

28 September 2021

Market Outlook | Market Strategy

Malaysia Strategy

Towards Prosperity, Inclusivity, And Sustainability

Stocks Covered 150
Rating (Buy/Neutral/Sell): 87 / 54 / 9
Last 12m Earnings Revision Trend: Negative

- Blueprint for the future.** The 12th Malaysia Plan (12MP) policy document highlights the gaps in the make-up of the economy and identifies the key priorities that need to be bridged in the next five years. The robust overall allocation for development expenditure (DE) is encouraging for the long-term outlook of the construction sector, although fiscal constraints temper near-term expectations. The 12MP sets the stage nicely for the 2022 Budget, but is broadly neutral for equity markets.
- MYR400bn allocation for DE.** This is much higher than the 11MP's actual expenditure MYR249bn and is expected to remain supportive of local construction activity, with 50% of this amount scheduled to be channelled specifically towards six less-developed states including East Malaysia. Nonetheless, the ramp-up in expenditure may be back-loaded towards 2023 and beyond, while no new mega projects were identified, suggesting that the near-term focus heading into 2022 will likely remain centred upon the implementation of existing projects such as the East Coast Rail Link (ECRL) and Pan Borneo Highway.
- Key themes.** Key themes in the 12MP centre on sustainability, digitalisation, reform, affordable housing and connectivity that principally affects the following sectors: construction, energy, healthcare, technology, property and telecommunications (see inside pages for details).
- Strategy.** While we cannot rule out more twists in the COVID-19 tale, over 60% of the total population are now fully vaccinated while the country has transitioned into a more stable political setting. RHB economists continue to emphasise upside risks to 2022 GDP growth. We expect the market's attention to move toward the 2022 Budget announcement on 29 Oct to flesh out the Government's spending priorities where it will need to strike a balance between fiscal discipline and supporting growth. While the gradual re-opening of the economy is helping to crystallise a robust recovery scenario, we believe this is already in the price. Despite the nascent return of foreign portfolio funds rotating out of North Asia, domestic investor sentiment has been dulled by heightened policy risks arising from renewed attempts to saddle the banking sector with loan interest payment waiver for the B50 segment opting for the moratorium. This comes on top of the Government's initiatives to raise revenue through the potential imposition of a windfall tax on excess profit and capital gains tax on stock market gains. Continued glove ASP erosion will also present headwinds for the benchmark index. While we expect policy makers to eventually come to their senses and avoid slaying the golden goose, domestic investors will do well to retain a healthy dose of scepticism. Key sectors to OVERWEIGHT to play the re-opening theme include healthcare, gaming, basic materials, oil & gas, transport and logistics. We remain selective on construction and technology, while banking sector prospects will hinge on further regulatory clarity.

Analyst

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Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-21F	P/B (x) Dec-21F	ROAE (%) Dec-21F	Yield (%) Dec-21F
AMMB	Buy	3.50	10.8	8.5	0.6	(0.4)	-
Bumi Armada	Buy	0.57	28.9	4.4	0.7	17.4	-
CIMB	Buy	5.70	18.5	11.8	0.8	7.1	3.4
CTOS Digital	Buy	2.36	19.3	93.2	14.1	22.2	0.6
Genting	Buy	6.47	29.7	na	0.6	(1.8)	1.2
Inari Amertron	Buy	4.27	12.9	37.1	6.9	22.0	2.4
Kerjaya Prospek	Buy	1.62	35.3	14.3	1.2	8.9	2.4
Matrix Concepts	Buy	2.36	13.5	7.2	0.9	13.1	5.8
Mr DIY Group	Buy	4.41	13.2	53.7	22.2	46.0	0.9
Petronas Chemicals	Buy	9.11	10.3	13.7	2.0	15.3	3.7
Press Metal	Buy	8.00	42.9	38.5	9.7	27.0	1.1
SKP Resources	Buy	2.28	17.5	19.8	4.0	21.2	3.0
TASCO	Buy	1.75	50.9	17.1	1.9	11.0	1.5
Telekom Malaysia	Buy	7.90	36.7	18.1	2.5	15.1	2.8

Source: Company data, RHB

Construction – MYR400bn Allocated For New And Ongoing Projects

OVERWEIGHT

The 12MP's planned DE allocation represents a significant increase of 54% above the 11MP's original target of MYR260bn as well as relative to the 13% average increase recorded between the previous five cycles under 7MP to 11MP (1996-2020). In tandem, public investment is expected to rise 2.6% pa with major public projects centred upon infrastructure, transportation, utilities and the oil & gas sectors.

Figure 1: Malaysia Plans (MPs) in the past five cycles

MPs	Period	Planned development allocation (MYRbn)
7 th MP	1996-2000	162.50
8 th MP	2001-2005	170.00
9 th MP	2006-2010	200.00
10 th MP	2011-2015	230.00
11 th MP	2016-2020	260.00
12 th MP	2021-2025	400.00

Source: Company data, RHB

Notably, 50% of the basic DE under the 12MP will be specifically set aside for the development of six states: Kedah, Terengganu, Perlis, Kelantan, Sabah, and Sarawak – relative to 46% under the 11MP.

