Maybank Investment Bank

STRATEGY

Malaysia

Malaysia Budget 2023

Positively Neutral

“Neutral” fiscal policy stance amid slower growth

Despite budget deficit to GDP ratio going sub-6% to 5.5% in 2023 after 5.8% in 2022, down from the average 6.3% in 2020-2021, the size of deficit spending is little changed at MYR99.1b in 2023 (2022: MYR99.5b) to keep fiscal support as economic growth moderates to 4.0%-5.0% next year from 6.5%-7.0% this year. Tax wise, Budget 2023 is “positive” as per the individual (for middle-income taxpayers) and SME income tax cuts and as “*Cukai Makmur*” is confirmed as a Budget 2022 one-off. Key beneficiaries of Budget 2023 allocations, tax incentives and fiscal measures are MSMEs, consumer staples, tourism, automotive (EVs), green tech, agrofood, electronics, medical devices & pharmaceuticals, aerospace, chemicals & petrochemicals, infrastructure (including digital infrastructure).

“Real” fiscal consolidation from 2024 onwards

Budget 2023 alluded to targeted fuel subsidy next year, laying the path for medium term fiscal consolidation given the 3.5% budget deficit to GDP target in 2025. More substantive fiscal consolidation measures have to include sustainable revenue sources as per the plan to adopt the minimum global tax rate and introduce carbon tax, with GST comeback a possibility. Details are pending the Medium Term Revenue Strategy next year after its’ “no show” this year. This must be complemented by addressing inefficiencies, mismanagements, wastages and leakages in Government spending, hence the plan to table the Fiscal Responsibility Bill 2022.

Equities read-through: mildly positive bias

While Budget 2023 measures in support of businesses are predominantly incremental and/or long-term in nature, the equity market will nonetheless cheer absence of corporate levies akin to last year’s *Cukai Makmur* prosperity tax, as well as the signalling of greater fiscal probity going forward. Particular measures with notable sector impacts (see pgs.38 to 50 for granularity) were: **i)** Consumer: tax cut for M40 and cash transfers via BRM and to the civil service will boost consumption – picks are **Mr.DIY**, **AEON**, **Farm Fresh** and **BFood**; **ii)** Technology/Renewables: supportive tax and investment incentives have us reiterating our positive rating for both sectors – picks are **Inari**, **ViTrox**, **Frontken**, **ATech**, **CTOS** for Tech; **Solarvest** and **Cypark** for Renewables; **and iii)** Auto: additional tax exemptions/incentives targeted at accelerating EV adoption and development of national chaging infrastructure; picks are **BAuto** and **MBM.**

Maintaining a balanced portfolio positioning

While the KLCI and its’ ASEAN peers remain relative outperformers YTD, macro challenges from geopolitical tensions, surging inflation, sharply rising interest rates and growing recession risks mean an increasingly negative earnings revision outlook for 2023E. We maintain end-2022 KLCI target of 1,500 (13.5x fwd. PER, -1.5SD vs. mean) and balanced growth / value portfolio positioning, overlaid with ESG and yield (Fig 38) considerations. Sector positioning and top picks are per Fig 28 and Fig 29, respectively, while our recently-refreshed ESG picks are per Fig 32.

Analysts

Anand Pathmakanthan
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

Suhaimi Ilias
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

Current KLCI:	1,420 (06 Oct 2022)
YE KLCI target:	
End-2022E	1,500 (13.5x forward PER)

M’sia equities growth & valuation

		2021A	2022E	2023E
KLCI @ 1,420	**PE (x)**	**13.3**	**14.2**	**12.6**
Earnings Growth	(%)	37.5%	(6.8%)	13.4%
Research Universe	**PE (x)**	**14.7**	**15.2**	**13.1**
Earnings Growth	(%)	35.7%	(3.1%)	16.5%

Source: MIBG Research, FactSet (as of 06 Oct)

