

17 September 2019

Malaysia

Budget 2020 Preview: Shared Prosperity, Higher Fiscal Spending In Needy Times

- The Government is unlikely to introduce new tax measures for Budget 2020, but should include contingency measures to insulate Malaysia from potential adverse impacts from the US-China trade war.
- While Budget 2020 will likely focus on the progress of ongoing budget reform measures, we see a likelihood of higher development spending and tax cuts in its contingency plans to sustain the pace of economic growth.
- Although the medium-term fiscal framework indicates the budget deficit to be reduced to 3% of GDP in 2020, we are of the view that the contingency measures could push the deficit target to 3.2% of GDP.

The Finance Ministry will announce Budget 2020 on 11 Oct. Themed *Shared Prosperity: Sustainable and Inclusive Growth Towards a High Income Economy*, this reflects the administration's ongoing policy shift towards high-quality growth that must be felt by every segment of society.

The Government has indicated that it is unlikely to introduce new tax measures for Budget 2020 after implementing a slew of new taxes – eg gaming, sugar, digital, real property gains, etc – during Budget 2019. This comes as the economy will likely face a tougher challenge going into 2020, with the escalation of the US-China trade war and slowing global growth environment. Given such challenges, Finance Minister Lim Guan Eng said Malaysia will find it challenging to meet its 3% fiscal deficit target for 2020.

As such, the country will need to brace itself for the full brunt from the trade war next year. This is likely an indication that the Government is willing to take a pause from its ongoing fiscal consolidation and allow the budget deficit to rise higher than the targeted 3% of GDP for 2020, as stipulated in its medium-term fiscal framework 2019-2021.

We think Budget 2020 will likely include a contingency plan to counter the slowdown from the trade war – a “so-called” mini fiscal stimulus package that could amount to MYR3bn or 0.2% of GDP and should likely be in the form of higher development expenditure. This will lift the deficit target to 3.2% of GDP from 3%.

Among the possible measures in the contingency plan include:

- An extension of the reinvestment allowance;
- Grants and financing guarantees for small & medium enterprises (SMEs);
- Higher development expenditure to boost construction activity.
- Higher social spending to aid B40 groups

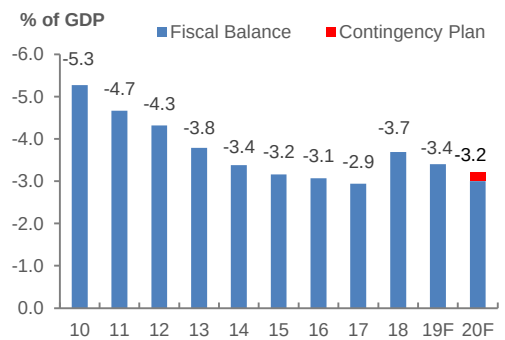
We believe these measures will help counter the country's slowing private investment and weak trade activity.

Economist

Vincent Loo Yeong Hong
+603 9280 2172
vincent.loo@rhbgroup.com



Challenging time for fiscal consolidation



Source: Ministry of Finance (MOF), RHB

Key fiscal and economic indicators

% YoY	2018	2019F	2020F	2Q18	3Q18	4Q18	1Q19	2Q19
Real GDP (% YoY)	4.7	4.5	4.3	4.5	4.4	4.7	4.5	4.9
Government revenue (MYRbn)	232.9	261.8	245.5	52.5	58.9	67.2	63.7	62.1
Operating expenditure (MYRbn)	231.0	259.9	240.1	62.9	55.1	58.1	59.5	65.3
Net development expenditure (MYRbn)	55.3	54.0	57.4	9.1	7.5	28.0	11.3	12.1
Budget deficit (MYRbn)	-53.4	-52.1	-52.0	-19.5	-3.6	-18.9	-7.1	-15.3
Budget deficit (% of GDP)	-3.7	-3.4	-3.2	-5.5	-1.0	-5.0	-2.0	-4.1
Public debt (% of GDP)	51.2	52.8	52.9	51.5	51.2	51.2	53.1	54.0

Source: MOF, Bank Negara Malaysia, Department of Statistics, RHB

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Revenue Facing Pressure Due To Slowing Economy

With the Malaysian economy facing a possible slowdown next year amid rising trade protectionism and frictions, it will become a major challenge for the Government to continue consolidating its finances. This is as a slower economic growth could weigh on corporate and income tax collections, putting 2020's fiscal target of 3% of GDP under pressure of being derailed. In addition, the Government is likely to look into implementing a more expansionary fiscal policy and withhold from introducing new taxes for the upcoming budget, in our view.

However, given that last year's fiscal budget received a one-off MYR30bn special dividend from Petronas to pay off tax refunds amounting to MYR37bn, it is likely for this upcoming Budget 2020 that revenues will be lower YoY in the absence of a special dividend. We estimate government revenue will be lowered 6.2% to MYR245.5bn for 2020 vs MYR261.8bn in the previous year. That said, revenues are still higher by 5.9% in 2020 if the special dividend by Petronas is excluded.

