25 February 2023

Market Strategy

Budget 2023: Developing Malaysia MADANI

Stocks Covered	148
Rating (Buy/Neutral/Sell):	87 / 54 / 7
Last 12m Earnings Revision Trend:	Positive

- **No news is good news.** Budget 2023 v2.0 was broadly within expectations and was centred on various social support initiatives to assist the economically challenged. There were few controversial proposals ahead of the six looming state elections, with markets breathing a collective sigh of relief following the absence of major new taxes on the private sector. Rating agencies are also assuaged by the reduction in the fiscal deficit to 5% of GDP. The consumer sector is a net beneficiary, while the receding regulatory risk is a positive for the overall equity market.
- **Consumer.** As usual, the regular spending boosters – eg cash handouts and bonuses for civil servants – were dished out while the tweak in personal income tax rates, which results in higher disposable income for the M40 group, will bode well for consumer spending. The absence of plans to reintroduce GST, the moratorium on excise duties, and lack of detailed measures to rationalise subsidies are positive for the sector. However, the failure to introduce a regulatory framework for the vaping market is a disappointment for the decaying legal tobacco industry.
- **Construction.** The core development expenditure (DE) allocation – excluding the c.MYR14bn 1MDB bond redemption – is MYR83bn vs 2022's MYR71.6bn (+16% YoY). The percentage of DE allocated to the transport sector dipped to 18.1% in 2023F (2022: 23.1%) from 25.4% during a pre-pandemic 2019. The proposed study to reduce the cost of the Mass Rapid Transit 3 (MRT3) by MYR5bn will drag the timeline for contract rollouts – impacting the pace of job replenishments for contractors. Meanwhile, the absence of any mention of a revival of the High Speed Railway, which could have reinvigorated the sentiment of the construction sector, is a disappointment.
- **Auto.** The auto sector received a fillip from the extension of tax breaks for EVs and their charging infrastructure. While the proposals will help to lift adoption rates, we note that EVs remain a small portion of total industry volumes.
- **Strategy.** We still see tailwinds for equity markets coming from a maturing monetary tightening cycle, cresting US inflation, a resilient US economy, the China re-opening story, and reduced domestic political risks. We can now add easing regulatory risks to these positives, as fears of punitive new taxes failed to materialise. While equity markets will still be buffeted by some volatility coming from softer macroeconomic and corporate data points, market weakness should be seen as opportunities to add to positions for the medium term. Forward valuations remain undemanding, with the FBM KLCI now at just 13.4x FY24F P/E. Robust fundamentals are a key investment consideration, and we retain a preference for large-cap value stocks. We are OVERWEIGHT on banks, oil & gas, gaming, basic materials, NBFIs, healthcare, auto, and property.

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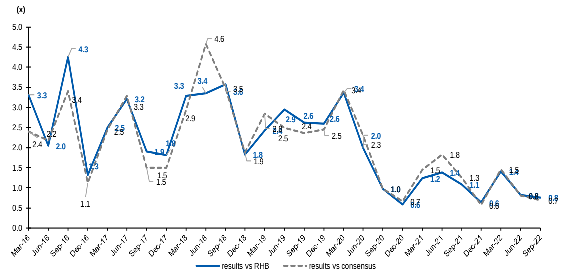
Misses to beat ratio



Source: Company data, RHB

Company Name	Rating	Target (MYR)	% Upside (Downside)	P/E (x) Dec-23F	P/B (x) Dec-23F	ROAE (%) Dec-23F	Yield (%) Dec-23F
AMMB	Buy	4.60	17.6	7.1	0.7	10.0	4.9
Berjaya Food	Buy	1.29	26.2	14.2	3.3	23.2	4.1
CIMB	Buy	7.00	28.0	9.0	0.9	10.0	5.6
CTOS Digital	Buy	1.92	35.5	31.7	6.0	19.5	1.9
Guan Chong	Buy	4.00	56.8	9.3	1.5	21.9	3.3
IOI Properties	Buy	1.40	25.3	8.3	0.3	3.5	4.9
Kerjaya Prospek	Buy	1.44	21.9	9.9	1.1	12.0	4.1
Matrix Concepts	Buy	1.75	15.1	8.1	0.9	11.6	6.4
Mr DIY Group	Buy	2.48	49.6	25.9	8.9	37.5	1.9
Power Root	Buy	2.60	21.4	16.5	3.8	-	5.5
Sunway Construction	Buy	2.07	23.4	13.1	2.7	21.6	4.6
TASCO	Buy	1.86	102.9	7.5	1.2	-	4.0
Yinson	Buy	3.14	16.4	21.3	2.9	14.3	0.7

Source: Company data, RHB

Figure 1: Earnings outlook and valuations

COMPOSITE INDEX @ 1,456.8 24 Feb 23	FBM KLCI 2021	2022F	2023F	2024F	RHB BASKET 2021	2022F	2023F	2024F	RHB BASKET (EX-FBM KLCI) 2021	2022F	2023F	2024F
Revenue Growth (%)	23.7	17.1	2.4	3.0	18.7	15.2	1.3	3.5	12.4	18.1	0.2	4.5
EBITDA Growth (%)	29.9	11.0	2.6	3.7	27.4	2.3	2.5	4.5	29.1	1.0	2.9	6.7
Normalised Earnings Growth (%)	70.1	14.0	9.2	5.3	65.9	(0.3)	7.4	6.3	70.8	0.2	4.4	8.6
Normalised EPS (sen)	35.7	35.9	39.1	41.0	22.8	22.6	24.1	25.6	12.8	12.7	13.1	14.2
Normalised EPS Growth (%)	**69.4**	**13.8**	**8.7**	**5.0**	**64.4**	**(0.9)**	**6.7**	**5.8**	**68.6**	**(0.8)**	**3.5**	**8.0**
Prospective PER (x)	**15.0**	**15.3**	**14.1**	**13.4**	**14.7**	**14.8**	**13.8**	**13.1**	**13.1**	**13.2**	**12.7**	**11.8**
Normalised EPS (sen) ex-Plantation	31.2	35.0	39.1	41.8	22.2	21.3	23.5	25.3	12.2	11.7	12.7	13.9
Normalised EPS Growth (%) ex-Plantation	44.7	12.4	11.6	7.0	60.5	(3.9)	10.1	7.7	64.0	(4.4)	8.3	9.3
Prospective P/E (x) ex-Plantation	17.8	15.7	14.1	13.2	14.8	15.4	13.9	12.9	13.5	14.1	13.0	11.9
Price/BV (x)	1.7	1.6	1.5	1.4	1.5	1.4	1.3	1.3	1.0	1.0	1.0	1.0
Dividend Yield (%)	4.6	4.0	4.4	4.6	4.2	4.0	4.3	4.5	3.4	3.9	4.3	4.3
ROE (%)	11.3	10.2	10.5	10.5	9.9	9.3	9.5	9.6	7.8	7.4	7.6	8.1

