

Budget 2019

Balancing growth amid challenges

Re-setting expectations

Budget 2019 balances between ensuring growth amid a challenging external environment, and committing to fiscal consolidation. We make no change to our real GDP growth forecasts of +4.8%/+4.8% for 2018/2019. That said, measures under Budget 2019 have led us to revise down our market earnings estimates for 2019, by -1.4% for the KLCI and -2.0% for our research universe. Consequently, we shave our end-2018 KLCI target to 1,730 and introduce an end-2019 target of 1,830 on 16x 12M fwd PER.

Broadly within our expectations

The budget deficit to GDP ratio is projected to be on a downward trajectory i.e. to -3.4% in 2019 from -3.7% in 2018, with targets of -3.0% for 2020 and -2.8% for 2021, as well as a longer-term objective of around 2.0%. The 2018-2019 budget deficit to GDP of above-3% reflects one-off factors such as GST revenue loss, tax refunds, and previously unbudgeted costs. To cover these, tax and spending measures focus on raising contributions from existing revenue sources (services tax; RPGT; gaming tax; PETRONAS dividend); enhancing tax compliance ('tax amnesty'); savings via open tender for procurements, targeted subsidies and social assistance, and the review of fiscal incentives. There were no major new taxes such as the speculated capital gains or carbon taxes - except for minor additions such as sugar tax. Budget 2019 incentives are mainly geared towards affordable housing, SMEs and technology adoption.

Implications to market, sectors

Gaming sector is a major loser with higher casino license fee and casino duty rate hike. Consequently, we have cut our earnings forecasts for GENM and GENT aggressively. Property, meanwhile, is a winner, with a slew of measures to lift sales and clear inventories. The additional 1% in stamp duty on the transfer of property is milder than expected, while the first-in-the-world 'Property Crowdfunding' platform as an alternative source of financing for first-time homebuyers could be a game changer. We are now tactically POSITIVE on the Property sector. Elsewhere, while no new major infra projects were announced, that existing major infra projects are to proceed (although with a lower cost - KVMRT 2, KVLRT 3, Pan Borneo Highway) is still a relief for the Construction sector.

Defensive strategy reiterated

The projected sub-5% real GDP growth, above -3% budget deficit to GDP in 2018-2019, and a medium-term budget deficit of -3% and below from 2020 onwards are well-flagged and to an extent, priced in. We think the market will next look towards international rating agencies' views on the country's sovereign credit rating. Credible and well-executed measures to strengthen the fiscal administration in terms of discipline and governance, restructuring of Government debt, and diversifying Government revenue will be key. For the equity market, earnings growth remains in focus; the 3Q 2018 earnings reporting season which has just started is an immediate lookout. Alongside external challenges, we reiterate a defensive strategy for equities. We project a KLCI core

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GDP growth est:

2018E +4.8% (unchanged) 2019E +4.8% (unchanged)

Current KLCI: 1,713.9 (2 Nov)

YE KLCI target:

2018E 1,730 (from 1,800)

2019E 1,830 (new)

M'sia equities growth & valuation

		2017A	2018E	2019E
KLCI @ 1,713.7	PE (x)	16.7	16.6	16.0
Earnings Growth	(%)	6.3%	0.6%	3.9%
Research Universe	PE (x)	17.6	17.1	15.7
Earnings Growth	(%)	7.0%	2.6%	9.0%

Top BUY picks

Stock Name	BB Ticker	Shr Px @ 2 Nov	TP
HL Financial Grp	HLFG	19.30	21.20
AMMB Holdings	AMM	3.92	4.65
Astro Malaysia	ASTRO	1.39	1.95
Alliance Bank	ABMB	3.99	5.00
IGB REIT	IGBREIT	1.65	1.85
CMS	CMS	3.00	4.10
Allianz Malaysia	ALLZ	12.28	16.05
YTL REIT	YTLREIT	1.19	1.60

Source: Maybank KE

Macro highlights & takeaways

Figure 1: Federal Government's Revenue, Expenditure and Budget Balance

MYRb	2017	Budget 2018	Jan-Sep 2018	2018E	2019E
Revenue	220.4	239.9	165.7	236.5	261.8
% chg	3.8	8.8	6.4	7.3	10.7
Total Expenditure ¹	262.6	280.3	200.3	290.4	314.6
% chg	4.1	6.7	6.0	10.6	8.3
Operating Expenditure	217.7	234.3	117.8 ³	235.5	259.9
% chg	3.6	7.6	6.0 ³	8.2	10.4
Current Balance ²	2.7	5.6	(11.0) ³	1.0	2.0
% of GDP	0.2	0.4	(1.6) ³	0.1	0.1
Gross Development Expenditure	44.9	46.0	20.1 ³	54.9	54.7
% chg	6.9	2.5	(0.7) ³	22.3	(0.4)
Net Development Expenditure	43.0	45.4	19.8 ³	54.3	54.0
% chg	5.9	5.5	(0.7) 3	26.3	(0.5)
Overall Balance	(40.3)	(39.8)	(34.6)	(53.3)	(52.1)
% of GDP	(3.0)	(2.8)	(4.5) ³	(3.7)	(3.4)
Primary Balance ⁴	(12.5)	(8.6)	(16.2) ³	(22.4)	(19.1)
% of GDP	(0.9)	(0.6)	(2.3) ³	(1.6)	(1.2)

¹ Operating Expenditure + Gross Development Expenditure

Source: Ministry of Finance (Economic Report 2018/2019; Fiscal Outlook 2019), BNM, MKE Economics Research

2018 budget deficit at -3.7% of GDP

2018 budget deficit is reset to -3.7% of GDP from the original target of -2.8% of GDP at a value of -MYR53.3b vs. Budget 2018's -MYR39.8b (2017: -MYR40.3b).

Total revenue this year is estimated to increase by 7.3% to MYR236.5b, slightly off Budget 2018's MYR239.9b (2017: MYR220.4b) as the drop in indirect tax revenue due to the impact of replacing Goods & Services Tax (GST) with Sales & Services Tax (SST) is offset by gains in direct tax and non-tax revenues, thanks to the surge in oil & gas related income.

- -33.1% drop in indirect tax revenue to MYR41.2b (Budget 2018: MYR63.9b; 2017: MYR61.6b) on net consumption tax revenue loss from zero-rating GST in June-Aug 2018 followed by its abolition and replacement by SST in Sep 2018 that resulted in lower GST revenue of MYR19.1b (Budget 2018: MYR43.8b; 2017: MYR44.3b) amid SST collection of MYR4b for Sep-Dec 2018.
- 47.9% surge in oil & gas related income to MYR51.2b (Budget 2018: MYR37.8b; 2017: MYR33.6b) that include MYR16.8b in petroleum income tax (Budget 2018: MYR11.4b; 2017: MYR11.8b) and MYR26b in PETRONAS dividend (Budget 2018: MYR19b; 2017: MYR16b) amid the stronger 2018 YTD average crude oil price of USD73/bbl vs. USD52/bbl assumption in Budget 2018 (2017: USD54/bbl).
- Which boosts direct tax revenue by 15% to MYR133.5b (Budget 2018: MYR127.7b; 2017: MYR116.0b) as the jump in petroleum income tax is accompanied by growth of 9.4% in corporate income tax to MYR70.5b (Budget 2018: MYR72.5b; 2017: MYR64.5b) and 20.2% in personal income tax to MYR34.8b (Budget 2018: MYR32.2b; 2017: MYR28.9b).
- And non-tax revenue which jump 44.5% to MYR61.8b (Budget 2018: MYR48.3b; 2017: MYR42.7b) mainly attributed to the rise in PETRONAS dividend.

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² Revenue minus Operating Expenditure

³ Jan-June 2018

⁴Overall Balance excluding Debt Service Charges



Total expenditure is larger at MYR290.4b vs. Budget 2018's MYR279.7b (2017: MYR262.6b)

- Mainly due to higher Gross Development Expenditure (GDE) of MYR54.3b vs. Budget 2018's MYR46b (2017: MYR44.9b). As a result, net development expenditure also jumped to MYR54.3b (Budget 2018: MYR45.4b; 2017: MYR43.0b).
- Operating Expenditure (OE) of MYR235.5b is marginally above Budget 2018's MYR234.3b (2017: MYR217.7b). Current budget balance (Revenue less OE) remains in surplus at MYR1.0b or 0.1% of GDP vs. Budget 2018's MYR5.6b or 0.4% of GDP (2017: MYR2.7b or 0.2% of GDP).
- Higher expenditure reflects tax refunds as well as previously unbudgeted commitments and costs e.g. MYR3.9b GST refunds; MYR1b in 1MDB debt service cost; MYR1.3b for takeover of Eastern Dispersal Link; MYR1b for Prasarana and MYR1.4b for Ministry of Transport's rail project. Another key unbudgeted cost is fuel price subsidy for RON95 petrol and diesel at over MYR5b (re: 3rd paragraph, page 3, "Chapter 1: Economic Management & Prospects" of the Ministry of Finance's Economic Report 2018/2019).

2019 budget deficit down to -3.4% of GDP

2019 budget deficit is expected to stay above -3% of GDP but lower at -3.4%, valued at -MYR52.1b (2018E: -MYR53.3b).

Next year's total revenue is forecast to increase by 10.7% to MYR261.8b (2018E: MYR236.5b), reflecting:

- Another year of strong growth in non-tax revenue of 38.7% to MYR85.7b.
- Thanks to further strong increase of 58.1% in oil & gas related income to MYR81b (2018E: MYR51.2b) on the back of record-high MYR54b PETRONAS dividend (2018E: MYR26b), reflecting a "special dividend" of MYR30b.
- Amid "flattish" direct and indirect tax revenues. Direct tax revenue will increase by only 1.2% to MYR135.1b (2018E: MYR133.5b) as the 7.4% rise in petroleum income tax to MYR18.1b (2018E: MYR16.8b) is countered by "flattish" corporate income tax (2019E: MYR70.2b; 2018E: MYR70.5b) and personal income tax (2019E: MYR35.0b; 2018E: MYR34.8b). Indirect tax revenue will be virtually unchanged at MYR41.1b (2018E: MYR41.2b) as the full-year GST revenue loss offset the full-year SST collection of MYR22b (Sep-Dec 2018: MYR4b).

Allocation for total Government expenditure in Budget 2019 is up 8.3% to MYR314.6b (2018E: MYR290.4b):

- Reflecting higher OE allocation of MYR259.9b (2018E: MYR235.5b) mainly due to notable jump in "Others" to MYR44.8b (208E: MYR9.5b) owing to the MYR37b GST and income tax refunds, and "Debt Service Charges" increase of 6.9% to MYR33b (2018E: MYR30.9b) which offset the declines in "Supplies and Services" (2019E: MYR29.1b; 2018E: MYR36.5b) and "Subsidies and Social Assistance" (2019E: MYR22.3b; 2018E: MYR28.1b) amid marginal changes in other expenses.
- GDE allocation is little changed at MYR54.7b (2018E: MYR54.9b). Net development expenditure will be MYR54.0b (2018E: MYR54.3b).

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Higher GDE on reclassification of OE's items

GDE of over MYR50b p.a. in 2018-2019 reflects the reclassification of items previously under treated as transfers under OE to development spending e.g. payments to Prasarana for LRT construction and to Suria Energy Resources for the now cancelled Trans Sabah Gas Pipeline and Multi-Product Pipeline projects; lease or maintenance payments for the construction of police buildings and capital refurbishment of schools. The reclassifications amount to MYR6.9b in 2018 and MYR9.7b in 2019.

Aim to lower budget deficit to <3% of GDP 2020 onwards

Budget deficit to GDP ratio targeted at 3% in 2020 and sub-3% beyond 2020. The message from the Government is that budget deficit to GDP ratio is only temporarily off the consolidation path in 2010-2017 following the "overshoot" in 2018. It will resume the downtrend in 2019 and 2020 (as per 11MP MTR target of -3.0% of GDP) plus the target of -2.8% of GDP in 2021. The longer term target is to achieve budget deficit of around -2% of GDP.

No "major" - only "minor" - new taxes

No "major" new taxes introduced as per our expectations despite speculations on capital gains tax, inheritance tax, digital tax and carbon tax. Moreover, the Tax System Review Panel that is tasked to look at and propose tax system reforms and overhauls to diversify tax revenues, make the tax system progressive, minimize tax losses due to leakages and evasions, as well as review tax incentives was only "operational" in Sep 2018. We understand that the current plan or timeline is for the Panel to submit its recommendations to the Government in mid-2019, implying any major new taxes are more likely to materialise in Budget 2020 at the earliest, if not later.

But announcements of "minor" new tax and levy i.e. "sugar tax" and departure levy. As we expected, Budget 2019 proposed for the introduction of excise duty of MYR0.40 per litre on "sugar sweetened beverages" to be effective on 1 Apr 2019. The duty will be imposed on non-alcoholic beverages containing added sugars of over 5gm per 100ml and on fruit or vegetable juice with added sugar of more than 12gm per 100ml. The Government also proposed a departure levy for all outbound air passengers starting 1 June 2019 i.e. MYR20 for within ASEAN and MYR40 to other countries.

Measures to enhance existing tax revenues instead

Income tax "amnesty". The Government announced a Special Voluntary Disclosure Programme for taxpayers to declare unreported income, including those in offshore accounts, with reduced penalty rates on tax payable. The programme commences on 3 Nov 2018 until 30 June 2019. The penalty rates are 10% for the period 3 Nov 2018 - 31 Mar 2019 and 15% for the period 1 Apr 2019 - 30 June 2019, after which it will range from 80% to 300% as per the existing law.

Broadening Services Tax coverage to include imported business and online services. Imported business services such as architecture, graphic design, IT and engineering design will be charged 6% Services Tax starting 1 Jan 2019, while foreign providers of imported online services such as softwares, music, video and digital advertising will be required to register with Customs and remit the 6% Services Tax from 1 Jan 2020.

Hikes in gaming taxes, levy and fees i.e. casino license (to MYR150m p.a. from MYR120m p.a.) and duties (to 35% from 25% of gross collection); machine dealer's license (to MYR50k p.a. from MYR10k p.a.); gaming machine duties (to 30% from 20% of gross collection)

Revisions in Real Property Gains Tax (RPGT) and stamp duty on property transactions i.e. increases in RPGT for the disposal of properties or shares in property holding companies after the fifth year to 10% from 5% for companies and foreigners, and to 5% from 0% for Malaysian individuals (except for low-cost, low-medium cost and affordable housing of below MYR200,000); hike in stamp duty on transfer of property valued above MYR1m to 4% from 3%.

Also include reviews of existing tax incentives and enhance tax enforcement e.g. limiting carrying forward of unutilized business losses and allowances (capital, reinvestment, investment tax allowances as well as pioneer losses) for tax reliefs to 7 years from unlimited previously; review of over 130 fiscal incentives under 32 approving authorities to remove duplications and redundancies; removal of tax exemption for interest earned on wholesale money market funds; Customs to step up enforcement on cigarette smuggling to recover at least MYR1b in tax losses; IRB to scrutinize and investigate unexplained extraordinary wealth.

Plus savings in procurements, subsidies & social assistance

There are also savings in OE from lower expenses on procurements, subsidies and social assistance. Budget 2019 allocation for "Supplies and Services" will be lower by -20.3% (2019E: MYR29.1b; 2018E: MYR36.5b) which we believe is partly due to the cost savings effect of adopting open tender and competitive biddings for Government procurements.

In addition, the allocation for "Subsidies and Social Assistance" is down by -20.8% (2019E: MYR22.3b; 2018E: MYR28.1b). Two key factors explain this, in our opinion, namely:

- Change in fuel subsidy system to a "targeted-with-quota" mechanism in 2Q 2019 where 4m individual car owners and 2.6m motorcycle owners with engine capacity of ≤1,500cc and ≤125cc respectively will be given 100 litres and 40 litres of RON95 petrol per month with a subsidy of at least MYR0.30 per litre. This will cost the Government MYR2b vs. over MYR5b this year under the current "blanket" fuel price subsidy system that benefit all regardless of income levels. Subsequently, fuel prices will be floated.
- Rationalisation of cash handout programme that is based more on needs and according to family size i.e. Bantuan Sara Hidup (BSH - renamed from BR1M previously) that benefit 4.1m households totaling MYR5m (2018: 7.2m households; MYR6.8b).

One-shot GST and income tax refunds

MYR37b tax refunds in 2019. In line with our call in Budget 2019 Preview note ("Temporary off the fiscal consolidation track", 29 Oct 2018), the Government will settle all outstanding GST and income tax refunds totaling MYR37b next year. This year's refunds totaled MYR3.9b.



Budget 2019 incentives mainly for first-time buyers of affordable housings, SMEs and technology adoption

Supply - and financing first-time buyers - of affordable housing remain a priority, as reflected by the following Budget 2019 measures:

- MYR1.5b allocation to construct and complete affordable homes
- Incentives for first-time affordable home buyers, including:
 - MYR1b fund by Bank Negara Malaysia (BNM) to help lower income group earning < MYR2.300 per month to buy affordable homes priced up to MYR150,000 at a concessionary rate of 3.5% p.a.
 - Stamp duty exemption up to MYR300,000 on sales & purchase and loan agreements for two years until Dec 2020 for first-time home buyers purchasing homes priced up to MYR500,000.
 - Mortgage guarantees by Cagamas Berhad for first-time homebuyers with household income of < MYR5,000 per month.
 - Incentives under National Home Ownership Campaign e.g. waive all stamp duty charges for first-time property purchases of home priced between MYR300,001 up to MYR1m for a period of 6 months (1 Jan 30 June 2019) accompanied by a minimum of 10% price discounts by developers.

Corporate income tax rate cut and MYR8.4b funds for SMEs. For SMEs with less than MYR2.5m paid-up capital, the corporate tax rate on taxable income of up to MYR500,000 will be cut to 17% from 18%. Budget 2019 also allocates MYR8.4b worth of financing for SMEs via various funds to provide loan guarantees, loans at concessionary rates and export credits as well as to support SMEs in targeted sectors like halal industry as well as wholesale and retail.

MYR5.2b allocation to accelerate adoption of technologies, mainly to support SMEs' transition and migration to Industry 4.0 by investing in automation and modernization; catalyse the usage of smart technology such as driving automation, robotics and artificial intelligence; and promoting R&D activities as well as licensing or purchasing new technology.

Sub-5% official growth forecasts, in line with ours

The Government now expect 2018 economic growth to come in at 4.8% vs. the previous forecast of 5.5%-6.0% announced in Mar 2018 when Bank Negara released its 2017 Annual Report. The downward revision is not surprising given the 4.9% growth in 1H 2018 as the pace of economic expansion cooled to 4.5% in 2Q 2018 from 5.4% in 1Q 2018.

Growth is expected to be at 4.9% in 2019. Recall that 11^{th} Malaysia Plan MidTerm (11MP MTR) adjusted 2016-2020 growth projection to 4.5%-5.5% p.a. from 5%-6% p.a., and expect 2018-2020 growth of 4.5%-5.5% p.a. after the 5.1% expansion in 2016-2017.

Official growth forecasts are in line with our view of 4.8% growth for both this year and next year (2017: 5.9%) published in Aug 2018. We retain our growth forecasts and the details, pending release of 3Q 2018 GDP scheduled on 16 Nov 2018.

Figure 2: Real GDP

% chg	% Share of GDP	AC	ΓUAL	MAYBA	ANK KE	OFFICIAL		
•		2017	1H 2018	2018E	2019E	2018E Revised	2018E Previous	2019E
Real GDP	100.0	5.9	4.9	4.8	4.8	4.8	5.5-6.0	4.9
Services	55.9	6.2	6.5	6.4	6.3	6.3	6.1	5.9
Manufacturing	23.5	6.0	5.1	4.9	4.8	4.9	5.9	4.7
Agriculture	7.6	7.2	0.1	2.0	1.3	(0.2)	3.6	3.1
Mining	8.3	1.0	(1.0)	1.0	1.5	(0.6)	1.8	0.7
Construction	4.7	6.7	4.8	3.5	2.8	4.5	7.3	4.7
Domestic Demand	91.6	6.5	4.9	4.8	4.7	5.0	5.7	4.8
Private Consumption	54.4	7.0	7.4	7.6	6.3	7.2	7.2	6.8
Public Consumption	11.7	5.4	1.8	1.9	2.7	1.0	0.6	1.8
Gross Fixed Capital Formation	25.5	6.2	1.2	0.3	2.0	2.6	5.2	1.9
Private Investment	19.2	9.3	3.4	3.3	3.8	4.5	9.1	5.0
Public Investment	6.3	0.1	(5.2)	(6.3)	(2.1)	(1.5)	(3.2)	(5.4)
Net External Demand	8.4	(1.9)	29.9	19.0	11.5	7.7	5.5	0.7
Exports of Goods & Services	70.3	9.4	2.9	3.8	3.5	2.0	8.8	1.6
Imports of Goods & Services	61.9	10.9	0.0	2.0	2.5	1.4	9.1	1.8

Sources: Dept. of Statistics, MoF (Economic Report 2018/2019, Oct 2018), BNM (Annual Report, Mar 2017), MKE Economics Research

2018 real GDP growth marked down on slower domestic demand growth of 5.0% vs. previous forecast of 5.7% (2017: 6.5%) on moderation in private expenditure (2018E: 6.5% from 7.6%; 2017: 7.5%) and stagnant public expenditure (2018E: 0.1% from -0.9%; 2017: 3.3%).

Deceleration in private expenditure growth reflects primarily downward revision in private investment (2018E: 4.5% from 9.1%; 2017: 9.3%) as private consumption forecast is unchanged at 7.2% (2017: 7.0%).

Stagnant public expenditure - despite upgrade in forecast - reflects contraction in public investment (2018E: -1.5% from -3.2%; 2017: 0.1%) and sluggish public consumption (2018E: 1.0% from 0.6%; 2017: 5.4%).