Oil-related revenue, which was estimated to contribute 30.9% to total government revenue in 2019, is expected to fall sharply in the absence of Petronas' MYR30bn special dividend and slightly lower crude oil prices. We believe a more conservative estimate of oil price of below USD60 for Brent crude is likely to be adopted by the Government for 2020 vs the rather optimistic USD70 per bbl estimated in 2019. This comes even as recent geopolitical events resulting in global supply disruptions point to higher crude oil price in the near-term. For now, our house view expects a premium of USD3-10/bbl to be added to crude oil prices over the near-term but maintains its crude oil forecast at USD66/bbl for 2020F. To recap, each USD1 increase in the oil price is estimated to improve government revenues by MYR300m. As such, oil-related revenue is estimated to fall to 18.7% of total revenue in 2020 – even lower than the 19.5% in 2019 – after the special dividend is excluded.

Corporate income tax collection in 2019 will likely be aided by the Special Voluntary Disclosure Programme (SVDP) or tax amnesty. There have been some reported 486,360 taxpayers that have come forward to reveal their undeclared incomes as at end June. While the total amount collected under the SVDP has not been revealed so far, 1Q19 saw a jump of 49.6% YoY in corporate income tax.

As a whole, direct taxes increased 8.1% YoY for 1H19 to MYR62.2bn, an increase of MYR4.7bn when compared to a year ago. The Government has – at the start of 2019 – aimed to attract at least 1m taxpayers and MYR10bn in tax collections from the SVDP. The increase in taxes collected from this programme may be a one-off, but it should capture a pool of undeclared income into the tax net that will aid future tax collection.

Higher tax relief on personal income tax. The Government intends to manage the rising cost of living in the country and is in the midst of designing a Cost of Living Index to complement the Consumer Price Index – this is to help with more precise policy making when addressing higher living costs. We believe granting a higher tax relief to the B40 and M40 segments of the population can be effective in managing these costs, should lowering the personal income tax rate become too burdensome for the Government. Likely areas to see higher tax relief are:

- i. Healthcare and medical insurance costs;
- ii. Childcare and education costs relief;
- iii. Expanding the items under the “lifestyle” relief from the existing list, ie books, smartphones, sports equipment, internet subscription, etc.

Digital tax. This is perhaps the only exception for a new tax to be implemented for 2020, as it was announced in the previous year's budget. While details are scarce, the most likely and direct method for Malaysia to tax digital service providers is by expanding the withholding tax on technical services to include payments for digital goods and services or by defining permanent establishments. This is so that foreign suppliers will be liable to pay tax on profits from the digital goods and services they import.

We estimate the digital tax could yield c.MYR2-4bn a year for the Government's coffers in its first year of implementation, but the tax amount could potentially grow to be much larger in the future. This is given the strong growth pace of Malaysia's digital economy, estimated at c.9% pa.

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Sin taxes. After being subjected to a 10% hike last year, we think the gaming sector may be let off the hook in the upcoming budget. However, excise duties on tobacco and alcohol may come under the crosshairs again after being overlooked for the past couple of years, though the sales tax was last raised to 10% in Sep 2019 from 6% previously.

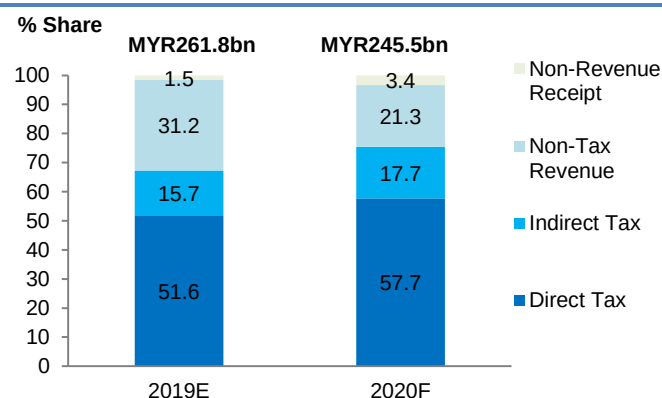
That said, a hike in tobacco and alcohol taxes is unlikely to increase tax collection in a significant way, as industry volumes have weakened due to higher prices and the ongoing illicit trade. Should the Government hike sin taxes, we think the alcohol sector may be a more likely target. This is because industry volume growth has been commendable and it has been more than three years – 2016 – since the last excise duty hike.

Property-related measures. The Government will likely roll out more incentives or financial assistance for the B40 and, possibly, M40 groups to purchase affordable housing. In this respect, the Government may look at easing the lending requirements for first-time home buyers, as the effectiveness of previous initiatives were limited.

As the residential property market remains soft, it may even consider reviewing its current real property gains tax (RPGT) regime – especially on the 5% imposed after five years introduced last year – as well as pricing threshold for foreign property purchasers, which currently stands at more than MYR1m. Indeed, the RPGT after the fifth year only collected c.MYR92m as reported, which is counterproductive to the Government's aim of collecting more revenue.