Note: Excludes FBM KLCI stocks not under RHB Research's coverage, ie HLFG, RHB Bank, and PPB
Source: Bloomberg, RHB

Figure 2: FBM KLCI – weightings & valuations

	Market Cap MYRbn	Weight (%)	EPS Growth (%) FY21	FY22F	FY23F	FY24F	P/E (x) FY21	FY22F	FY23F	FY24F
Sime Darby	15.7	1.67	20.0	(4.2)	(16.6)	10.8	12.6	13.1	15.7	14.2
Auto	**15.7**	**1.67**	**20.0**	**(4.2)**	**(16.6)**	**10.8**	**12.6**	**13.1**	**15.7**	**14.2**
CIMB	58.3	6.22	286.7	6.5	23.1	7.6	11.8	11.1	9.0	8.4
Hong Leong Bank	43.9	4.68	14.6	14.9	13.6	6.2	14.5	12.6	11.1	10.5
Malayan Banking	105.4	11.24	18.3	(1.1)	19.6	5.8	12.8	13.0	10.8	10.2
Public bank	80.2	8.55	16.7	7.4	18.8	4.3	14.5	13.5	11.3	10.9
AMMB^	12.9	1.38	42.4	15.7	7.2	10.3	8.6	7.4	6.9	6.3
Banking	**300.7**	**32.07**	**39.5**	**5.7**	**18.7**	**6.4**	**12.9**	**12.2**	**10.3**	**9.7**
Press Metal	42.8	4.57	115.0	47.3	37.2	4.4	42.0	28.5	20.8	19.9
Basic Material	**42.8**	**4.57**	**115.0**	**47.3**	**37.2**	**4.4**	**42.0**	**28.5**	**20.8**	**19.9**
Nestle (M)	31.7	3.38	2.3	16.1	9.0	6.7	55.5	47.8	43.9	41.1
Mr DIY Group	15.7	1.67	23.4	11.1	23.5	16.6	35.5	32.0	25.9	22.2
QL Resources	13.8	1.47	(6.7)	51.2	1.7	6.9	63.5	42.0	41.3	38.6
Consumer	**61.2**	**6.52**	**6.9**	**20.5**	**12.1**	**10.3**	**49.9**	**41.4**	**36.9**	**33.4**
IHH Healthcare	52.1	5.56	117.1	(8.2)	21.2	5.6	33.5	36.4	30.1	28.5
Healthcare	**52.1**	**5.56**	**117.1**	**(8.2)**	**21.2**	**5.6**	**33.5**	**36.4**	**30.1**	**28.5**
Inari Amertron	9.1	0.98	113.6	19.8	(2.6)	9.2	28.2	23.5	24.1	22.1
Technology	**9.1**	**0.98**	**113.6**	**19.8**	**(2.6)**	**9.2**	**28.2**	**23.5**	**24.1**	**22.1**
Dialog	13.0	1.38	(16.2)	(0.2)	12.2	8.9	28.2	28.3	25.2	23.2
MISC	33.5	3.57	(28.8)	64.0	1.3	10.1	26.3	16.0	15.8	14.4
Petronas Chemicals	57.6	6.14	280.1	(11.1)	(20.1)	8.0	7.9	8.9	11.1	10.3
Petronas Dagangan	22.2	2.36	71.7	37.8	11.4	8.8	40.4	29.3	26.3	24.2
Oil & Gas	**126.2**	**13.46**	**108.0**	**2.2**	**(11.5)**	**8.6**	**13.2**	**13.0**	**14.6**	**13.5**
IOI Corp	23.4	2.50	39.1	81.3	(8.8)	(16.2)	21.5	11.8	13.0	15.5
Kuala Lumpur Kepong (KLK)	22.8	2.43	168.3	26.7	(18.6)	(25.0)	12.2	9.7	11.9	15.8
Sime Darby Plantation	29.9	3.19	134.8	(0.2)	(16.0)	(7.1)	14.0	14.0	16.7	17.9
Plantation	**76.1**	**8.12**	**113.1**	**27.3**	**(14.7)**	**(16.3)**	**14.9**	**11.8**	**13.8**	**16.5**
Axiata	29.3	3.12	53.2	19.7	(23.8)	25.7	21.8	18.2	23.9	19.0
DiGi.Com	51.0	5.44	(5.6)	(15.4)	16.0	0.7	27.8	32.9	28.4	28.2
Maxis	31.2	3.33	(5.5)	(9.7)	12.3	9.4	23.9	26.5	23.6	21.6
Telekom Malaysia	19.3	2.06	25.1	15.8	1.3	(6.3)	15.3	13.2	13.1	13.9
Telecommunication	**130.9**	**13.96**	**12.4**	**2.8**	**(0.9)**	**6.8**	**22.2**	**21.6**	**21.8**	**20.4**
Petronas Gas	33.2	3.54	1.9	(14.7)	5.0	0.5	16.4	19.2	18.3	18.2
Tenaga Nasional	55.9	5.96	22.0	3.3	12.7	4.8	12.7	12.3	10.9	10.4
Utilities	**89.1**	**9.51**	**14.8**	**(2.4)**	**10.6**	**3.7**	**13.9**	**14.2**	**12.9**	**12.4**
FBM KLCI	**937.5**	**100.00**	**69.4**	**13.8**	**8.7**	**5.0**	**17.4**	**15.3**	**14.1**	**13.4**