Net external demand is projected to post stronger rebound (2018E: 7.7% from 5.5%; 2017: -1.9%) despite lower growth forecasts for exports of goods & services (2018E: 2.0% from 8.8%; 2017: 9.4%) and imports of goods & services (2018E: 1.4% from 9.1%; 2017: 10.9%) as the former outpaces the latter.

Supply side a mixed bag. On the supply side, downgrades in growth forecasts for manufacturing (2018E: 4.9% from 5.9%; 2017: 6.0%), agriculture (2018: -0.2% from 3.6%; 2017: 7.2%), mining (2018E: -0.6% from 1.8%; 2017: 1.0%) and construction (2018E: 4.5% from 7.3%; 2017: 6.7%) outweighed the upgrade in services growth projection (2018E: 6.3% from 6.1%; 2017: 6.2%).

Real GDP growth to remain sub-5% in 2019 at 4.9% with domestic demand growth easing slightly to 4.8% (2018E: 5.0%) due to decline in public expenditure (2019E: -0.9%; 2018E: 0.1%) amid relatively stable private expenditure (2019E: 6.4%; 2018E: 6.5%).

Sustained private expenditure growth is predicated on faster private investment (2019E: 5.0%; 2018E: 4.5%) as private consumption moderates (2019E: 6.8%; 2018E: 7.2%).

Lower public expenditure reflects continued decline in public investment (2019E: -5.4%; 2018E: -1.5%) which offset pick up in public consumption (2019E: 1.8%; 2018E: 1.0%).

Net external demand growth is expected to taper sharply (2019E: 0.7%; 2018E: 7.7%) as imports of goods and services picks up (2019E: 1.8%; 2018E: 1.4%) while exports of goods and services growth slows (2019E: 2.0%; 2018E: 1.6%).

Sector growth remains mixed, with slower expansions in manufacturing (2019E: 4.7%; 2018E: 4.9%) and services (2019E: 5.9%; 2018E: 6.3%) and pickups in agriculture (2019E: 3.1%; 2018E: -0.2%), mining (2019E: 0.7%; 2018E: -0.6%) and construction (2019E: 4.7%; 2018E: 4.5%).



Implications to market (equity), sectors

Below-5% GDP growth, higher fiscal deficit well-flagged

Referring to the 11th Malaysia Plan Mid-Term Review's (11MP MTR) revisions in key macro-economic forecasts (unveiled in Parliament on 18 Oct 2018 [link]), Budget 2019's key macro targets are very much in-line:

- (i) 11MP MTR targets +4.5%-5.5% p.a. real GDP growth in 2018-2020, while Budget 2019 estimates +4.8% for 2018, forecasts +4.9% for 2019;
- (ii) 11MP MTR expects a larger budget deficit of -3.0% of GDP in 2020 with 2018 deficit to "temporarily be beyond the target set during the last Budget before reverting to the fiscal consolidation path", while Budget 2019 estimates -3.7% for 2018, targets -3.4% for 2019.

In addition, Budget 2019 speaks of the Government's commitment to fiscal consolidation to achieve a deficit of -3.0% in 2020, -2.8% in 2021 and a further c.-2% over the medium term.

2019 macro targets, and government finances

3 , 3	
GDP growth	4.9% (2018E: 4.8%)
Inflation	2.5-3.5% (2018E: 1.5-2.5%)
Government revenue	MYR261.8b (+10.7% YoY; 2018E: MYR236.5b)
Government operating expenditure	MYR259.9b (+10.4% YoY; 2018E: MYR235.5b)
Government development expenditure (gross)	MYR54.7b (-0.4% YoY; 2018E: MYR54.9b)
Government fiscal deficit (as % of GDP)	-3.4% (2018E: -3.7%)
Ratio of direct federal government debt to GDP	51.8% (2018E: 50.7%)

Source: Economic Report 2018/2019

Budget 2019's three focus areas, and 12 key strategies

The	eme	"A resurgent Malaysia, a dynamic economy, a prosperous society"				
Foo	cus areas	Key strategies				
1.	To implement institutional reforms	(i) Strengthen fiscal administration(ii) Restructuring and rationalising government debt(iii) Raising government revenue				
2.	To ensure the socio- economic well-being of Malaysians	 (iv) Ensuring welfare and quality of life (v) Improving employment and employability (vi) Enhancing health & social welfare protection (vii) Raising real disposal income (viii) Education for a better future 				
3.	To foster an entrepreneurial economy	 (ix) Unleashing the power of the New Economy (x) Seizing opportunities in the face of global challenges (xi) Redefining the role of Government in business (xii) Ensuring equitable and sustainable economic growth 				

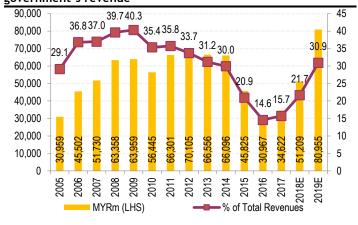
Source: 2019 Budget Speech

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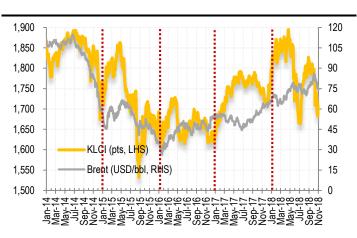
Higher oil related revenue could lift market volatility

Inevitably, to finance the shortfall in the Government's revenue, PETRONAS will raise its dividend to the Government to MYR54b (which includes a special MYR30b) in 2019, from an estimated MYR26b in 2018 (2017: MYR16b). A possible impact on the capital market is the return of higher volatility, tracking crude oil price direction. 2017 and 2018 YTD saw lower correlation between the KLCI's movement with crude oil price direction, unlike 2014-16 when both were highly correlated. This could be due to the fact that oil related revenue had been an increasingly smaller contributor to the Government's revenue - e.15.7% in 2017, from 31.2% in 2013 and a high of 40.3% in 2009. Based on Budget 2019's forecasts, oil related revenue will rise to 30.9% of the Government's revenue in 2019.

Malaysia: Oil related revenue as a contributor to the government's revenue



KLCI vs Brent: Lower correlation in 2017, 2018 YTD



Source: Ministry of Finance, Maybank KE

Source: Bloomberg, Maybank KE (chart)

Higher minimum wage poses downside risk to earnings

Budget 2019 proposes for the monthly minimum wage to be equalised between Peninsular, Sabah and Sarawak at MYR1,100 from 1 Jan 2019, from the present MYR1,000 p.m. (Peninsular) and MYR920 p.m. (Sabah, Sarawak). This MYR1,100 is a 'step-up' from an earlier Government's decision in early-Sept 2018 to raise the monthly minimum wage to MYR1,050. Our earlier channel checks with companies under our research coverage reveal that the immediate earnings impact (from the minimum wage increase) varies. While some are able to pass on the higher wage bill in full or in part (auto, glove producers, technology), there are others who are unable to pass on the higher costs either due to high degree of competition in their industry (services), or the nature of their industry which does not allow a cost pass-through at all (up-stream oil palm plantation).

Sectors with a higher degree of impact, in our view, are: (i) plantation, and (ii) F&B and retail services (including convenience store operators). In addition to the higher minimum wage, Budget 2019 also mentioned on a new tiered levy system for low-skilled foreign labour; we await the details. We make no change to our earnings forecasts for the affected sectors / stocks for now.



Higher minimum wage: Impact on selected sectors

Sector	Impact
Automotive	Car assembly/manufacturing plants are mostly located in Peninsular Malaysia. Among the auto players within our coverage, we estimate that Toyota/Perodua/Nissan/Pecca employ about 3,000/6,000/2,000/250 workers in their respective production/assembly plants.
	<u>Sensitivity analysis.</u> On the assumption that half of these production workers are currently paid the prevailing minimum wage of MYR1,000 p.m., every MYR100 rise in the monthly minimum wage would translate to an estimated additional cost of up to MYR2m/4m/1m/>0.5m p.a. for Toyota/Perodua/Nissan/Pecca. This is about <2% of the respective listed groups' earnings.
Consumer	7-Eleven (SEM MK, SELL, TP: MYR1.12) has a staff force of c.12k at its stores (staff count per store of 6.5), and Mynews (MNHB MK, HOLD, TP: MYR1.44) has 1.6-1.7k (staff count per store of 3.8). We estimate that most employees are already taking home more than MYR1,200 p.m. (including incentives and allowances).
	<u>Sensitivity analysis.</u> We expect the higher minimum wage to push up the entire staff cost due to a "knock-on" effect. As we have already imputed for a MYR50 rise in monthly wage (to MYR1,050) on earlier announcements, we estimate that an additional MYR50 increase in monthly wage (to MYR1,100) will adversely impact 7-Eleven's earnings by 16% and Mynews by 2% (using FY19E as reference).
	However, with this being an industry wide cost inflation issue, we expect 7-Eleven, Mynews and their peers to eventually pass on the higher costs through higher merchandise and product prices.
Construction	The larger cap construction companies under our coverage are unlikely to be significantly affected as the average wage for employee is -MYR2,000 p.m. (including allowances and overtime).
	As for the smaller cap construction companies under our coverage, we believe the impact is also negligible. For them, we gather that e.40%-50% of their existing workforce are paid the current minimum wage. An increase to MYR1,100 p.m. would only impact full year net earnings by ~1%.
Building materials	For cement, the impact to Lafarge (LMC MK, SELL, TP: MYR2.93) will be minimal as maintenance works, which requires labour from those within the minimal wage category, are outsourced to third parties.
	There is also minimal earnings impact to Ann Joo (AJR, BUY, TP: MYR2.40) as labour costs represent less than 10% of its total operating costs. In general, most of Ann Joo's staff are paid above the minimum wage except for foreign workers, which makes up only a very small percentage of its total workforce.
Property	Minimal direct impact for developers as most of their employees are already paid above MYR1,000 p.m
development	However, the indirect impact will most likely come from the contractors used for their property projects. Higher labour cost will be passed on in terms of higher contract values. Our discussions with some contractors earlier revealed that most of them are already paying above MYR1,000 p.m. for unskilled and >MYR1,500 p.m. for skilled labour. We expect some margin compression to continue as developers may not be able to pass on the additional costs to buyers if a weak property market prolongs.
Glove	Glove producers' factories are mostly situated in Peninsular Malaysia. Labour accounts for 10-12% of the glove producers' total costs while workers whom are paid the current minimum wage accounts for 20%-30% of the glove producers' workforce.
	<u>Sensitivity analysis.</u> We estimate every MYR100 increase in the monthly minimum wage will reduce the glove producers' bottomlines by 0.4-1% in 2019, considering just higher wage bill for 20-30% of their workforce. However, the higher minimum wage may push up the entire staff costs due to the "knock on" effect on workers whom are paid above the current monthly minimum wage of MYR1,000. Assuming all factory workers wages are raised by MYR100, the impact to glove producers' bottomlines is 2-3% in 2019.
	However, given that Malaysia accounts for c.63% of global rubber glove supply and also in view of the present balanced demand-supply environment, we believe the glove producers can raise the glove ASPs to pass on the minimum wage hike. In addition, we expect automation to continue, to offset rising wage bill.



Higher minimum wage: Impact on selected sectors

Sector

Impact

Plantation

We classify plantation workers into two broad categories, the harvesters and general workers. Harvesters are considered skilled workers and command better take home pay than general workers. During the peak crop months, harvesters' take home pay can be in excess of MYR2,000 p.m. (inclusive of incentives and allowances). On the other hand, general workers typically takes home about MYR1,100-1,300 p.m. (inclusive of incentives and allowances).

While on paper, the new MYR1,100 nationwide monthly minimum wage effective 1 Jan 2019 will largely impact the general workers, in reality, the compensation of harvesters will also have to be raised. Hence, in arriving at our earnings impact analysis, we have assumed a similar wage increase for all plantation workers.

<u>Sensitivity analysis.</u> By our estimate, the MYR100 p.m. increase (for Peninsular) and MYR180 p.m. increase (for East Malaysia) in minimum wage will reduce the bottomlines for companies under our coverage by between 1.4-11.5% (using FY19E earnings as reference). This assumes companies will raise the wages of harvesters and general workers by the same quantum within the same region.

- Companies with relatively higher cost of production (such as Boustead Plantations [BPLANT MK, HOLD, TP: MYR1.22] and TH Plantations [THP MK, HOLD, TP: MYR0.74]) will be most impacted by the minimum wage hike.
- This is followed by companies which operate solely in Malaysia (in particular those with higher exposure in East Malaysia like Sarawak Oil Palm [SOP MK, HOLD, TP: MYR3.10] and Ta Ann [TAH MK, HOLD, TP: MYR2.70]).
- Meanwhile, the least impacted will be TSH Resources [TSH MK, HOLD, TP: MYR1.14], KL Kepong [KLK MK, HOLD, TP: MYR23.70], IOI Corp [IOI MK, HOLD, TP: MYR4.76], Sime Darby Plantation [SDPL MK, HOLD, TP: MYR5.35] and Genting Plantations [GENP MK, BUY, TP: MYR10.40].

Technology

Among the three segments of technology stocks under our coverage i.e. automation equipment, outsourced test and assembly (OSAT), electronics manufacturing services (EMS), a minimum wage hike would impact the EMS segment the most due to its high reliance on foreign workers.

- In the last minimum wage hike, the EMS players were able to pass on the higher cost to their customers. However, in early this year's hike of foreign workers levy, EMS players saw a 6-month delay in passing on the higher cost to their customers. Similarly, we expect some delays for the EMS players in passing on the MYR100 monthly minimum wage hike, effective 1 Jan 2019. We understand that VS Industry (VSI MK, BUY, TP: MYR1.95), ATA IMS (AIB MK, Not Rated) and SKP Resources (SKP MK, Not Rated) employ ~8.5k, ~7k and ~4k workers, of which ~7k, ~6k and ~3k are foreign operators (only VSI is under our coverage in the EMS space).
- As for the automation equipment players, i.e. ViTrox (VITRO MK, HOLD, TP: MYR6.80) and MMS Ventures (MMSV MK, BUY, TP: MYR1.88), most fabrication works are outsourced to third parties, while most of their staff force are highly skilled technical workers focusing on high-value added processes such as R&D, design & prototyping, and final testing & quality control.
- Meanwhile, for the OSAT players within our coverage i.e. Inari Amertron (INARI MK, BUY, TP: MYR2.58) and Globetronics (GTB MK, HOLD, TP: MYR2.30), their reliance on manual labour have reduced significantly due to adoption of automation in the last 5 years, while the remaining operators are compensated with performance bonus which can be adjusted to compensate for a higher minimum wage; Inari and Globetronics employ 1.6k and 0.8k number of foreign workers respectively.

<u>Sensitivity analysis.</u> For VSI, every MYR100 rise in the monthly wage could translate into an estimated additional cost of up to MYR4-5m for FY7/19 (7 months impact with minimum wage hike effective 1 Jan 2019), shaving 2+% of FY19E earnings. For FY20-21E, we expect earnings to be hit in the range of MYR6-7m p.a., which represents a similar 2+% of VSI's earnings.

We see no/insignificant impact of a minimum wage hike to the automation equipment and OSAT players within our coverage.

Flexible food packaging

The impact of minimum wage increase to MYR1,100 p.m. to Tomypak (TOMY MK, SELL, TP: MYR0.41) is very minimal as most of its workforce earn above MYR1,500 and a small percentage (particularly foreign labour) earn near to MYR1,500. Tomypak's business is capital intensive and requires less labour to handle the machines as they are semi to fully automated. Meanwhile, most of its workforce are skilled workers for marketing and engineers for R&D.

Source: Maybank KE



Gaming is a major loser; we cut earnings aggressively

The higher casino license fee and casino duty rate hike proposed in Budget 2019 was a major negative surprise, and are the largest on record. The last time the casino duty rate was hiked was in 1998, from a scale of 22-25% of gross gaming revenue (GGR) to a standardized 25% of GGR. The new casino duty rate of 35%, effective sales & service tax of 3.7% and corporate tax rate of 24% 'crowns' Resorts World Genting as the heaviest taxed casino in Asia. We estimate that the casino license fee and duty rate hike will cut RWG EBITDA margins by 9ppts to 25-26% going forward. Consequently, we have cut our GENM FY19/FY20 earnings estimates by 32%/29% and GENT by 13%/13%. GENM earnings are most impacted as it owns 100% of RWG. We have also cut our call on GENM (GENM MK, TP: MYR4.40) to HOLD (from BUY), but retain GENT (GENT MK, TP: MYR10.90) as a BUY.

Property is a clear winner; we tactically U/G-ed the sector

Budget 2019 contained a slew of measures to lift sales and clear inventories in the residential segment, amid an aggressive agenda to resolve affordable housing issues especially for the B40/M40 household income groups. While the additional 5% RPGT for property sales after 5-years of holding was a negative surprise, the additional 1% in stamp duty on the transfer of property valued at more than MYR1m is milder than expected, while the first-in-the-world private-initiated 'Property Crowdfunding' platform as an alternative source of financing for first-time home buyers is a game changer. We are now tactically POSITIVE on the property sector (previously NEUTRAL); the sector now trades at crisis-liked valuations (ave. 58% discount to our RNAVs) and we expect a tactical rebound. Our top picks are SP Setia (SPSB MK, TP: MYR2.72) and UEM Sunrise (UEMS MK, TP: MYR1.11).

Relief for Construction, toll operators

As expected, there were no new major infrastructure projects announced in Budget 2019, but the mention of existing major projects to proceed (although with a lower cost - KVMRT 2, KVLRT 3, Pan Borneo Highway) is still a relief. Budget 2019 also spoke of MYR19b worth of projects under re-negotiation (which "can continue provided that there is a 10% reduction on the construction cost"), MYR5.2b of 24 PPP projects to be implemented based on land swap transactions via an open tender mechanism, MYR2.46b worth of upgrades and restoration of railway tracks to be undertaken in 2019, and retendering of the KV DT2 project. We believe beneficiaries of these projects will be wide-based and margins could be thin. Elsewhere, the mention that the freeze in toll hikes on all intra-city tolls in 2019 "will cost the Government approximately MYR700m" is also a relief, as it implies that the Government acknowledges the sanctity of contracts by reimbursing the toll operators for the loss in income due to the Government's directive. We are still NEUTRAL on the Construction/Infrastructure sector.

Consumer retail is also a beneficiary, but priced in

With several measures announced in Budget 2019 to raise real disposal income for the households (e.g. the new public transport passes to encourage public transportation adoption which can "immediately increase the disposable income of households by hundreds of ringgit a month"), this could have a positive flow-through to the smaller tickets consumer retail sector, like Padini and AEON Malaysia, in our view. We prefer AEON Malaysia (AEON MK, BUY, TP: MYR2.50) over Padini (PAD MK, SELL, TP: MYR5.05) due to valuations. On the other hand, the new 'sugar sweetened beverages' excise duty at MYR0.40/litre will raise

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the retail price for a can of Coke (for example) by 10-15%. Most impacted by this new excise duty, in our view, could be F&N Holdings (FNH MK, Not Rated).

Cutting 2019 market earnings

Having put through our earnings downgrades for GENM and GENT in 2019 (both stocks contribute 5.6% to our 2018E market earnings), we now estimate the KLCI core earnings to grow a slower +3.9% in 2019 (vs. +5.8% earlier) and our research universe to grow +9.0% in 2019 (vs. +10.4% earlier). In total, we have cut market earnings by MYR1.1b for 2019 or -1.4% for the KLCI and -2.0% for our universe. We now expect Gaming - Casino core earnings to retrace -3.3% in 2019. Risk to our market earnings estimates are still on the downside as we have yet to impute for (i) higher minimum wage impact, (ii) revised contract values for the KVMRT 2, KVLRT 3 and Pan Borneo Highway sub-contracting pending details (although we have adjusted Gamuda's earnings for the KVMRT 2 turnkey above-ground, and lower value KVMRT 2 underground works). Also, our current forecasts for Plantation impute MYR2,500/t CPO ASP for 2019 (vs. MYR2,312/ASP in 2018 YTD).