Top BUY picks

Stock	BB Ticker	Price	TP	*Upside (%)*
Large Caps				
Pet Chem	PCHEM MK	8.64	11.20	29.7%
HL Bank	HLBK MK	20.80	23.60	13.5%
Axiata	AXIATA MK	2.72	4.50	65.5%
RHB	RHBBANK MK	5.68	7.10	25.0%
KL Kepong	KLK MK	20.70	28.10	35.7%
Telekom	T MK	5.45	7.80	43.2%
Mr. DIY	MRDIY MK	2.03	2.70	33.0%
Genting (M)	GENM MK	2.78	3.27	17.6%
Dialog	DLG MK	2.03	4.90	141.4%
Gamuda	GAM MK	3.98	4.40	10.6%
Inari	INRI MK	2.57	4.14	61.1%
Msia Airports	MAHB MK	5.67	7.25	27.9%
Heineken	HEIM MK	23.80	27.70	16.4%
ViTrox	VITRO MK	7.38	8.80	19.2%
Yinson	YNS MK	2.15	4.05	88.4%
Alliance Bank	ABMB MK	3.65	4.50	23.3%
Frontken	FRCB MK	2.70	3.55	31.5%
Mid-small Caps				
CTOS	CTOS MK	1.33	1.94	45.9%
Mega First	MFCB MK	3.25	4.30	32.3%
Axis REIT	AXRB MK	1.85	2.12	14.6%
Farm Fresh	FFB MK	1.59	1.95	22.6%
Allianz	ALLZ MK	13.40	16.75	25.0%
Bermaz	BAUTO MK	1.92	2.90	51.0%
Hibiscus	HIBI MK	0.98	1.90	93.9%
AEON	AEON MK	1.36	2.35	72.8%
Berjaya Food	BFD MK	0.86	1.24	45.0%
Aurelius	ATECH MK	1.87	2.07	10.7%
Cypark	CYP MK	0.44	1.01	129.5%

Source: MIBG Research, FactSet (06 Oct)

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1. Macro highlights & takeaways

1.1 Budget 2023 in numbers…

5.5% budget deficit to GDP ratio. Budget 2023 aims to make further – albeit gradual progress in fiscal consolidation. This follows a revised deficit spending of 5.8% of GDP versus Budget 2022 original target of 6.0% of GDP and the 6.2%-6.4% range in 2020-2021.

4.4% average budget deficit to GDP ratio for 2023-2025. The rolling 3-year Medium Term Fiscal Framework (MTFF) shows the average budget deficit to GDP ratio of 4.4% for the period 2023-2025, which implies budget deficit to GDP ratio declining from 5.5% in 2023 to around 4.2% in 2024 en route to the 12th Malaysia Plan's (12MP, 2021-2025) target of 3.5% in 2025.

Fig 1: Federal Government's Revenue, Expenditure & Budget Balance

MYRb	2021	Budget 2022	1H2022	8M2022	2022E	Budget 2023
Revenue	233.8	234.0	124.3	173.3	285.2	272.6
% chg YoY	3.9	0.1	16.8	24.8	22.0	(4.4)
Total Expenditure 1/	333.5	332.1	169.7	225.3	385.3	372.3
% chg YoY	6.2	(0.4)	3.1	7.6	15.5	(3.4)
Operating Expenditure	231.5	233.5	129.8	-	284.7	272.3
% chg YoY	3.1	0.9	10.6	-	23.0	(4.3)
Current Balance 2/	2.2	0.4	(5.5)	-	0.5	0.2
% of GDP	0.1	0.0	(0.6)	-	0.0	0.0
Gross Development Expenditure	64.3	75.6	30.5	-	71.8	95.0
% chg YoY	25.1	17.7	7.5	-	11.7	32.3
Net Development Expenditure	63.3	75.0	30.0	-	71.2	94.3
% chg YoY	26.3	18.5	7.5	-	12.5	32.4
COVID-19 Fund 3/	37.7	23.0	9.4	-	28.8	5.0
% chg YoY	(0.8)	(39.0)	(49.0)	-	(23.6)	(82.6)
Overall Balance 4/	(98.7)	(97.5)	(44.9)	(52.0)	(99.5)	(99.1)
% of GDP	(6.4)	(6.0)	(5.2)	-	(5.8)	(5.5)

1/ Operating Expenditure, Gross Development Expenditure & COVID-Fund

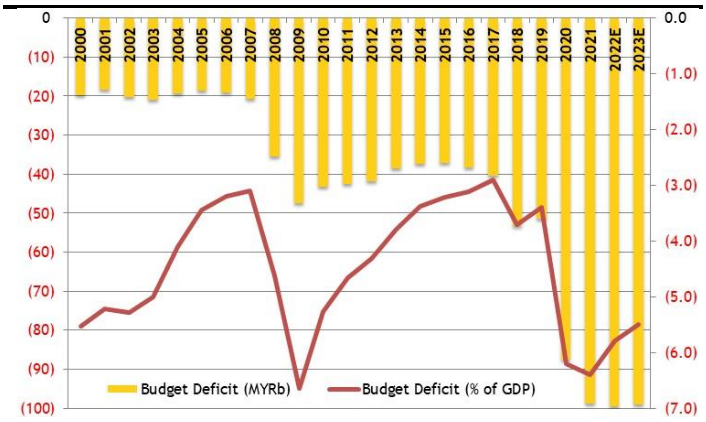
2/ Revenue Minus Operating Expenditure

3/ Established under Temporary Measures for Government Financing (COVID-19) Act 2020 for the period 2020-2022