Source: Bloomberg, RHB

Figure 3: Top BUYs

	FYE	Price (MYR/s) 24 Feb 23	TP (MYR)	*Shariah* compliant	Market Cap (MYRm)	EPS (sen) FY23F	EPS (sen) FY24F	EPS Growth (%) FY23F	EPS Growth (%) FY24F	3-Yr EPS CAGR (%	P/E (x) FY23F	P/E (x) FY24F	P/BV (x) FY24F	P/CF (x) FY24F	DY (%) FY24F
CIMB	Dec	5.47	7.00	NO	58,338	60.8	65.4	23.1	7.6	12.1	9.0	8.4	0.8	n.a.	6.2
KLK	Sep	21.14	28.65	YES	22,798	178.2	133.8	(18.6)	(25.0)	(8.2)	11.9	15.8	1.4	8.2	3.3
Mr DIY Group	Dec	1.66	2.48	YES	15,658	6.4	7.5	23.5	16.6	17.0	25.9	22.2	7.4	15.0	2.3
AMMB^	Mar	3.91	4.60	NO	12,940	56.5	62.3	7.2	10.3	11.0	6.9	6.3	0.6	n.a.	6.0
Heineken Malaysia	Dec	27.48	30.50	NO	8,302	138.3	143.6	9.6	3.8	20.9	19.9	19.1	20.3	16.2	5.2
Yinson Holdings^	Jan	2.70	3.15	NO	7,825	37.0	67.2	82.0	81.7	33.1	7.3	4.0	0.8	1.9	0.7
IOI Properties	Jun	1.12	1.40	NO	6,167	13.1	13.8	33.5	5.1	3.5	8.5	8.1	0.3	4.7	5.4
CTOS Digital	Dec	1.42	1.92	YES	3,280	4.5	5.2	45.0	16.4	39.7	31.7	27.2	5.5	35.1	2.2
Guan Chong	Dec	2.55	4.00	YES	2,995	27.4	29.3	53.2	7.0	24.0	9.3	8.7	1.4	8.6	3.5
Sunway Construction	Dec	1.68	2.07	YES	2,166	12.9	13.6	15.7	6.0	6.9	13.1	12.3	2.5	9.7	4.9
Matrix Concepts^	Mar	1.52	1.75	YES	1,902	19.3	20.1	11.5	4.3	(6.4)	7.9	7.5	0.9	7.0	7.2
Kerjaya Prospek	Dec	1.18	1.44	YES	1,488	11.9	13.6	26.7	14.8	20.4	9.9	8.7	1.1	7.3	4.6
TASCO^	Mar	0.92	1.86	YES	732	12.4	13.6	6.2	9.4	12.0	7.4	6.7	1.0	4.2	4.1
Coraza	Dec	0.99	0.91	YES	425	4.7	5.8	40.3	25.1	32.9	21.2	17.0	2.9	19.6	1.7

Note: ^FY23-24 valuations refer to those of FY24-25
Source: RHB

Figure 4: Top SELLs

	FYE	Price (MYR/s) 24 Feb 23	TP (MYR/s)	*Shariah* compliant	Market Cap (MYRm)	EPS (sen) FY23F	EPS (sen) FY24F	EPS growth (%) FY23F	EPS growth (%) FY24F	3-Yr EPS CAGR (%	P/E (x) FY23F	P/E (x) FY24F	P/BV (x) FY24F	P/CF (x) FY24F	DY (%) FY24F
Top Glove	Aug	0.78	0.57	YES	6,206	0.5	2.1	(90.0)	294.1	(72.0)	+>100.0	37.4	1.1	11.4	1.3
Supermax	Jun	0.78	0.62	YES	2,063	(4.5)	0.7	(116.7)	115.6	(83.1)	n.m.	+>100.0	0.4	24.7	0.0
Sapura Energy^	Jan	0.05	0.02	YES	719	(1.4)	(1.8)	38.7	(25.1)	(52.8)	n.m.	n.m.	(1.1)	16.3	0.0
CB Industrial Product	Dec	1.05	0.90	YES	502	14.2	14.0	114.2	(1.5)	(9.6)	7.4	7.5	0.6	5.5	5.3
Boilermech^	Mar	0.77	0.60	YES	397	4.1	5.2	36.9	27.5	13.3	18.8	14.7	0.0	14.5	2.6

Note: ^FY23-24 valuations refer to those of FY24-25
Source: RHB

Figure 5: RHB Basket sector weightings & valuations

Sectors	Mkt Cap MYRbn	Weight %	EPS Growth (%) FY22F	EPS Growth (%) FY23F	EPS Growth (%) FY24F	P/E (x) FY22F	P/E (x) FY23F	P/E (x) FY24F	Recommendation
Banking	315.8	25.3	5.5	18.6	6.6	12.0	10.1	9.5	Overweight
Oil & Gas	142.3	11.4	6.1	(7.6)	9.6	12.4	13.5	12.3	Overweight
Healthcare	60.1	4.8	1.8	24.3	7.5	33.1	26.7	24.8	Overweight
Basic Materials	48.3	3.9	44.9	28.2	6.3	25.7	19.9	18.7	Overweight
Gaming	37.3	3.0	231.1	58.6	9.2	17.9	11.3	10.3	Overweight
Property	30.1	2.4	46.7	9.0	5.4	11.4	10.5	10.0	Overweight
Auto	25.0	2.0	19.1	(7.2)	1.5	11.6	12.5	12.3	Overweight
Non-Bank Financials	15.6	1.3	(4.1)	7.7	7.0	9.8	9.1	8.5	Overweight
Telecommunications	141.1	11.3	3.6	0.9	6.9	21.7	21.5	20.1	Neutral
Consumer	109.1	8.7	23.6	14.4	10.7	25.5	22.2	20.1	Neutral
Utilities	101.7	8.1	1.2	9.7	3.4	13.8	12.5	12.1	Neutral
Plantation	92.8	7.4	32.4	(21.0)	(15.0)	9.9	12.6	14.8	Neutral
Property-REITs	33.4	2.7	32.4	4.0	3.9	16.9	16.4	16.0	Neutral
Technology	27.3	2.2	26.7	(5.0)	19.1	23.1	24.3	20.4	Neutral
Transport	26.6	2.1	749.2	175.6	17.2	50.7	18.4	15.7	Neutral
Construction	23.5	1.9	27.8	2.1	15.7	15.6	15.3	13.2	Neutral
Media	3.7	0.3	(12.1)	15.3	3.5	7.7	6.6	6.4	Neutral
Rubber Products	16.3	1.3	(91.0)	(101.5)	1641.5	12.6	n.m.	55.2	Underweight
RHB BASKET	**1250.1**	**100.0**	**(0.9)**	**6.7**	**5.8**	**14.8**	**13.8**	**13.1**	

Source: RHB

Sector Review

Auto – More EV incentives, as expected — OVERWEIGHT

Proposed extension of EV tax exemption (Appendix 25). These include the extension of:

i. Full import duty exemption on components for locally assembled EVs to end-2027, from end-2025;

ii. Full excise duty and sales tax exemption on CKD EVs to end-2027, from end-2025;

iii. Full import duty and excise duty exemption on CBU EVs to end-2025, from end-2023.