Malaysia market earnings growth & valuations as at 2 Nov 2018

		2017A	2018E	2019E
KLCI @ 1,713.9	PE (x)	16.7	16.6	16.0
Earnings Growth (%)		6.3%	0.6%	3.9%
Maybank KE's Research Universe	PE (x)	17.5	17.1	15.7
Earnings Growth (%)		7.0%	2.6%	9.0%

Source: Maybank KE

Maybank KE Research Universe earnings growth, PERs, P/B, ROE (2 Nov 2018)

Earnings Growth (%)			h (%)		PE (x)		P/B	(x)	ROI	ROE (%)	
Sector	CY17A	CY18E	CY19E	CY17A	CY18E	CY19E	CY17A	CY18E	CY17A	CY18E	
Banking & Finance	14.2	6.7	6.3	14.2	13.3	12.5	1.6	1.5	11.0	11.0	
Non-banking Finance	9.4	1.6	3.5	14.3	14.1	13.6	1.6	1.7	11.4	11.9	
Building material	NM	NM	NM	NM	NM	25.2	0.7	0.7	(0.4)	(2.2)	
Consumer	(8.2)	5.9	6.5	35.0	33.1	31.0	8.6	8.4	24.6	25.5	
Healthcare	(22.3)	37.8	14.8	58.8	42.7	37.1	1.9	1.9	3.3	4.5	
Automotive	(18.3)	37.9	16.6	23.7	17.2	14.7	0.6	0.8	2.4	4.5	
Construction, Infra	15.0	6.0	(1.9)	10.6	10.0	10.1	0.9	0.9	8.5	8.7	
Gaming - NFO	0.2	4.1	3.2	12.2	11.8	11.4	1.8	1.7	14.5	14.9	
Gaming - Casino	16.1	20.1	(3.3)	15.1	12.6	13.0	1.0	1.0	6.6	8.0	
Gloves	19.3	20.6	12.6	43.2	35.8	31.8	8.9	7.9	20.6	22.0	
Media	(25.6)	(6.3)	33.4	13.4	14.3	10.7	2.1	2.8	15.8	19.5	
Oil & Gas	30.1	136.2	189.4	151.6	64.2	22.2	1.0	1.1	0.6	1.6	
Petrochemical	15.4	1.3	10.6	16.2	16.0	14.5	2.5	2.2	15.1	13.6	
Plantation	37.9	(6.0)	11.7	25.0	26.6	23.8	2.4	2.1	9.6	8.0	
Property - Developer	0.0	(4.8)	23.5	12.0	12.6	10.2	0.9	0.7	7.4	5.9	
Property - REIT	4.5	4.1	4.6	18.1	17.4	16.6	1.1	1.1	6.2	6.3	
Technology	31.3	19.2	32.5	25.1	21.0	15.9	6.1	5.2	24.5	24.6	
Telcos	(4.1)	(5.1)	2.8	20.5	21.6	21.0	3.1	2.8	15.0	13.0	
Transport - Aviation	22.7	(9.8)	22.5	14.5	16.1	13.2	1.5	1.5	10.0	9.2	
Transport - Shipping	4.8	(29.4)	19.9	14.6	20.8	17.3	0.8	0.9	5.4	4.1	
Transport - Ports	9.6	(22.6)	15.8	17.9	23.2	20.0	5.9	5.3	32.7	23.0	
Utilities	(5.4)	(4.4)	3.0	13.7	14.3	13.9	1.6	1.5	11.6	10.5	
Diversified	1.1	(23.1)	3.7	11.8	15.4	14.8	1.0	0.9	8.3	5.9	



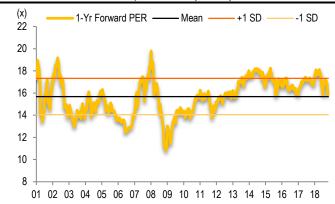
Source: Maybank KE

Market valuations

Based on our revised KLCI core earnings estimates and market close as of 2 Nov 2018, the KLCI's current valuations are at:

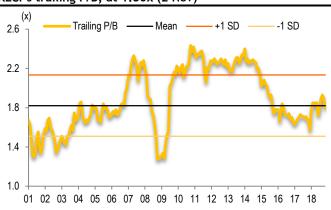
- 16.1x 12M forward PER, which is 0.3SD <u>above</u> its long-term mean (since 2001) of 15.7x (1SD is 1.6x). On 2018E/2019E core earnings, the KLCI's current valuations are at 16.6x/16.0x.
- 1.80x trailing P/BV, which is <u>at-about</u> its long-term mean (since 2001) of 1.82x (1SD is 0.31x).

KLCI's 12M forward PER, at 16.1x (2 Nov)



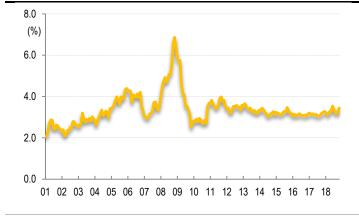
Source: Maybank KE, Bloomberg

KLCI's trailing P/B, at 1.80x (2 Nov)



Source: Maybank KE, Bloomberg

KLCI's dividend yield, at 3.41% (2 Nov)



Source: Maybank KE, Bloomberg

KLCI: Equity premium (over 10Y MGS), at 210bps (2 Nov)



Source: Maybank KE, Bloomberg



Shaving end-2018 KLCI target, introducing end-2019

The projected below-5% real GDP growth, above -3% budget deficit to GDP in 2018-2019, and medium-term deficit of -3% and below from 2020 onwards are well-flagged and to an extent, priced in (the KLCI has lost -4.7% in Oct 2018 alone). We think the market will next look towards the international rating agencies' views on the country's sovereign credit rating. Credible and well-executed measures to strengthen the fiscal administration in terms of discipline and governance, restructuring of Government debt, and diversifying Government revenue (which includes a review of the existing tax system by the new Tax System Review Panel) will be key. For the equity market, earnings growth remains in focus; the 3Q 2018 earnings reporting season is an immediate lookout. On these considerations and alongside a challenging external environment, we shave our end-2018 KLCI target to 1,730 and introduce an end-2019 target of 1,830 on 16x 12M forward PER.

Defensive strategy with bottom-up stock picking

The external outlook remains precarious as global growth is expected to slow in 2019 while major central banks' monetary policy normalisation, and the ongoing US-China trade war are additional risk factors. Over the near-term, we expect market volatility to remain elevated especially with the US mid-term elections looming (6 Nov). Against such a backdrop, we reiterate a defensive strategy for Malaysian equities. We have added high-yielding stocks into our top BUY list; our three high-conviction yield stocks are Astro (8.9% 2019E yield), YTL REIT (6.8%) and IGB REIT (5.5%). We add HLFG for value, and retain AMMB, Alliance Bank, CMS and Allianz Malaysia in our top BUY list. We also recommend tactical bottom-up stock picking in Property - our top picks are SP Setia and UEM Sunrise.

Top BUY picks

TOP DO I PICKS			
Stock Name	BB Ticker	Shr Px @ 2 Nov	TP
HL Financial Grp	HLFG	19.30	21.20
AMMB Holdings	AMM	3.92	4.65
Astro Malaysia	ASTRO	1.39	1.95
Alliance Bank	ABMB	3.99	5.00
IGB REIT	IGBREIT	1.65	1.85
CMS	CMS	3.00	4.10
Allianz Malaysia	ALLZ	12.28	16.05
YTL REIT	YTLREIT	1.19	1.60
SP Setia *	SPSB	2.11	2.72
UEM Sunrise *	UEMS	0.70	1.11

^{*} Tactical; Source: Maybank KE

Dividend stocks (Maybank KE's coverage: Stocks with more than 4% net yield)

Dividend stocks (Maybank KE's coverage: Stocks with more than 4% net yield)							
Stocks	Rec	Shr px at 2-Nov-18	Market Cap (MYR m)	TP (RM)	2019 Net Yld (%)	Upside to TP (%)	Potential total returns (%)
MCIL	Hold	0.20	337.4	0.25	11.5	25.0	36.5
Ann Joo Resources	Buy	1.57	844.2	2.40	11.0	52.9	63.9
Astro Malaysia Holdings	Buy	1.39	7,247.9	1.95	8.9	40.3	49.2
Bermaz Auto	Buy	1.90	2,202.2	2.60	7.5	36.8	44.4
Berjaya Sports Toto	Hold	2.20	2,963.4	2.50	7.3	13.6	20.9
Malakoff Corporation	Buy	0.88	4,286.5	1.13	7.2	29.1	36.3
MRCB-Quill REIT	Buy	1.08	1,157.5	1.30	6.9	20.4	27.3
Magnum	Buy	1.88	2,675.2	2.13	6.9	13.3	20.2
Pecca Group	Hold	0.73	133.2	0.97	6.9	33.8	40.7
YTL REIT	Buy	1.19	2,028.2	1.60	6.8	34.5	41.3
Maybank	NR	9.40	103,731.3	NR	6.7	NR	NR
Al-Salam REIT	Hold	0.79	458.2	0.90	6.3	13.9	20.3
Tambun Indah Land	Buy	0.81	351.0	1.06	6.3	30.9	37.2
Axis REIT	Hold	1.51	1,860.8	1.55	6.2	2.6	8.8
CMMT	Hold	1.06	2,166.8	1.10	6.1	3.8	9.9
Litrak	Hold	4.08	2,154.1	5.10	6.1	25.0	31.1
CSC Steel	Hold	1.08	398.9	1.21	5.9	12.0	18.0
Asia File Corporation	Sell	2.50	486.9	2.21	5.9	(11.6)	(5.7)
Telekom	Hold	2.38	8,943.9	3.70	5.7	55.5	61.2
Sunway REIT	Buy	1.68	4,947.7	1.85	5.5	10.1	15.7
IGB REIT	Buy	1.65	5,832.4	1.85	5.5	12.1	17.6
Pavilion REIT	Hold	1.59	4,828.4	1.55	5.3	(2.5)	2.8
Kimlun Corporation	Hold	1.18	391.6	1.40	5.3	18.6	24.0
Inari Amertron	Buy	1.90	6,014.9	2.58	5.3	35.8	41.1
CIMB	Hold	5.68	54,326.1	6.30	5.1	10.9	16.0
YTL Power	Hold	1.00	7,675.3	1.05	5.0	5.0	10.0
Heineken Malaysia	Hold	19.10	5,770.1	20.20	5.0	5.8	10.7
Gamuda	Hold	2.42	5,972.7	2.70	5.0	11.6	16.5
Gas Malaysia	Hold	2.92	3,749.3	3.00	4.9	2.7	7.6
Carlsberg	Hold	18.40	5,660.2	18.00	4.9	(2.2)	2.7
AMMB Holdings	Buy	3.92	11,815.6	4.65	4.8	18.6	23.4
BAT (M)	Hold	34.00	9,708.0	31.00	4.7	(8.8)	(4.1)
DiGi.Com	Hold	4.27	33,199.3	4.80	4.7	12.4	17.1
Ta Ann	Hold	2.30	1,022.7	2.70	4.7	17.4	22.0
KLCC Prop	Hold	7.65	13,810.8	8.00	4.6	4.6	9.2
Boustead Plantations	Hold	0.96	2,150.4	1.22	4.6	27.1	31.7
RCE Capital	Buy	1.54	525.4	1.95	4.5	26.6	31.2
BIMB Holdings	Hold	3.65	6,181.5	4.30	4.5	17.8	22.3
MISC	Hold	6.70	29,907.1	6.30	4.5	(6.0)	(1.5)
Sime Darby Property	Buy	1.00	6,800.8	1.52	4.4	52.0	56.4
Alliance Bank Malaysia	Buy	3.99	6,176.9	5.00	4.3	25.3	29.6
IJM Corp	Hold	1.65	5,988.2	2.10	4.2	27.3	31.5
Ecoworld International	Hold	0.92	2,208.0	1.06	4.2	15.2	19.4
Sunway Berhad	Buy	1.43	6,940.1	1.85	4.1	29.4	33.4
Globetronics Tech	Hold	2.22	1,484.9	2.30	4.1	3.6	7.7
Tenaga	Hold	14.70	83,469.3	16.00	4.0	8.8	12.9
Lotte Chemical Titan	Buy	4.38	9,955.7	5.95	4.0	35.8	39.9

Source: Maybank KE

November 4, 2018

AVIATION: Towards user funding structure

Neutral (unchanged)

Budget measures/incentives:

- Government will introduce a departure levy on 1 Jun 2019 for all outbound international passengers at MYR20 for ASEAN destinations and MYR40 for the other regions. Domestic travel is exempted from this.
- Government plans to raise MYR4b by selling a 30% stake in its airport assets via a REIT. Monies raised will be used to upgrade existing airports and expand congested ones. This will happen after MAHB-MAVCOM finalize their RAB negotiations for the airports (forecasted by 3Q19).

Impact/benefits:

Material policy shift. The Government has made a material shift in its aviation policy whereby the users will pay for the industry's operating expenses as opposed to taxpayers. The Government is widening is tax collection base and it will enjoy a surplus (incorporating the departure levy) relative to its operating expenses, by our estimates. It can use the surplus to hire and train more people, enhance equipment and systems, and invest to improve the overall system. Note: we estimate the departure levy will provide >MYR766m p.a..

Airport REIT, more questions than answers. The Government intends to sell a 30% of its airport assets via a REIT for a net proceed of MYR4b. This Airport REIT will be the first in the world and the exact details are sketchy for now. MAHB should not be affected as its Operating Agreement with the Government sufficiently safeguards it. The Government will use the proceeds to upgrade existing airports and expand congested ones. Basically, the Government is monetizing its assets and upgrading other airport assets. This ensures the industry enjoys a sustainable Capex cycle via an asset light structure and little dependency on debt.

Maintain Neutral. The departure levy will raise the international air passengers' tax burden by 49% (within ASEAN) and 51% (outside ASEAN), we estimate. We are confident that traffic growth will prevail but airline yields will recede as airlines are likely to partially absorb the levy in order to preserve loads — in the early days, at least. We lower our FY19-20 earnings forecasts for AAGB (-3.2% and -4.8%) and AAX (-27% and -23%) on yield erosion and downgrade AAGB to HOLD and AAX to SELL. MAHB is the sole BUY. We remain NEUTRAL on the sector.

(Mohshin Aziz; mohshin.aziz@maybank-ib.com)

Aviation sector - peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	P/B (x)	P/B (x)	ROAE (%)	ROAE (%)	Net vield
		(MYR)	(MYRm)	(MYR)	CY17A	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY19F
Malaysia Airports	Buy	8.25	13,713	11.50	102	31.4	26.9	1.5	1.4	8.4	6.4	1.5
AirAsia Group	Hold	2.73	7,582	2.62	7.9	8.9	8.3	1.2	1.1	25.0	13.5	2.9
AirAsia X	Sell	0.26	1,077	0.20	16.0	31.6	10.8	1.1	1.0	3.5	10.2	0.0
Simple average					12.0	24.0	15.3	1.3	1.2	12.3	10.0	1.5

Source: Maybank KE

BANKING: House financing to first-home buyers

Neutral (unchanged)

Budget measures/incentives:

- A MYR1b fund will be established by BNM to help the lower income group earning <MYR2,300/month to purchase first-time homes of up to MYR150k. The fund will be made available from 1 Jan 2019 at AmBank, CIMB, Maybank and BSN through a concessionary financing rate of as low as only 3.5% per annum.
- First-time homebuyers purchasing homes up to MYR500k will be exempt from stamp duty on up to MYR300k on S&P agreements as well as loan agreements for 2 years until Dec 2020. MYR25m will be allocated to Cagamas to provide mortgage guarantees to enable first-time homebuyers with household income <MYR5k/month, to obtain financing from banks.</p>

Impact/benefits:

Minimal impact on banks. That the Government is committed to ensuring that lower income homebuyers can afford their first-time homes, is undoubtedly a positive. The impact of the above measures on the banks, however, is limited, given that much of the assistance is provided by Government agencies such as BNM and Cagamas, with banks being conduits.

Maintain NEUTRAL. To provide some colour on the extent of residential property lending in the banking system, mortgages currently make up about 33% of total system loans and up to Sep 2018, expanded at a rate of 8% YoY. As at end-June 2018, first-time buyers of houses priced < MYR500k accounted for 71% of total housing loans - 49% for houses up to MYR250k and 22% for houses from MYR250k-MYR300k. We remain NEUTRAL on the banking sector with BUYs on AMMB and Alliance Bank.

(Desmond Ch'ng; desmond.chng@maybank-ib.com)

Banking sector - peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	P/B (x)	P/B (x)	ROAE (%)	ROAE (%)	Net yield
		(MYR)	(MYRm)	(MYR)	CY17A	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY19F
Public Bank	Hold	24.62	95,578	22.70	17.3	17.1	16.3	2.2	2.2	13.8	13.4	2.8
CIMB	Hold	5.68	54,326	6.30	11.8	11.2	10.1	1.0	1.0	9.3	9.8	5.1
Hong Leong Bank	Hold	20.58	42,098	19.45	17.5	16.1	15.3	1.7	1.7	10.7	10.6	2.6
RHB Bank	Hold	5.25	21,053	5.90	10.4	9.2	8.8	0.8	0.8	9.7	9.5	3.6
HLFG	Buy	19.30	22,103	21.20	12.8	11.7	11.1	1.2	1.2	10.6	10.7	2.6
AMMB Holdings	Buy	3.92	11,816	4.65	9.8	9.1	8.4	0.7	0.7	7.6	7.9	4.8
BIMB Holdings	Hold	3.65	6,182	4.30	10.2	10.0	9.8	1.2	1.2	12.8	12.2	4.5
Alliance Bank	Buy	3.99	6,177	5.00	11.6	11.2	10.5	1.0	1.0	9.7	9.9	4.3
Simple average					12.7	11.9	11.3	1.2	1.2	10.5	10.5	3.8

Source: Maybank KE

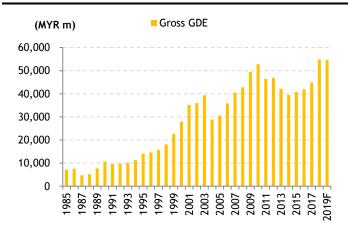
CONSTRUCTION: Unexciting for 2019

Neutral (unchanged)

Budget measures/incentives:

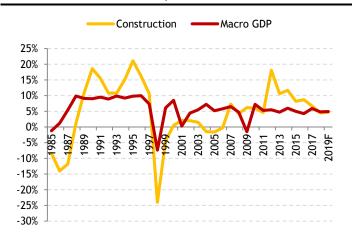
- Gross development expenditure (GDE) to remain flat (2019F: MYR54.7b, -0.4% YoY). In terms of sectoral allocation, economic services will receive the highest share at 53.4% or MYR29.2b, followed by social services (27.8%, MYR15.2b), security (12.9%, MYR7.1b) and general administration (5.9%, MYR3.2b). Construction sector real output/GDP is anticipated to sustain its growth momentum at +4.7% YoY in 2019 (2018E: +4.5%).
- Reclassification of items into GDE. The MYR54.9b and MYR54.7b GDE for 2018E and 2019F includes the reclassification of items from Government's Operating to Development expenditure valued at MYR6.9b and MYR9.7b respectively. The reclassified items include i) payment for the construction of KVLRT 3 and gas pipeline projects, ii) lease or maintenance payments for the construction of PDRM buildings and iii) capital refurbishment of schools.

Gross development expenditure



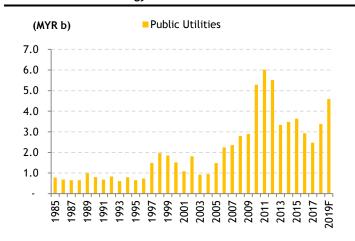
Source: Economic Reports (Treasury), Maybank KE (chart)

Construction sector real output



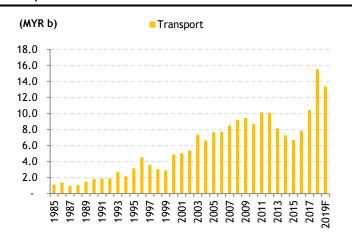
Source: Economic Reports (Treasury), Maybank KE (chart)

Public utilities & energy allocation



Source: Economic Reports (Treasury), Maybank KE (chart)

Transport allocation



Source: Economic Reports (Treasury), Maybank KE (chart)



Key takeaways

Projects	Estimated Value (MYR b)	Updates	
Major infrastructure projects			
KVMRT 2 - (52km)	30.5	•	Project will continue implementation with a lower construction cost of MYR30.5b (from MYR39.3b)
KVLRT 3 - (37km)	16.6	•	Project will continue implementation with a lower overall cost of MYR16.6b (from MYR31.6b)
Pan Borneo Highway	28.0	•	Both the Sabah and Sarawak stretch will continue implementation and is currently subject to on-going cost review.
East Coast Rail Link (ECRL - 707km)	81.0	•	Suspended, undergoing cost review.
KVMRT 3	60.0	•	Cancelled until construction of KVMRT 2 is completed.
KL-SG High Speed Rail	110.0	•	Deferred.
Klang Valley Double Track Upgrade (Phase 2)	5.2	•	Project will be re-tendered through an open tender process.
Trans Sabah Gas Pipeline (TSGP - 662km)	4.1	•	Cancelled.
Multi-Product Pipeline (MPP - 600km)	5.4	•	Cancelled.
Other projects			
KV double-tracking 2	5.2	•	Terminated, to be re-tendered via an open tender exercise
Various contracts	19.0	•	Projects under re-negotiation; they can continue if there is a 10% reduction on the construction cost.
24 PPP projects (schools, army camps, police and fire stations, affordable housing)	5.2	•	To be implemented based on land swap transactions via an open tender mechanism.
Upgrading of schools, reconstruction of dilapidated schools	0.8	•	MYR652m for upgrading of schools in 2019 is higher than the MYR615m allocated in 2018.
Upgrading & restoration of railway tracks	2.46		

Note: Values for Pan Borneo, TSGP and MPP not mentioned in the 2019 Budget Speech; Source: 2019 Budget Speech

- Spending to focus on public and rural infra, rail. Public infrastructure & amenities will continue to be in focus with allocation for construction and upgrading of hospitals, schools and affordable housing units with an estimated spend of at least e.MYR10.3b. On the other hand, rural developments would include construction and upgrading of physical infrastructure such as roads, bridges and basic infrastructure for provision of water and electricity, which is estimated to make up MYR3.8b of development spending. The KV double-tracking 2 project will be re-tendered while MYR2.46b is allocated to upgrade and restore railway tracks.
- Freeze toll hikes on all intra-city tolls in 2019.

Impact/benefits:

No near-term major orderbook replenishment from infra segment. With the concern of the Government on the fiscal health of the country, the absence of any new major infra projects announced for 2019 is unsurprising. However, we take consolation that the government has reiterated the continuation of the KVMRT 2, KVLRT 3 and Pan Borneo Highway. Phase 2 of the Klang Valley Double Track upgrade works is also to be retendered which could present orderbook replenishment opportunities for the contractors.

Expect affected toll concessionaires to be compensated. Within our construction coverage, only the Penchala Toll Plaza on the SPRINT Highway (50% owned by Litrak and 30% by Gamuda) is scheduled for a toll hike in 2019. We do not expect Litrak's earnings to be affected as we believe the government will compensate the concessionaire for the difference between the revenue from the chargeable toll rates and the higher scheduled toll rates.

Maintain NEUTRAL on the construction sector. The 12M outlook for the Malaysia construction orderbook replenishment remains subdued, with the lack of new projects to take off in the near-term. The focus in 2019 will be on public and rural infrastructure projects which we believe could benefit selected contractors with track records in specific niches such as hospitals, schools and affordable housing. With e.MYR4.3b allocated for the development of Sarawak, CMS which remains a key building materials supplier within the state stands to be a key beneficiary. CMS is our only BUY call within our construction stock universe.