4/ Revenue Minus Operating Expenditure, Net Development Expenditure & COVID-19 Fund

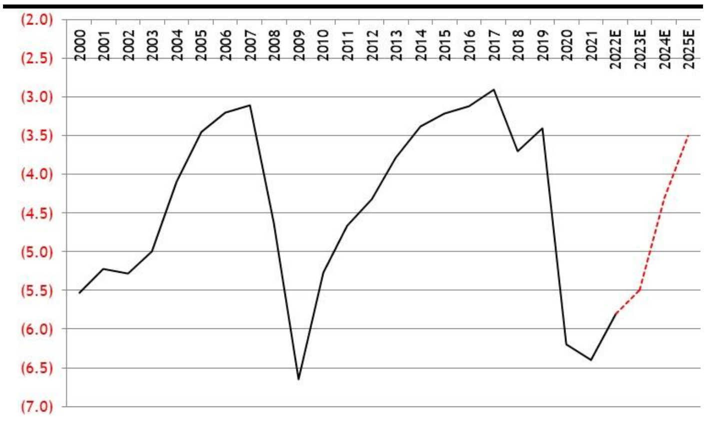
Source: Ministry of Finance (Budget 2022 & 2023), BNM, Maybank IBG Research

Fig 2: Budget Deficit in MYRb and % of GDP, 2000-2023



Source: Ministry of Finance (Fiscal Outlook 2023)

Fig 3: Budget Deficit to GDP Ratio, 2000-2025



Source: Ministry of Finance (Fiscal Outlook 2023)

Fig 4: Medium Term Fiscal Framework - Key Targets and Assumptions

	2022-2024 (Budget 2022)	2022 Actual to-date	2023-2025 (Budget 2023)
Average Budget Deficit/GDP Ratio	5.0%	1H 2022: 5.2%	4.4%
Real GDP Growth	5.5% p.a.	1H 2022: 6.9%	4.5% p.a.
Nominal GDP Growth	7.7% p.a.	1H 2022: 16.4%	6.4% p.a.
Average Crude Oil Price (Brent, USD/bbl)	67	9M2022: 102.5	90
Crude Oil Production	580k bpd	8M2022: 396k bpd	530k bpd

Sources: Ministry of Finance (Fiscal Outlook 2022 & 2023), Dept. of Statistics, Bloomberg

-4.4% drop in total revenue to MYR272.6b, mainly on the projected -23% drop in non-tax revenue to MYR67.0b (2022: +44.9% to MYR87.0b) reflecting lower dividends from government entities i.e. essentially Petronas (2023E: MYR35b; 2022: MYR50b) to offset the expected +3.7% tax revenue growth to MYR205.6b.

This is in contrast to the +22.0% growth in 2022 total revenue to MYR285.2b – which was also +21.9% higher than Budget 2022 projection of MYR234.0b, driven by "Cukai Makmur" (Prosperity Tax – essentially a windfall profit tax), Royal Malaysia Custom's Special Voluntary Disclosure Programme, expansion in the tax base and coverage of sales and services taxes as well as excise duties on local goods, higher commodity-related revenues and additional MYR25b dividend from Petronas (on top of MYR25b under Budget 2022).