We think that these extensions will be effective in spurring EV adoption. More EV buyers will be able to take advantage of them in the coming years – when more EVs enter the Malaysian market, and once domestic consumers are more accepting of such vehicles. The first extension should also help attract auto brands to locally assemble EVs. That said, we think that if the Government would like auto brands to set up CKD operations in Malaysia, the full import and excise duties exemption on CBU EVs should not be extended beyond 2025, as it currently removes the incentive for local assembly.

Proposed tax incentive for companies renting non-commercial EVs (Appendix 14) between 2023 and 2025. We believe this could help spur EV demand and adoption in Malaysia. For companies running an EV-rental business, they can better understand consumer needs and taste in EVs. For the companies renting EVs, they can now benefit from the tax incentive and from reduced Scope 1 emissions, which should also boost their ESG profile. Currently, only Tan Chong Motor (TCM MK, NEUTRAL, TP: MYR1.10) offers such rental services through its GoEV sharing and subscription platform. Although UMW (UMW MK, BUY, TP: MYR5.10) and MBM Resources' (MBM MK, BUY, TP: MYR5) associate Perodua currently has a subscription plan for users to rent or "subscribe" an Ativa Hybrid for MYR500 per month, we note that the vehicle is a series-parallel hybrid vehicle (such as a Toyota Prius) and, as such, may not qualify as an EV.

Proposed tax incentives for EV-charging equipment makers (Appendix 15) from 25 Feb 2023 to end-2025. Although this benefits manufacturers more than it does auto companies, this should increase the domestic supply of EV-charging equipment and, as a result, lower the cost of EV chargers and increase the availability for domestic users – which will ultimately help spur domestic EV adoption.

Overall, helpful in boosting domestic EV adoption, but minimal impact on auto companies' share prices. While the aforesaid policies should directly and indirectly help spur EV adoption in Malaysia, there were no direct incentives that encourage the installation of charging infrastructure, which we think would have provided an additional boost. That said, as we expect EVs to make up a small percentage of TIV in the medium term, we do not expect the ramp-up in EV adoption to meaningfully boost the earnings of auto companies under our coverage.

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Construction – No negative surprises, no buzz — NEUTRAL

We maintain our NEUTRAL weighting on the sector. The federal DE allocation of MYR97bn for 2023F marks a whopping 35.5% YoY increase. The DE incurred for 2022 was MYR71.6bn – c.5% lower than the budgeted amount of MYR75.6bn, following the reprioritisation and implementation progress of programmes and projects. In summary, the DE allocation in Budget 2023 was mainly for existing and confirmed projects. The only "new" projects that were explicitly mentioned in the Prime Minister and Finance Minister's speech centred mainly on flood mitigation projects and repair/upgrading works for government roads, and schools. There was a notable mention in the Ministry of Finance's economic report: The upgrading of the Klang Valley Double Track phase 2 (worth more than MYR1bn) project, whereby only a non-listed contractor, Dhaya Maju Infrastructure (Asia) is involved so far.

Despite the record MYR97bn (MYR200m higher than the Oct 2022 tabling) DE amount, it is worth noting that this includes USD3bn to redeem the (c.MYR14bn) 1 Malaysia Development or 1MDB bond maturing in Mar 2023. Excluding this bond redemption, the core federal DE is approximately MYR83bn (+16% YoY).

Upon further scrutiny, the proportion of DE allocation for the transport sector continued to dip to 18.1% in 2023F (2022: 23.1%) from 25.4% prior to the pandemic back in 2019. The transport DE of MYR17.6bn for 2023F represents a single-digit YoY increase of 6.1%, and is mainly to build new roads and highways, as well as upgrade existing roads, airports and ports. Financial commitments related to the Light Rail Transit (LRT) and Mass Rapid Transit (MRT) projects will continue to be in place, but the exact quantum is unknown except for the possible reinstatement works for the previously omitted stations for Light Rail Transit 3 (LRT3) – potentially costing between MYR750m and MYR1bn.

The Government finally made it known to the public that the MRT3 project will undergo a cost study – as it is aiming to bring down the total cost to MYR45bn from the initial c.MYR50bn (see table below). While the potential reduction in project costs is not sizeable, the uncertainty in terms of timeline remains a point of concern for contractors, given the lack of other large infrastructure projects. In our view, the timeline to complete the said cost study may take up to several months.

Figure 6: MRT3 initial cost breakdown

Work Packages	Value (MYRm)
Construction	34.3
Land acquisition	8.4
Project management	5.6
Others	1.9
Total	**50.2**

Source: Malaysia Parliamentary Reply In Aug 2022

Under a base case scenario, we assume the cost study may take 3-5 months to conduct, followed by a public inspection for three months and possibly a 2-month period for the Government's approval (premised on MRT2's timeline to get government approval back in 2015). As such, main contractors that have submitted the tenders – Gamuda (GAM MK, NEUTRAL, TP: MYR4.11), Sunway Construction (SCGB MK, BUY, TP: MYR2.07), IJM Corp (IJM MK, NEUTRAL, TP: MYR1.59), and Malaysian Resources Corp (MRC MK, BUY, TP: MYR0.45) – would have to wait for 8-10 months from now (possibly until late 4Q23 or early 1Q24) before any of the MRT3 civil packages are awarded.

With main contractors enduring a longer wait, tenders for subcontracting packages may be pushed even further down the timeline – as they will only be awarded once the main contractors are appointed. Henceforth, tier-2 contractors that have a high chance to participate in MRT3 given their exposures in previous MRTs such as Econpile (ECON MK, SELL, TP: MYR0.16) and Gabungan AQRS (AQRS MK, BUY, TP: MYR 0.46) may have to seek other job opportunities in the meantime, to replenish their orderbooks.

In relation to managing natural disasters, six flood mitigation projects will be re-tendered out this year (latest by June) after the MYR15bn flood mitigation projects awarded via direct negotiations were cancelled. Only three out of the six flood mitigation projects were mentioned, with no values disclosed. However, one of it is the construction of a dual-purpose functional reservoir for flood mitigation and raw water supply at Sungai Rasau and Sungai Klang in Selangor that was highlighted in the previous Oct 2022 budget, with an allocation of MYR2bn. Potential beneficiaries for this particular project include companies that already have exposure in the Sungai Rasau Water Supply Scheme (Stage 1) project, namely Gamuda and Taliworks (TWK MK, BUY, TP: MYR1.06).