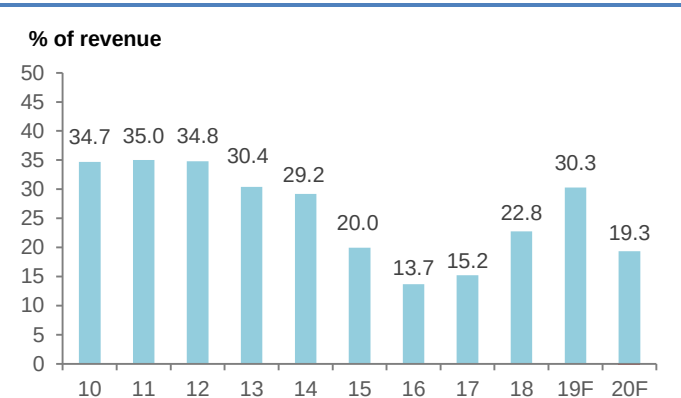
As local demand remains fairly weak, and coupled with the weak MYR, we think it is reasonable to target more foreign purchasers to help absorb the supply in the local market.

Figure 1: Government revenue breakdown



Note: E = MOF Budget 2019 estimate; F = RHB forecast
Source: MOF, RHB

Figure 2: Oil-related revenue normalising



Source: MOF, RHB

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Higher Expenditure To Support The Economy

Total government expenditure for 2020 is expected at MYR295.1bn, with MYR240.1bn or 81% taken up by opex, while development expenditure is left with the MYR55bn remainder – still slightly higher than in the previous year. Although the total budget amount should be 6.2% lower than 2019's expenditure, it is – however – 6.3% higher last year after excluding the one-off MYR37bn in tax refunds allocated in 2019.

Opex could see a higher allocation of 7.7% in 2020 – excluding the one-off items last year – while development expenditure will grow slightly by 0.5% under a normal operating environment, ie no contingency plan.

On opex and civil servants' salaries/emoluments, which take up the lion's share at 26.1% of the budget, they could see a modest growth of 5% to MYR86.1bn in 2020. This is after taking into account some increments and bonuses for civil servants. This came after a drastic reduction in 2019, which involved the contract terminations of 17,000 political appointees and a 10% pay cut by ministers.

As the Government has frozen civil service recruitment since 2015, this has taken a toll on some segments of the public sector, especially in security and healthcare – this makes it hard to keep up with the growing demand for these services. Therefore, the Government may be looking at lifting the freeze on recruitment in these areas, which should result in higher emoluments in 2020.

In terms of initiatives, the Government will need to step up its digitalisation drive and e-government developments to streamline its service delivery and enhance efficiency. These should result in cost savings and lower civil servant headcount over the long run.

Pensions & gratuities. The Government is mulling a proposal to introduce a contractual scheme for new recruits in the civil service, as opposed to the current permanent and pension scheme. This comes as the pension pool continues to grow larger and is becoming a financial burden to the Government. Notwithstanding a decision by the current administration, we expect the pensions & gratuities' expenditure component to continue growing to the tune of 6% to MYR28bn in 2020.

Supplies & services may continue to be slashed further in 2020, after a 17.6% cut in 2019 – this is as the Government continues to practice an open tender system for all public procurements. So far, supplies & services have only been reduced 11.1% YoY in 1H19, indicating that cost-saving initiatives are lagging the budget target for 2019. Consequently, we expect these efforts to continue for Budget 2020.

Additionally, Finance Minister Lim has sounded a warning to contractors that have been found ganging up to form cartels to win government contracts – stern action is promised for those found to have undertaken such steps. This comes after a report post a Malaysia Competition Commission probe, which stated that – in at least 10 government projects – contract winners have been suspected of forming alliances during the bidding process.

Subsidies & social assistance could likely be increased in 2020, as the Government is determined to narrow the income gap and ease the rising cost of living for the B40. In this aspect, perhaps the poverty line would be lifted from its current level of MYR980 per month to capture a wider group of beneficiaries under the social net system. We also expect the Cost of Living Aid payments – which amounted to MY5bn or 1.6% of expenditure in 2019 – to be maintained, as the Government looks to ease the *rakyat's* rising cost of living burden, especially during times of slowing economic growth.

The Government remains undecided on whether the fuel price cap should be lifted – even after it implements the targeted fuel subsidy scheme to only cars with engine capacities below 1,500cc and motorcycles below 125cc. Until the fuel price cap is lifted, this means fuel subsidies would be sustained in 2020.

Managing the cost of living. The Government remains committed to raising the minimum wage to MYR1,500 by 2022, after raising it to MYR1,100 in 2019. Given that there remains a gap of MYR400 for the remaining three years, it is quite likely that minimum will be raised again to MYR1,200 under Budget 2020.

This comes despite the Minimum Wage Technical Committee still conducting a study and gathering views from stakeholders to determine the most appropriate minimum wage rate to be submitted to the Government by Aug 2020.

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Boost for tourism activities. As *Visit Malaysia Year 2020 (VMY2020)* looms, it is no surprise that tourism will be an area of focus for Budget 2020. The Tourism Ministry is targeting 30m tourist arrivals, which will generate MYR100bn in tourist receipts for VMY2020 – a 6.8% and 8.5% increase from this year's targets.