Fig 5: Federal Government Revenue, 2021-2023

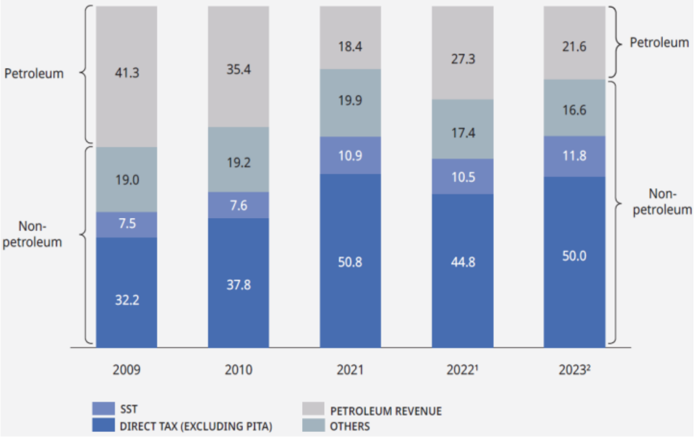
COMPONENT	RM MILLION			CHANGE (%)			SHARE (%)		
	2021	2022[1]	2023[2]	2021	2022[1]	2023[2]	2021	2022[1]	2023[2]
Tax revenue	**173,704**	**198,227**	**205,583**	***12.5***	***14.1***	***3.7***	***74.3***	***69.5***	***75.4***
Direct tax	130,116	147,206	152,392	*15.6*	*13.1*	*3.5*	*55.7*	*51.6*	*55.9*
of which:									
CITA	79,829	84,760	88,870	*59.5*	*6.2*	*4.8*	*34.2*	*29.7*	*32.6*
Individual	27,051	30,640	33,630	*-30.6*	*13.3*	*9.8*	*11.6*	*10.7*	*12.3*
PITA	11,570	19,302	16,189	*-9.4*	*66.8*	*-16.1*	*4.9*	*6.8*	*5.9*
Indirect tax	43,588	51,021	53,191	*4.1*	*17.1*	*4.3*	*18.6*	*17.9*	*19.5*
of which:									
SST	25,616	29,710	32,060	*-4.3*	*16.0*	*7.9*	*11.0*	*10.4*	*11.8*
Excise duties	10,241	10,720	11,970	*3.9*	*4.7*	*11.7*	*4.4*	*3.7*	*4.3*
Import duty	2,645	3,020	3,220	*12.7*	*14.2*	*6.6*	*1.1*	*1.1*	*1.2*
Export duty	2,057	2,200	1,450	*175.7*	*7.0*	*-34.1*	*0.9*	*0.8*	*0.5*
Non-tax revenue	**60,048**	**86,990**	**66,987**	***-15.0***	***44.9***	***-23.0***	***25.7***	***30.5***	***24.6***
of which:									
Licences and permits	10,578	13,330	13,788	*-3.2*	*26.0*	*3.4*	*4.5*	*4.7*	*5.1*
Investment income	35,018	63,442	42,710	*-24.0*	*81.2*	*-32.7*	*15.0*	*22.2*	*15.7*
Total revenue	**233,752**	**285,217**	**272,570**	***3.9***	***22.0***	***-4.4***	***100.0***	***100.0***	***100.0***
Share of GDP (%)	***15.1***	***16.7***	***15.0***						

[1] Revised estimate
[2] Budget estimate excluding Budget 2023 measures

Source: Ministry of Finance (Fiscal Outlook 2023)

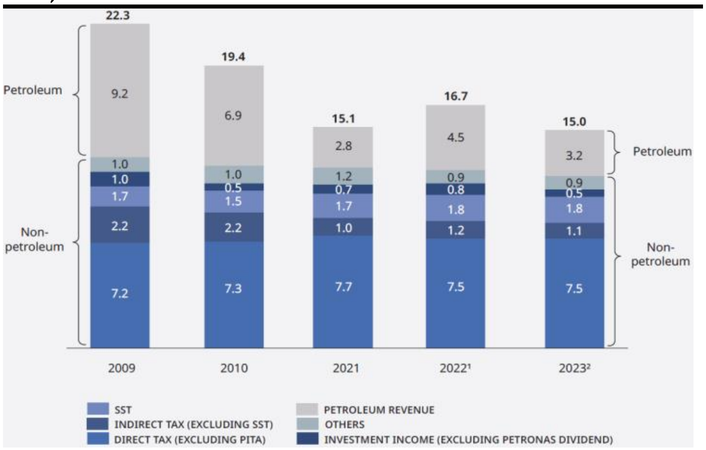
Meanwhile, the overall petroleum-related revenue in 2023 is projected to drop by -24.3% to MYR58.9b and account for 21.6% of total revenue vs the estimated +80.5% surge in 2022 to MYR77.8b to make up 27.3% of total revenue (note: record high was 41.3% in 2009).

Fig 6: Petroleum-Related and Non-Petroleum Revenue (% of Total Revenue)



1/ Revised estimates of Budget 2022 projections
2/ Budget 2023 projections
Source: Ministry of Finance (Fiscal Outlook 2023)

Fig 7: Petroleum-Related and Non-Petroleum Revenue (% of GDP)



1/ Revised estimates of Budget 2022 projections
2/ Budget 2023 projections
Source: Ministry of Finance (Fiscal Outlook 2023)

-3.4% decline in total spending allocation to MYR372.3b, consisting of:

- **MYR272.3b or -4.3% drop in Operating Expenditure (OE) primarily due to lower allocation for subsidies and social assistance** (2023E: -28.7% to MYR42.0b; 2022E: +155.6% to MYR58.9b) on the expected lower commodity prices which ease the costs of subsides on the likes of fuel and cooking oil prices, as well as the gradual move towards targeted subsidy.