(Adrian Wong, CFA; adrian.wkj@maybank-ib.com)

Construction sector - peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	P/B (x)	P/B (x)	ROAE	ROAE	Net
		(MYR)	(MYRm)	(MYR)	CY17A	CY18F	CY19F	CY18F	CY19F	(%) CY18F	(%) CY19F	vield CY19F
CMS	Buy	3.00	3,212.7	4.10	12.2	11.4	10.4	1.2	1.2	11.2	11.4	3.8
Eversendai	Hold	0.72	562.3	1.05	8.0	8.1	7.8	0.6	0.6	7.3	7.1	1.1
Gamuda	Hold	2.42	5,972.7	2.70	7.9	7.8	8.7	0.7	0.7	9.9	8.4	5.0
HSL	Hold	1.33	730.9	1.45	15.6	12.2	9.8	0.9	0.9	7.6	8.8	1.8
IJM Corp	Hold	1.65	5,988.2	2.10	14.6	13.2	11.9	0.6	0.6	4.7	5.0	4.2
Kimlun	Hold	1.18	391.6	1.40	4.5	6.0	5.1	0.5	0.5	9.2	10.1	5.3
Litrak	Hold	4.08	2,154.1	5.10	9.5	9.0	7.6	2.1	2.1	26.7	27.1	6.1
Sunway Con	Hold	1.61	2,080.5	2.30	15.0	12.7	10.6	2.6	2.6	24.9	24.9	3.3
Simple average					10.9	10.1	9.0	1.1	1.1	12.7	12.9	3.8

Source: Maybank KE

CONSUMER: Towards a healthier Malaysia

Neutral (unchanged)

Budget measures/incentives:

- A MYR0.40/litre excise duty will be imposed on two categories of 'sugar sweetened beverages': (i) non-alcoholic beverages containing more than 5g/100ml of added sugar; and (ii) fruit or vegetable juices containing more than 12g/100ml of added sugar.
- The Government targets to recover c.MYR1b in tax losses by stepping up enforcement on illicit cigarette smuggling and other contraband alternatives.
- The Ministry of Health has set 2045 as its target for a 'Smoke-free Malaysia'.
 Locations gazette as smoke-free zones will be expanded starting 1 Jan 2019.
- A new tiered foreign worker levy system will be implemented in mid-2019 on employers that have a high percentage of foreign workers.

Impact/benefits:

Sugar excise to affect most non-alcoholic beverages. Based on our channel checks, majority of ready-to-drink beverages available in stores contain total sugar/100ml level higher than the tax threshold of 5g/100ml and 12g/100ml for non-alcoholic beverages and fruit/vegetable juices respectively.

Sugar content of selected ready-to-drink brands

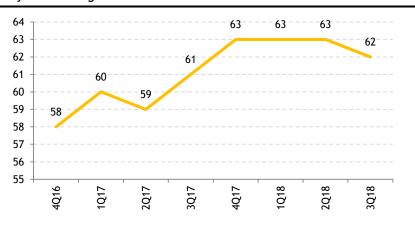
Brands	Company	Total sugars (g) / 100 ml
Coca-cola	The Coca-Cola company	10.6
Pepsi cola	Etika	10.6
7-Up	Etika	7.6
Sprite	The Coca-Cola company	5.5
100 plus	F&N	6.0
Seasons Ice Lemon Tea	F&N	11.1
Heaven & Earth Ice Lemon Tea	The Coca-Cola company	10.7
MILO	Nestle	7.1
Nescafe Original	Nestle	5.7
Huat Ah! Hazelnut White Coffee	Power Root	5.7
Alicafe Caramel	Power Root	5.6
Peel Fresh (Orange Juice)	Marigold	10.9
Peel Fresh (Apple Juice)	Marigold	11.0
Red Bull	Yee Lee	16.9
Chocolate milk	Dutch Lady	8.2
Goodday Fresh milk	Etika	5.1

Source: Maybank KE

Negative on F&N, Nestle, Power Root. We believe F&N (FNH MK, Not Rated) would be most affected. As for Nestle, its ready-to-drink beverages are mainly MILO and Nescafe. While Nestle would be negatively impacted by this sugar excise, we are unsure of the contribution from its ready-to-drink portion (excl. milo powder, 3-in-1 instant mixes). MILO and Nescafe are Nestle Malaysia's biggest brands which are estimated to account for c. 49% of total group revenue. Similarly, we are unsure on Power Root's (PWRT MK, Not Rated) ready-to-drink contribution to total revenue. Power Root's coffee segment (under Alicafe and Ah Huat brands) is the largest contributor (83%) to total revenue.

Implementation is key for tobacco industry. We are positive on the Government's targets of stepping up enforcement on illicit cigarette smuggling and other contraband alternatives. This will alleviate a major challenge to the domestic tobacco industry, saddled with high illicit incidence. As at end-3Q18, the illicit cigarette market share remained high at e.62%. With the Government's renewed concentration on clamping down on illicit cigarettes, we believe legal industry volumes will gradually recover in the mid-term which will benefit the big three industry players i.e. BAT, Philip Morris (Not Listed) and JTI (Not Listed). Our model has imputed industry volume growth of -5%/+2%/+2% for FY18/FY19/ FY20.

Malaysia: Illicit cigarette market share



Source: YTD Sep'18 Industry Exchange & Track Data, Company

(Jade Tam; <u>jade.tam@maybank-ib.com</u>)

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	P/B (x)	P/B (x)	ROAE (%)	ROAE (%)	Net yield
		(MYR)	(MYRm)	(MYR)	CY17A	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY19F
AEON Co	Buy	1.75	2,457.0	2.50	23.0	21.3	19.9	1.2	1.2	5.7	6.0	2.5
BAT (M)	Hold	34.00	9,708.0	31.00	18.6	22.9	20.7	24.3	24.3	108.3	117.2	4.7
Berjaya Food	Buy	1.36	492.8	1.70	25.3	22.4	18.8	1.3	1.3	5.9	7.0	3.5
Carlsberg	Hold	18.40	5,660.2	18.00	23.8	22.0	20.4	19.2	19.2	91.5	93.7	4.9
Heineken Msia	Hold	19.10	5,770.1	20.20	21.4	20.1	19.6	14.8	14.8	76.4	75.6	5.0
Nestle	Sell	143.60	33,674.2	102.00	53.0	49.3	46.5	52.4	52.4	106.6	112.5	2.1
Padini Holdings	Sell	5.52	3,631.7	5.05	21.6	20.0	19.5	4.4	4.4	25.6	22.5	1.8
QL Resources	Sell	6.96	11,292.2	4.00	56.1	49.8	45.3	5.5	5.5	11.8	12.0	0.8
Mynews	Hold	1.45	989.1	1.44	40.3	34.1	28.1	3.4	3.4	11.0	12.0	0.9
7 - Eleven	Sell	1.36	1,535.3	1.12	32.4	34.9	33.2	13.6	13.6	48.7	41.1	1.5
Atlan Holdings	Buy	4.45	1,128.7	6.20	26.0	30.1	29.1	3.6	3.6	10.7	12.2	3.4
Simple average					31.1	29.7	27.4	13.0	13.0	45.6	46.5	2.8

Source: Maybank KE

November 4, 2018 23

GAMING: Largest casino tax hike ever

Neutral (from Positive)

Budget measures/incentives:

- Casino license fee to be increased to MYR150m from MYR120m p.a..
- Casino duty rate to be raised to 35% from 25% of gross gaming revenue.
- Number of special draws will be reduced by half.

Impact/benefits:

RWG the heaviest taxed casino in Asia. The casino license fee and duty rate hike are the largest on record. The last time the casino duty rate was hiked was in 1998, from a scale of 22-25% of GGR to a standardized 25% of GGR. The new casino duty rate of 35%, effective sales & service tax of 3.7% and corporate tax rate of 24% 'crowns' Resorts World Genting as the heaviest taxed casino in Asia. Macau casinos are also taxed at 39% of gross gaming revenue but they are exempted from corporate tax. We estimate that the casino license fee and duty rate hike will cut RWG EBITDA margins by 9ppts to 25-26% going forward.

We cut earnings aggressively. Reflecting the new casino license fee and duty rate hike, we cut our FY19/FY20 GENM earnings estimates by 32%/29% and our FY19/FY20 GENT earnings estimates by 13%/13%. GENM earnings are most impacted as it owns 100% of RWG. GENT earnings are less impacted as it owns 49% of GENM and in effect, 49% of RWG as well. GENT earnings are also more diverse as it derives -40% of earnings from Genting Singapore (GENS SP, HOLD, CP: SGD0.945, TP: SGD1.26). We downgrade GENM to HOLD (from BUY), maintain GENT as BUY.

NFOs got off easy. There was no gaming tax or pool betting duty hike for NFOs. We already quantified that if BST and MAG are awarded nil special draws from 2019 onwards, we estimate that our BST/MAG earnings estimates may be trimmed by only 7%/8% (link). This is because special draw net profit margins are <5% as they also incur 10% special contribution to the government on sales less gaming tax. Sales garnered during special draws are also typically 10-15% less than normal draws due to their proximity to Wednesday draws. Thus, we gather that the halving in the number of special draws may result in our BST/MAG earnings estimates being trimmed by only 4%/4%.

(Samuel Yin; samuel.y@maybank-ib.com)

Gaming sector - peer valuation summary

Guilling Sector	PCC. V	utuutioii .	Jannina y									
Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	P/B (x)	P/B (x)	ROAE (%)	ROAE (%)	Net yield
		(MYR)	(MYRm)	(MYR)	CY17A	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	ĆY19F
Genting	Buy	7.20	27,724.0	10.90	13.0	12.4	12.0	0.7	0.7	6.9	6.8	2.5
Genting Msia	Hold	4.54	25,667.6	4.40	18.2	14.5	16.6	1.2	1.2	8.7	7.2	3.2
Berjaya Sports	Hold	2.20	2,963.4	2.50	11.6	11.2	10.8	3.0	3.0	34.4	33.1	7.3
Magnum	Buy	1.88	2,675.2	2.13	13.0	12.4	12.1	1.0	1.0	9.1	9.3	6.9
Simple average					14.0	12.6	12.9	1.5	1.5	14.8	14.1	5.0

Source: Maybank KE

INSURANCE: Insuring the lower income groups

Positive (unchanged)

Budget measures/incentives:

- A pilot national B40 Health Protection Fund to provide free protection against top 4 critical illnesses for up to MYR8k and up to 14 days of hospitalization income cover at MYR50 per day will start 1 Jan 2019. In short, hospitalization income of MYR700 per annum is available.
- Stamp duty will be waived for all Tenang Insurance products for two years starting 1 Jan 2019.
- To encourage a higher insurance take-up rate, the combined personal tax relief for EPF contribution and life/takaful deduction will be separated into MYR4k for EPF and MYR3k for life/takaful premiums/contributions.

Impact/benefits:

Health Protection Fund initial seed provided by Great Eastern Life Insurance (Not Listed). Great Eastern Life Insurance will contribute the initial seed funding of MYR2b to this fund, which will be managed by BNM. We would expect other insurers to voluntarily contribute towards this fund.

Perlindungan Tenang offered by six companies. As far as we are aware, Perlindungan Tenang is offered by six life insurers - AIA, Allianz, GE, HL Assurance, Sun Life and Tokio Marine. It targets the B40 group and sums covered range from MYR10k to MYR50k, with premium contributions of about MYR30-60 per year.

BUY call on Allianz and HLFG maintained. As it stands, these measures are generally positive for the lower income groups, in ensuring that they do have some access to insurance. The impact to insurance companies, however, is negligible at this stage. The only BUY call that we have in the sector is on Allianz Malaysia with an SOP-derived TP of MYR16.05. For indirect exposure to Hong Leong Assurance, we also have a BUY call on HLFG with an RNAV of MYR21.20. HLFG holds a 70% stake in Hong Leong Assurance.

(Desmond Ch'ng; desmond.chng@maybank-ib.com)

Insurance sector - peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	P/B (x)	P/B (x)	ROAE (%)	ROAE (%)	Net yield
		(MYR)	(MYRm)	(MYR)	CY17A	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	CY19F
Allianz Malaysia	Buy	12.28	2,169.5	16.05	13.4	13.3	12.1	2.4	2.4	9.1	9.0	1.0
HLFG	Buy	19.30	22,103	21.20	12.8	11.7	11.1	1.2	1.2	10.6	10.7	2.6
Simple average					13.1	12.5	11.6	1.8	1.8	9.9	9.9	1.8

Source: Maybank KE

OIL & GAS: PETRONAS pays higher dividends

Positive (unchanged)

Budget measures/incentives:

- PETRONAS will commit to paying higher dividends to the Government in 2018 and 2019 respectively.
 - ✓ For 2018, PETRONAS will now pay MYR26b (+63% YoY) in dividends.
 - ✓ For 2019, PETRONAS will pay MYR54b (+108% YoY) in dividends.

Impact/benefits:

Then and now. The MYR26b dividend payout for 2018 is MYR2b higher than what PETRONAS announced in Aug 2018 (MYR24b) during its 2Q18 financial results.

For 2019, the dividend payout (MYR54b) is structured based on:

- (i) a one-off special dividend payment (MYR30b), and
- (ii) MYR24b dividend (normalized basis).

The higher dividend payment is not entirely unexpected, considering the improving fundamentals of the O&G sector (higher crude oil price, higher capex, etc). The one-off special dividend of MYR30b will go towards repayment of the GST and income tax refunds of MYR37b.

PETRONAS has the financial capacity to do it. We posit the higher dividends for 2018-19 will not affect its planned reinvestment and capex programs. PETRONAS can accommodate this. It is financially healthy. Its net cash stood at MYR108b as at end-June 2018.

Reiterate POSITIVE. We continue to like resilient companies with strong financials and proven management. Our key BUYs are Dialog, Yinson, MMHE and Velesto.

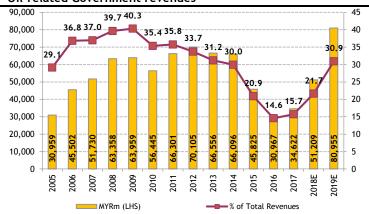
(Liaw Thong Jung; tjliaw@maybank-ib.com)

Oil & gas sector - peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	P/B (x)	P/B (x)	ROAE (%)	ROAE (%)	Net yield
		(MYR)	(MYRm)	(MYR)	CY17A	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	ĆY19F
Dialog	Buy	3.37	19,001.1	3.58	49.2	42.1	37.2	4.8	4.8	12.7	13.3	1.2
Yinson	Buy	4.45	4,820.4	4.56	14.6	17.9	25.5	1.6	1.6	9.8	6.7	2.2
Bumi Armada	Hold	0.39	2,289.7	0.55	10.5	9.1	5.3	0.4	0.4	4.4	6.9	0.0
Sapura Energy	Buy	0.35	2,097.3	1.20	n.a.	n.a.	8.9	0.2	0.2	(3.1)	2.5	2.9
Velesto Energy	Buy	0.26	2,095.0	0.33	n.a.	n.a.	85.0	0.8	0.8	(0.5)	0.9	0.0
MMHE	Buy	0.59	944.0	1.00	n.a.	n.a.	295.0	0.4	0.4	(3.4)	0.1	0.0
Wah Seong	Hold	0.90	693.5	1.25	7.4	7.5	7.3	0.6	0.6	9.4	8.8	0.0
KNM Group	Hold	0.14	328.5	0.20	n.a.	n.a.	140.0	0.1	0.1	(1.4)	0.2	0.0
Icon Offshore	Hold	0.14	158.9	0.15	n.a.	n.a.	n.a.	0.3	0.3	(2.8)	(0.3)	0.0
Alam Maritim	Hold	0.12	110.9	0.15	n.a.	n.a.	n.a.	0.2	0.2	(6.2)	(3.7)	0.0
Barakah	Sell	0.08	66.9	0.07	n.a.	n.a.	26.7	0.6	0.6	(93.4)	2.6	0.0
Simple average					20.4	19.1	70.1	0.9	0.9	(6.8)	3.5	0.6

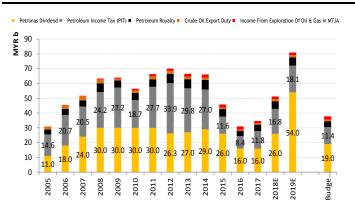
Source: Maybank KE

Oil-related Government revenues



Source: PETRONAS, Maybank KE

Breakdown of oil-related Government revenues



Source: PETRONAS, Maybank KE

PLANTATION: B10, B7 implementation

Neutral (unchanged)

Budget measures/incentives:

• The Government will implement the Biodiesel B10 programme for the transportation sector and B7 for the industrial sector in 2019.

Impact/benefits:

Raising the use of palm biodiesel by ~0.41m MT in 2019. The present B7 biodiesel programme uses ~0.35m MT of palm oil per year. The new proposal is expected to double the usage to ~0.76m MT of palm oil annually. While the additional demand of ~0.41m MT is relatively small compared to Malaysia's total output of ~20m MT, the aim is to stabilise palm oil prices in the market by preventing a quick build-up in inventory domestically. The current CPO spot price in Malaysia of ~MYR2,000/t is near a 3-year low due to the ample supply of palm oil stockpile in Malaysia (and Indonesia). As at 30 Sept 2018, the MPOB's stockpile stood at 2.54m MT (+26% YoY).

Maintain NEUTRAL. We remain NEUTRAL on the plantation sector with BUY on just GENP.

(Ong Chee Ting; ctong@maybank-ib.com)

Plantation sector - peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	P/B (x)	P/B (x)	ROAE (%)	ROAE (%)	Net yield
		(MYR)	(MYRm)	(MYR)	CY17A	CY18F	CY19F	CY18F	CY19F	CY18F	CY19F	ĆY19F
Sime Darby Plant	Hold	5.29	35,976.4	5.35	30.2	29.4	30.8	2.5	2.5	8.5	8.3	1.7
IOI Corp	Hold	4.54	27,723.5	4.76	27.3	26.5	25.7	2.9	2.9	11.5	11.3	2.3
KL Kepong	Hold	24.84	26,453.7	23.70	25.4	26.4	23.8	2.1	2.1	8.3	8.9	2.5
Genting Plant	Buy	9.58	7,714.9	10.40	23.0	24.0	19.9	1.6	1.6	7.1	8.1	2.0
Boustead Plant	Hold	0.96	2,150.4	1.22	16.0	30.0	23.4	0.9	0.9	2.8	3.7	4.6
SOP	Hold	2.60	1,484.3	3.10	6.2	11.7	8.3	0.6	0.6	5.8	7.7	3.6
TSH Resources	Hold	1.05	1,449.8	1.14	14.2	17.5	14.0	1.0	1.0	5.8	6.8	1.7
Ta Ann	Hold	2.30	1,022.7	2.70	8.6	11.1	8.6	0.7	0.7	6.4	7.8	4.7
TH Plantations	Hold	0.60	530.3	0.74	11.5	15.4	11.1	0.4	0.4	2.5	3.4	2.7
Simple average					18.0	21.3	18.4	1.4	1.4	6.5	7.3	2.9

Source: Maybank KE



PROPERTY: A Clear Winner

Positive (from Neutral)

Budget measures/incentives:

- Real Property Gains Tax (RPGT) rates will be raised by +5% for the disposal of properties or shares in property holding companies after the 5th year of holding, for: (i) foreigners and corporates (to 10%, from 5%) and (ii) Malaysian individuals (to 5%, from 0%). Affordable housing priced below MYR200,000/unit will be exempted.
- Stamp duty on the transfer of property valued at >MYR1m/unit will increase by +1% to 4%, from 3%.
- Stamp duty will be waived for first-time homebuyers for properties priced between MYR300k - MYR1m/unit from 1 Jan 2019 - 30 June 2019, as part of the National Home Ownership Campaign. In return, developers will offer a minimum discount of 10% on the price for residential properties.
- The Government will approve private sector driven 'Property Crowdfunding' platforms which will serve as an alternative source of financing for first-time homebuyers. These exchange platforms will be regulated by the Securities Commission (SC) under the peer-to-peer financing framework. The first exchange is expected to go live in 1Q 2019 after all necessary approvals are obtained from the SC.
- The Government will sell land on scheduled and staggered basis via auction to the highest bidders based on the conditions imposed on the land. This is to maximize revenue for the Government.
- Real Estate Housing Developers Association (REHDA) is committed to reduce house prices that are not subjected to price control in new projects by 10%.
- The Government will allocate nearly MYR1.5b to construct and complete affordable homes under the Program Perumahan Rakyat, Perumahan Penjawat Awam Malaysia, PRIMA and Syarikat Perumahan Nasional Bhd to ensure the availability of supply.
- To assist the lower income group earning not more than MYR2,300 per month to own a house for the first time, a fund amounting to MYR1b will be established by BNM to help them purchase affordable homes priced at MYR150k/unit or below. The fund will be available from 1 Jan 2019 through a concessionary financing rate as low as 3.5% per annum. The MYR1b fund is available for two years or until the allocation is exhausted.

Impact/benefits:

More positive than expected. While we are negatively surprised by the imposition of an additional +5% in RPGT for the disposal of properties/shares in property holding companies after the 5th year, the additional +1% in stamp duty on the transfer of property valued at more than MYR1m is milder-than-expected and it should not affect foreign buying in Malaysia significantly, in our view. Previously, the Government's ban on foreign buyers for the Forest City project had sparked talks on stricter property measures on foreign buying.

To recap, the Malaysian Government has imposed a minimum property purchase price of MYR1m on foreign buyers since 2014. In certain states, namely Selangor and Penang, the minimum price could go up to MYR2m depending on the location and land title.

Crowdfunding a game changer. More positive to us will be the earlier-thanexpected introduction of the first-in-the world private-initiated 'Property Crowdfunding' platform which serves as an alternative source of financing for first-time homebuyers. We previously thought it would only be announced in Jan 2019 together with the planned home ownership campaign. In our view, the new platform would help developers to achieve better property sales and reduce their unsold properties by lowering the upfront financial burden of buyers.