Budget allocations to support tourism promotional activities will likely be increased from MYR100m in 2019. To continue providing assistance to companies involved in tourism-related activities, we expect the Small & Medium Industry Tourism Fund loan and Tourism Infrastructure Fund of MYR500m and MYR1bn – which were introduced in 2019 – to receive additional injection.

Meanwhile, to boost tourism activities, we hope the departure levy that was implemented in Sep 2019 and the tourism tax on accommodations – introduced in 2017 – will be suspended or reduced in tandem with lower passenger service charges, in conjunction with VMY2020.

Grants and Incentives for SMEs in push for Industry4wd. SMEs play an important role in the Malaysian economy, contributing 37% of the country's GDP in 2018 – this figure is projected to rise to 41% by 2020. SMEs comprise about 98.5% of the total business establishments in the country and employ two-thirds of all workers in Malaysia.

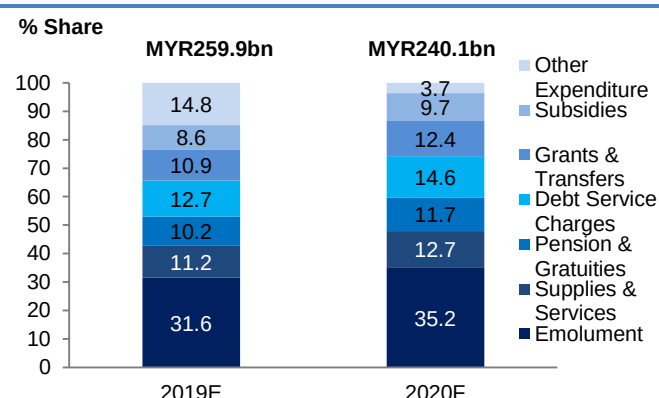
Adding on to measures introduced in Budget 2019 – which include a total of MYR6.5bn in SME financing guarantee schemes to facilitate financing for such firms and catalyse their digitalisation processes – Budget 2020 may see these guarantees expanded further to about MYR8-10bn. To help diversify the financing ecosystem to help SMEs obtain funds, the Government may look to endorse other alternative forms of financing – eg equity crowd funding, peer-to-peer, private equity, and venture capital – as funding options for SMEs and start-ups.

To encourage domestic direct investments, the Government may consider dishing out more tax and investment incentives, and matching grants for local companies. It could even lower the tax rates for SME companies further to 15-16% from 17% in 2019.

Sustained development expenditure. Under normal circumstances, we expect development expenditure to sustain at MYR55bn for 2020, which accounts for almost 19% of the Budget 2020 – a slight increase from the MYR54.7bn slated for 2019. This had been indicated approximately by the Medium-Term Fiscal Framework 2019-2021, which provides for the remaining development expenditure of MYR110bn (MYR55bn pa) for this period.

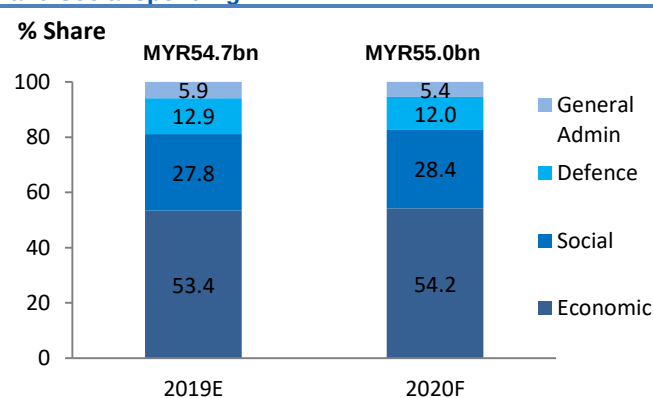
We believe the allocation will be focused on the economic and social sectors, with the transport and trade & industry receiving a higher share under the economic sector when compared to 2019. Meanwhile, the education, health, and housing sectors will likely receive an increase in funding under the social sector. These will likely come at the expense of lower allocations for the defence & security sector and for the purpose of general administration.

Figure 3: Breakdown of opex



Note: E = MOF Budget 2019 estimate, F = RHB forecast
Source: MOF, RHB

Figure 4: Development expenditure focused on economic and social spending



Note: E = MOF Budget 2019 estimate, F = RHB forecast
Source: MOF, RHB

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Contingency Plan – Mitigation Of Trade War Effects

We think Budget 2020 will likely include a contingency plan to counter the effects of a slowdown from the US-China trade war – a “so-called” mini fiscal stimulus package that could amount to MYR3bn or 0.2% of GDP and will likely be in the form of higher development expenditure.

We think the corporate income tax rates are unlikely to be lowered under the contingency measures mentioned by Finance Minister Lim to counter the impact of the US-China trade war on global trade. Malaysia's corporate income tax rate currently stands at 24% for companies and has remained at this rate since 2014.