- **MYR95.0b or +32.3% jump in Gross Development Expenditure (GDE) on account of higher allocation for the third year of the 12th Malaysia Plan period (12MP, 2021-2025).** Largest allocations are for Others (+73.2% increase to MYR30.9b or 32.5% of total GDE - which we believe relates to the USD3b provision for the redemption of 1MDB bond maturing in Mar 2023) as well as Education, Training & Health (+8.3% increase to MYR17.5b or 18.4% of total GDE) and Transport (+16.7% increase to MYR16.5b or 17.3% of total GDE), mainly for projects for the construction of highways, railways, medical facilities and education institutions plus allocation to meet PPP/PFI-related commitments, and Security (+23.8% increase to MYR10.8b or 11.4% of total GDE).

- **MYR5b COVID-19 Fund** for the outstanding payments of the COVID-19 commitments made in 2022, primarily for social assistance support to vulnerable groups.

This is a reversal of the +16.0% increase in total expenditure to MYR385.3b consisting of:

- +23.0% rise to MYR284.7b in Operating Expenditure (OE) mainly reflecting higher spending on subsidies and social assistance (2022E: +155.6% to MYR58.9b; 2021: +16.6% to MYR23.0b). The revised OE for 2022 is +21.9% higher than Budget 2022 allocation of MYR233.5b.

- +11.7% growth to MYR71.8b in Gross Development Expenditure (GDE), which is also -5.0% lower than Budget 2022 allocation of MYR75.6b due to the reprioritisation of programmes and projects following the issuance of Ministry of Finance circular on public expenditure guidelines in July 2022 for cost-saving measures, as well as expenditure recalibration in line with the implementation progress.

- MYR28.8b in COVID-19 Fund spending, which is revised from Budget 2022 allocation of MYR23b, reflecting MYR5.8b to finance the electricity bill subsidies.

Fig 8: Federal Government Operating Expenditure by Components, 2021-2023

COMPONENT	RM MILLION			CHANGE (%)			SHARE (%)		
	2021	2022[1]	2023[2]	2021	2022[1]	2023[2]	2021	2022[1]	2023[2]
Emoluments	85,854	86,510	90,765	3.4	0.8	4.9	37.1	30.4	33.3
Retirement charges	29,095	28,674	29,079	5.7	-1.4	1.4	12.6	10.1	10.7
Debt service charges	38,069	43,100	46,100	10.4	13.2	7.0	16.4	15.1	16.9
Grants and transfers to state governments	7,547	8,025	8,077	-1.6	6.3	0.6	3.3	2.8	3.0
Supplies and services	24,924	33,296	32,035	-15.0	33.6	-3.8	10.8	11.7	11.8
Subsidies and social assistance	23,041	58,900	42,016	16.6	155.6	-28.7	10.0	20.7	15.4
Asset acquisition	596	533	911	-5.7	-10.6	71.1	0.3	0.2	0.3
Refunds and write-offs	482	375	459	-26.3	-22.2	22.4	0.2	0.1	0.2
Grants to statutory bodies	13,391	13,483	15,117	27.2	0.7	12.1	5.8	4.7	5.6
Others	8,517	11,804	7,781	-22.6	38.6	-34.1	3.5	4.2	2.8
Total	**231,516**	**284,700**	**272,340**	**3.1**	**23.0**	**-4.3**	**100.0**	**100.0**	**100.0**
Share of GDP (%)	**15.0**	**16.6**	**15.0**						

[1] Revised estimate
[2] Budget estimate, excluding Budget 2023 measures

Source: Ministry of Finance (Fiscal Outlook 2023)