The focus on development in Sabah and Sarawak – which would each continue to receive between 15-18% of the total basic DE – gained the spotlight in the 12MP, particularly roads, water and electricity supply. Mega construction projects mentioned were the Pan Borneo Highway, Sarawak Water Grid Programme, and Sabah Seafront. As for development in rural areas, with the now intensified provision of basic infrastructure, we expect to see upgrading and also construction of new basic infrastructure such as roads and bridges, as well as water services infrastructure such as dams, off-river storage, water treatment plants and sewage treatment plants. Companies with a broad exposure to public development works within East Malaysia such as Cahya Mata Sarawak (CMS MK, NEUTRAL, TP: MYR1.20) and KKB Engineering (KKB MK, NR) could continue to benefit from sustained project rollouts.

While the sizeable headline DE allocation suggests that a healthy pipeline of public projects would continue to benefit construction players over the next few years, the wording suggests that the near-term focus would revolve around the implementation of existing projects such as the ECRL and Pan Borneo Highway with fiscal discipline likely being prioritised, while there were no specific mentions of new projects.

As for the reactivation of previously flagged mega projects such as the Mass Rapid Transit Line 3 (MRT3), we believe more updates will materialise in the upcoming Budget 2022.

Figure 2: Construction projects already/expected in the pipeline (not comprehensive, updated as of September)

Projects	Estimated job value (MYRbn)	Latest updates
MRT2	30.5*	Works are in progress. Expected completion in Jul 2022.
LRT3 (no mention)	16.6*	Works are in progress. Expected completion in Feb 2024. Contributions at the JV level have significantly improved and are expected to come in higher in 2022.
Gemas-Johor Bahru double-tracking	8.9	More allocations provided in Budget 2021. The final stretch of the electrified double-track from Padang Besar, Perlis to Johor Bahru, Johor – which will offer Electric Train Services (ETS) – is projected to be ready by 2023.
Johor Bahru-Singapore RTS Link (no mention)	3.7	Construction works to commence in 2021. Of the 4km length, 2.7km is in Malaysia and 1.3km is in Singapore. The RTS link will transit from the underground Woodlands North Station to the above-ground Bukit Chagar station via a 25m high bridge across the Straits of Johor.
Pan Borneo Sarawak Highway	18.8	Expected to hit 70% completion rate by end-2021 for the 11 packages awarded previously. Expected to be completed 2022.
Pan Borneo Sabah Highway	12.8	Until March, only 49% of 11 packages of the first phase's 35 packages had been completed or just about 15.4% of the first phase has been concluded. In April, HSS Engineers' associate company HSS Integrated was awarded a project management consultant project by the Government for Phase 1 of Sabah's Pan Borneo Highway worth MYR145m. Expected to be completed by 2024
West Coast Expressway	6.5	Expected completion is in 2024, with land acquisition at 95% completion. Four sections (5, 8, 9, and 10) were opened from May to Dec 2019. Tolling began in Jan 2020 for sections 8,9, and 10. In percentage length, about 32% is now open to the public.
Central Spine Road (CSR) & Kota Bharu-Kuala Krai (KBKK) highway	9.5	Implementation to be continued, as reiterated in Budget 2021. Seven out of 26 subpackages for CSR from Merapoh to Seberang Jelai, Pahang were completed. Work progress was at 58.2% as at the end of 2020 and the construction of the remaining CSR alignment is expected to be completed by 2025. For the latter, two out of eight subpackages from Pasir Hor to Ketereh were completed in 2019. Work progress was at 37.8% as at the end of 2020

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Sarawak Coastal Road, Second Trunk Road and State Water Grid (no mention)	9.1	and the remaining alignment from Ketereh to Kuala Krai is expected to be completed by 2025 Few packages for the coastal road and water grid were already awarded in 2019. The Sarawak State Government remains committed to pushing on with the projects, with a total addressable value of MYR11bn for the road projects. Project delivery partner role secured by Gamuda. The initial phase of the Penang South Reclamation project is targeted to kick off soon. Discussions with the Penang State Government are in high gear to resolve outstanding issues, with the aim of starting the reclamation works for Island A. Approval for the environmental management plan (EMP) is likely delayed as the earlier environmental impact assessment (EIA) approval granted to the developer was revoked. Accordingly, the Penang State Government may proceed to apply for a judicial review or file for a fresh EIA report. Target completion is Dec 2026. Local contractors have so far benefited from advance works that were mainly awarded in May and Jun 2020. Close to 11 packages were awarded to Gadang, Gabungan AQRS, Ho Hup Construction, and Advancecon with a total sum of MYR505m. We understand that the ECRL alignment has been extended to 665km from 640km previously. The additional alignment will encompass the original 30km, which was 24km from Jalan Kastam (Port Klang) to West Port and 6km from Jalan Kastam to North Port. New engineering costs may amount to MYR50bn, which is MYR4bn higher than previous costs. We note that the new cost structure includes land acquisitions. New estimated costs are around MYR40-50bn. Roll out of work packages are expected to be done gradually by end-4Q21 or early 2022.
Penang Transport Master Plan (no mention)	27.0	Negotiations with Singapore have lapsed. The Government will continue to explore alternative options, mainly with regards to financing. Payment of the remaining 8% of the deposit, or MYR593m and a MYR500m advance have been made by the IWH-CREC JV to TRX City, for a 60% stake worth MYR7.4bn in the project, which marks the beginning of the master development.
East Coast Rail Link (ECRL)	9.0	
MRT3 (no mention)	40.0	
Kuala Lumpur-Singapore High Speed Railway (no mention)	40.0 [*]	
Bandar Malaysia (no mention)	56.0	