Figure 5: The Government's financial position

	2018 ¹	2019 ²		2019 ²		2020 ³		2020 ³	
Brent crude prices	(Actual)	(Budget)		(excluding one-off items)		(w/o contingency plan)		(w/ contingency plan)	
	MYR bn	MYR bn	% chg	MYR bn	% chg	MYR bn	% chg	MYRbn	% chg
Revenue	232.9	261.8	12.4	231.8	-0.5	245.5	-6.2	245.5	-6.2
Total expenditure	287.1	314.6	9.6	277.6	-3.3	295.1	-13.6	298.1	-5.2
Operating expenditure	231.0	259.9	12.5	222.9	-3.5	240.1	-7.6	240.1	-7.6
Gross dev. expenditure	56.1	54.7	-2.5	54.7	-2.5	55.0	0.5	58.0	6.0
Less: loan recoveries	0.8	0.7	-	0.7	-	0.6	-	0.6	-
Net dev. expenditure	55.3	54.0	-2.4	54.0	-2.4	54.4	0.7	57.4	6.3
Overall balance	-53.4	-52.1	-2.4	-45.1	-15.5	-49.0	-6.0	-52.0	6.1
% to GDP	-3.7	-3.4	-	-2.9	-	-3.0	-	-3.2	-

Note 1: ¹Actual figures

Note 2: ²MOF Budget 2019 estimate

Note 3: ³RHB's estimate

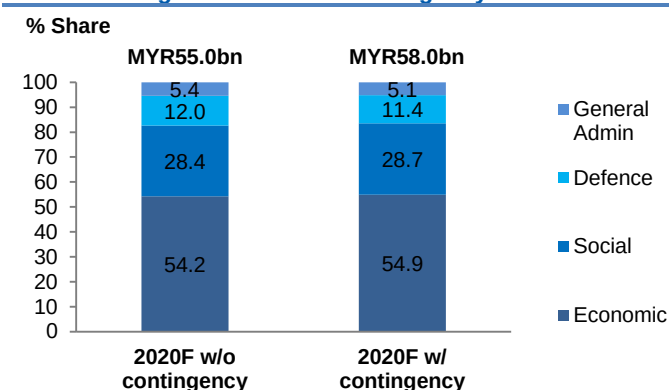
Source: Budget 2019, MOF

A higher development expenditure to the tune of MYR3bn is expected under the contingency plan, which will likely focus on:

- The construction of infrastructure projects;
- Facilitating trade & industry to allow for trade relocation and diversification amid the trade war;
- The upgrading of existing public buildings and equipment in schools, hospitals, and universities.
- Higher social spending to aid B40 groups

New infrastructure projects, such as the Pan Island Link 1 (PIL1) highway and light rail transit (LRT) under the MYR46bn Penang Transport Master Plan (PTMP) may be announced in the budget. All these expansionary fiscal spending may raise the total gross development expenditure to MYR58bn and, combined with tax cuts and allowances, is expected to push the fiscal deficit to MYR52bn, or -3.2% of GDP.

Figure 6: Economic and social development spending receive a larger boost under contingency measure



Note: E = MOF Budget 2019 estimate, F = RHB forecast

Source: MOF, RHB

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Budget Impact On Sectors

Construction

OVERWEIGHT

We believe that Budget 2020 could be more expansionary, in contrast to the austerity-driven Budget 2019. Budget 2019 had a development expenditure (DE) budget of MYR54.7bn (flat compared to Budget 2018), with a focus on scaling down infrastructure projects. This resulted in uncertainties on some projects, causing delays and ultimately a slowdown in growth for the construction sector. The sector expanded 0.5% YoY in 1H19, trailing below the Government's 4.9% projection for 2019. It is also the lowest rate of growth since 1H10, and is below the past 3-year (2016-2018) average growth rate of 6.1%. This could warrant the Government increasing its allocation to DE and reinvigorate growth for the sector, in our view.

RHB economists believe that the Government could embark on a small scale pump-priming to spur the domestic economy, possibly through speeding up existing infrastructure projects. This is in view of the possibility of an expansionary fiscal stance – with its debt-to-GDP ratio not consolidating as quickly as previously forecasted amidst a global economic slowdown, higher-than-expected government revenue collection and cost savings from the scale-down of existing infrastructure projects.

We note that the scaling down of the Light Rail Transit 3 (LRT3), Mass Rapid Transit 2 (MRT2), East Coast Rail Link (ECRL), Klang Valley Double Tracking Phase 2 (KVDT2) and the Pan Borneo Sarawak Highway have yielded the Government a potential MYR43.7bn. It remains uncertain but these savings could be reallocated to the sector, through the commencement of shelved projects such as the Kuala Lumpur-Singapore High Speed Rail (HSR) and Mass Rapid Transit 3 (MRT3), or the introduction of new infrastructure projects.

Positive surprises, in our view, could be in the form of federal budget allocations to specific components of the MYR46bn PTMP, where Phase 1 – comprising the Bayan Lepas LRT and PIL 1 highway – are in the final stages of receiving approval. Meanwhile, allocations to shelved projects such as the HSR, MRT3 and Johor Bahru-Singapore Rapid Transit System could shed some light on their status. Allocations to construct new schools, hospitals, affordable housing projects and urban/inter-state roads would also be viewed positively.