Fig 9: Federal Government Development Expenditure by Sectors, 2021-2023

SECTOR	RM MILLION			CHANGE (%)			SHARE (%)		
	2021	2022[1]	2023[2]	2021	2022[1]	2023[2]	2021	2022[1]	2023[2]
Economic	**31,284**	**37,431**	**54,051**	**9.0**	**19.6**	**44.4**	**48.7**	**52.1**	**56.9**
of which:									
Transport	12,988	14,110	16,460	1.6	8.6	16.7	20.2	19.7	17.3
Trade and industry	1,756	2,084	2,682	-31.8	18.7	28.7	2.7	2.9	2.8
Energy and public utilities	2,115	2,557	3,251	-8.6	20.9	27.2	3.3	3.6	3.4
Agriculture	2,463	2,789	3,095	23.0	13.2	11.0	3.8	3.9	3.3
Environment	1,310	2,059	2,333	-1.1	57.2	13.3	2.0	2.9	2.5
Social	**22,603**	**22,167**	**25,156**	**63.5**	**-1.9**	**13.5**	**35.2**	**30.9**	**26.5**
of which:									
Education and training	8,230	11,708	12,788	22.2	42.3	9.2	12.8	16.3	13.5
Health	8,719	4,457	4,714	118.9	-48.9	5.8	13.6	6.2	5.0
Housing	1,360	1,660	2,053	34.0	22.1	23.6	2.1	2.3	2.2
Security	**7,498**	**8,752**	**10,831**	**29.6**	**16.7**	**23.8**	**11.7**	**12.2**	**11.4**
General administration	**2,872**	**3,450**	**4,962**	**-5.4**	**20.1**	**43.8**	**4.4**	**4.8**	**5.2**
Total	**64,257**	**71,800**	**95,000**	**25.1**	**11.7**	**32.3**	**100.0**	**100.0**	**100.0**
Share of GDP (%)	**4.2**	**4.2**	**5.2**						

[1] Revised estimate
[2] Budget estimate, excluding Budget 2023 measures

Source: Ministry of Finance (Fiscal Outlook 2023)

Fig 10: COVID-19 Fund Allocations, 2022-2023

NO.	PROGRAMMES	RM MILLION	
		2022[1]	2023[2]
1	Wage subsidy, job retention and workers' hiring incentive and training assistance programmes	2,942	-
2	Bantuan Prihatin Nasional	8,350	-
3	Small scale projects	2,203	-
4	Skill and upskilling programmes	600	-
5	PENJANA SME financing	2,000	-
6	PRIHATIN SME grant	-	-
7	Micro credit loans under Bank Simpanan Nasional and TEKUN Nasional	1,200	-
8	Allocation for COVID-19 related expenses	2,000	-
9	Food security fund	130	-
10	COVID-19 special allowance for frontliners	-	-
11	PENJANA National Fund	-	-
12	ePenjana	350	-
13	Electricity bill discounts	5,920	-
14	Additional RM100 for Bantuan Sara Hidup	-	-
15	Special assistance to students of higher education institutions	-	-
16	Bumiputera Relief Financing	-	-
17	MY30 public transport subsidy	200	-
18	Social assistance for taxi drivers, school bus drivers, tour bus drivers, tour guides, trishaw operators and e-hailing drivers	10	-
19	Social assistance support to vulnerable groups	2,000	5,000
20	Smart automation grant	400	-
21	Soft Loan under MyCreative Venture	40	-
22	Social protection and training for gig economy workers	50	-
23	E-Dagang campaign for SME and micro enterprises	150	-
24	"Shop Malaysia Online" for online consumption	-	-
25	PEKA B40 health care support	-	-
26	Grant for child care centers and kindergartens	10	-
27	Digital content fund	100	-
28	Assistance to non-governmental organisations	110	-
29	Digitalisation of government service delivery	25	-
30	Digitalisation marketing and promotion fund under the Cultural Economy Development Agency (CENDANA)	10	-
31	MyAssist SME One Stop Centre	-	-
	TOTAL	28,800	5,000

[1] Revised estimate
[2] Budget estimate, excluding Budget 2023 measures

Source: Ministry of Finance (Fiscal Outlook 2023)

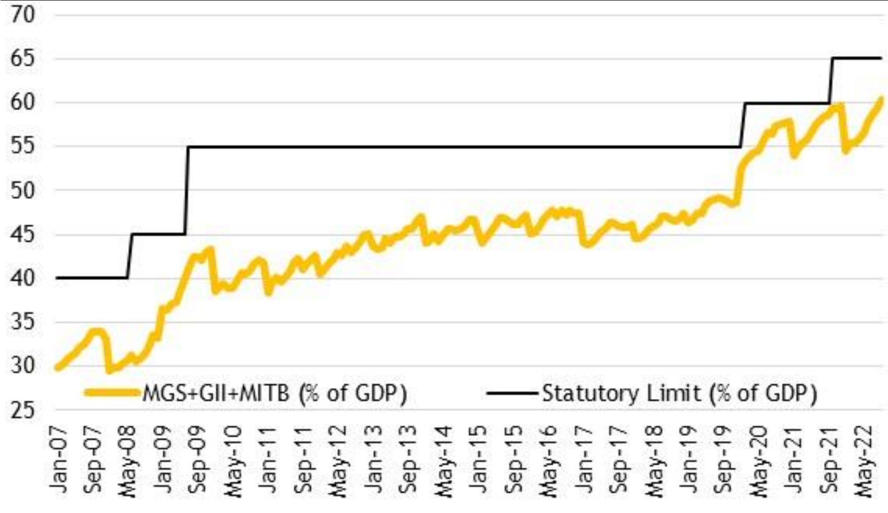
***Total* Government debt of 65% of GDP and Government *domestic* debt of 63% of GDP by end-2023; statutory Government domestic debt ceiling to remain at 65% of GDP; Government debt service charge to revenue ratio above 15% fiscal threshold for the fourth year in a row.**