Note: *Project value reduced post revision

Note 2: ^{*}Civil works

Source: Various media, Company data, RHB

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Energy (Oil & Gas and Utilities)

OVERWEIGHT

Overall, there is no major surprise from 12MP for the energy sector, and its details appear to be a continuation that of 11MP (2015-2020). Based on the ten 11MP targets reviewed, only three have been achieved (national recycling rate of household waste, development of integrated systems and government green procurements), suggesting that more efforts are needed in the energy transition.

12MP will be the continuation of the nation's low-carbon journey, and there is also no change the 31% renewable energy (RE) capacity target by 2025. Apart from solar and hydro, there is a greater call on growing other RE sources such as biomass and biogas. Total investment in biomass industry is targeted at MYR10bn. Besides this, we believe that formulating a comprehensive National Energy Policy will allow Malaysia to provide better clarity over how it could hit long-term low-carbon targets. As such, we remain positive on the RE growth prospects in Malaysia in the longer run.

In the 12MP, the Government's crude oil price estimate is also largely unchanged, at USD53.60 per bbl (11MP: USD53.30 per bbl). As for the oil & gas sector, a comprehensive chemical roadmap to be developed will continue to strengthen the domestic petrochemical value chain. Should the development priority still be given to Pengerang, it would be a positive progress for Pengerang becoming a regional hub for petrochemical players. That said, we do not think the new projects, if any, will be of similar size to Pengerang Integrated Petrochemical Complex (PIPC) in the next five years.

Meanwhile, the strategy of developing a mechanism to prioritise the utilisation of locally produced petrol and diesel could benefit local refineries like Hengyuan Refining (HYR MK, NR) and Petron Malaysia (PETRONM MK, NR). Following the liberalisation of the gas market via the introduction of third-party access regulations to allow new entrants into the gas business, a comprehensive natural gas roadmap will be developed to provide medium- and long-term directions. This would be focused on liberalising the gas market and increasing domestic gas demand, while exploring the possibility of being a regional gas market hub.

Within the water utilities sector, the Water Sector Transformation 2040 has been introduced to address longstanding issues such as uncoordinated and weak collaboration between the Federal Government, state governments and local authorities. Phase 1 (2021-2025) focuses on accelerating the adoption of integrated water resources management, which lays the foundation to become the hub of the regional water industry by 2040. While we think this is positive for the sector over the long term, the crafting of a well-balanced tariff setting mechanism remains key in ensuring that the sector is financially self-sustained.

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Healthcare – Bracing For Reforms

OVERWEIGHT

Among the various initiatives proposed in the 12MP, the Government's approach towards healthcare focuses primarily on healthcare reforms and increased digitalisation/technological adoption.

A blueprint for Malaysia's healthcare system reform will be introduced to strengthen the healthcare sector landscape. While details are scarce at present, this initiative will include public sector transformation, private healthcare sector regulatory reforms, and sustainable health financing. The document outlined plans to refine healthcare facilities to fulfil post-pandemic requirements through strengthening healthcare programmes for older persons, expanding the cluster hospital concept to increase accessibility to specialist services and leveraging on e-hailing services.

To ensure financial sustainability for healthcare, the subsidies for healthcare services will be streamlined based on a means test (an assessment to determine the eligibility of an individual or family for government assistance) so that higher-income patients will be required to pay higher charges. In addition, a National Health Endowment Fund, derived particularly from *waqf* (donations and charity) will be introduced as a measure to create alternative financing for healthcare. To curb rising medical costs, the Government is looking to introduce pooled procurement and implement a price control mechanism. The 12MP also encourages Malaysians, particularly the M40 segment, to purchase health insurance to finance healthcare expenses, and income tax relief on such plans along with employment insurance for the M40 will be reviewed to reduce healthcare costs.

Emphasis will also be given on digital innovation in healthcare delivery and solutions to ensure a better quality of services. Research, development and innovation capacity will be intensified to improve the healthcare system. Collaboration and strategic partnerships, including with the private sector and foreign partners will be enhanced to strengthen the capacity and capability of R&D in the healthcare subsector.