Cost relief for developers. The stamp duty exemption for first-time homebuyers for properties priced between MYR300k - MYR1m/unit from 1 Jan 2019 - 30 June 2019 should stir some buying interests on properties in 1H 2019. As most of the developers are already giving more than 10% discount on unsold stocks and absorbing the stamp duties for their buyers, the waiver should help to improve developers' margins in the coming 1H 2019.

A tactical POSITIVE. The property sector is the clear winner in the newly-announced Budget 2019. While we are waiting for more details on the 'Property Crowdfunding' platform, we view these creative alternative financing platform as a re-rating catalyst for the sector over the short term and it should help to boost property sales and lower the unsold properties of developers. This is further supported by the joint effort between the Government and private developers via the Home Ownership Campaign, to be launched in Jan 2019.

We are now tactically POSITIVE on the property sector (previously NEUTRAL) for its crisis-liked type of valuations - 58% discount (average) to our RNAV estimates. Consequently, we believe the concerns on record-high unsold stocks in the country and a slowing GDP have been largely priced in. We anticipate better sales in 2H 2018 (post-GE14 and zero GST in June-Aug 2018 as well as aggressive marketing packages by the developers) and 1H 2019. We upgrade the property sector to POSITIVE.

Our stock picks. We are switching our strategy from defensive (diversified income base or with strong balance sheet) to a more aggressive mode - mainly on the beaten down stocks with decent sales supported by healthy balance sheets.

Our top picks are SP Setia and UEM Sunrise. SP Setia is looking to seal its Battersea Power Station phase 2 commercial space sale in Nov-Dec 2018 while UEMS will start reaping the fruits from its Australian projects. Earnings from both the fully/close to 100%-sold Aurora and Conservatory projects in Melbourne will be recognized between 3Q 2018 and 1H 2019. Both SP Setia and UEMS are on track to meet their sales targets for 2018.

Downside risks to our calls: i) failure/delays in executing and implementing the "Property Crowdfunding" platform in view of the heavy upfront cost for buyers e.g. 20% down payment, ii) worsening housing glut and iii) rising competition from Government-private partnership housing projects.

Developers under our coverage

Company	Bloomberg code	2-Nov-18	2-Jan-18	YTD share price movement	Beta	Net gearing (x) *
Eco World Development	ECW MK	1.04	1.39	-25%	0.823	0.78
Eco World International	ECWI MK	0.92	1.03	-11%	0.752	0.02
Glomac	GLMC MK	0.41	0.555	-26%	0.588	0.28
Mah Sing Group	MSGB MK	1.00	1.46	-32%	1.025	0.20
Sime Darby Property	SDPR MK	1.00	1.46	-32%	1.842	0.18
SP Setia	SPSB MK	2.11	3.37	-37%	1.098	0.424
Sunway	SWB MK	1.43	1.7	-16%	0.906	0.48
Tambun Indah	TILB MK	0.81	1.02	-21%	0.838	Net cash
UEM Sunrise	UEMS MK	0.70	1.1	-36%	1.578	0.539
* based on latest quarterl	y results					

Source: Bloomberg, Companies



Current and newly-proposed RPGT rates

Disposal	Company	Current RPGT rates Non-citizen and non- permanent resident individuals	Malaysian individuals
Within 3 years	30%	30%	30%
In the 4th year	20%	20%	30%
In the 5th year	15%	15%	30%
In the 6th and subsequent years	5%	0%	5%
		Effective from 1 Jan 2019	
In the 6th and subsequent years	10%	5%	10%

Source: Budget 2019

Restructuring of stamp duty rates for the transfer of real property

Existing	
First MYR100,000	1%
MYR100,001 to MYR500,000	2%
MYR500,001 to MYR1,000,000	3%
Effective from 1 Jan 2019	
First MYR100,000	1%
MYR100,001 to MYR500,000	2%
MYR500,001 to MYR1,000,000	3%
MYR1,000,001 and above	4%

Source: Budget 2019

(Wong Wei Sum; <u>weisum@maybank-ib.com</u>)

Property sector - peer valuation summary

Stock	Rec	Shr px	Mkt cap	TP	PER (x)	PER (x)	PER (x)	P/B (x)	P/B (x)	ROAE (%)	ROAE (%)	Net yield
		(MYR)	(MYRm)	(MYR)	CY17A	CY18F	CY19F	CY18F	CY19F	CÝ18F	CÝ19F	ĆY19F
SP Setia	Buy	2.11	8,255.0	2.72	9.5	20.5	17.6	1.2	1.2	3.4	3.9	2.9
Sime Darby	Buy	1.00	6,800.8	1.52	11.2	6.9	8.5	0.7	0.7	6.6	7.8	4.4
Sunway Berhad	Buy	1.43	6,940.1	1.85	12.2	12.7	11.1	0.8	0.8	6.7	7.2	4.1
Ecoworld	Buy	1.04	3,062.1	1.43	25.3	16.9	8.4	0.6	0.6	4.1	7.6	1.2
UEM Sunrise	Buy	0.70	3,176.2	1.11	13.0	8.4	11.7	0.4	0.4	5.7	4.0	1.7
Mah Sing	Hold	1.00	2,427.7	1.26	8.2	10.1	11.1	0.8	0.8	8.1	7.0	3.6
Ecoworld Intl	Hold	0.92	2,208.0	1.06	n.a.	22.1	5.9	0.7	0.7	3.8	12.9	4.2
Tambun Indah	Buy	0.81	351.0	1.06	4.2	6.5	6.3	0.5	0.5	8.8	8.6	6.3
Glomac	Hold	0.41	322.7	0.45	17.6	25.6	12.6	0.3	0.3	1.1	2.1	2.4
Simple average					12.6	14.4	10.3	0.7	0.7	5.4	6.8	3.4

Source: Maybank KE



APPENDIX TABLES AND CHARTS

Figure 1: Real GDP Growth by Sectors

(% chg)	2017	2018E	2019E	Remarks			
Services	6.2	6.3	5.9				
Wholesale & Retail Trade	7.1	7.0	7.3	Boost from 0% GST in June-Aug 2018; upward revision in minimum wage; higher e-commerce sales (as at Sep 2018, about 3,800 SMEs joined Digital Free Trade Zone (DFTZ) platform.			
Finance & Insurance	4.6	5.5	5.3	Higher insurance premium income amid lower claims in 2018; lower fee-based income but sustained bank lending in 2019.			
Information & Communication	8.4	8.1	8.0	Higher usage of broadband services on impact of Mandatory Standard on Access Pricing (MSAP) on lowering broadband prices and improving services quality; increased digitalization activities.			
Real Estate & Business Services	7.4	7.3	6.6	Sustained demand for professional services but slower growth in property market.			
Transport & Storage	6.2	5.8	5.5	Higher passenger movement in land transport segment (e.g. additional capacity of electric train services (ETS) with procurement of new train units); air transport segment growth on new routes and capacity as well competitive fares; water transport segment growth supported by port-related activities amid improvement and expansion of several major ports. However, international tourist arrivals and receipts are expected to moderate.			
Food, Beverages & Accommodation	7.4	8.1	6.9	Underpinned by domestic consumer spending and tourism; operationalization of several new shopping centres and supporting retail components in Klang Valley, Penang and Johor.			
Utilities	2.9	4.7	4.6				
Other Services	5.1	5.3	5.1	Strong demand for private education and healthcare services.			
Government Services	4.9	4.4	4.2				
Manufacturing	6.0	4.9	4.7	Driven by export-oriented industries, underpinned by continuous expansion in electronics cycle thus demand for integrated circuits, semiconductors, telecommunication equipment and consumer electronics such as wearable gadgets and smart home appliances. Other export-based industries driving sector growth include petrochemicals, oleochemicals, medical appliances, pharmaceutical products and rubber gloves. Domestic-oriented industries driven by sustained demand for consumer-and construction-related products. Another growth area in manufacturing is aerospace (aircraft component designs and manufacturing; maintenance, repair and overhaul (MRO) activities).			
Agriculture	7.2	(0.2)	3.1	CPO output in 2018 dropped -0.1% (2017: 16.0%) due to prolonged dry season in Sabah and Sarawak, base effect following recovery from El-Nino phenomenon in 2017, and lower average selling price (ASP) of MYR2,300/tonne (2017: MYR2,791/tonne). 4.1% rebound in 2019 on increase in matured planted areas and improvement in ASP to MYR2,400/tonne.			
Mining	1.0	(0.6)	0.7	Decline in 2018 due to lower natural gas output on supply disruptio Kebabangan and Kinabalu fields in Sabah. Rebound in 2019 on reccin natural gas output on resumption of operation in the above field plus new production from Bakong and Larak fields in 2H 2019. However, crude oil output is expected to decline in 2019 due to production constraints in Sabah's Gumusut Kakap and Malikai fields			
Construction 6.7 4.5 4.7			4.7	Moderate growth in 2018-2019 projects due to impact of review in major infrastructure projects and subdued activities in property sect due to oversupply with growth underpinned by supply of affordable homes. Civil engineering segment to be key growth driver given the on-going major infrastructure projects include MRT2, LRT3, Gemas-Johor Bah Electrified Double-Track, Pan Borneo Highway and Central Spine Roz as well as petrochemical and energy projects such as RAPID's Deepwater Petroleum Terminal 2 and Cogeneration Plant in Pengera Johor, Floating LNG 2 in Sabah, Central processing Platform in Bokor Sarawak and North Malay Basin fields.			

Source: MoF (Economic Report 2018/2019)

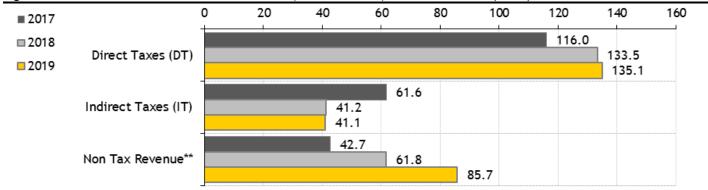


Figure 2: Real GDP Growth by Demand

(% chg)	2017	2018E	2019E	Remarks
Domestic Demand	6.5	5.0	4.8	
Private Expenditure	7.5	6.5	6.4	
Consumption	7.0	7.2	6.8	Underpinned by stable job market condition as well as impact of consumption tax holiday (0% GST in June-Aug 2018), fuel price subsidy of over MYR5b this year), less burdensome Sales & Services Taxes (SST) that replaces GST in Sep 2018, and minimum wage hike in 2019.
Investment	9.3	4.5	5.0	Driven mainly by capital outlays in manufacturing and services sectors, especially in E&E, chemical products, medical devices, wholesale & retail trade, food & beverages, accommodations, as well as in ICT as ecommerce activities expand and on adoption of Industry 4.0 technologies.
Public Expenditure	3.3	0.1	(0.9)	
Consumption	5.4	1.0	1.8	Reflect rationalization and optimization in Government expenditure without compromising quality of public services, including enhancing value for money in procurement.
Investment	0.1	(1.5)	(5.4)	Mainly reflect public corporations' lower capex amid sustained Federal Government's development spending.
Net External Demand	(1.9)	7.7	0.7	Slower growth in trade surplus of 2.6% to MYR109.4b in 2019 vs 8.2% to MYR106.6b in 2018, as well as narrower current account surplus (2019E: MYR34.0b / 2.7% of GDP; 2018E: MYR38.6b / 2.2% of GDP)
Exports of Goods & Services	9.4	2.0	1.6	Slower goods exports and services receipts (2019E: 3.0%; 2018E: 3.3%)
Imports of Goods & Services	10.9	1.4	1.8	Pick up in goods imports and services payments (2019E: 3.7%; 2018E: 3.1%)

Source: MoF (Economic Report 2018/2019)

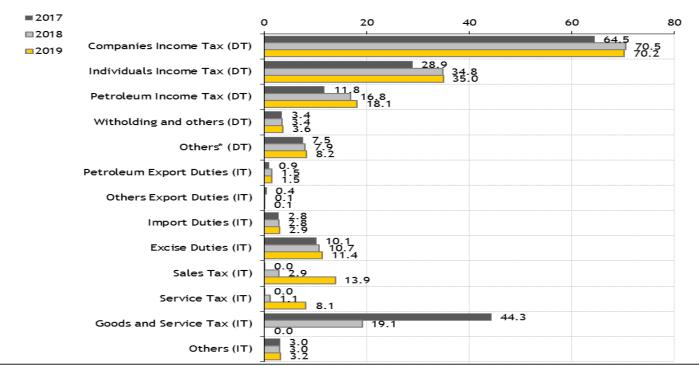
Figure 3: Total Government Revenue - Direct Taxes, Indirect Taxes, Non-Tax Revenue (MYRb)



^{**} Includes government commercial undertakings, interest and returns on investments, licenses, service fees, road tax, fines and penalties, rental, petroleum royalties, revenue from Federal Territories and non-revenue receipts

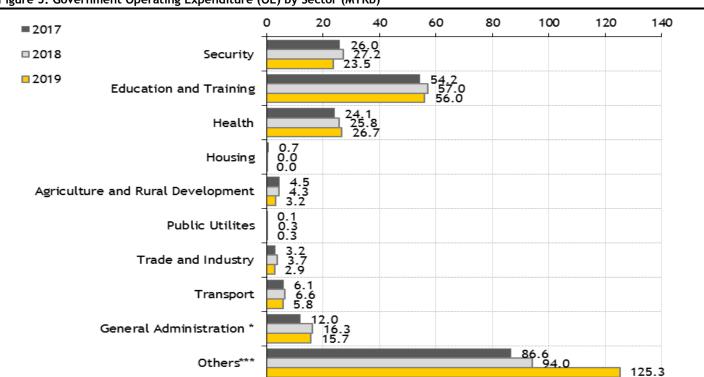
Source: MoF Economic Report 2018/2019

Figure 4: Total Government Revenues - Breakdown of Direct and Indirect Taxes (MYRb)



^{*} Includes revenue from stamp duties and real property gains tax Source: MoF Economic Report 2018/2019

Figure 5: Government Operating Expenditure (OE) by Sector (MYRb)



 $^{^{\}ast}$ Includes general services, refund and reimbursement and foreign affairs services

Source: MoF Economic Report 2018/2019

^{***} Includes debt service charges and transfer payments

20 40 50 60 70 80 10 30 90 **2017** Emolument **2018** 2019 Retirement Charges Debt Service Charges 7.1 8.0 7.6 Grants & Transfers to State Govts Supplies and Services Subsidies and Social Assistance Asset Acquisition Refunds and Write-offs Grants to Statutory Bodies 10.3 Other Expenditures **

Figure 6: Government Operating Expenditure (OE) by Object (MYRb)

Source: MoF Economic Report 2017/2018

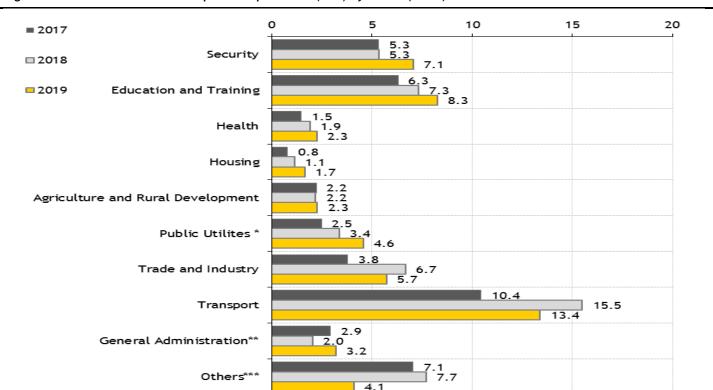


Figure 7: Government Gross Development Expenditure (GDE) by Sector (MYRb)

Source: MoF Economic Report 2018/2019

^{**} Includes grants to Statutory Fund, public enterprise, International organizations, insurance claims, gratuities and others

^{*} mainly electricity and water supply

 $^{^{**}}$ includes general services, maintenance and renovations.

^{***} Includes debt service charges, transfer payments, communication, social and economic services

Summary of Budget 2019

Strategy Key Measures, Incentives & Allocations

FOCUS 1: IMPLEMENTING INSTITUTIONAL REFORMS

Strategy 1 Strengthen Fiscal Administration

- 1. The Federal government is implementing a 'zero-based budgeting' exercise for this Budget. Improved effectiveness, greater efficiency and higher cost-savings are achieved by:
 - a. Ensuring spending is justified by objectives rather than the previous year's budget
 - b. Review alternative scenarios to achieve the same objectives
 - c. All discretionary spending is planned from zero.
- 2. Government will table the Fiscal Responsibility Act by 2021 to avoid reckless mega spending that entails mega debts.
- 3. Government intends to table the Government Procurement Act next year to govern procurement processes to ensure transparency and competition, while punishing abuse of power, negligence and corruption.
- 4. Current cash basis of accounting shall be converted to an accrual basis by 2021 to ensure full disclosure of debts and liabilities, as well as the value of our assets.

Strategy 2 Restructuring and Rationalising Government Debt

- 1. Government will set up a Debt Management Office responsible for reviewing and managing the government and its agencies' current and future debt and liabilities.
 - a. To oversight over debt issuance by the Federal Government, statutory bodies and Special Purpose Vehicles.
 - b. To avoid higher debt service charges because of poor coordination of debt issuance.
 - c. Streamline Government funding sources as a whole, centralising management of funds such that statutory bodies with surplus can help meet the funding requirements of other agencies at a more competitive cost.
- 2. To rationalise debts, the Government has taken the decision to cancel:
 - a. MYR 15b Multi-Product Pipeline and Trans-Sabah Pipeline projects.
 - b. MYR81 b East Coast Rail Link (ECRL) is suspended, and is pending renegotiation of the cost of the project.
 - c. Cancelled the MYR60 b MRT3 project for now, pending the completion of MRT2.
 - d. Postponed the implementation of the Kuala Lumpur Singapore High-Speed Rail which would have cost us at least MYR110b.
 - e. Reduce the overall cost from MYR31.6b to MYR16.6b for the 37km LRT3 project carried out by Prasarana Malaysia Bhd. This represents a savings of 47% or MYR15b.
 - f. For MRT2 Reduced the cost of the construction contract by MYR8.8b from MYR39.3b to MYR30.5b, representing a savings of 22.4%. The Klang Valley Double-Tracking 2 project which was awarded via direct negotiations just before the last general election for MYR5.2b, has been terminated.
- 3. The Government will take all necessary actions to recover funds lost and stolen from 1MDB.
 - a. On 30 October 2018, government have applied to the Courts of England for an order to set aside a Consent Award recorded on 9th May 2017 by an Arbitration Tribunal sitting in London between International Petroleum Company (IPIC) with Aabar Investments PJS, and 1MDB with Minister of Finance Inc. Malaysia is using fraud as a reason not to pay the balance of the US\$4.32 b to IPIC or Aabar under the Consent Award, and recover the USD1.46b already paid.
 - b. Equanimity will commence its 1-month international auction on 5 November 2018.
 - c. The Federal Government will track and publish not only the direct Federal Government debt ratios, but also provide the necessary transparency to disclose total debt and liabilities. The direct federal government debt of MYR687b stood as 50.7% of the GDP as at 31 December 2017.

Source: 2019 Budget Speech

Strategy Key Measures, Incentives & Allocations

FOCUS 1: IMPLEMENTING INSTITUTIONAL REFORMS

Strategy 3 Raising Government Revenue

1. Leveraging Assets

- Government seeks to reduce stake in non-strategic companies and utilise the proceeds to pare down debt.
- b. The real Public Private Partnership (PPP) model for public projects based on land swap transactions would be implemented using an open tender mechanism and not direct negotiations. Previously, through the direct negotiation model, the real value of the government land is invariably under-priced while the cost of the public works project is over-priced.
 - i. Based on this new model, twenty-four PPP projects such as schools, army camps, police and fire stations as well as affordable housing, worth MYR5.2b will be implemented.
 - ii. Government expects to gain an excess of MYR800m over the cost of the public works from the land sales.
- c. To plan scheduled and staggered land sales via auction to the highest bidders, based on conditions imposed on the land, to maximise revenue for the Government.
- d. To privatise infrastructure assets, the Government intends to set up the world's first "Airport Real Estate Investment Trust (REIT)".
 - i. The investors of the Airport REIT will receive income arising from user fees collected from Malaysia Airports Holdings Bhd (MAHB) which has the concession to operate these airports.
 - ii. The Government hopes to raise MYR4 b from selling a 30% stake of the REIT to private investing institutions, while these investors will gain an invaluable opportunity to invest in top quality infrastructure assets.
 - iii. This REIT exercise will only be carried out after the new Regulated Asset Base and user fees structure has been negotiated and finalised.
 - iv. The Airport REIT will have the opportunity to raise funds publicly either by issuing new REIT units or via borrowings in order to fund the improvement and expansion of airports, especially those facing over-capacity.

2. Reviewing Taxation

- a. Imported services will be subjected to Service Tax so as to ensure that our local service providers such as architecture, graphic design, Information Technologies (IT) and engineering design services are not unfairly disadvantaged against their foreign competitors starting 1 January 2019.
- b. For online services imported by consumers, foreign service providers will be required to be registered with the Royal Malaysian Customs, charge and remit the relevant Service Tax on the transactions with effect from 1 January 2020. Examples of these services will include, but are not limited to downloaded software, music, video or digital advertising.
- c. Launch a Special Voluntary Disclosure Program to offer an opportunity for taxpayers to voluntarily declare any unreported income for Malaysian tax purposes, including that which is in offshore accounts. Details are as below:
 - i. Will be offered from 3 November 2018 until 30 June 2019 where taxpayers will receive reduced penalty rates, with 10% discount of the tax-payable.
 - ii. If disclosure is made from 1 April 2019 until 30 June 2019, the penalty will be 15% of the tax-payable.
 - iii. After the program ends on 30 June 2019, the penalty rates will range from 80% to the maximum of 300% as provided for in the existing tax laws.
- d. IRB will scrutinise and investigate unexplained extraordinary wealth displayed by possession of luxury goods, jewellery, handbags or property. The IRB will use all necessary measures permitted by the law to recover such monies, whether in the form of additional taxes, penalties or fines.
- e. The Government will place a time limit on the carrying forward of losses and allowances for tax reliefs to a maximum of 7 years. This would apply to unutilised business losses, capital allowances, reinvestment allowance, investment tax allowance and pioneer losses.