Alexander Chia
alexander.chia@rhbgroup.com

NBFIs

OVERWEIGHT

We expect more clarity from Bank Negara Malaysia (BNM) to address both the foreign insurers' ownership limit – and potentially the next phase of de-tariffication for motor and fire insurance rates – and the fine-tuning of tax relief for life insurance premiums and *takaful* contributions.

Foreign insurers were initially given a firm deadline to comply with the prescribed 70% foreign shareholding limit by 30 Jun 2018. However, since the current Governor Datuk Nor Shamsiah Mohd Yunus took helm, the boiler-plate rule seems to have morphed into a case-by-case basis, where foreign insurers are to directly engage in talks with BNM to address such a limit, either by paring down their stakes or contributing to the B40 National Health Product Fund (namely, the *mySalam* scheme). Great Eastern Life Assurance (Malaysia) is exempted from such a limit, as it has pledged a minimum MYR2bn contribution to the *mySalam* scheme.

Following the first phase of de-tariffication in motor and fire insurance, these segments were slated for an evaluation to determine the readiness for further liberalisation in 2019. While we believe a further de-tariffication is unlikely to happen in 2020 – given that most general insurers are still adapting to the first round of de-tariffication – we do not completely rule out the possibility of such an announcement from the upcoming budget either.

Recall that the Government has separated tax relief for life insurance and Employees Provident Fund (EPF) contribution in Budget 2019 from the previous MYR6,000 combined limit to now MYR4,000 for EPF contribution and MYR3,000 for life insurance of *takaful* deductions. We do not rule out the possibility of such limits being refined to encourage the take-up of life insurance/*takaful* in the upcoming budget announcement.

Fiona Leong
fiona.leong@rhbgroup.com

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Gaming**OVERWEIGHT**

During Budget 2019, in a bid to reduce public sector debt and replace the loss of income from reverting to the SST regime via indirect taxes, the Government hit the gaming industry with a 10% hike in casino duties (to up to 35%) on gross collections. Casino license fees were hiked to MYR150m from MYR120m pa too, while machine dealers' licenses were raised to MYR50,000 from MYR10,000 pa. Meanwhile, the tax on gaming machines also went up to 30% from 20% of gross collections. Additionally, the number of special draws for the number forecast operators (NFOs) was reduced to 11 days from 22 days in a bid to reduce gambling-related social problems.

In Budget 2020, we do not expect a further rise in gaming-related taxes/duties, as the sector is no longer a low-hanging fruit that the Government can harvest for extra revenue. At 35%, the casino duty in Malaysia is already the highest in the region excluding Macau, losing out to its regional peers when comes to luring in the high rollers. We reckon that any further hikes may potentially reduce the total tax collection due to a loss in revenue from lower volumes. This is despite Genting Malaysia (GENM MK, BUY TP: MYR3.90) showing resiliency in its 1H19 results. The company successfully mitigated the tax hike impact and continued to show growth – thanks to a consistent high win rate and cost-cutting initiatives despite lower volumes.

Similarly, we do not expect the NFOs to be hit with a tax hike. This is because NFOs in Malaysia are operating in a saturated market and are paying significantly high taxes – 8% gaming duty, 8% pool betting duty on net sales, 10% of PBT to National Sports Council contributions, 10% of net sales contributions from special draws, and 6% of SST – when compared to the illegal NFOs. Technically, the segment had already been hit with the 6% in the SST/GST when the Government abolished the GST, as the 6% was not present in the previous SST regime. We believe any gaming tax hike will potentially reduce the total tax collection and create a lose-lose scenario to the NFOs and Government while benefiting the illegal operators instead.

Even though unlikely, based on our sensitivity analysis, every 1ppt increase in casino tax could impact Genting Malaysia's core EPS by c.4-5%. As for NFOs, a 1ppt increase in gaming tax could result in a reduction in core EPS by c.6-7% for Magnum (MAG MK, BUY, TP: MYR3.13) and 7-8% for Berjaya Sports Toto (BST MK, NEUTRAL, TP: MYR2.50).

Lee Meng Horng +603 9280 8866
lee.meng.horng@rhbgroup.com

Property**NEUTRAL**

The property sector has been going through a sluggish period since 2015 – hence, in our view, the Government should not look to tighten anymore but, instead, loosen up some policies. In the midst of a subdued economic growth environment, the existing incentives – such as the stamp duty waiver and Home Ownership Campaign – have not been that effective in reducing unsold inventory rapidly. Developers' unsold stock remains high, even though they have been marketing and promoting aggressively.

For Budget 2020, we expect the Government to continue rolling out more incentives or financial assistance for the B40 group – and possibly the M40 segment too – to purchase affordable housing. At the same time, we hope the Government will also review its current RPGT regime and pricing thresholds for foreign property purchasers. As local demand remains fairly weak, and coupled with the weak MYR, we think it is reasonable to target more foreign purchasers to help absorb the supply in the local market.

We note that the oversupply of property is across various price ranges, while speculative buying activities have been largely wiped out after several rounds of cooling measures in the past. Hence, a relaxation on such policies – ie RPGT and floor price for foreigners – should help ease the glut in the high-end segment and is not likely to affect the mass and affordable housing segments.

