years. • Monthly allowance of RM200 to borrowers for the first 2 years. • 50% stamp duty exemption on instrument of transfer and loan agreements. • 10% loan guarantee in order to obtain full financing inclusive of insurance. • Borrowers are also eligible to access Account 2 to top up the monthly installment and other related costs. The scheme is limited to the first 20,000 units only.		Addressing the issue of housing affordability.
Affordable housing measures 80k units of houses will be built under PR1MA. The ceiling of monthly household income entitled to PR1MA scheme is raised to RM8k-10k units. A Rent-To-Own scheme will be introduced for individuals that are unable to obtain bank financing. National Housing Dept. will build 26k units under the People’s Housing Program (PPR).	1.3b 644m	Addressing the issue of housing affordability

SPNB will build 12k units of Rumah Mesra Rakyat, 5k units of Rumah Idaman Rakyat and 20k units of Rumah Aspirasi Rakyat.	n.a.	
Affordable housing measures (cont.) For first home buyers, 50% stamp duty exemption on instruments of transfer and loan agreements. The eligible maximum housing price is raised to RM500k from RM400k while the exemption period is extended to end 2016 (from end 2015). For first home buyers, the price limit of house purchased under the *Skim Rumah Pertamaku* is increased to RM500k while the eligible age of borrowers is raised to 40-year old from 35. Specific for civil servants, the min. eligibility for housing loans is raised from RM80k to RM120k whilst the max. eligibility is raised from RM450k to RM500k. Processing fee of RM100 is abolished. This is effective in 2015. Construction of houses under the 1Malaysia Civil Servants' Housing or PPA1M is increased. Another 5,380 units will be built with 10,639 units are already in the pipeline. Furthermore, the PPA1M will be improved with: • Min. house pricing is reduced to RM90k/unit from RM150k/unit. • Eligible household income is raised to RM10k from RM8k. Facilitation fund of up to 25% of the project cost for participating developers.	n.a.	This should benefit developers with good mix of products that are priced RM500k and below.
Real Property Gains Tax (RPGT) No changes to the rate. However, the assessment system has been tweaked. The RPGT on property disposal is now self-assessed by the taxpayer effective from 2016.	n.a.	Marginal impact to the property sector, if any, as this is largely to streamline the government's move of introducing Self-Assessment System.

We believe the introduction of the Youth Housing Scheme is clearly positive although more details are needed before any assessment on the industry can be made. Assuming that this requires the participation of private developers, we believe the impact would be minimal as it is limited to only 20,000 units.

A broader impact to the sector is the extension on the 50% stamp duty exemption to end 2016 from end 2015. Moreover, the entitlement has also been broadened to include houses that are priced up to RM500,000. Similarly, the increase in eligible age to qualify for *Skim Rumah Pertamaku* will also impact the sector positively.

We believe there could be some respite in the medium and small cap stocks which typically have good mix of properties priced below RM500,000. Some of the key stocks that we expect to benefit are Mah Sing, LBS and Glomac. To a lesser extent, UEM Sunrise could also benefit from their product mix and landbank sale. Meanwhile, this could be a setback for companies with sizeable exposure to high-end properties such as E&O, SP Setia and Sunway.

We are currently **NEUTRAL** on the sector as we foresee the GST imposition would lead to some reduction in disposable income. However, we believe this could be partially mitigated by other measures such as lower effective tax rates while longer term prospects remains positive against the positive outlook for the domestic economy.

As for stock selection, our top picks for the sector are Glomac (TP: RM1.46) and Mah Sing (TP: RM2.53). While there upside to Mah Sing's TP is limited, we foresee a possible upside to our TP as we foresee demand for landed properties and affordable properties would remain healthy.

SHIPPING, SEAPORTS and LOGISTICS, *maintain* NEUTRAL

Measures	Allocation (RM)	Remarks
Establish a Malaysia Protection & Indemnity (P&I) Club under Exim Bank	n.a.	It is mandatory for insurance or financial security for third-party liability coverage for ships operating in Malaysia. Currently, most local cargo ship owners insure their liability coverage through overseas P&I companies. The new Club will insure owners of cargo ships with gross tonnage of <300mt at reasonable premiums.

While there is no further guidance on the allocation for P&I, we believe that it should benefit vessel owners due to the additional choices and reasonable premiums to their third party liability insurance. However, we see limited impact to the sector.

We stay **NEUTRAL** on the shipping, seaports and logistics sectors due to the limited growth outlook for the global economy which is exacerbated with oversupply of vessels. We have BUY on Maybulk (TP: RM2.10) and NEUTRAL on MISC (TP: RM6.53).