Anticipating reforms in the future. We believe the encouragement of insurance adoption by the Government will be beneficial to private hospital operators, and this will be aided by favourable tax relief measures. While it is too early to judge, the implementation of a progressive subsidy system, based on individual income, may result in a migration of patients to private healthcare operators as their first choice. However, we think such an effect will likely be marginal – as those in the position to do so would already have utilised the private healthcare services to some degree.

However, the 12MP invoked a strong sense of *déjà vu* by re-introducing a price control mechanism that was previously brought up by the Pakatan Harapan administration. We do not rule out the possibility of the upcoming mechanism being similar to what was proposed previously. Recall that the previous mechanism relied on external reference pricing (based on prices in reference countries) that would be imposed at the wholesale and retail levels.

We believe it is unlikely that it will be imposed at the manufacturer level as most local manufacturers produce generic products that already face significant price competition locally and abroad. Importers of expensive patent-protected drugs, however, may be subjected to additional regulations – but we think it will likely be mild, to prevent delay in medicines access and further negative perception on the country's investment climate (especially given US pharmaceuticals' calls to downgrade Malaysia to "Priority Foreign Country", the worst trade-related classification). Subsequently, the lack of innovative medicines may erode Malaysia's attractiveness for medical tourism.

Distributors are likely to be affected, especially those with sizeable portfolios of high-value products, while those with over-the-counter/consumer health products are likely to be more resilient.

Hospitals/clinics are likely to be affected by price caps and may face difficulties in retaining patients to continue to fill prescriptions at the hospitals rather than switching to retail pharmacies. Nevertheless, we believe private hospitals could consider raising other hospital charges to minimise the price impact. That said, the exact details remain scarce and we expect to see further clarity in the months ahead.

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Technology – Embracing The Age Of Digitalisation**OVERWEIGHT**

Several key areas are being identified for Malaysia to move forward and contribute to the socioeconomic development of the country. The growing importance of technology in the age of digitalisation, along with various initiatives being identified are positive drivers for the sector. Besides, an improved tax structure to strengthen the venture capital ecosystem and increase joint R&D efforts will be incentivised to increase capacity and capability in evaluating technology financing. While the sub-sectors are fragmented, we identify the respective opportunities and projects that could potential benefit some local technology counters in the 12MP.

Firstly, the digital economy is again the centre of focus here, in which the Government plays a vital role in the digital transformation for the public sector and advocates data sharing between it and the private sectors. The direct beneficiaries in this space would be AwanBiru Technology (PRES MK, NR) and Transocean Holdings (via its proposed 40% acquisition of Enfrasys Consulting SB) (TRO MK, NR), which are the appointed Managed Service Partners. Other potential beneficiaries include Kronologi Asia (KAB MK, NR), Censof Holdings (CSHB MK, NR), Omesti (OMST MK, NR), Microlink Solutions (MICL MK, NR) HeiTech Padu (HEIT MK, NR), and Scicom (MSC) (SCIC MK, NR).

To facilitate e-commerce, a national e-Invoicing framework will also be developed to enable trade partners to seamlessly transact using digital mechanisms, particularly in the export of digital products and services. Dagang NeXchange (DNEX MK, NR), CSHB, HEIT, and SCIC, among others could be potential beneficiaries in this initiative.

Sharing economy model such as platform-based and peer-2-peer based businesses will be fostered with more training programmes, partnership with international agencies, and creation of new online business ventures potentially benefiting GHLS Systems (GHLS MK, BUY, TP: MYR2.00), ManagePAY Systems (MPSB MK, NR), Revenue Group (REVENUE MK, NR), Axiata Group (Boost) (AXIATA MK, BUY, TP: MYR4.75), and CIMB Group (TnG) (CIMB MK, BUY, TP: MYR5.70).

Besides, robust digital infrastructure as the backbone for advancing the digital economy and high quality digital infrastructure as well as wider 5G coverage under the National Digital and Infrastructure Plan (JENDELA) will continue to be prioritised, benefiting players like TM (T MK, BUY, TP: MYR7.90), Time dotCom (TDC MK, NEUTRAL, TP: MYR4.68), OCK Group (OCK MK, BUY, TP: MYR0.59), and Opcom Holdings (OHB MK, NR). Moreover, cyber security such as national digital identification (NDI) is among the potential projects that could benefit listed government service providers such as MyEG (MYEG MK, NR), Datasonic (DSON MK, BUY, TP: MYR0.57), Iris Corp (ICB MK, NR), and CTOS (CTOS MK, BUY, TP: MYR2.36), among others.

The Fourth Industrial Revolution (4IR), another important aspect towards share prosperity and focus, will also be given to embed 4IR technologies in healthcare services, public transport services as well as disaster management and prevention to improve the quality of life of the *rakyat*. Various government service providers as listed above, again could be involved in some capacity in establishing a conducive ecosystem for an inclusive digital society. Last but not least, developing, upskilling and reskilling future-ready talent to participate in the digital economy are imperative to ensure the workforce remains relevant. SCIC and PRES are among players in the reskilling and training provider space that could be involved.