There are also a few notable allocations related to the upgrading and construction of roads – with MYR2.7bn allocated for the repair/upgrade of federal roads while MYR1.5bn has been earmarked for the upgrade and construction of new connecting roads in rural areas. Separately, there is an emphasis towards expanding and building new highways connecting tourist spots (Figure 2). In short, these projects may not be divided into packages for various contractors – given their sizes – but could serve as a temporary buffer due to the dearth of large infrastructure projects.

Figure 7: Allocations to upgrade and build new roads

Projects	Cost (MYRm)
Building a new road from Habu to Tanah Rata, Cameron Highlands	480
Upgrading Jalan Tun Hamzah to the Semabok Lebuh AMJ Daerah Melaka Tengah junction	300
Building roads and bridges at Sungai Sepang to link Bukit Pelandok in Port Dickson and Sungai Pelek in Sepang	160
Upgrade connectivity of roads to Pengerang via a cutting lane for Senai Desaru Expressway.	n/a
Upgrade Lebuhraya Utara Selatan from Yong Peng Utara to Senai Utara-Phase 1, Johor, from four to six lanes in phases	525

Source: Budget 2023 speech

Sarawak and Sabah have received higher allocations of MYR5.6bn (2022: MYR4.6bn) and MYR6.5bn (2022: MYR5.2bn). This covers the plan to develop towns bordering Kalimantan such as Kalabakan in Sabah and Ba'kelalan in Sarawak with a MYR1bn price tag. More than MYR2.5bn has also been put aside for executing projects involving public infrastructure in Sarawak for roads, street lights, water supply and electricity.

The Government mentioned that it is committed to continuing and expediting the Pan Borneo Highway or PBH Sabah and Sarawak-Sabah Link Road (SSLR) that is estimated to cost MYR20bn, with a road length of more than 1,000km. We do not discount the possibility of names such as KKB Engineering (KKB MK, BUY, TP: MYR1.72), Advancecon (ADVC MK, NEUTRAL, TP: MYR0.28), and Kimlun (KICB MK, NR) that have a track record in Pan Borneo Sarawak phase 1 to secure remaining contracts under the said highway projects.

On the social front, seven schools costing MYR560m will be built in Terengganu, Selangor, Sabah, and Sarawak – possibly benefitting contractors such as Gabungan AQRS that have experience in building schools. Meanwhile, almost MYR700m has been earmarked for a hospital block for women and children, with a capacity of 476 beds at Hospital Melaka. A notable contractor in constructing public hospitals is IJM Corp, which secured a MYR499m contract from the Works Ministry to build the Kapar Hospital in Oct 2022. We also take note of upgrading works for the up-scaling of Kuala Kangsar, Jelebu, and Pontian Hospitals that may be of greater interest amongst smaller non-listed contractors.

We elect to take a tactical stance on the sector, amid the lack of fresh new mega infrastructure projects and further contract delays, and prefer contractors with their own niches as our sector Top Picks. For example, companies venturing into the industrial building space like Kerjaya Prospek (KPG MK, BUY, TP: MYR1.44) – via its partnership with Samsung C&T – can benefit from the extension of tax incentives (mentioned in the budget speech) for industrial firms relocating operations to Malaysia. Another growth sub-segment is the data centre space, eg Yondr Group launching data centres in Sedenak Technology Park – this led Sunway Construction to build Phase 1 of a 200MW data centre for MYR1.7bn – and AirTrunk announcing its entry into Malaysia to develop a 150MW data centre in Johor Bahru. Therefore, we reiterate that investors need to focus on contractors that are able to diversify their orderbooks, given the lukewarm sentiment facing the public infrastructure space. Upside risks: Faster-than-expected project roll-outs and the revival of previously shelved projects.

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Consumer – No news is good news — NEUTRAL

Maintain NEUTRAL on sector. There were no major surprises from the re-tabled Budget 2023, which we deem as positive for the sector. There was no immediate plan to reintroduce the GST, and there were also lack of detailed measures being proposed for the much-talked-about subsidy rationalisation. Similarly, no news is good news for the sin sector – no excise duty hike was proposed. A new tax on luxury goods has been proposed, but we believe that the impact of such on the consumer companies under our coverage should be muted. The only listed company we can think of is Bonia Corp (BON MK, NR), a luxury fashion retailer.

As usual, cash handouts were announced. These amounted to MYR8bn vs the MYR7.8bn in the original Budget 2023. There will also be bonuses for civil servants, another regular item in the federal budget that serves as an effective booster for consumer spending. Meanwhile, there was a tweak proposed for personal income taxes, which will see the M40 income group being levied lower rates. On the flip side, higher-income groups will see increases in the income tax rates. Overall, this should bode well for consumer spending as the lower-income group will have greater propensity to spend their disposable vs higher-income earners. Elsewhere, the Government proposed several measures under the Rahmah concept umbrella to address the high cost of living issues. These include pricing set meals at MYR5, and basic necessities at a 30% discount to retail rates, etc.

There were quite a few proposals related to the tobacco industry – the Government's commitment to intensify efforts to clamp down on the illicit cigarette trade is the only outright positive. The excise duty on vaping products will be a mild positive, as we think it should help level the playing field between unregulated vaping products and legal cigarettes. However, any market share loss of the vaping products as a result of higher pricing is likely to benefit the cheaper illicit cigarettes, rather than the local ones. In addition, the absence of a regulatory framework for the vaping industry is disappointing for the decaying legal tobacco industry, as the latter would not be able to introduce their own vaping products to compete. Lastly, the Government's support on generational endgame or GEG will be a structural negative over the longer term, but we believe this is largely in the price for British American Tobacco (ROTH MK, NEUTRAL, TP: MYR12).

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Healthcare – Lacks excitement **OVERWEIGHT**

The Budget 2023 allocation for the Ministry of Health or MOH was slightly higher at MYR36.3bn, when compared against the MYR36.1bn tabled in the previous budget (Budget 2022: MYR32.4bn). This budget also emphasises the Ministry of Finance's (MOF) aim to continue strengthening the public healthcare system, with MYR4.9bn (unchanged from the previous version) allocated for the procurement of drugs, vaccines and finished products. Notably, the MOF made mention of the MYR3bn allocation to hire up to 1,500 medical officers, dentists and pharmacists (on contract and permanent basis) to address the current dire need, ie the shortage of nurses in public healthcare.