CONSUMER, *maintain* NEUTRAL

Measures	Allocation (RM)	Remarks
Goods and Services Tax (GST) Scope of goods and services that are not subjected to GST has been expanded to include: • all types of fruits whether local or imported • white bread and wholemeal bread • coffee powder, tea dust and cocoa powder • yellow mee, kuey teow, laksa and meehoon • The National Essential Medicine covering almost 2,900 medicine brands • reading materials • newspapers Electricity consumption that is not subjected to GST to be increased from the first 200 units to 300 units. Retail sale of RON95 petrol, diesel and LPG will be given relief from the payment of GST. Assistance for Rakyat will include: • 1-3ppt reduction in individual income tax rates, • tax payers with family and income of RM4,000 per month will not have tax liability • chargeable income subject to the maximum rate will be increased from exceeding RM100,000 to exceeding RM400,000, and • the current maximum tax rate of 26% will be reduced to 24%, 24.5% and 25%.	No allocation. However, there be will additional net revenue of RM690m (after taking into account assistance programmes and loss of income from the removal of SST) for the Government	Neutral impact on Food & Beverage (F&B) players such as **Nestlé, F&N and MSM**, given that GST will not be imposed on basic food items as we do not foresee a marginal reduction in spending on the non-discretionary goods. For retailers such as **Parkson**, **Padini** and **AEON**, there could be a slight surge in discretionary spending during the period building up to the GST implementation date. Thereafter, we expect a slowdown in consumer consumption as they are adjusting to the new pricing as well due to disposable income compression of the consumers.

Meanwhile, assistance for companies will include: • a 1ppt reduction in the corporate tax rate to 24%, and a 1ppt reduction in the income tax rate for small and medium enterprises from 20% to 19% from Year of Assessment (YA) 2016, • a 1-2ppts reduction in cooperative income tax rate from YA2015, • allowing tax deductions on secretarial fee and tax filing fee from YA15, • training grant of RM100m provided to business for their employees to attend GST courses • financial assistance amounting to RM150m provided to SMEs for the purchase of accounting software • accelerated capital allowance for the cost of purchasing ICT equipment and software and further tax deduction for expenses incurred for training in accounting and ICT relating to GST		
Subsidy Rationalisation Subsidy rationalization will be undertaken in stages	No allocation	After the recent removal of 20sen fuel subsidy, no immediate subsidy removal announced in Budget 2015. Subsidy rationalisation will be undertaken in stages. The government is undertaking a more targeted subsidy and whereas it will announce a new mechanism for providing petroleum subsidy.
Bantuan Rakyat 1Malaysia (BR1M) BR1M payouts will be as follows:- • for households with <RM3k/mth income – RM900 (from RM650), • households with RM3-4k/mth income-RM750 (from RM450),	4.9b	Expected to reduce consumers' burden and will address the possibility of a slowdown in consumer consumption after the implementation of GST. Potential beneficiaries are **Padini**, **Parkson** and **AEON**.

• for singles aged 21 and above with <RM2k/mth – RM350 (from RM300), new group takaful insurance scheme which entitle the next of kin of BR1M receipents to receive RM1,000 effective for a year		
Valuing the Contribution of Civil Servants Handouts include: • half-month bonus for 2014 with a minimum payment of RM500 to be paid in early January 2015, and a special assistance of RM250 will be given to Government retirees	Not specified	Potential beneficiaries are **Padini**, **Parkson** and **AEON**.

We foresee a slight pick-up in consumer spending especially on discretionary items ahead the implementation of the GST, fuelled by the cash hand-outs and consumers' decision to bring forward their purchases to avoid GST. However, once the GST is implemented on 1 April 2015, we expect a slowdown in consumer consumption in reaction to probable prices increases. Thereafter, the surge and slowdown are expected to normalise when acceptance sets in and pent up demand returns to the market. At this juncture, we believe that consumer discretionary segment will likely be impacted due to the disposable income compression of the consumers as they become more cautious in spending. Having said that, margin compression could be an issue among the retail players. F&B players, on the other hand, are largely unaffected by this Budget 2015. All things considered, we maintain **NEUTRAL** on the Consumer sector.

WATER, *maintain* NEUTRAL

Measures	Allocation (RM)	Remarks
Government will intensify efforts to address the problem of non-revenue water. A sum of RM112 million is allocated for setting up leakage control zones as well as detecting and repairing leaking pipes.	112m	Under our universe of coverage, we believe that the main beneficiary is Puncak Niaga Holdings Bhd. Although the company will no longer be a water concessionaire post-water transfer exercise, the company will still very much be involved in water-related construction business which involves the changing of water pipes, detecting leaking pipes and repair works.

We are still maintaining our **NEUTRAL** stance on the Water sector as the main crux of the matter is still unresolved. The water transfer exercise is still very much politically driven and as such, poses a risk to water concessionaires.

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
BUY	Total return is expected to be >15% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >15% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -15% and +15% over the next 12 months.
SELL	*Negative* total return is expected to be -15% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >15% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.