Loong Kok Wen, CFA +603 9280 8861
loong.kok.wen@rhbgroup.com

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Telecommunications**NEUTRAL**

We believe the allocations for the sector should predominantly be driven by the 5-year National Fibreisation & Connectivity Plan (NFCP), a holistic telecommunications industry blueprint to improve broadband access, connectivity, and adoption. Finance Minister Lim Guan Eng had earlier revealed that a sum of MYR21.6bn was needed for the implementation of various NFCP projects from 2019-2023. The majority of the funding will come from the Universal Service Provision Fund, for which the Government had set aside MYR1bn in Budget 2019. The NFCP is to be officiated by Prime Minister Tun Dr Mahathir Mohamad on 19 Sep, ahead of the budget announcement.

Jeffrey Tan Jing Keat +603 9280 8863
jeffrey.tan@rhbggroup.com

Consumer**NEUTRAL**

While we believe the usual consumer-friendly measures – including cash handouts, bonuses for civil servants, and income tax relief – will still be dished out in Budget 2020, the quantum may not be increased. This is in view of the Government's aim to manage the budget deficit. Hence, we are not expecting the upcoming budget to propel a strong uptick in consumer spending.

Meanwhile, there could be downside risks for brewery stocks if the excise duty for beer is raised. To recap, the last excise duty hike for beer was in early 2016. Although demand is relatively inelastic when compared to other consumer products, higher selling prices – as a result of an excise duty hike – may push consumers to cheaper alternatives in the form of contrabands beers. In addition, given that the brewery stocks have chalked up YTD share price returns of 20-30%, the event of the excise duty hike could potentially lead to profit-taking activities.

On the other hand, we believe it is unlikely that excise duties on cigarettes will be raised further, owing to the rampant illicit trade in the tobacco market, which currently has a market share of above 60%. However, regulations on vaping products, if announced in Budget 2020, should be positive for the legal tobacco players. It will eliminate the current market products that do not meet the standards set out by the Ministry of Health. In addition, it potentially paves the way for players like British American Tobacco Malaysia (ROTH MK, BUY, TP: MYR33.30) to launch its own range of products here, consequently opening up new revenue streams. This is essential in arresting the volume decline BAT has been suffering, which has resulted in lacklustre financial and share price performances.

Soong Wei Siang
soong.wei.siang@rhbggroup.com

Automotive**NEUTRAL**

No major auto sector-related initiatives are anticipated in the upcoming Budget 2020. Material policy changes relating to the automotive sector will likely be implemented through the long-delayed National Automotive Policy, which is now expected to be announced as early as this month. However, any other Budget 2020 initiatives that are people-friendly could boost consumer discretionary spending and have a mild positive spill-over impact on the sector.

Muhammad Afif Bin Zulkapli / Alexander Chia
muhammad.afif.zulkapli@rhbggroup.com / alexander.chia@rhbggroup.com

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Figure 7: Regional economic indicators

ASEAN & CHINA ECONOMIC INDICATORS																
Country	GDP growth (%)				Inflation (%)				Policy rate (end period,%)				Exchange rate (end period, vs. USD)			
	2017	2018	2019E	2020F	2017	2018	2019E	2020F	2017	2018	2019E	2020F	2017	2018	2019E	2020F
Indonesia	5.1	5.2	5.1	5.2	3.8	3.2	3.0	3.5	4.25	6.00	5.00	4.50	13588	14417	14400	14100
Malaysia	5.9	4.7	4.5	4.3	3.7	1.0	0.9	2.0	3.00	3.25	3.00	2.75	4.06	4.14	4.15	4.00
Philippines	6.7	6.2	5.8	6.0	3.2	5.2	3.5	4.0	3.00	4.75	4.25	4.25	49.83	52.38	52.00	51.50
Singapore	3.6	3.2	0.8	1.5	0.6	0.4	0.8	1.2	-	-	-	-	1.34	1.36	1.40	1.38
Thailand	3.9	4.1	3.0	3.8	0.7	1.2	0.8	1.0	1.50	1.75	1.25	1.25	32.57	33.4	31.5	31.0
Vietnam*	6.8	7.1	6.6	6.4	3.5	3.5	3.4	4.0	6.25	6.25	6.00	6.25	22709	23210	23300	23400
China**	6.9	6.6	6.2	6.3	1.6	2.1	2.5	2.6	4.35	4.35	4.35	4.35	6.51	6.90	6.80	6.75