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Property – High Emphasis On Affordable Housing**NEUTRAL**

In 12MP, the Government has indicated the following:

- i. More affordable houses will be built for selected target groups;
- ii. Efforts will be made to assist home owners, to help prevent their houses from being auctioned due to financial difficulties. The *murabahah* to *ijarah* to *murabahah* programme (own-to-rent-to-own) will be introduced to allow home owners to repurchase the property acquired by banks;
- iii. The existing industrialised building system (IBS) incentives will be reviewed, to encourage developers to use IBS technology to manage costs and improve efficiency;
- iv. The federal and state governments will work together to identify land that is suitable for affordable housing. Suitable land owned by public utility companies may also be used to develop affordable homes. So far, three sewerage treatment plants have been earmarked for such development;
- v. The affordable housing component will be made a priority in the development of new townships.

The Government is putting high emphasis on affordable housing development, again. Some 5-10 years ago, it kicked off the 1 Malaysia Housing Programme (PR1MA) initiative, to provide eligible citizens access to quality and affordable housing. As real estate developers were selling mid-range residential properties (in the midst of a property market slowdown) at the same time, there was an ample supply of affordable homes.

We think the supply of affordable housing from the Government needs to be managed properly, so that the new supply will not worsen existing oversupply conditions. We are more positive on the initiatives to redevelop low-cost housing areas and public housing, as this effort will help enhance the quality of life for the B40 group, while watering down any challenging supply conditions.

We are also upbeat on the potential new incentives to encourage the adoption of IBS among developers. As IBS is more suitable for the development of high-rise mid-range housing – if the scale is big enough – there should be cost advantages involved.

Overall, we remain NEUTRAL on the sector, as the 12MP is not expected to affect the sector materially. Our Top Pick is still Matrix Concepts.

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Telcos – More Equitable Access To Reduce The Digital Divide NEUTRAL

As expected, the 12MP highlighted the need to further expand the nation's digital infrastructure and connectivity for more equitable access and facilitate the adoption of emerging and alternative technologies. Specifically, it was noted that the lack of accessibility has contributed to the widening of the digital divide in the country with the impact compounded by the COVID-19 pandemic. The digital divide is reflected in the B40 segment having the lowest broadband penetration of 49.3% vs 90.7% and 99.7% of the M40 and T20 segments.

The policy approach taken to improve broadband connectivity, quality and reliability was extended from the 11MP and improvised with the launch of the National Fibreisation and Connectivity Plan (NFCP) in 2019 and its subsequent iteration, the National Digital and Infrastructure Plan (more aptly referred to as JENDELA), which started in 2020.

To this end, the targets set under JENDELA for 4G mobile connectivity and the expansion of fibre footprint are on track to be met within the timeline of the 12MP. Under Phase 1 of JENDELA, the Government is looking to attain 4G population coverage of 96.9% and the number of fibre homes passed of 7.5m by end-2022, with the respective Phase 2 targets at 100% and 9m by 2025. The targets are supplemented by key policy and regulatory changes with telecommunications being recognised as a public utility (similar to water and electricity). The latter would reduce the red-tape associated with multiple layers of approvals to be sought from various authorities at the State level which have impeded the swift and effective rollout of infrastructure in the past. Maintain sector NEUTRAL with Telekom Malaysia (T MK, BUY, TP: MYR7.90) and OCK Group (OCK MK, BUY, TP: MYR0.59) as Top Picks.

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Transport – Enhancing Efficiencies, Improving Governance NEUTRAL

The 12MP aims to further enhance the transportation and logistics sector to support overall economic growth. It will focus on three priority areas: i) Ensuring integrated, affordable, reliable and seamless public mobility (increasing the usage of public transportation), ii) enhancing the competitiveness of the transport and logistics industry, and (iii) strengthening institutional and regulatory framework.

In terms of improving the competitiveness of the transport and logistics industry, efficiency enhancement and digitalisation measures are key to ensuring that Malaysia becomes a transport and logistics hub in the region by 2025. The measures mentioned under this blueprint include increasing the capacity of port infrastructure and services, improving last-mile connectivity to main ports, adopting multimodal cargo movements, upgrading the aviation system, implementing preventive measures to increase the lifespan of roads and bridges, operating a single-window transaction platform to improve ease of doing business, and developing a centralised database for improved business decision-making.

In terms of strengthening the institutional and regulatory framework, measures mentioned include enhancing governance and promoting green initiatives. Notably, a national warehouse regulation will be developed to ensure uniformity in warehouse development that may open up opportunities for Malaysia to be ASEAN's distribution centre.

We note that the long-delayed National Airports Strategic Plan is mentioned once in the 12MP. It is said to provide policy direction for the development of airports to meet future aviation needs, enhance coordination between the federal and state governments, and also ensure sustainability of the airports and better ROI.

While all the measures above will benefit the transportation and logistics sector, we believe that this is a long-term plan – and more details are needed to ensure proper execution of related strategies. All in, we maintain our NEUTRAL weighting on the sector.