Source: 2019 Budget Speech

Strategy Key Measures, Incentives & Allocations

FOCUS 1: IMPLEMENTING INSTITUTIONAL REFORMS

Strategy 3 Raising Government Revenue (continued)

- 2. Reviewing Taxation (continued)
 - e. To carry out a thorough review of the over-130 types of fiscal schemes to support investments, administered by 32 approving authorities with the intention to expire incentives which are no longer relevant or are duplicitous.
 - f. The Royal Malaysian Customs after having successfully launched the SST system, will step up enforcement against cigarette smuggling. Currently, the Government collects less revenue due to the widespread availability of much cheaper contraband alternatives or even illicit products packaged with fake custom duty labels. The Government hopes to recover at least MYR1 b in tax losses as a result of clamping down on smuggling and fraudulent activities.
 - g. Propose to impose a departure levy for all outbound travellers by air starting 1 June 2019. The proposed rate is 2-tiered, MYR20 for outbound travellers to ASEAN countries and MYR40 to countries other than ASEAN.
 - h. The Real Property Gains Tax rates will be revised for disposals of properties or shares in property holding companies after the fifth year as follows:
 - i. For companies and foreigners, the rate shall be increased from 5% to 10%
 - ii. For Malaysian individuals, the rate shall be increased from 0% to 5%. However, low cost, low-medium cost and affordable housing with prices below MYR200,000 will be exempted.
 - i. The stamp duty on the transfer of property valued at more than MYR1,000,000 will increase from 3% to 4%.
 - j. Tax exemption for interest earned on wholesale money market funds which was granted to develop the unit trust industry will cease beginning 1 January 2019.
 - k. The tax ceiling of MYR20,000 under the Labuan Business Activity Tax Act 1990 will be removed.
 - The taxes, fees and levy on the Gaming Industry which have not been increased since 2005 are increased as follows:
 - i. Casino license to be increased from MYR120m to MYR150m per annum
 - ii. Casino duties to be increased up to 35% on gross collection
 - iii. Machine dealer's license to be increased from MYR10,000 to MYR50,000 per annum
 - iv. Gaming machine duties to be increased from 20% to 30% on gross collection
 - v. The number of special draws will be reduced by half.

Source: 2019 Budget Speech

Strategy Key Measures, Incentives & Allocations

FOCUS 2: TO ENSURE THE SOCIO-ECONOMIC WELL-BEING OF MALAYSIANS

Strategy 4 Ensuring Welfare and Quality of Life

- 1. Government support for the B40 households via the "Bantuan Sara Hidup" (BSH) cash grants will continue. However, the program will be targeted to those in need, and enhanced according to the size of the family. Starting January 2019:
 - a. Household with a monthly income of MYR2,000 and below will receive the sum of MYR1,000;
 - b. Households with a monthly income between MYR2,001 and MYR3,000 will receive MYR750;
 - c. Those earning between MYR3,001 to MYR4,000 monthly will receive MYR500.
 - d. For every child 18 years old and below or is disabled in the family (hence, with no age limit), there will be an additional top-up of MYR120 per child of up to a maximum of four children.
- 2. For housewives under the e-Kasih programme, the government have put in place an EPF i-SURI contribution scheme to incentivise caring husbands to contribute for their wives' retirement savings with an allocation of MYR45 m. For the e-Kasih beneficiaries whose husbands contribute at least MYR5 monthly into their wives' accounts, the Government will contribute MYR40 a month.
- 3. To provide targeted fuel subsidy to individual car owners with engine capacity of 1,300cc or less and motorcycle owners of 125cc or less. However, the Government has decided to expand the scheme to vehicle owners of 1,500cc and below. Owners with multiple cars will not receive this benefit.
 - a. Each car and motorcycle owner will enjoy up to 100 litres and 40 litres of RON95 petrol per month with a subsidy of at least MYR0.30 per litre, depending on the market price of petrol.
 - b. This scheme is expected to commence in the second guarter of next year.
- 4. To minimise the price differences between urban and rural areas in Peninsula Malaysia, as well as in Sabah and Sarawak, the Government will allocate MYR150 m to equalise prices of critical goods.
 - a. Items: Wheat flour, processed sugar and cooking oil in 1kg packs, local rice with 15% broken grains in 10kg packs, and for RON95 petrol, diesel and liquid petroleum gas (LPG)
- 5. Adopting the latest technology and techniques to be more efficient and effective in price monitoring.
 - a. Government will call upon all consumers to download the Price Catcher mobile application and be part of a vigilant crowdsourcing effort to collect information on the prices of goods and services.
 - b. The Government will allocate RM20m towards better enforcement.
- 6. Only the poor and hardcore poor registered with e-Kasih will qualify for the electricity bill subsidy to MYR40 per month.
- 7. The Government will identify and collaborate with NGOs and social enterprises to support their efforts in uplifting the underprivileged and marginalised communities. Examples of such partnerships will include the Government procurement of envelopes from Persatuan Pemulihan Orang Kurang Upaya. The government will allocate MYR10 m for this initiative.
- 8. Income tax deductions will be provided for contributions from any parties to any social enterprise subject to a maximum of 10% of aggregate income of a company or 7% of aggregate income for a person other than a company.

Source: 2019 Budget Speech

Strategy Key Measures, Incentives & Allocations

FOCUS 2: TO ENSURE THE SOCIO-ECONOMIC WELL-BEING OF MALAYSIANS

Strategy 5 Improving Employment and Employability

- 1. The Human Resource Development Fund (HRDF) will launch 2 new programmes,
 - a. "Apprenticeship" and "Graduate Enhancement Programme for Employability" (GENERATE) to provide skills to school-leavers as well as to increase the marketability of our graduates from the institutions of higher-learning.
 - b. HRDF will allocate MYR20m in matching grants for these programmes which will benefit at least 4,000 youths.
- 2. The government will introduce policies to encourage the employment of those past the retirement age of 60.
 - a. Government propose that the employer portion of EPF contributions be cut to 4% from the current 6% effective 1 January 2019.
 - b. To boost the disposable income of working retirees, it is also proposed that the current mandatory employee contribution for this group be zeroed.
 - c. Propose to provide additional tax deduction to employers who employ this group up to a monthly salary of MYR4,000. This provides an incentive for employers to hire or retain retirees, particularly among the B40.
- 3. To ensure that ex-convicts are not left behind as the country moves forward and are able to contribute to economic growth, the Government will provide an additional tax deduction for companies who employ exconvicts up to a monthly salary of MYR4,000 each.
- 4. Government will provide a one-off MYR500 assistance to the qualified government pensioners who are receiving pensions of less than MYR1,000 per month.
- 5. Government will allocate MYR10m per annum to make available healthcare service for the parents of 'contract of service' officers. In addition, these officers may apply for 'Quarantine Leave' when their children suffer from infectious diseases commencing 12 November 2018.
- 6. Government has agreed to allow for up to 7 days of Unrecorded Leave for non-muslims officers throughout the duration of service for the purposes of performing their religious pilgrimage and functions.
- 7. Minimum wage shall be raised to MYR1,100 per month for the whole of Malaysia starting 1 January 2019.
- 8. To reduce wage disparity, regulations will be implemented requiring public-listed companies in Malaysia to publicly disclose key pay metrics each year in their annual report. This will include 'the lowest wage paid', 'average wage per worker', the 'highest and lowest wage ratio' as well as a statement by the company of how they intend to improve their employees' average pay.
- 9. The Government will review our labour laws to improve the labour market, workers welfare and ban discriminatory practices by employers. We will also expedite the resolution of industrial disputes between employers and employees by setting up Industrial Appeals Court.

Source: 2019 Budget Speech



Strategy Key Measures, Incentives & Allocations

FOCUS 2: TO ENSURE THE SOCIO-ECONOMIC WELL-BEING OF MALAYSIANS

Strategy 6 Enhancing Health & Social Welfare Protection

- 1. To assist those who have lost employment with the full implementation of the Employment Insurance System (EIS) starting 1 January 2019.
 - The Social Security Organisation (SOCSO) will pay compensation to those who have lost their jobs, including employment-seeking and skills training allowance.
 - The EIS would also provide advice and help these workers find new jobs at the fifty-four SOCSO
 offices around the country.
- 2. The Government is committed to helping Malaysian households become more financially resilient through insurance and takaful protection.
 - a. In partnership with the private insurance industry, the Government will pilot a national B40 Health Protection Fund to provide free protection against top 4 critical illness for up to MYR8,000 and up to 14 days of hospitalisation income cover at MYR50 per day starting 1 January 2019. In other words, hospitalisation income of MYR700 per annum is available. The initial seed funding of MYR2 b for this project is by Great Eastern Life Insurance and will be managed by Bank Negara Malaysia.
- 3. Bank Negara Malaysia has launched 'Perlindungan Tenang' in 2017 to make available affordable, accessible and simple insurance and takaful products for Malaysians costing as little as less than a packet of cigarettes a month. The Government proposes to waive stamp duty for all Tenang Insurance products for two years beginning 1 January 2019.
- 4. To encourage higher insurance take up rate, the combined tax relief for EPF contribution and life insurance or takaful deduction will be separated into MYR4,000 for EPF contribution and MYR3,000 for takaful or life insurance premiums. For civil servants under the pension scheme, the tax deduction will be up to MYR7,000.
- 5. The Government will be allocating nearly MYR29b for Ministry of Health, which is an increase of 7.8% compared to the previous year. This includes an allocation of MYR10.8 b to provide medicine, to upgrade and improve the quality of health services at our clinics and hospitals.
- 6. The Health Ministry will pilot a nationwide health screening programme, Skim Perlindungan Kesihatan (PEKA) for 800,000 individuals aged 50 and above in B40 households at a cost of MYR100m.
- 7. To protect women's health, we are allocating MYR20m to provide free mammogram screening, PVHPV vaccination as well as pap smear tests for 70,000 women
- 8. The Government will allocate MYR50m for the specific purpose of treating rare diseases, Hepatitis C virus, stunted growth among children, providing more haemodialysis treatments and Enhanced Primary Healthcare (EnPHC).
- 9. Statistics from the Ministry of Health showed that nearly one out of two Malaysians were overweight or obese. Therefore, the Government has decided to add as a start, 'sugar sweetened beverages' to the list of manufactured goods subject to excise duty in an effort to help address this issue. The duty proposed will be at MYRO.40 per litre to be implemented on 1 April 2019:
 - a. Non-alcoholic beverages containing added sugars of more than 5gm per 100ml drink.
 - b. Fruit or vegetable juice containing added sugars of more than 12gm per 100ml drink.
- 10. The Government will strengthen our national security by allocating development expenditure of MYR5.9b to the Ministry of Defence and Ministry of Home Affairs.

Source: 2019 Budget Speech

Strategy Key Measures, Incentives & Allocations

FOCUS 2: TO ENSURE THE SOCIO-ECONOMIC WELL-BEING OF MALAYSIANS

Strategy 7 Raising Real Disposable Income

Housing for All

- 1. Government will support the construction and completion of affordable homes with an allocation of nearly MYR1.5b for Program Perumahan Rakyat, Perumahan Penjawat Awam Malaysia, PR1MA and Syarikat Perumahan Nasional Bhd to ensure the availability of supply.
- 2. To assist the lower income group earning not more than MYR2,300 per month to own a house for the first-time, a fund amounting to MYR1 b will be established by Bank Negara Malaysia, to help them to purchase affordable homes priced up to MYR150,000. The fund will be made available from 1 January 2019 at participating financial institutions, namely AmBank, CIMB, Maybank, RHB and BSN through a concessionary financing rate as low as only 3.5% per annum.
- 3. For first-time home-buyers purchasing residential properties priced up to MYR500,000, the Government will exempt stamp duty up to MYR300,000 on sale and purchase agreements as well as loan agreements for a period of two years until December 2020. For first-time home-buyers with household income of MYR5,000 or less, the Government will allocate MYR25 m to Cagamas Berhad to provide mortgage guarantees to enable borrowers to obtain higher financing from financial institutions, inclusive of down payment support.
- 4. Public Sector Housing Financing Board will extend the loan repayment period from 30 to 35 years for the first loan, and from 25 to 30 years for the second loan.
- 5. The Government will also allocate MYR400m for the upgrading, repair and maintenance of government housing quarters of the police, armed forces and teachers to improve the living conditions and ensure their fitness for occupation.
- 6. The Government has secured the commitment from the Real Estate Housing Developers Association (REHDA) that there will be a 10% reduction in the price of houses that are not subjected to price control in new projects.
- 7. Government will for a limited time of 6 months only, starting 1 January 2019, waive all stamp duty charges for first time purchases of homes valued between MYR300,001 and MYR1m. This will be part of a National Home Ownership Campaign, where in return, developers will offer a minimum price discount of 10% for these residential properties.
- 8. To approve private sector driven 'Property Crowdfunding' platforms which will serve as an alternative source of financing for first time home buyers. These exchange platforms will be regulated by the Securities Commission under the peer-to-peer financing framework.
 - a. As an example, the buyer will be able to acquire a selected property for 20% of the price of the property, while the balance 80% will be fulfilled via potential investors who are interested to fund the acquisition in exchange for the potential appreciation in value of the property over a particular period of time.

Encouraging Public Transport Adoption

- 1. To increase the utilisation of public transport, the Government will allocate MYR240 m to introduce a MYR100 unlimited public transport pass, to kick off initially on the RapidKL rail and bus network on 1 January 2019. There will also be a MYR50 monthly pass available just for RapidKL bus services only. The campaign will be expanded to other bus companies at a subsequent stage.
- 2. Kuala Lumpur City Council, will allocate MYR20 m next year to provide additional free GoKL free bus services from the existing 4 routes to further improve public transport coverage in Kuala Lumpur.
- 3. MYR500m for a Public Transport Loan Fund with 2% interest subsidy via Bank Pembangunan Malaysia available to taxi and bus companies as well as other public transport operators.
- 4. Freeze toll hikes on all intra-city tolls around the country for 2019 that will cost the Government approximately MYR700m. The Government will also abolish toll for motorcycles for the First and Second Penang Bridge, as well as the Second Link in Johor, costing approximately MYR20 m per annum effective 1 January 2019.
- 5. Government will prioritise solutions for both the Causeway and the Second Link to Singapore to ease congestion and hardship of Malaysians and residents who travel on a daily basis. It will include an allocation of MYR10 m to upgrade the Autogate Malaysia Automated Clearance System and M-Bike.

Source: 2019 Budget Speech

Strategy Key Measures, Incentives & Allocations

FOCUS 2: TO ENSURE THE SOCIO-ECONOMIC WELL-BEING OF MALAYSIANS

Strategy 8 Education for a Better Future

- 1. A total of MYR2.9b will be provided to help students from lower income groups in terms of food, text books and cash assistance.
- 2. The Government has allocated MYR652m for the purposes of upgrading of schools, as compared to RM615m allocated in 2018, as follows:
 - a. National Schools MYR250m
 - b. Chinese Schools (SJKC) MYR50m
 - c. Tamil Schools (SJKT) MYR50m
 - d. Full Boarding Schools MYR50m
 - e. Maktab Rendah Sains Mara MYR50m
 - f. Government Aided Religious Schools MYR50m
 - g. Mission Schools MYR50m
 - h. Tahfiz Schools MYR50m
 - i. Registered Religious Pondok Schools MYR25m
 - j. Conforming Schools MYR15 m
 - k. Independent Chinese Secondary Schools MYR12m
- 3. All donations to national schools and public institutions of higher learning (IPTA) registered with the Ministry of Education for the purposes of upgrading infrastructure will be tax exempted starting 1 January 2019.
- 4. To allocate MYR100m towards the re-construction of dilapidated schools throughout the country, to be funded via competitively-tendered Public Private Partnership projects via land currently owned by the Ministry of Education.
- 5. MYR206m will be allocated towards the development and provision of training programs in Polytechnics and Community Colleges.
- 6. To introduce a MYR30m the Training and Vocational Education and Training (TVET) Prestige Fund, a contestable fund where we will encourage the various training institutions to bid for funds to run competitive programs with specific KPIs on job placements for the graduates. There will also be an additional allocation of MYR20m to raise youth competency via a TVET sponsored Bootcamp.
- 7. Research funds amounting to MYR400m allocated will be allocated to our institutions of higher learning via a contestable fund. In addition, MYR30m will be disbursed in the form of matching grants via the Malaysia Partnerships and Alliances in Research (MyPAIR) program.
- 8. The Government will continue to provide scholarships and lending to all Malaysians via various Ministries and Agencies with a total allocation of MYR3.8b. MYR2b of this amount is allocated to provide scholarship for Bumiputeras under the sponsorship of MARA.
- 9. The Government will allocate MYR17.5m over the next 5 years to Malaysia Professional Accountancy Centre (MyPAC) to produce 600 qualified Bumiputeras accountants towards meeting the goal of 3,000 Bumiputera accountants registered with the Malaysia Institute of Accounts.

Source: 2019 Budget Speech



Strategy Key Measures, Incentives & Allocations

FOCUS 2: TO ENSURE THE SOCIO-ECONOMIC WELL-BEING OF MALAYSIANS

Strategy 8 Education for a Better Future (continued)

- 10. To allocate MYR210m as part of the Bumiputera Empowerment Agenda to strengthen education and human capital development programs via Program Peneraju Tunas, Program Peneraju Skil dan Program Peneraju Profesional which will be managed by Yayasan Peneraju Pendidikan Bumiputera.
- 11. To ensure the sustainability of the National Higher Education Loan Fund (PTPTN), government plan to introduce:
 - a. Progressive loan repayment schedule with a percentage ranging from 2% to 15% of the borrowers' monthly income depending on their income level. This repayment schedule will only apply to those with at least MYR1,000 in monthly income.
 - b. Tax relief for companies that help settle all the remaining loans of their employees for the year ending 2019.
 - c. Additional individual tax relief for all additional savings deposited in the PTPTN National Education Savings Scheme (SSPN) from MYR6,000 to MYR8,000.
 - d. Discounts on the loan will be given to students from B40 households who have successfully obtained first class honours in their studies.
 - e. Writing off the debt of those who are 60 years old and above with monthly income less than MYR4,000.
- 12. To instill good moral values and a strong sense of patriotism amongst our youth, a new program, PATRIOT will be introduced for youths aged 15 to 30 involving 70,000 participants a year with an allocation of MYR70 m.
- 13. The Government is allocating MYR100m to prepare our athletes for the Tokyo Olympics 2020 in hopes of bringing back our first gold medal.
- 14. To allocate MYR10m for E-Sports to Malaysia Digital Economy Corporation (MDEC), recognising that this is an activity and industry which is increasingly popular among the younger generation involving software engineers and gaming developers.

Upholding Islam

- 1. Allocation for Islamic affairs for both development and operating expenditures has been increased from MYR1.1b in 2018 to MYR1.2b in 2019 to ensure the growth of the religion would not be impeded by the challenging economic conditions.
- 2. MYR150 m have been made available to carry out programmes such as building mosque and surau across the country, "Khaira Ummah" initiative to train more professionals among the huffaz and religious learning modules using braille.

Source: 2019 Budget Speech

Strategy Key Measures, Incentives & Allocations

FOCUS 3: TO FOSTER AN ENTREPRENEURIAL ECONOMY

Strategy 9 Strategy 9: Unleashing the Power of the New Economy

Embracing the Digital Economy

- 1. The many venture capital funds managed by Government agencies Malaysia Technology Development Corporation, Malaysia Debt Ventures Bhd, Malaysia Venture Capital Management Bhd, Kumpulan Modal Perdana Sdn Bhd and Cradle Fund Sdn.Bhd, will be streamlined and made more efficient in delivering capital to companies in various stages of financing needs. Therefore, to ensure that the funds are accessible to those who are most likely to succeed, the funding disbursements will be tied to the companies' ability to secure matching funds from the private sector.
- 2. Government-Linked Investment Funds will similarly allocate MYR2b in matching funds to co-invest with the private equity and venture capital funds. This Fund will focus on strategic sectors and new growth areas for Malaysia.
- 3. The Government will allocate MYR50m to set up a Co-Investment Fund (CIF) to invest alongside private investors via new alternative financing platforms via Equity Crowdfunding and Peer-to-Peer Financing.
- 4. The Capital Markets and Services (Prescription of Securities) Guidelines will be gazetted in early 2019 to set up a new regulatory framework to approve and monitor Digital Coin and Token Exchanges.
- 5. To promote Malaysia as the hub and pioneer of the bond and sukuk markets, the Government will:
 - a. Extend the double tax deduction policy for additional expenditure incurred when issuing sukuk under the principles of Ijarah and Wakalah, as well as for additional expenditure incurred by the companies issuing retail bonds or sukuk. Both these policies will be made available for 3 years commencing in 2019 as the year of assessment.
 - b. To set up a Special Committee on Islamic Finance led by the Ministry of Finance and comprised of member from Bank Negara Malaysia and Securities Commission.
- 6. To continue the Film In Malaysia Incentive (FIMI) with an allocation of MYR30m. Khazanah Nasional Berhad (Khazanah) will provide an allocation of MYR100m for FIMI specifically applicable to film production at the Pinewood studio in Iskandar Johor.
- 7. To support the growth of the digital economy, the Government will launch the National Fibre Connectivity Plan in 2019 with an allocation of MYR1b.
 - a. The broadband infrastructure development will ensure more efficient spectrum allocation to achieve the targeted 30 Mbps speed at rural and remote areas in the country within 5 years as part of the overall plan to achieve world class infrastructure at affordable prices.
 - b. The Government has also enforced the Mandatory Standards for Access Pricing (MSAP) which will result in fixed broadband prices to be reduced by at least 25% by the end of 2018.