*prime rate; **1-yr lending rate

Country	Exports growth (%)				Imports growth (%)				Industrial Production growth (%)				Unemployment rate (% labour force)			
	2017	2018	2019E	2020F	2017	2018	2019E	2020F	2017	2018	2019E	2020F	2017	2018	2019E	2020F
Indonesia	17.1	7.1	-9.0	3.0	15.6	18.0	-7.0	5.5	5.1	2.0	4.5	5.3	5.5	5.3	5.3	5.3
Malaysia	18.8	6.7	2.2	1.5	19.7	4.9	1.4	2.0	4.3	3.1	2.9	3.3	3.4	3.3	3.3	3.4
Philippines	9.5	8.0	6.5	6.8	10.2	9.0	7.0	7.5	6.2	3.6	3.3	3.5	5.7	5.6	5.5	5.4
Singapore*	9.2	4.4	-10.0	4.5	12.4	10.6	0.0	6.0	10.4	7.2	-1.0	5.0	2.1	2.0	2.3	2.2
Thailand	9.9	7.0	-1.1	3.5	14.7	8.6	1.2	3.9	1.8	3.7	0.5	2.0	1.0	0.9	0.9	0.8
Vietnam	21.6	13.2	6.3	9.1	21.4	11.1	5.8	9.4	9.4	11.0	9.4	8.5	2.2	2.0	2.2	2.2
China	8.1	11.2	5.0	5.2	16.8	16.6	5.5	5.7	6.6	6.2	5.2	n/a	4.0	3.8	4.2	n/a

*Non-oil Domestic Exports

Country	Fiscal Balance (% GDP)				Current Acc. (% GDP)				FX Reserves (USD bn)				External Debt (USD bn)			
	2017	2018	2019E	2020F	2017	2018	2019E	2020F	2017	2018	2019E	2020F	2017	2018	2019E	2020F
Indonesia	-2.5	-1.8	-1.8	-1.6	-1.7	-3.0	-2.7	-2.5	130	121	125	132	353	360	380	420
Malaysia	-3.0	-3.7	-3.4	-3.0	3.0	2.2	3.0	2.7	102	101	108	117	216	221	238	256
Philippines	-2.2	-3.2	-3.0	-3.0	-0.8	-2.4	-2.3	-2.0	82	80	74	77	73	71	70	70
Singapore	2.4	0.4	-0.7	-0.2	19.6	17.9	17.4	17.3	280	288	265	276	-	-	-	-
Thailand	-1.8	-2.9	-2.7	-2.8	9.7	6.4	5.5	5.3	203	208	227	230	155	159	164	169
Vietnam	-3.5	-3.9	-4.0	-3.9	2.9	3.5	2.4	2.2	49	60	66	73	104	104	107	108
China	-2.9	-3.3	-2.6	n/a	1.3	1.1	1.3	n/a	3139	3072	3000	n/a	1710	1843	1380	n/a

Country	Deposit Growth (%)				Loan Growth (%)				L/D Ratio (%)				Money Supply (%)			
	2017	2018	2019E	2020F	2017	2018	2019E	2020F	2017	2018	2019E	2020F	2017	2018	2019E	2020F
Indonesia	9.8	6.9	11.0	12.5	8.2	11.7	11.0	8.0	91.9	94.3	95.4	95.0	9.9	6.9	8.0	6.0
Malaysia	4.0	7.5	5.7	5.3	4.1	5.6	4.9	4.5	88.9	87.3	86.7	86.0	4.7	8.0	5.5	5.0
Philippines	11.9	11.8	9.0	9.5	18.1	18.0	12.0	12.5	74.1	74.1	78.7	78.5	11.9	9.5	8.0	9.0
Singapore	3.2	5.4	5.0	5.0	8.0	5.3	5.0	6.3	104.5	104.9	107.6	108.2	7.3	5.0	4.0	5.0
Thailand	4.1	5.3	5.0	5.2	4.1	5.1	4.8	5.0	93.1	92.9	93.0	93.1	5.2	5.3	4.5	5.0
Vietnam	10.0	14.5	10.8	9.0	18.7	14.0	14.0	13.5	81.0	83.0	83.5	83.5	17.0	12.5	9.6	8.0
China	9.7	8.6	8.5	n/a	12.9	13.0	9.5	n/a	73.0	77.0	73.0	n/a	8.1	8.1	7.5	n/a

Note: As at 17 September 2019

Note 2: For money supply, M2 is used for all countries except for Thailand (M1), Philippines(M3) & Singapore (M3)

Source: International Monetary Fund (IMF), Oxford Economics, Various central banks, FocusEconomics Consensus, RHB

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KUALA LUMPUR

RHB Investment Bank Bhd
Level 3A, Tower One, RHB Centre
Jalan Tun Razak
Kuala Lumpur 50400
Malaysia
Tel : +603 9280 8888
Fax : +603 9200 2216

JAKARTA

PT RHB Sekuritas Indonesia
Wisma Mulia, 20th Floor
Jl. Jenderal Gatot Subroto No. 42
Jakarta 12710
Indonesia
Tel : +6221 2783 0888
Fax : +6221 2783 0777

HONG KONG

RHB Securities Hong Kong Ltd.
12th Floor, World-Wide House
19 Des Voeux Road
Central
Hong Kong
Tel : +852 2525 1118
Fax : +852 2810 0908

BANGKOK

RHB Securities (Thailand) PCL
10th Floor, Sathorn Square Office Tower
98, North Sathorn Road, Silom
Bangrak, Bangkok 10500
Thailand
Tel: +66 2088 9999
Fax :+66 2088 9799

SINGAPORE

RHB Securities Singapore Pte Ltd.
10 Collyer Quay
#09-08 Ocean Financial Centre
Singapore 049315
Tel : +65 6533 1818
Fax : +65 6532 6211