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Figure 3: Earnings outlook and valuations

COMPOSITE INDEX @ 1,533.05 27 Sep 21	FBM KLCI				RHB BASKET				RHB BASKET (EX-FBM KLCI)			
	2019	2020	2021F	2022F	2019	2020	2021F	2022F	2019	2020	2021F	2022F
Revenue Growth (%)	1.2	(9.2)	20.0	8.0	2.1	(7.3)	16.7	6.7	3.4	(4.7)	12.5	4.8
EBITDA Growth (%)	6.1	(2.4)	25.9	5.2	6.0	(2.6)	27.0	3.6	5.8	(3.1)	29.7	0.2
Normalised Earnings Growth (%)	(8.2)	(19.6)	58.0	8.3	(6.1)	(18.5)	59.0	6.1	(0.3)	(15.6)	61.3	1.4
Normalised EPS (sen)	29.3	23.5	34.8	37.6	17.6	14.3	21.7	22.9	9.0	7.5	12.0	12.1
Normalised EPS Growth (%)	(9.0)	(19.8)	57.5	8.1	(7.5)	(22.6)	58.2	5.7	(2.4)	(16.5)	60.3	0.9
Prospective P/E (x)	19.1	23.8	16.3	15.1	18.9	24.4	15.4	14.6	18.4	22.0	13.5	13.4
Normalised EPS (sen) ex-Rubber glove	30.9	22.2	30.4	36.2	18.2	13.2	17.7	21.3	9.1	6.8	8.7	10.8
Normalised EPS Growth (%) ex-Rubber glove	(9.1)	(28.2)	36.8	19.2	(7.7)	(27.6)	34.1	20.6	(2.7)	(25.3)	28.4	24.4
Prospective P/E (x) ex-Rubber glove	18.2	25.4	19.2	16.1	18.1	24.9	19.0	15.8	17.8	23.8	18.5	14.9
Price/BV (x)	1.8	1.8	1.7	1.7	1.5	1.5	1.5	1.4	1.1	1.1	1.1	1.0
Dividend Yield (%)	3.8	3.4	4.2	3.9	3.7	3.1	3.8	3.8	3.2	2.5	3.0	3.5
ROE (%)	9.2	7.4	10.6	11.0	8.1	6.5	9.6	9.7	6.2	5.1	7.9	7.7

Note: Excludes FBM KLCI stocks not under RHB Research's coverage, i.e., HLFG, RHB Bank, PPB and Hap Seng Consolidated

Source: Bloomberg, RHB

Figure 4: RHB Basket's sector weightings & valuations

Sectors	Mkt Cap MYRbn	Weight %	EPS Growth (%)			P/E (x)			Recommendation
			FY20	FY21F	FY22F	FY20	FY21F	FY22F	
Banking	287.0	21.8	(29.4)	31.0	15.6	16.1	12.3	10.6	Overweight
Gaming	41.9	3.2	(100.0)	(23.9)	273.1	n.m	(27.2)	15.7	Overweight
Construction	27.4	2.1	(39.1)	27.4	38.6	23.4	18.4	13.3	Overweight
Basic Materials	50.5	3.8	6.1	350.2	98.7	154.6	34.3	17.3	Overweight
Non-Bank Financials	20.3	1.5	17.7	3.0	1.3	13.6	13.2	13.0	Overweight
Oil & Gas	140.9	10.7	(8.0)	59.4	(1.2)	25.6	16.0	16.2	Overweight
Utilities	103.9	7.9	(16.2)	14.4	4.5	16.1	14.0	13.4	Overweight
Technology	36.2	2.8	(0.5)	63.9	12.7	59.4	35.4	31.4	Overweight
Healthcare	65.0	4.9	(25.6)	94.0	9.5	72.9	37.6	34.3	Overweight
Rubber Products	53.1	4.0	257.8	326.1	(46.1)	12.2	2.8	5.3	Neutral
Auto	29.2	2.2	(29.1)	34.2	13.8	19.7	14.7	12.9	Neutral
Property-REITs	31.7	2.4	(23.1)	(9.3)	21.9	21.4	23.5	19.2	Neutral
Telecommunications	139.2	10.6	(6.8)	5.0	6.5	28.5	27.1	25.5	Neutral
Consumer	117.2	8.9	(18.6)	19.3	27.1	37.5	31.4	24.7	Neutral
Transport	39.7	3.0	(100.0)	349.9	1001.4	n.m	265.1	24.1	Neutral
Property	36.3	2.8	(57.6)	62.7	22.1	25.1	15.4	12.6	Neutral
Media	5.9	0.4	(7.1)	7.1	7.9	10.9	10.1	9.4	Neutral
Plantation	89.8	6.8	89.8	67.7	(12.6)	26.8	16.0	18.3	Underweight
RHB BASKET	1315.5	100.0	(22.6)	58.2	5.7	24.4	15.4	14.6	

Source: RHB

12MP 2021-2025

Selected targets of the 12th Plan

- i. GDP growth of 4.5–5.5% between 2021-2025;
- ii. Average monthly household income of RM10,065 by 2025;
- iii. Reduce the GDP per capita gap to 1:2.5 between the Central regions and the Sabah regions, and to 1:1.2 between the Central regions and the Sarawak regions in 2025;
- iv. 45% reduction in greenhouse gas (GHG) emissions intensity to GDP by 2030.