Total Government debt is projected to be at 65% of GDP by end-2023 from 61% as at end-June 2022. Meanwhile, Government domestic debt (Malaysian Government Securities + Malaysia Government Investment Issues + Malaysian Islamic Treasury Bills) - which is subjected to the statutory debt ceiling of 65% of GDP - is expected to reach 63% of GDP by end-2023 from 57.8% as at end-June 2022 (60.3% as at Sep 2022 from our calculation).

The statutory debt ceiling is expected to remain at 65% of GDP as we forecast the Government domestic debt to be just under 64% in 2024 and around 63.5% in 2025 based on the MTFF's assumptions on 2023-2025 budget deficit to GDP ratios and average annual nominal GDP growth (re: Figs 3-4).

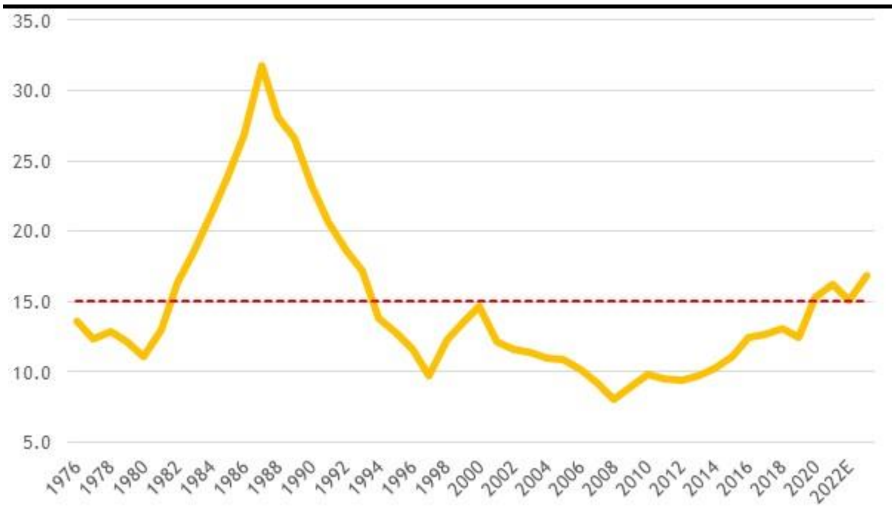
Consequently, the Gvernment debt service charge to revenue ratio will rise to 16.9% in 2023 from 15.1% in 2022, highest since 17.2% in 1993, and above the 15% threshold (based on international best practice) for the fourth year in a row since 2020.

Fig 11: Government Domestic Debt vs Statutory Ceiling (% of GDP)



Government Domestic Debt is the sum of Malaysian Government Securities (MGS), Malaysian Government investment Issue (MGII) and Malaysian Islamic Treasury Bond (MITB)
Source: Bond Pricing Agency Malaysia (BPAM). Bank Negara Malaysia, Department of Statistics, Maybank IBG Research

Fig 12: Federal Government Debt Service Charge (% of Federal Government Total Revenue)



Source: Ministry of Finance, Bank Negara Malaysia, Maybank IBG Research

Budget 2023 forecasts slower real GDP growth of between +4.0% and +5.0% vs the revised estimate of +6.5% to +7.0% growth range for 2022, which is an upward revision from the previous projection of between +5.3% and +6.3%.

On moderation in services, manufacturing and mining. By sectors, the forecast of slower economic growth next year reflects moderation in services sector (2023E: +5.0%; 2022E: +8.2% vs +6.9% previously), manufacturing (2023E: +3.9%; 2022E: +6.3% vs +5.2% previously) and mining (2023E: +1.1%; 2022E: +2.1% vs +2.5% previously) amid pickups in agriculture (2023E: +2.3%; 2022E: +0.1% vs +1.5% previously) and construction (2023E: +4.7%; 2022E: +2.3% vs +6.1% previously).

And deceleration in both domestic and external demand, led by private consumption as well as exports and imports of goods and services. By demand, moderation in 2023 real GDP growth is on account of slower growth in both domestic demand (2023E: +5.1%; 2022E: +6.3% vs +7.2% previously) and net external demand (2023E: +3.2%; 2022E: +10.0% vs +2.6% previously).