The MOF did not mention any budget allocation for the Malaysia Healthcare Tourism Council (MHTC). Previously, MHTC was given an allocation of MYR20m. However, we think that it is safe to assume the Government might not claw back the allocation for MHTC, given the relatively insignificant amount and nature of the allocation itself. The MOF also announced an increase in income tax relief for medical treatment expenditure to MYR10,000, from MYR8,000. The scope of the relief will be expanded to cover the cost of the rehabilitation of neurodevelopmental disorders such as autism, Down syndrome, and specific learning disabilities.

The healthcare allocation also includes:

i. MYR120m for Skim Perubatan Madani (scheme for the B40 segment to be able to receive medical treatment in the private clinics);

ii. MYR80m for PEKA B40 initiatives (similar to the ordinary medical card where recipients can receive medical treatment – mainly for non-communicable diseases – and for health screening);

iii. Upgrading works for up to 26 public facilities, to address the issue of overcrowding in government hospitals. Hospitals include those in Kuala Kangsar, Jelebu and Pontian which are almost a decade old;

iv. MYR700m to build a block dedicated to medical care for women and children in Hospital Melaka.

We think the budget allocation for the healthcare industry remains unexciting, as the amount still falls short of the target of 5% of GDP target (as recommended by healthcare pundits previously). Based on our back-of-envelope calculation, the 2023 healthcare budget comes up to only 2.3% of 2023 GDP (based on expected 4.5% YoY GDP growth for this year), compared with 2.1% of GDP in 2022.

Overall, we expect KPJ Healthcare (KPJ MK, BUY, TP: MYR1.50) and IHH Healthcare (IHH MK, BUY, TP: MYR7.07) to continue benefiting from the recovery in medical tourism, the pick-up in patient visits, as well as the improvement in the bed occupancy rate. We do not see any meaningful spillover effect from Budget 2023 on IHH and KPJ – but expect to see sustained growth for Duopharma Biotech (DBB MK, BUY, TP: MYR1.88), given its 44% topline exposure to the public healthcare sector.

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M-REITs – Luxury tax may hit retail sales slightly — NEUTRAL

Maintain NEUTRAL on the sector. The Government is proposing a luxury tax to be implemented this year on items that include fashion goods and luxury watches. While details remain sparse, we believe the M-REITs under our coverage that are more affected by this would be KLCCP Stapled (KLCCSS MK, NEUTRAL, TP: MYR7.30) and Pavilion REIT (PREIT MK, BUY, TP: MYR1.57). This is because their flagship city-centric malls target customers in the middle- to upper-income brackets.

That said, we think the impact to the aforementioned REITs should be minimal. A lot of the retail sales growth in the past year has been attributed to the fashion tenants that make up a high proportion of NLA for Pavilion Kuala Lumpur and Suria KLCC (c.25%). While the proposed luxury tax might reduce retail sales, and subsequently affect rental reversion rates, we think the net impact should be minimal – this is because we are expecting the increase in the number of tourists this year to boost retail spending at those malls. A total of MYR250m has been allocated to promote the tourism sector in Budget 2023, targeting an arrival of 23.5m international tourists in 2025. We await further details on this proposed tax, including any exemption for foreign tourists to boost the tourism industry, which would further mitigate the impact to REITs' tenant sales, in our view.

Prime Minister Dato' Seri Anwar Ibrahim also mentioned the increase in electricity tariff to large companies that was previously announced in Dec 2022. The electricity surcharge would increase from 3.7 sen to 20 sen per kWh from January to June. While electricity makes up c.90% of REITs' utility costs, utilities only make up 20% of the total property operating expense – the respective management teams have guided for a minimal impact to DPU of c.3%. Furthermore, REITs could opt to pass on the increase in electricity costs to tenants to further mitigate the rate hike.

Overall, we think the impact from both the luxury tax and electricity tariff hikes is minimal to this sector. Our Top Picks are Axis REIT (AXRB MK, BUY, TP: MYR2.14) and Pavilion REIT. Axis REIT remains our sector Top Pick, with the REIT's acquisition and redevelopment plans expected to drive earnings growth in the medium to long term. Pavilion REIT is our pick for the retail segment, as there is still room for its blended occupancy rate to rise – the planned acquisition of Pavilion Bukit Jalil in 2Q23 is also positive for the REIT's long-term prospects, as the new mall will be another key income contributor apart from Pavilion Kuala Lumpur.

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Rubber Products – Higher electricity tariff within expectations — UNDERWEIGHT

Prime Minister and Finance Minister Dato' Seri Anwar Ibrahim announced in the Budget 2023 speech that electricity tariffs will be maintained for all domestic users and SMEs. Instead, tariffs hike are expected to be incurred by big companies – except for those involved in the food and agricultural sectors.

Although the quantum of the spike was not mentioned, we think the latter is likely related to the Imbalance Cost Pass-Through (ICPT) surcharge increase approved by the Ministry of Finance or MOF in January. To recap, the new ICPT surcharge will be increased to 20 sen per kWh from 3.7 sen per kWh. According to the article in The Star newspaper, commercial users are expected to see their costs of doing business rising between 20% and 40% under this new surcharge.

We gather that electricity typically accounts for 5% of glove manufacturers' total cost of goods sold. We estimate that the spike in electricity tariffs is expected to impact such manufacturers' earnings by 1% to 2%. As cost pass-throughs remain challenging in the near term, we expect the abovementioned impact to further exacerbate glove makers' profitability in 2023.

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FIRST AGENDA: BUILDING AN INCLUSIVE AND SUSTAINABLE ECONOMY

STRATEGY 1: FISCAL STRENGTHENING

Focus 1: Expansionary fiscal policy

i. The total allocation of MYR388.1bn is the biggest budget on record (surpassing the MYR372.3bn allocation for the previous iteration of Budget 2023). Of the total amount, MYR289.1bn will be allocated towards operating expenditure while MYR97bn is earmarked for DE, with the remaining MYR2bn reserved for contingencies.

Focus 2: Managing debt levels

i. The Government has a fiscal deficit-to-GDP target of 5% in 2023 and 3.2% by 2025.

Focus 3: Increasing domestic revenue

i. Introduction of a luxury tax with varying rates depending on product types. Examples of taxable products include luxury watches and handbags;

ii. Imposition of an excise duty on liquids containing nicotine used in e-cigarettes. 50% of the proceeds will be funnelled towards the Ministry of Health.