Theme 1: Resetting the economy

- i. Key is restoring the growth momentum of key economic sectors, propelling high impact industries, as well as micro, small and medium enterprises (MSMEs);
- ii. Move Malaysia to high value-added and high-skilled economic activities, and aim to be a high-income nation driven by advanced technology;
- iii. Focus will be on accelerating the development of eight strategic industries; electrical and electronics (E&E), global services (GS), aerospace, creative, tourism, halal, smart farming, and biomass.

Game Changer II: Catalysing strategic and high impact industries to boost economic growth

- i. Enhance the contribution of the strategic and high impact industries;
- ii. Leverage advanced technology adoption, digitalisation and niche capabilities to address current and future economic challenges;
- iii. The eight aforementioned industries are identified as strategic and high impact industries that will catalyse economic growth;
- iv. Focus will be on accelerating these industries to produce high value-added activities and products, attracting quality investments, expanding exports, and contributing in the green economy.

Game Changer III: Transforming micro, small and medium enterprises as the new driver of growth

- i. Accelerate MSMEs development through technology and digital adoption;
- ii. Equip MSMEs with the skills to digitalise their business process by 2025;
- iii. MSMEs will be assisted to produce products and services on par with international standards to enhance competitiveness;
- iv. Support entrepreneurs with a conducive and holistic ecosystem such as giving entrepreneurs that failed in their first attempt a second chance.

Theme 2: Strengthening security, wellbeing and inclusivity

- i. Crime prevention efforts, rehabilitation, and emergency preparedness will be intensified to ensure national defence and security;
- ii. Welfare of the Malaysian Armed Forces and enforcement personnel will be improved, along with security governance;
- iii. Healthcare service delivery continues to be a focus with endeavours to improve preparedness in battling various diseases;
- iv. Supply of quality affordable housing to be increased with improving access and governance as well as ensuring inclusive housing development;
- v. Emphasis on addressing poverty as well as narrowing disparities among low income groups, inequitable *Bumiputera* socioeconomic outcomes, low socioeconomic development of *Orang Asli* and social deprivation of specific target groups;
- vi. Acceleration of development in Sabah and Sarawak.

Game Changer IV: Enhancing national security and unity for nation-building

- i. A new National Defence and Security Industry Policy will be introduced to ensure a sustainable defence;
- ii. A holistic plan will be implemented in curbing illegal activities at the border;
- iii. Unity programmes, sports, and religious activities to build social interaction among the *rakyat*.

Game Changer V: Revitalising the healthcare system in ensuring a healthy and productive nation

- i. Healthcare services will be redesigned through the collaboration between public and private sectors as well as **civil society organisations (CSOs)**;
- ii. Introduce a more sustainable health financing model and digitalise healthcare services to accelerate delivery;
- iii. Leveraging lessons learnt from managing the pandemic to revitalise healthcare services.

Game Changer VI: Transforming the approach in eradicating hardcore poverty

- i. Introduce bold and radical initiatives on a need basis to support the hardcore poor among the B1;
- ii. Establish dedicated poverty units at federal and district levels as well as integrating and centralising a database on poverty;
- iii. Explore the possibility of introducing a dedicated tax to finance poverty alleviation programmes;
- iv. Aim to eliminate hard-core poverty by 2025.

Game Changer VII: Multiplying growth of less developed states especially Sabah and Sarawak to reduce development gap

- i. Allocate 50% of the total basic DE to Kedah, Kelantan, Perlis, Sabah, Sarawak, and Terengganu;
- ii. Drive development in these states with key growth nodes and hotspot areas as hubs for economic activities;
- iii. Develop rural areas by intensifying industrialisation and diversifying economic activities through smart and cluster farming;
- iv. Promote cross-border economic activities to accelerate border development.

Theme 3: Advancing sustainability

- i. Focuses on advancing green growth as well as enhancing energy sustainability and transforming the water sector;
- ii. Addressing issues of climate change, unsustainable consumption and production practices, loss of biodiversity, lack of coherence in resources management;
- iii. The need to move towards a low-carbon nation while more equal benefit sharing from the utilisation of natural resources will be promoted;
- iv. Managing energy and water holistically and sustainably, taking into account the supply and demand of these resources.

Game Changer VIII: Embracing the circular economy

- i. Embrace the circular economy model which encourages the public and private sectors to adopt and integrate the Sustainable Development Goals (SDGs) and environmental, social & governance (ESG) principles;
- ii. Creating green job opportunities that ensures resource security, as well as reduce waste generation, pollution, GHG emissions, and dependency on natural resources;
- iii. Increasing the use of recycled materials and extending the responsibility of producers in managing their end-of-life products.