Accelerating Adoption of Industry 4.0

- 1. To allocate MYR210 m from 2019 to 2021 to support the transition and migration to Industry4.0.
 - a. This will assist the first 500 SMEs to carry out the Readiness Assessment to migrate to Industry 4.0 platforms via Malaysia Productivity Corporation.
- 2. The Government will provide MYR2m in the Knowledge Resource for Science and Technology Excellence (KRSTE.my) to enable greater collaboration between public and private sector based on existing resources. In 2019, the Government will make available 250 facilities and 1,200 scientific equipment and research data for the private sector to access and share.
- 3. To incentivise SMEs to invest in automation and modernisation which forms part of the Industry 4.0, government have allocated MYR2 b under Business Loan Guarantee Scheme (SJPP) where the Government will provide guarantees of up to 70%.
- 4. To create a MYR3b Industry Digitalisation Transformation Fund with a subsidised interest rate of 2% under Bank Pembangunan Malaysia Berhad. The purpose of this fund is to accelerate the adoption of smart technology consisting of driving automation, robotics and artificial intelligence in the industry.

Source: 2019 Budget Speech

Strategy Key Measures, Incentives & Allocations

FOCUS 3: TO FOSTER AN ENTREPRENEURIAL ECONOMY

Strategy 9 Strategy 9: Unleashing the Power of the New Economy (continued)

Accelerating Adoption of Industry 4.0 (continued)

- 5. MIDA will continue to provide matching grants through its High Impact Fund (HIF) with a specific emphasis of Industry 4.0 initiatives. This includes activities such as Research & Development, initiatives to obtain international certification and standards, modernizing and upgrading of facilities and tools and licensing or purchase of new or high technology.
- 6. Khazanah will lead and develop an 80-acre development in Subang as a world class aerospace industry hub. The fund will also work with all relevant agencies, especially MARA to produce high-skilled workers to meet the demands of the industry.
- 7. The Government also intends to upgrade the marketability of our graduates and the skill-level of the Industry4.0-related workforce by providing double tax deduction:
 - For scholarships and bursaries provided by companies to students enrolled for technical and vocational training, diploma and degree courses in engineering and technology.
 - b. For company expenses related to participation in the National Dual Training Scheme for Industry4.0 and other related programmes approved by the Ministry of Human Resources, or the Malaysia Investment Development Authority.
 - For company expenses in carrying out structured training programmes for students in the fields of engineering and technology which are approved by the Ministry of Human Resources.

Strategy 10: Seizing Opportunities in the Face of Global Challenges

Strengthening Small Medium Enterprises (SME)

- 1. A MYR4.5 b SME Loan Fund will be made available via commercial financial institutions with a 60% guarantee from Skim Jaminan Pembiayaan Perniagaan (SJPP), including MYR1 b for Bumiputera SMEs.
- 2. The corporate income tax rate for taxable income of up to MYR500,000 and SMEs with less than MYR2.5m in paid up capital, will be reduced from 18% to 17%.
- 3. To encourage exports through financing by EXIM Bank by making available MYR2 b worth of credit and takaful facilities to the SME exports.
- 4. Government will be allocating MYR100m to upgrade the capability of the SMEs in the halal industry via various programs in order to increase exports and to make Malaysia a global halal hub by 2020.
- 5. There will also be a MYR1 b SME Syariah Compliant Financing Scheme made available via Islamic financial institutions where the Government will provide a subsidy of 2% profit rate.
- 6. Permodalan Usahawan Malaysia Berhad will also make available MYR200m for the wholesale and retail industry, as well as for the purchase of business premises to be rented to Bumiputera SMEs. Another MYR100m is allocated to TEKUN to finance small entrepreneurs.
- 7. To allocate MYR20m to initiate a 'Buy Malaysian First' campaign to support local products and services. The campaign will be run at the grassroots level to provide a platform for local producers, manufacturers and service providers to market their products and services at hypermarkets, shopping centres and trade fairs.
- 8. To ensure the continued upgrading of our local corporations, the Government is also committed to reduce its dependency on low-skilled foreign labour. Therefore, the government will implement a new tiered levy system where the levies charged will be higher for employers with a higher percentage of foreign workers.
 - a. The shortage of workers in the agriculture and plantation industry and the decline in prices of agricultural commodities have affected output in these sectors. The Government will assist these two sectors by reducing the extension levy for foreign workers who have served for 10 years or more, from MYR10,000 to MYR3,500 per worker per annum.

Source: 2019 Budget Speech

Strategy Key Measures, Incentives & Allocations

FOCUS 3: TO FOSTER AN ENTREPRENEURIAL ECONOMY

Strategy 10: Seizing Opportunities in the Face of Global Challenges (continued)

Lubricating the Logistics and Transportation Sector

- 1. The Government will allocate MYR2.46b for upgrading and restoration works for railway tracks to upgrade the country's transport infrastructure.
- 2. The government will support the development and growth of the Kota Perdana Special Border Economic Zone in Bukit Kayu Hitam, Kedah as a strategic trading and logistic hub between Malaysia and Thailand. As an initial phase of the project, MYR25m will be allocated to develop a truck depot to catalyse development in the area.
- 3. The government intends to convert 380 acres of land in Pulau Indah into a Free Trade Zone to support and catalyse increased shipping and logistics activities in Port Klang. The new FTZ will serve as a natural extension to Port Klang Free Zone. The land will be developed through a joint venture or solely by the private sector.

Value-adding Commodities

- 1. To raise the demand for palm oil and increase the sustainability of our energy resources, the Government will implement the Biodiesel B10 program (comprising a mix of 10% palm oil) for the transportation sector and B7 for the industrial sector in 2019. In addition, to raise the sustainability and export competitiveness of our palm oil industry, the Government will allocate MYR30m to assist smallholders to obtain the Malaysian Sustainable Palm Oil (MSPO) certification.
- 2. For the rubber industry, the Government is committed to increase the utilisation of local rubber as a new raw material for various industrial products. As an example, the Government will increase the use of local rubber as a composite material for the construction of roads in Malaysia to increase durability while at the same time reducing maintenance cost. To assist smallholders, the Government targets the use of Cuplumb Modified Bitumen (CMB) to build roads at ports and industrial areas in stages. The Government will allocate MYR100 m for this purpose.
- 3. The Government will continue to provide Rubber Production Incentive with an allocation of MYR50m to protect the effects of the fall in rubber prices for smallholders. The smallholders would receive supplement income from the fund when rubber prices fall below MYR2.20 per kilogram.
- 4. For the agricultural sector, the Government will allocate
 - a. MYR47m for Research and Development to increase the productivity of our seeds, grains and fruits;
 - b. MYR18m to incentivise the automation of the agrofood industry; and
 - c. MYR52m to implement agricultural and agrofood industry, as well as entrepreneurship training for youths

Boosting Tourism

- 1. Government will allocate MYR100m in matching grants to the private sector for running promotional and marketing campaigns overseas to increase the number of visitors to the country.
- 2. The government will provide tax free incentives to Penang's Swettenham Pier in the form of duty-free shops to cater to its booming cruise tourism and develop the tourism potential of Pulau Pangkor by declaring it as a duty free island. The duty-free island status of Pulau Langkawi has been enhanced and will be further expanded.
- 3. To assist the respective state governments in encouraging tourism activities, the Government will share 50% of the proceeds on tourism tax, estimated at MYR50m, with the states.
- 4. MYR500m worth of loan facilities via the SME Tourism Fund with SME Bank at a 2% interest subsidy. This will assist handicraft makers and homestay operators to expand their businesses.

Source: 2019 Budget Speech

Strategy Key Measures, Incentives & Allocations

FOCUS 3: TO FOSTER AN ENTREPRENEURIAL ECONOMY

Strategy 10: Seizing Opportunities in the Face of Global Challenges (continued)

Boosting Tourism

- 5. Khazanah Nasional Berhad will lead the public-private partnership to redevelopment and restoration of the Sultan Abdul Samad building in Kuala Lumpur into an arts, cultural and heritage hub. Such an urban regeneration project will be carried out by a local heritage company ThinkCity with an international organisation accredited with UNESCO.
- 6. The Government will also allocate MYR20m for the Malaysia Healthcare Tourism Council (MHTC) to generate 25% growth in a year to collaborate with reputable private hospitals to enable the branding of Malaysia as a destination of choice for medical tourism.

Strategy 11 Redefining the Role of Government in Business

- 1. For an entrepreneurial economy to succeed, the private sector must lead. For a start the Ministry of Finance will set up a Special Task Force to evaluate the role and functions of statutory bodies and companies owned by Ministry of Finance, Inc. to reduce duplication of functions and involvement in areas where the private sector is efficient and competent.
- 2. Going forward, the Government will focus its expenditure and investments only in strategic sectors and areas where the markets are unable to meet the needs of the people.

Strategy 12 Ensuring Equitable and Sustainable Economic Growth

Ensuring Balanced Development

- 1. An allocation of MYR926m to build and upgrade roads and bridges.
- An allocation of MYR694m and MYR738m to supply electricity and water respectively to rural and remote regions.
- 3. Government will allocate MYR85m to New Villages for the purposes of upgrading and maintaining basic infrastructure such as roads, community halls and open spaces.
- 4. There will also be a MYR100m allocation to support the Indian community, including technical and skills training to improve the career advancement opportunities of the Indian youths.
- 5. To allocate MYR100 m to strengthen the development of orang asli communities via the construction and upgrading of infrastructure for the supply of water, relocation, education, welfare and economic development.
- 6. To allocate MYR20m to residents associations registered with the Registrar of Societies to carry out community, security and neighbourhood activities.
- 7. For FELDA developments, government will allocate
 - a. MYR100m to upgrade roads.
 - b. MYR160m to carry out water supply projects.
 - c. MYR35m for buildings and basic infrastructure such as street lights.
- 8. The Government will continue to ensure the development of Sabah and Sarawak. Development expenditure of MYR5,009m has been allocated to Sabah as compared to MYR4,133m in 2018. As for Sarawak, MYR4,346m has been allocated compared to MYR4,336m in 2018.

Source: 2019 Budget Speech

Strategy Key Measures, Incentives & Allocations

FOCUS 3: TO FOSTER AN ENTREPRENEURIAL ECONOMY

Strategy 12 Ensuring Equitable and Sustainable Economic Growth (continued)

Women in the Workforce

- 1. To allocate RM10m to set up another 50 childcare facilities in Government buildings to ease the burden of working mothers.
- 2. The Government is committed towards increasing women participation to 30% at leadership and decision-making levels in companies and organisations. The government have led by example by electing the very first female Deputy Prime Minister in Malaysia, accompanied by 4 female Ministers. As of today, 36% of the senior officers in the public sector are women.
- 3. Government encouraged higher women participation among the public listed companies as only 23.2% of the appointed Board of Directors are women today among the top 100 largest companies on Bursa Malaysia. We call upon the private sector to emulate the Government by ensuring the objective of 30% women participation in the Board of Directors is achieved by 2020.

Environment and Energy for the Future

- 1. Government will alocate RM60m to help fund specific projects by the state governments to protect and expand our existing natural reserves.
- 2. Government will take steps to list the Forest Research Institute Malaysia (FRIM) Forest Park in Selangor, and Royal Belum Perak as UNESCO World Heritage Sites.
- 3. RM5 m will be allocated for micro-grants to implement programs with the cooperation from United Nations Development Program (UNDP), to manage and protect the environment in Orang Asli and Orang Asal communities.
- 4. To attract environmentally-friendly investments and to reduce the usage of conventional plastic, the Government proposes Pioneer Status incentive of 70% or investment allowance of 60% for 5 years to be granted to companies which produces environmentally-friendly plastics based on bio-resin and biopolymer.
- 5. To incentivise investments in green technology, there will be a RM2 b Green Technology Financing Scheme (GTFS) made available at selected commercial banks where the Government will subsidise the interest cost by 2% for the first 5 years.
- 6. Bank Pembangunan Malaysia Berhad will also provide a Sustainable Development Financing Fund of RM1 b to support the Agenda 2030 for Sustainable Development as well as the 17 Sustainable Development Goals (SDG) under the United Nations Development Programme. To this end, government will provide a subsidised interest rate of 2% as an incentive.
- 7. In order to encourage the use of green energy, the Government will expand the list of green assets which qualifies for the Green Technology Investment Allowance (GITA) from 9 assets to 40 assets in the MyHijau directory.

Source: 2019 Budget Speech

Maybank KE Equity Research Stock Universe

Ticker	Company		FYE	Price	Market	TP	Rec		re Net Pro		6)/474	EPS	6)/405	CAGR	PER	PER	PER	ROE	Div Yld	PBV	Px chg
				2 Nov MYR	Cap MYR m	MYR		CY17A	CY18E - MYR m	CY19E	CY17A	CY18E MYR sen -		17-19 (%)	CY17A	CY18E (x)		CY18E (%)	CY18E (%)	CY18E (x)	YTD (%)
Auto				MIK	MIKIII	MIK		1	- MIKIII -		1	MIK SCII	1	(70)	1	(x)	I	(70)	(70)	(^)	(70)
BAUTO MK	Bermaz Auto	*	4	1.90	2,202	2.60	Buy	136.2	160.6	208.4	11.7	13.9	17.9	23.6	16.2	13.7	10.6	38.5	7.5	4.0	(13.6)
TCM MK	Tan Chong	*	12	1.46	953	1.80	Hold	(74.4)	54.6	90.5	(11.4)	8.4	13.9	n.a.	n.a.	17.4	10.5	3.1	1.4	0.3	3.5
PECCA MK	Pecca Group	*	6	0.73	133	0.97	Hold	12.5	11.7	13.7	6.8	6.4	7.5	5.1	10.7	11.4	9.7	8.2	6.9	0.8	(53.2)
SIME MK	Sime Darby	*	6	2.40	16,322	2.45	Hold	899.5	873.7	894.0	13.2	12.9	13.2	(0.2)	18.2	18.7	18.3	6.1	3.8	1.1	8.6
<u>Banks</u>																					
MAY MK	Maybank		12	9.40	103,731	NR	NR	7,340.5	7,718.9	8,154.9	69.7	71.6	75.6	4.1	13.5	13.1	12.4	10.7	6.7	1.3	(4.1)
AMM MK	AMMB Holdings		3	3.92	11,816	4.65	Buy	1,200.8	1,297.1	1,412.6	40.0	43.1	46.9	8.3	9.8	9.1	8.4	7.9	4.8	0.7	(11.1)
BIMB MK	BIMB Holdings	*	12	3.65	6,182	4.30	Hold	583.8	619.3	631.0	35.7	36.6	37.3	2.2	10.2	10.0	9.8	12.2	4.5	1.2	(17.0)
ABMB MK	Alliance Bank		3	3.99	6,177	5.00	Buy	529.7	549.9	590.0	34.3	35.5	38.1	5.4	11.6	11.2	10.5	9.9	4.3	1.0	(2.2)
CIMB MK	CIMB		12	5.68	54,326	6.30	Hold	4,355.2	4,696.2	5,178.3	48.3	50.9	56.1	7.8	11.8	11.2	10.1	9.8	5.1	1.0	(13.1)
HLBK MK	Hong Leong Bk		6	20.58	42,098	19.45	Hold	2,408.6	2,643.1	2,806.7	117.8	127.9	134.5	6.9	17.5	16.1	15.3	10.6	2.6	1.7	21.1
HLFG MK	HL Financial		6	19.30	22,103	21.20	Buy	1,724.1	1,886.4	1,985.7	150.8	165.0	173.7	7.3	12.8	11.7	11.1	10.7	2.6	1.2	7.9
PBK MK	Public Bank		12	24.62	95,578	22.70	Hold	5,470.0	5,576.0	5,822.4	142.0	144.0	151.0	3.1	17.3	17.1	16.3	13.4	2.8	2.2	18.5
RHBBANK MI	K RHB Bank		12	5.25	21,053	5.90	Hold	1,950.1	2,285.2	2,397.1	50.6	57.0	59.8	8.7	10.4	9.2	8.8	9.5	3.6	0.8	5.0
Building Mat																					
AJR MK	Ann Joo	*	12	1.57	844	2.40	Buy	199.8	175.6	207.1	37.1	30.9	36.0	(1.5)	4.2	5.1	4.4	14.4	11.0	0.6	(59.3)
LMC MK	Lafarge	*	12	2.19	1,861	2.93	Sell	(215.2)	(264.1)	(99.7)	(25.3)	(31.1)	(11.7)	n.a.	n.a.	n.a.	n.a.	(4.0)	0.0	0.7	(64.7)
Construction																					
EVSD MK	Eversendai		12	0.72	562	1.05	Hold	70.5	69.8	71.9	9.0	8.9	9.2	1.1	8.0	8.1	7.8	7.1	1.1	0.6	(16.8)
GAM MK	Gamuda	*	7	2.42	5,973	2.70	Hold	749.6	761.7	681.9	30.7	31.0	27.7	(5.0)	7.9	7.8	8.7	8.4	5.0	0.7	(51.2)
HSL MK	HSL	*	12	1.33	731	1.45	Hold	46.6	59.6	74.5	8.5	10.9	13.6	26.5	15.6	12.2	9.8	8.8	1.8	0.9	(7.0)
IJM MK	IJM Corp	_	3	1.65	5,988	2.10	Hold	410.3	455.1	504.4	11.3	12.5	13.9	10.8	14.6	13.2	11.9	5.0	4.2	0.6	(45.9)
LTK MK	Litrak	_	3	4.08	2,154	5.10	Hold	226.7	238.6	284.1	43.0	45.3	53.9	12.0	9.5	9.0	7.6	27.1	6.1	2.1	(26.5)
CMS MK	CMS	_	12	3.00	3,213	4.10	Buy	263.2	283.1	309.8	24.5	26.3	28.8	8.4	12.2	11.4	10.4	11.4	3.8	1.2	(23.1)
SCGB MK	Sunway Con		12	1.61	2,081	2.30	Hold	137.8	164.5	196.5	10.7	12.7	15.2	19.2	15.0	12.7	10.6	24.9	3.3	2.6	(35.9)
KICB MK	Kimlun Corp		12	1.18	392	1.40	Hold	80.1	60.1	71.4	26.2	19.6	23.3	(5.7)	4.5	6.0	5.1	10.1	5.3	0.5	(46.8)
Consumer	AEON Co	*	12	1.75	2,457	2.50	D. n.	106.0	115 7	124.2	7.6	8.2	8.8	7.4	22.0	24.2	19.9	4.0	2.5	1.2	(0.4)
AEON MK ROTH MK				34.00	2, 4 57 9,708	31.00	Buy Hold	106.0 522.4	115.7 423.2	469.4	7.6 183.0	6.2 148.2	0.0 164.4	7.6 (5.2)	23.0 18.6	21.3 22.9	20.7	6.0 117.2	4.7	1.2 24.3	(0.6) (15.0)
CAB MK	BAT (M)		12 12	18.40	5,660	18.00	Hold	236.2	256.2	275.2	77.2	83.8	90.0	8.0	23.8	22.9	20.7	93.7	4.7 4.9	19.2	20.3
HEIM MK	Carlsberg		12	19.40	5,770	20.20		270.1	287.3	273.2	89.4	95.1	97.3		23.6	20.1	19.6	75.6	5.0		
PAD MK	Heineken Msia	*	6	5.52	3,632	5.05	Hold Sell	168.0	182.2	186.5	25.5	27.7	28.3	4.3 5.3	21.4		19.6	22.5	1.8	14.8 4.4	1.1 4.5
NESZ MK	Padini Holdings Nestle	*	12	143.60	33,674	102.00	Sell	635.0	683.5	723.5	270.8	27.7	308.5	6.7	53.0	20.0 49.3	46.5	112.5	2.1	4.4 52.4	39.1
QLG MK	QL Resources	*	3	6.96	11,292	4.00	Sell	201.1	226.9	723.5 249.2	12.4	14.0	15.4	11.4	56.1	49.3 49.8	46.5 45.3	112.5	0.8	5.5	60.0
SEM MK	7 - Eleven		12	1.36	1,535	1.12	Sell	51.0	47.6	50.7	4.2	3.9	4.1	(1.2)	32.4	34.9	33.2	41.1	1.5	13.6	(10.2)
MNHB MK	Mynews Holdings		10	1.45	989	1.44	Hold	24.7	29.3	35.3	3.6	4.3	5.2	19.8	40.3	34.1	28.1	12.0	0.9	3.4	0.7
ALN MK	Atlan Holdings		2	4.45	1,129	6.20	Buy	43.3	37.6	38.7	17.1	14.8	15.3	(5.4)	26.0	30.1	29.1	12.0	3.4	3.4	3.7
BFD MK	Berjaya Food		4	1.36	493	1.70	Buy	20.2	22.7	27.3	5.4	6.1	7.2	16.1	25.3	22.4	18.8	7.0	3.5	1.3	(26.5)
D. D //!!!	Derjuya i ood		r	1.50	173	1.70	Duy	20.2	22.7	27.5	3.4	0.1	,	10.1	25.5	22.7	10.0	,.0	5.5	1.5	(20.3)

^{*} Shariah compliant, based on Securities Commission's latest Shariah compliant list effective 25 May 2018; Source: Maybank KE