STRATEGY 2: FULFILLING THE *RAKYAT*'S ECONOMIC NEEDS

Focus 1: Tax cuts

i. Reduction of tax rate for MSMEs to 15% from 17% for the first MYR150,000.

Focus 2: Assisting small and micro enterprises

i. Allocation of MYR50m for building and upgrading 3,000 stalls and kiosks across the country for use by small entrepreneurs;

ii. An additional MYR176m allocation for upgrading business premises and facilities under Majlis Amanah Rakyat or MARA, Dewan Bandaraya Kuala Lumpur or DBKL, Perbadanan Usahawan Nasional or PUNB and the Urban Development Authority or UDA.

Focus 3: Borrowing facilities and credit guarantees

i. MYR1.7bn allocation for borrowing facilities for MSMEs under agencies such as Bank Negara Malaysia (BNM), Bank Simpanan Nasional, and TEKUN Nasional. Of this, MYR300m is specifically for supporting youth-/women-led MSMEs;

ii. Examination fee waivers for B2 motorcycle, taxi, bus, and e-hailing licenses.

STRATEGY 3: FACING NATURAL DISASTERS

Focus 1: Readiness to face natural disasters

i. All major public projects are to be distributed through a tender process. Additionally, six existing flood mitigation projects are to be re-tendered by Jun 2023;

ii. A total of MYR220m will be allocated towards various disaster relief agencies and communities for disaster relief prevention purposes.

Focus 2: Green practices

i. Allocation under the Ecological Fiscal Transfer for Biodiversity Conservation or EFT will be raised to MYR150m from MYR70m in 2022. An additional allocation of MYR38m is set aside for wildlife conservation projects;

ii. Various initiatives and incentives directed towards adoption of sustainable practices. These include allocations for sustainable businesses, environmentally friendly projects, reforestation, and various tax incentives.

STRATEGY 4: HIGH IMPACT INVESTMENT

Focus 1: Ease the process for investment

i. Invest Malaysia Council and National Committee on Investment or NCI to lead efforts in speeding up approvals for investment;

ii. Empower Pasukan Petugas Khas Pemudahcara Perniagaan or PEMUDAH as an investment climate facilitation unit;

iii. Introducing a new Industrial Master Plan to promote investment, with tax incentives restructured to be based on outcomes.

Focus 2: Investment in key sectors

i. Developing Tun Razak Exchange or TRX as an international finance hub in Malaysia;

ii. Pioneer status and income tax exemptions and allowances for companies that carry out construction activities and ship repairs with Malaysian Investment Development Authority or MIDA's approval;

iii. Projects to improve Pulau Pinang International Airport and Subang Airport.

Focus 3: Economy and Islamic finance

i. Beginning 2024, investment of Employees Provident Fund (EPF) *shariah* funds are to be separated from conventional funds to offer competitive returns to 1.25m *shariah* account holders.

SECOND AGENDA: INSTITUTIONAL REFORMS & GOOD GOVERNANCE TO REGAIN TRUST

STRATEGY 5: PUBLIC SECTOR REFORMS

Focus 1: Transparency in government procurement

i. The implementation of government procurement must be transparent;

ii. The Government plans to amend and introduce the Whistle-blower Protection Act Information this year to protect whistle-blowers to fight corruption.

Focus 2: Accelerating infrastructure projects

i. The Government is preparing to allocate MYR1.2bn for repairing of 400 clinics and 380 schools;

ii. The Government will provide MYR2.7bn to maintain and upgrade federal roads. Meanwhile, to carry out minor maintenance, MYR300m will be specifically provided for G1 to G4 contractors.

Focus 3: Encourage ministries and agencies to innovate

i. A Special Task Force on Agency Reform or STAR chaired by the Chief Secretary of State has been established;

ii. To ensure cloud computing services in effective public sector, Malaysian Administrative Modernisation and Management Planning Unit or MAMPU has taken strategic steps by upgrading the MyGovCloud service.

Focus 4: Overcoming the *rakyat's* issues

i. MYR10m is allocated to strengthen the role of National Scam Response Centre or NSRC;

ii. MYR8m is allocated for the Local Social Support Centre to fight mental health issues and domestic violence.

Focus 5: Institutional reforms

i. The Government is pursuing a new direction to reform public service institutions that are seen to have overlaps in terms of power and function.

ii. More reasonable remuneration packages for top management of companies.

STRATEGY 6: EMPOWERING PUBLIC-PRIVATE COOPERATION

Focus 1: Cooperation with industries for the implementation of Technical and Vocational Education and Training (TVET)

i. MYR 6.7bn allocated for TVET;

ii. MYR50m is allocated to Department of Skills Development or SLDN

Focus 2: Encouragement on employment with adequate income

i. MYR45m is allocated for the Social Security Organisation (SOCSO) to distribute MYR600 per month for three months to companies employing 17,000 TVET graduates;

ii. MYR1bn is allocated to training programmes for employees with employers who are registered and have accumulated levies;

iii. MYR50m in matching grants to encourage the automation of the plantation sector via the use of artificial intelligence or AI;

iv. Subsidy of MYR180 per month is eligible for households with monthly earnings of MYR5-7k.

Focus 3: Matching fund to boost the tourism sector

i. Allocation of MYR250m for promoting the tourism sector;

ii. MYR480m allocated to build a road from Habu to Tanah Rata, Cameron Highlands;

iii. MYR300m allocated to upgrade Jalan Tun Hamzah to Persimpangan Semabok Lebuhraya Alor Gajah-Melaka Tengah;

iv. MYR525m allocated to upgrade Lebuhraya Utara Selatan from Yong Peng Utara to Senai Utara-Phase 1, Johor, from four to six tunnels.

STRATEGY 7: PRIORITISING DIGITAL AGENDA

Focus 1: Internet facilities for the *rakyat*

i. Accelerating the implementation of the JENDELA project;

ii. Rural internet project (MYR25m matching grant by Tenaga Nasional);

iii. National Fiberisation & Connectivity Plan or NFCP (MYR700m).

Focus 2: Digitalising businesses

i. 1DUN 1PEDi programme to assist small business owners with ICT and e-commerce knowledge;

ii. Matching grant up to MYR5,000 under the Digitisation of SMEs and Small Traders Grant Scheme (MYR100m), ie SMEs (MYR90m) and small traders (MYR10m)

STRATEGY 8: STRENGTHENING THE ROLE OF GOVERNMENT AGENCIES AND COMPANIES

Focus 1: Increase capital space and attract local talent in highly innovative sectors

i. Malaysia Co-investment Fund or MyCIF (MYR40m);

ii. Facilitating more secondary markets for private market instruments;

iii. Authorising the issuance of dual class shares with guidelines to be issued by the Securities Commission or SC;

iv. Venture capital funds are available through Malaysia Venture Capital Management or MAVCAP, Prime Capital Group, and Ekuinas Nasional (MYR136m).