Game Changer IX: Accelerating adoption of integrated water resources management

- i. The Government recognises the need for a comprehensive transformation of the water sector to ensure water security and sustainability;
- ii. The 12th Plan will accelerate the adoption of Integrated Water Resources Management (IWRM);
- iii. Adopt the whole-of-nation approach involving all stakeholders to instill a sense of ownership and responsibility in conserving this resource;
- iv. Establish an integrated centre for water data and research, development, commercialisation and innovation (R&D&C&I) to improve the governance of water.

Four Policy Enablers**Policy Enabler 1 – Developing future talent**

- i. Promote equitable compensation of employees (CE) and labour market support to realign the labour market;
- ii. Elevate quality of education and leverage emerging technologies such as virtual reality, augmented reality and artificial intelligence;
- iii. Improve technical and vocational education and training (TVET) ecosystem to produce future-ready talent – to allow the country to effectively address persistent issues such as dependency on foreign workers, low CE and low student outcomes.

Game Changer: Improving TVET ecosystem to produce future-ready talent

- i. Enhance the quality of delivery and training of TVET through improvement in accreditation, recognition and certification;
- ii. To introduce a ranking system for TVET institutions whereby allocation of funds will be based on a number of components including employability, wage levels, industrial engagement and the implementation of social initiatives in the rural areas.

Policy Enabler 2 – Accelerating technology adoption and innovation

- i. Accelerate the digitalisation process as well as the adoption of advanced technology like the Fourth Industrial Revolution (4IR) technologies to achieve a high technology-based economy;
- ii. Address issues of insufficient digital infrastructure and services, fragmented governance, widening digital divide, low R&D&C&I capacity and capability and slow adoption of technologies;
- iii. Maximise the potential of the digital economy as well as achieve inclusive, responsible and sustainable socioeconomic growth by accelerating Malaysia's adoption of digital and advanced technology to create and unlock new opportunities;
- iv. Aggressively attract investment in the digital economy;
- v. Mainstream digitalisation for inclusive development, accelerating R&D&C&I as well as capitalising on the potential of advanced technology.

Game Changer 1: Enhancing digital connectivity for inclusive development

- i. Introduced telecommunication services as a public utility to enhance internet connectivity, enabling the *rakyat* to have equitable access to more affordable, reliable and quality broadband services;
- ii. Ensure students and vulnerable groups have access to digital devices;
- iii. Implementation of JENDELA will enhance digital connectivity and achieve full 4G coverage in populated areas, as well as enable 100% households' subscription to the internet.

Game Changer 2: Aligning research and development towards commercialisation, wealth generation

- i. Enhance knowledge transfer, economic growth, job creation, and entrepreneurship;
- ii. Focus on encouraging experimental development with high commercialisation potential, coordinated by the newly established Research Management Unit (RMU), under the Economic Planning Unit of the Prime Minister's Department.

Policy Enabler 3 – Enhancing connectivity and transport infrastructure

- i. Improve first-and-last-mile connectivity, increase industry competitiveness and strengthen governance;
- ii. Enhance accessibility to public transport, improve trade facilitation as well as strengthen the institutional and regulatory framework in order to provide efficient and inclusive logistics infrastructure;
- iii. Improve last-mile connectivity through the integration of rail and road networks between airports, ports, industrial areas and cities;
- iv. Centralise planning and development of logistics hub, accelerate digital adoption, encourage mergers and acquisitions among industry players, establish a single border agency and create a national regulatory framework for warehousing maritime economy;
- v. Support and facilitate the expansion of economic activities and contribute to the socioeconomic growth of the country.

Game Changer 1: Transforming the logistics ecosystem for greater efficiency

- i. Transform logistics services by centralising the planning and development of logistics hubs, accelerating digital adoption and encouraging mergers and acquisitions among industry players;
- ii. Establish a single border agency for trade facilitation and formulate a national regulatory framework for warehousing and the maritime economy.

Policy Enabler 4 - Strengthening public service

- i. Further intensify digitalisation, citizen-centric decision-making, project implementation as well as collaboration and coordination in the public sector between the three levels of the Government;
- ii. Strengthen the public sector with the emphasis on integrity and transparency;
- iii. Review and streamline the structures and functions of ministries and agencies as well as ensure a clear definition of roles and responsibilities between the members of the administration and civil servants;
- iv. Enhance the mechanism for selection of key leaders, improve the mechanism for recruitment of the professional and managerial officers.

Game Changer 1: Transforming the logistics ecosystem for greater efficiency

- i. Enhance integrity, accountability and transparency across the civil service;
- ii. Review and streamline the structures and functions of ministries and agencies to establish a flatter organisation, thus reducing bureaucracy and increasing transparency as well as optimising the use of resources;
- iii. Introduce a Public Service Act to reinforce the principle of separation of powers between the executive, legislative and judicial branches;
- iv. Enhance the performance-driven culture in the civil service further as well as strengthen the mechanism for the selection of key leaders;
- v. Improve mechanism for recruitment of the professional and managerial officers;
- vi. Accelerate digitalisation and implementation of the Malaysia Digital Economy Blueprint initiatives in the public sector to enhance the public service delivery.

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