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Ticker	Company		FYE	Price 2 Nov	Market Cap	TP	Rec	Co CY17A	re Net Pro CY18E		CY17A	EPS CY18E	CV10F	CAGR 17-19	PER CY17A	PER CY18E	PER CY19E	ROE CY18E	Div Yld CY18E	PBV CY18E	Px chg YTD
				MYR	MYR m	MYR								(%)				(%)	(%)	(x)	(%)
Gaming								•		•	•		•	(**)	•	()	•	(22)	(**)	()	(/
BST MK	BToto		4	2.20	2,963	2.50	Hold	254.7	263.9	273.1	18.9	19.6	20.3	3.6	11.6	11.2	10.8	33.1	7.3	3.0	(1.8)
MAG MK	Magnum		12	1.88	2,675	2.13	Buy	206.3	215.9	222.2	14.5	15.2	15.6	3.7	13.0	12.4	12.1	9.3	6.9	1.0	8.0
GENT MK	Genting Bhd		12	7.20	27,724	10.90	Buy	2,117.6	2,466.5	2,545.9	55.2	58.2	59.9	4.2	13.0	12.4	12.0	6.8	2.5	0.7	(21.7)
GENM MK	Genting Msia		12	4.54	25,668	4.40	Hold	1,412.0	1,773.4	1,555.0	24.9	31.3	27.4	4.9	18.2	14.5	16.6	7.2	3.2	1.2	(19.4)
Glove																					
HART MK	Hartalega Hldgs	*	3	6.28	20,901	5.55	Sell	400.3	497.2	557.2	12.0	14.9	16.8	18.0	52.2	42.1	37.4	23.5	1.6	8.8	17.6
KRI MK	Kossan Rubber	*	12	4.12	5,269	5.10	Buy	182.1	191.8	220.6	14.2	15.0	17.3	10.4	29.0	27.5	23.8	15.7	1.7	3.7	1.6
TOPG MK	Top Glove	*	8	5.80	14,827	6.40	Buy	366.3	455.4	510.5	14.6	18.0	20.0	17.2	39.9	32.3	29.0	18.6	1.7	5.8	45.2
<u>Healthcare</u>			40		10.001	-	_	400.0	200.2			40.0	40.7	24.0	47.0	45.5	20.4				
IHH MK	IHH	*	12	4.96	40,894	7.00	Buy	608.3	898.3	1,048.6	7.4	10.9	12.7	31.0	67.0	45.5	39.1	4.5	0.6	1.8	(15.4)
KPJ MK	KPJ Healthcare	*	12	1.04	4,386	1.08	Hold	161.9	163.2	170.3	3.7	3.8	4.0	4.0	28.1	27.4	26.0	9.0	1.9	2.4	7.2
Media	Anton Malauria		4	4.20	7 2 40	4.05	D	(7/ 4	F7(0	740 5	42.0	40.0	42.7	2.0	40.7	42.0	40.4	07.5	0.0	0.0	(47.5)
ASTRO MK	Astro Malaysia		1	1.39	7,248	1.95	Buy	676.4	576.0	719.5	13.0	10.9	13.7	2.8	10.7	12.8	10.1	97.5	8.9	8.8	(47.5)
MCIL MK	MCIL	-	3	0.20	337	0.25	Hold	57.3	47.4	54.7	3.4	2.8	3.3	(2.2)	5.9	7.1	6.2	6.7	11.5	0.4	(49.4)
MPR MK	Media Prima	*	12 12	0.41 0.78	455 573	0.43	Hold	(153.2)	(49.7) 27.1	(3.5) 30.9	(13.8) 8.2	(4.5) 3.7	(0.3)	n.a.	n.a. 9.5	n.a. 20.9	n.a. 18.5	(0.4)	0.0	0.5	(46.1)
STAR MK	Star		12	0.76	572	1.00	Sell	60.6	27.1	30.9	0.2	3.7	4.2	(28.4)	9.5	20.9	10.3	3.3	0.0	0.6	(53.0)
Non-Banking F BURSA MK	inancials Bursa Malaysia		12	7.40	5,975	6.60	Sell	223.0	222.9	213.3	27.7	27.6	26.4	(2.4)	26.7	26.8	28.0	24.4	3.4	7.3	9.7
MPHB MK	MPHB Capital		12	1.17	837	1.34	Hold	37.6	42.5	42.9	5.3	5.9	6.0	6.4	22.1	19.8	19.5	#VALUE	0.0	0.5	(4.1)
ALLZ MK	Allianz Malaysia		12	12.28	2,169	16.05	Buy	317.4	317.1	346.9	91.8	92.2	101.4	5.1	13.4	13.3	12.1	#VALUE 9.0	1.0	2.4	(9.0)
RCE MK	RCE Capital		3	1.54	525	1.95	Buy	85.0	91.3	94.3	25.5	25.9	26.5	2.0	6.0	5.9	5.8	15.0	4.5	0.9	2.7
	RCL Capitat		3	1.54	323	1.73	buy	03.0	71.3	74.3	23.3	23.7	20.3	2.0	0.0	3.7	3.0	13.0	7.5	0.7	2.7
Oil & Gas			40	0.40	444	0.45		(00.4)	(2.4.7)	(20.4)	(40.0)	(2.0)	(2.2)					(2.7)	0.0	0.0	(22.2)
AMRB MK	Alam Maritim		12	0.12	111	0.15	Hold	(99.6)	(34.7)	(20.1)	(10.8)	(3.8)	(2.2)	n.a.	n.a.	n.a.	n.a.	(3.7)	0.0	0.2	(33.3)
DLG MK	Dialog	*	6	3.37	19,001	3.58	Buy	377.0	451.0	512.4	6.9	8.0	9.1	14.9	49.2	42.1	37.2	13.3	1.2	4.8	34.3
ICON MK WSC MK	Icon Offshore	*	12 12	0.14 0.90	159 694	0.15 1.25	Hold Hold	(22.9) 94.2	(14.3) 92.9	(1.3) 95.5	(1.9) 12.2	(1.2) 12.0	(0.1) 12.4	n.a. 0.8	n.a. 7.4	n.a. 7.5	n.a. 7.3	(0.3) 8.8	0.0 0.0	0.3 0.6	(41.3) (18.9)
MMHE MK	Wah Seong MMHE	*	12	0.59	944	1.23	Buy	(61.3)	(82.3)	2.7	(3.8)	(5.1)	0.2				295.0	0.0	0.0	0.6	
BAB MK	Bumi Armada		12	0.39	2,290	0.55	Hold	219.0	253.9	425.7	3.7	4.3	7.3	n.a. 40.5	n.a. 10.5	n.a. 9.1	5.3	6.9	0.0	0.4	(28.5) (49.0)
YNS MK	Yinson	*	1	4.45	4,820	4.56	Buy	331.4	271.6	190.1	30.5	24.9	7.3 17.4	(24.4)	14.6	17.9	25.5	6.7	2.2	1.6	9.9
BARAKAH MK	Barakah	*	12	0.08	4,620	0.07	Sell	(161.9)	(98.2)	2.8	(18.8)	(11.4)	0.3	(24.4) n.a.	n.a.	n.a.	26.7	2.6	0.0	0.6	(72.4)
KNMG MK	KNMG	*	12	0.08	328	0.20	Hold	(8.6)	(32.4)	3.5	(0.4)	(11.4)	0.3	n.a.	n.a.	n.a.	140.0	0.2	0.0	0.0	(37.8)
VEB MK	Velesto Energy	*	12	0.35	2,097	1.20	Buy	(311.9)	(285.0)	233.6	(5.2)	(4.8)	3.9	n.a.	n.a.	n.a.	8.9	2.5	2.9	0.1	(50.7)
Petrochemical	l																				
PCHEM MK	Petronas Chem	*	12	9.48	75,840	9.70	Hold	4,192.0	4,397.5	4,708.6	52.4	55.0	58.9	6.0	18.1	17.2	16.1	14.4	3.2	2.3	23.1
	Lotte Chemical		12	4.38	9,956	5.95	Buy	1,091.9	953.0	1,210.2	55.0	41.9	53.2	(1.6)	8.0	10.5	8.2	9.5	4.0	0.8	(6.8)

^{*} Shariah compliant, based on Securities Commission's latest Shariah compliant list effective 25 May 2018; Source: Maybank KE

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Ticker	Company		FYE	Price	Market	TP	Rec	Co CY17A	re Net Pro CY18E		CV174	EPS CV19E	CY19E	CAGR 17-19	PER CY17A	PER CY18E	PER CY19E	ROE CY18E	Div Yld CY18E	PBV CY18E	Px chg YTD
				2 Nov MYR	Cap MYR m	MYR			- MYR m		CY17A	MYR sen		(%)	LT1/A	(x)		(%)	(%)	(X)	(%)
Plantation				MIK	MIKIII	MIK			WIKIII -		1	MIT IN SCIT		(70)		(*)		(70)	(70)	(^)	(70)
GENP MK	Genting Plant	*	12	9.58	7,715	10.40	Buy	335.1	321.5	386.9	41.7	40.0	48.2	7.5	23.0	24.0	19.9	8.1	2.0	1.6	(8.8)
IOI MK	IOI Corp	*	6	4.54	27,723	4.76	Hold	1,044.5	1,074.4	1,108.6	16.6	17.1	17.7	3.1	27.3	26.5	25.7	11.3	2.3	2.9	0.0
KLK MK	KL Kepong	*	9	24.84	26,454	23.70	Hold	1,041.1	1,000.7	1,113.3	97.8	93.9	104.5	3.4	25.4	26.4	23.8	8.9	2.5	2.1	(0.6)
SDPL MK	Sime Plantation	*	6	5.29	35,976	5.35	Hold	1,261.5	1,190.5	1,212.8	17.5	18.0	17.2	(0.9)	30.2	29.4	30.8	8.3	1.7	2.5	(11.8)
BPLANT MK	Boustead Plant	*	12	0.96	2,150	1.22	Hold	134.7	71.7	92.7	6.0	3.2	4.1	(17.3)	16.0	30.0	23.4	3.7	4.6	0.9	(18.6)
SOP MK	SOP	*	12	2.60	1,484	3.10	Hold	239.3	126.7	178.0	41.9	22.2	31.2	(13.7)	6.2	11.7	8.3	7.7	3.6	0.6	(33.3)
TSH MK	TSH Resources	*	12	1.05	1,450	1.14	Hold	100.8	82.9	103.0	7.4	6.0	7.5	0.7	14.2	17.5	14.0	6.8	1.7	1.0	(36.4)
THP MK	TH Plantations	*	12	0.60	530	0.74	Hold	46.2	34.7	48.2	5.2	3.9	5.4	1.9	11.5	15.4	11.1	3.4	2.7	0.4	(47.8)
TAH MK	Ta Ann	*	12	2.30	1,023	2.70	Hold	119.5	92.4	119.0	26.9	20.8	26.8	(0.2)	8.6	11.1	8.6	7.8	4.7	0.7	(37.2)
Property Dev																					
MSGB MK	Mah Sing	*	12	1.00	2,428	1.26	Hold	294.9	239.0	217.8	12.2	9.9	9.0	(14.1)	8.2	10.1	11.1	7.0	3.6	0.8	(31.0)
SPSB MK	SP Setia	*	12	2.11	8,255	2.72	Buy	890.1	447.1	519.4	22.3	10.3	12.0	(26.6)	9.5	20.5	17.6	3.9	2.9	1.2	(47.3)
UEMS MK	UEM Sunrise	*	12	0.70	3,176	1.11	Buy	278.2	427.7	311.1	5.4	8.3	6.0	5.4	13.0	8.4	11.7	4.0	1.7	0.4	(32.7)
SWB MK	Sunway Berhad	*	12	1.43	6,940	1.85	Buy	566.3	547.4	620.8	11.7	11.3	12.9	5.0	12.2	12.7	11.1	7.2	4.1	0.8	(12.3)
ECW MK	Ecoworld	*	10	1.04	3,062	1.43	Buy	120.0	182.1	365.5	4.1	6.2	12.4	73.7	25.3	16.9	8.4	7.6	1.2	0.6	(24.6)
ECWI MK	Ecoworld Intl	*	10	0.92	2,208	1.06	Hold	(63.3)	100.5	374.1	(4.4)	4.2	15.6	n.a.	n.a.	22.1	5.9	12.9	4.2	0.7	(10.7)
GLMC MK	Glomac	*	4	0.41	323	0.45	Hold	16.8	11.6	23.5	2.3	1.6	3.3	18.3	17.6	25.6	12.6	2.1	2.4	0.3	(26.1)
TILB MK	Tambun Indah	*	12	0.81	351	1.06	Buy	84.1	54.1	55.2	19.5	12.5	12.8	(19.0)	4.2	6.5	6.3	8.6	6.3	0.5	(20.6)
SDPR MK	Sime Darby Prop	*	6	1.00	6,801	1.52	Buy	607.9	651.5	798.9	8.9	14.4	11.7	14.7	11.2	6.9	8.5	7.8	4.4	0.7	(43.8)
REIT																					
AXRB MK	Axis REIT	*	12	1.51	1,861	1.55	Hold	90.8	108.2	127.3	8.1	8.8	10.3	12.8	18.6	17.2	14.7	8.0	6.2	1.2	0.7
SALAM MK	Al-Salam REIT	*	12	0.79	458	0.90	Hold	35.5	32.8	39.0	6.1	5.7	6.3	1.6	13.0	13.9	12.5	5.7	6.3	0.6	(21.0)
KLCCSS MK	KLCC Prop	*	12	7.65	13,811	8.00	Hold	720.4	733.3	755.0	39.9	40.6	41.8	2.4	19.2	18.8	18.3	5.4	4.6	1.0	(11.5)
MQREIT MK	MRCB-Quill REIT		12	1.08	1,158	1.30	Buy	88.0	88.5	88.8	8.2	8.2	8.2	-	13.2	13.2	13.2	6.4	6.9	0.9	(13.6)
CMMT MK	CMMT		12	1.06	2,167	1.10	Hold	157.9	135.9	140.0	7.8	6.7	6.8	(6.6)	13.6	15.8	15.6	5.2	6.1	0.8	(42.1)
SREIT MK	Sunway REIT		6	1.68	4,948	1.85	Buy	281.1	295.9	307.8	9.6	10.0	10.4	4.1	17.6	16.8	16.2	7.3	5.5	1.1	(11.6)
IGBREIT MK	IGB REIT		12	1.65	5,832	1.85	Buy	303.4	312.8	327.0	8.7	8.9	9.2	2.8	19.0	18.5	17.9	8.7	5.5	1.6	(8.3)
PREIT MK	Pavilion REIT		12	1.59	4,828	1.55	Hold	232.4	262.4	269.7	7.7	8.6	8.9	7.5	20.6	18.5	17.9	6.6	5.3	1.2	(1.2)
YTLREIT MK	YTL REIT		6	1.19	2,028	1.60	Buy	137.4	162.0	174.2	8.5	9.5	10.2	9.5	14.0	12.5	11.7	6.5	6.8	0.8	(7.0)
Technology																					
INARI MK	Inari Amertron	*	6	1.90	6,015	2.58	Buy	244.3	311.0	393.7	7.5	9.3	11.8	25.2	25.4	20.5	16.2	33.5	5.3	5.4	(16.2)
VITRO MK	ViTrox Corp	*	12	7.63	3,590	6.80	Hold	82.0	102.7	146.1	17.3	21.7	30.9	33.6	44.1	35.2	24.7	28.3	1.0	7.0	22.9
GTB MK	Globetronics	*	12	2.22	1,485	2.30	Hold	50.0	61.8	85.6	7.5	9.2	12.8	30.6	29.6	24.1	17.3	26.3	4.1	4.5	(21.5)
VSI MK	V.S. Industries	*	7	1.62	2,837	1.95	Buy	166.4	182.9	242.7	8.4	9.3	12.3	20.8	19.3	17.5	13.2	18.6	3.8	2.5	(32.7)
MMSV MK	MMS Ventures	*	12	1.08	217	1.88	Buy	21.3	13.7	22.3	13.3	8.6	13.9	2.2	8.1	12.6	7.8	26.8	2.4	2.1	(22.4)

^{*} Shariah compliant, based on Securities Commission's latest Shariah compliant list effective 25 May 2018; Source: Maybank KE

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Ticker	Company	y F		FYE		Price	Market	TP	Rec		re Net Pro			EPS		CAGR	PER	PER	PER	ROE	Div Yld	PBV	Px chg
				2 Nov	Cap			CY17A	CY18E	CY19E	CY17A	CY18E	CY19E	17-19	CY17A	CY18E	CY19E	CY18E	CY18E	CY18E	YTD		
				MYR	MYR m	MYR			- MYR m -			MYR sen		(%)		(x)		(%)	(%)	(x)	(%)		
<u>Telecommuni</u>																							
DIGI MK	DiGi.Com	*	12	4.27	33,199	4.80	Hold	1,476.7	1,495.2	1,555.6	19.0	19.2	20.0	2.6	22.5	22.2	21.4	299.9	4.7	61.0	(16.3)		
T MK	Telekom	*	12	2.38	8,944	3.70	Hold	863.3	612.6	569.7	23.0	16.3	15.2	(18.7)	10.3	14.6	15.7	7.3	5.7	1.1	(62.2)		
AXIATA MK	Axiata	*	12	3.43	31,113	4.60	Hold	1,205.0	1,205.0	1,303.4	13.4	13.3	14.4	3.7	25.6	25.8	23.8	6.2	3.6	1.5	(37.5)		
MAXIS MK	Maxis	*	12	5.31	41,506	5.90	Hold	2,103.1	1,967.1	1,989.4	27.5	25.7	26.0	(2.8)	19.3	20.7	20.4	25.1	3.8	5.1	(11.6)		
TDC MK	Time dotCom	*	12	7.76	4,529	8.55	Hold	175.4	244.4	262.5	30.2	42.0	45.1	22.2	25.7	18.5	17.2	11.8	1.5	2.0	(14.7)		
Transport																							
AAGB MK	AirAsia		12	2.73	9,124	2.62	Hold	1,415.9	1,025.5	1,136.1	42.4	30.7	34.0	(10.5)	6.4	8.9	8.0	13.2	2.9	1.1	(18.5)		
AAX MK	AirAsia X	*	12	0.26	1,079	0.20	Sell	85.5	34.1	136.7	2.1	0.8	3.3	25.4	12.4	32.5	7.9	11.8	0.0	0.9	(21.2)		
MAHB MK	MAHB		12	8.25	13,688	11.50	Buy	143.2	423.4	543.4	8.6	26.3	30.6	88.6	95.9	31.4	27.0	5.7	1.5	1.4	(6.1)		
WPRTS MK	Westports	*	12	3.55	12,105	3.65	Hold	675.5	522.5	605.3	19.8	15.3	17.8	(5.2)	17.9	23.2	19.9	23.7	3.7	4.7	(4.1)		
HALG MK	Harbour-Link	*	6	0.70	280	0.81	Buy	30.6	36.6	41.3	7.7	9.2	10.4	16.3	9.2	7.7	6.8	9.8	3.4	0.7	(12.5)		
MISC MK	MISC	*	12	6.70	29,907	6.30	Hold	2,027.7	1,413.9	1,699.9	45.4	31.7	38.1	(8.4)	14.8	21.1	17.6	4.8	4.5	0.8	(9.7)		
CLH MK	Century Logistics	*	12	0.48	185	0.71	Hold	15.3	13.0	13.4	3.9	3.3	3.5	(5.3)	12.2	14.4	13.6	4.0	1.9	0.5	(53.0)		
<u>Utility</u>																							
TNB MK	Tenaga	*	12	14.70	83,469	16.00	Hold	6,990.1	6,571.2	6,692.0	123.5	115.8	117.9	(2.3)	11.9	12.7	12.5	10.5	4.0	1.3	(3.7)		
PTG MK	Petronas Gas	*	12	18.44	36,488	19.50	Hold	1,777.6	1,861.7	1,894.5	89.8	94.1	95.7	3.2	20.5	19.6	19.3	13.9	3.6	2.7	5.5		
GMB MK	Gas Msia	*	12	2.92	3,749	3.00	Hold	194.6	173.2	184.1	15.2	13.5	14.3	(3.0)	19.2	21.6	20.4	17.5	4.9	3.6	1.0		
MLK MK	Malakoff Corp	*	12	0.88	4,287	1.13	Buy	310.0	240.7	314.2	6.2	4.8	6.3	0.8	14.1	18.2	13.9	4.7	7.2	0.7	(10.7)		
YTLP MK	YTL Power		6	1.00	7,675	1.05	Hold	649.2	636.2	684.5	8.3	8.1	8.7	2.1	12.0	12.4	11.6	5.1	5.0	0.6	(22.5)		
Diversified																							
CSCS MK	CSC Steel	*	12	1.08	399	1.21	Hold	70.7	41.2	47.2	19.1	11.2	12.8	(18.1)	5.7	9.6	8.4	5.5	5.9	0.5	(29.9)		
TOMY MK	Tomypak Hldgs	*	12	0.70	293	0.41	Sell	12.8	0.4	10.2	3.1	0.1	2.5	(10.2)	22.6	700.0	28.0	4.8	1.4	1.5	(28.2)		
AF MK	Asia File Corp	*	3	2.50	487	2.21	Sell	60.0	42.9	38.3	30.9	22.1	19.8	(19.9)	8.1	11.3	12.6	6.2	5.9	0.8	(13.5)		
MFCB MK	Mega First	*	12	3.12	1,219	4.20	Buy	131.7	120.0	92.5	34.3	31.3	24.1	(16.2)	9.1	10.0	12.9	6.5	0.6	0.9	(15.0)		
YTB MK	Yong Tai		6	0.64	308	0.70	Hold	14.6	9.0	15.9	3.1	1.6	2.2	(16.0)	20.8	39.7	29.5	2.8	0.0	0.5	(58.2)		
WHIT MK	White Horse	*	12	1.68	384	1.82	Hold	11.9	(0.4)	8.0	5.2	(0.2)	3.5	(18.0)	32.3	n.a.	48.0	1.1	4.2	0.5	(13.4)		
FRCB MK	Frontken Corp	*	12	0.85	886	1.01	Buy	34.5	45.5	56.1	3.3	4.3	5.4	27.9	25.6	19.7	15.6	15.5	1.3	2.5	83.7		

^{*} Shariah compliant, based on Securities Commission's latest Shariah compliant list effective 25 May 2018; Source: Maybank KE

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