Focus 2: CSR

i. Kuala Lumpur Green Belt and Heritage – leading the redevelopment of Taman Tugu and other historic buildings, eg Bangunan Sultan Abdul Samad and Carcosa Sri Negara;

ii. Establishment of National Heritage Fund by Khazanah Nasional (MYR700m);

iii. Main attraction beautification project and raising the potential of historical and cultural assets by Think City, as well as a project to increase the liveability of public housing in Kuala Lumpur (MYR30m);

iv. Conservation programme for world heritage sites recognised by UNESCO in Melaka and Penang (MYR50m).

THIRD AGENDA: SOCIAL JUSTICE TO REDUCE INEQUALITY

STRATEGY 9: ENDING EXTREME POVERTY

Focus 1: Cash assistance & people's income initiative

i. MYR750m has been allocated for the implementation of *Initiatif Pendapatan Rakyat* or IPR in 2023;

ii. MYR2.5bn will be allocated for social welfare assistance to more than 400k people.

Focus 2: Role of state governments

i. Both the Premier and Chief Minister of Sarawak and Sabah have agreed to continue the programme to help eliminate petroleum revenue payments;

ii. Partial allocations from Wang Ehsan Kelantan and Terengganu will be channelled to the poor;

iii. Allocation of MYR30m in supporting the effort made by the United Nations Development Programme or UNDP and Kumpulan Rentas Parti Parlimen Malaysia to activities related to sustainable development goals. This includes MYR10m for a community garden programme at Parliament level.

STRATEGY 10: REDUCING THE COST OF LIVING

Focus 1: *Payung Rahmah* concept

i. One of the initiatives is the *Menu Rahmah* that features serving a meal at MYR5 only;

ii. Allocation of MYR100m for the supporting programme – *Jualan Rahmah* – which reduces the prices of basic essential goods by 30% in all 222 constituencies;

iii. Increasing the allocation from MYR200m to MYR225m to expand the distribution programme regarding basic necessities in 25 new areas.

Focus 2: *Sumbangan Tunai Ramah* or STR

i. Individuals contributing to household incomes of less than MYR2,500 are eligible to receive assistance up to MYR2,500, depending on the number of children in the household;

ii. An extra MYR600, in the form of a food basket or voucher, will be given to the poorest recipients of STR;

iii. MYR200 will be distributed to individuals aged 18-20 years via e-wallet *Belia Rahmah*. This amounts to a total allocation of MYR400m.

Focus 3: Assistance for paddy farmers and & rubber plantation workers

i. MYR1.6bn will be allocated for a variety of subsidies and incentives for farmers;

ii. MYR200 will be distributed monthly to farmers for a period of three months or a planting season. The total amount allocated is MYR228m;

iii. Padiberas Nasional or BERNAS has agreed to share 30% of its net profit with farmers, on top of a MYR60m contribution;

iv. MYR350m will be allocated to increase the floor price of rubber from MYR2.50 to MYR2.70 per kg via *Insentif Pengeluaran Getah* or IPG;

v. MYR256m will be allocated to increase aid to those affected by the monsoon seasons to MYR800 from MYR600 for four months, which will benefit 320k rubber planters (smallholders).

Focus 4: Disposable income for M40

i. 2% reduction in the income tax rate for those earning between MYR35,00 and 100,000 pa;

ii. The income tax rate will be increased by 0.5-2% for those with annual earnings of MYR100,000-1,000,000.

Focus 5: Food security

i. MYR1bn will provided by BNM under the Agrofood Financing Scheme;

ii. MYR10m will be allocated to Malaysia Digital Economy Corp for the expansion of the Digital AgTech Programme;

iii. Allocation of MYR30m to develop agro-food projects.

STRATEGY 11: ENSURING HARMONY AND UNITY

Focus 1: Development of Sabah and Sarawak

i. MYR6.5bn and MYR5.6bn will be allocated to help develop Sabah and Sarawak;

ii. More than MYR2.5bn will be provided to implement projects involving public infrastructure;

iii. MYR30m will be allocated to increase the number of clinics, banks and mobile courts.

Focus 2: National defence

i. MYR18.5bn and MYR17.7bn will be allocated to the Ministries of Home Affairs and Defence.

Focus 3: *Syiar Islam*

i. MYR1.5bn will be allocated for the management and development of Islamic affairs.

Focus 4: Sports and culture

ii. MYR50m will be allocated to match grant funds to encourage private sector sponsorship for sports programmes;

iii. MYR324m will be allocated for the improvement of training programmes and sports facilities;

iv. MYR5m will be allocated to the National Athletes Welfare Foundation or YAKEB starting in 2023;

v. MYR102m will be allocated to Digital Content Funds;

vi. Contributions to the film community and National Film Development Fund under National Film Development Corp or FINAS will be tax-deductible;

vii. Allocation of MYR25m to stimulate cultural and artistic activities at community level.

STRATEGY 12: PROVIDING QUALITY BASIC NEEDS

Focus 1: Public transportation

i. MYR150m will be allocated to improve public bus accessibility in Melaka, Kota Kinabalu, and Kuching;

ii. MYR209m will be allocated to subsidise air transport services for the benefit of rural residents in Sabah and Sarawak.

Focus 2: Education

i. Increase allocation to the Ministry of Education to MYR55.2bn from MYR52.6bn;

ii. MYR777m for the supplementary food programme or RMT, benefitting 700,000 students.

Focus 3: Healthcare

i. Allocation of MYR36.3bn to strengthen the capacity of public healthcare;

ii. MYR120m allocated for *Skim Perubatan Madani* for the poor to receive medical treatment at clinics and private general medical practitioners.

Focus 4: Housing

i. MYR367m provided for *Program Perumahan Rakyat* or PPR and MYR358m provided for *Rumah Mesra Rakyat* in urban areas.

Focus 5: Social protection

i. The Government will bear 80% of the SOCSO contribution value to encourage self-employed workers to make contributions;

ii. The Government plans to expand the scope of tax relief for life insurance premiums or life *takaful* contributions to cover up to MYR3k voluntary contributions to EPF.

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