Domestic demand growth is expected to ease on deceleration in growth of private consumption (2023E: +6.3%; 2022E: +8.7% vs +9.0% previously) amid firmer growth in public consumption (2023E: +2.0%; 2022E: +1.0% vs +1.2% previously) and gross fixed capital formation (2023E: +3.3%; 2022E: +2.8% vs +6.3% previously) on the back of better private investment performance (2023E: +3.7%; 2022E: +3.0% vs +5.3% previously) in view of steady expansion in public investment (2023E: +2.1%; 2022E: +2.2% vs +9.6% previously).

The projected slower net external demand growth is on account of the sharpy slower growth in both exports (2023E: +1.6%; 2022E: +8.8% vs +4.8% previously) and imports (2023E: +1.4%; 2022E: +8.7% vs +5.1% previously) of goods and services. Concomitantly, growth in gross exports and gross imports are expected to lose momentum to just +2.2% (2022E: +17.4% from +10.9% previously) and +0.2% (2022E: +19.3% from +8.1% previously) respectively.

Inflation rate is expected to be between +2.8% and +3.3% in 2023 vs +3.3% in 2022, which is a slight upward revision from the +2.2% to +3.2% range under Budget 2022.

Unemployment rate is projected to drift lower to between 3.5% to 3.7% in next year from 3.8% to 4.0% this year (revised from 4.0% forecast in Budget 2022).

Budget 2023 assumes USD90/bbl and MYR4,300/tonne average crude oil and crude palm oil (CPO) prices vs USD100/bbl and MYR5,000/tonne in the revised estimates for 2022. Original Budget 2022 forecasts were USD100-120/bbl and MYR6,200-6,600/tonne.

Fig 13: Malaysia - Real GDP (% chg)

	% Share of GDP (2021)	ACTUAL 2020	2021	1Q 2022	2Q 2022	1H 2022	OFFICIAL 2022E Revised	2022E Previous	Budget 2023E
Real GDP		**(5.5)**	**3.1**	**5.0**	**8.9**	**6.9**	**6.5-7.0**	**5.3-6.3**	**4.0-5.0**
Services	57.0	(5.4)	1.9	6.5	12.0	9.2	8.2	6.9	5.0
Manufacturing	24.3	(2.7)	9.5	6.6	9.2	7.9	6.3	5.2	3.9
Agriculture	7.2	(2.4)	(0.2)	0.1	(2.4)	(1.2)	0.1	1.5	2.3
Mining	6.7	(9.7)	0.3	(1.1)	(0.5)	(0.8)	2.1	2.5	1.1
Construction	3.7	(19.3)	(5.2)	(6.2)	2.4	(2.1)	2.3	6.1	4.7
Domestic Demand	92.7	(5.5)	1.7	4.4	13.0	8.6	6.3	7.2	5.1
Private Consumption	58.8	(4.2)	1.9	5.5	18.3	11.5	8.7	9.0	6.3
Public Consumption	13.8	5.0	5.3	6.7	2.6	4.7	1.0	1.2	2.0
Gross Fixed Capital Formation	20.1	(14.4)	(0.9)	0.1	5.8	2.9	2.8	6.3	3.3
Private Investment	15.6	(11.9)	2.6	0.4	6.3	3.3	3.0	5.3	3.7
Public Investment	4.5	(21.2)	(11.3)	(0.9)	3.2	1.0	2.2	9.6	2.1
Net External Demand	6.0	(13.7)	(4.1)	(26.5)	(28.7)	(27.6)	10.0	2.6	3.2
Exports of Goods & Services	69.2	(8.6)	15.4	8.0	10.4	9.2	8.8	4.8	1.6
Imports of Goods & Services	63.2	(7.9)	17.7	11.1	14.0	12.6	8.7	5.1	1.4

Sources: Dept. of Statistics, BNM (Economic & Monetary Review 2021, Mar 2022), Ministry of Finance (Budget 2023, Oct 2022)

Fig 14: Malaysia - Other Key Economic Indicators

	ACTUAL 2020	2021	2022 YTD	OFFICIAL 2022E Revised	2022E Previous	Budget 2023E
Gross Exports (% chg)	(1.1)	26.1	30.3 (8M)	17.4	10.9	2.2
Gross Imports (% chg)	(5.8)	23.3	36.7 (8M)	19.3	8.1	0.2
Trade Balance (MYRb)	183.3	253.7	155.6 (8M)	278.1	307.5	308.3
Current Account Balance (MYRb)	59.1	58.7	7.4 (6M)	50.8	56.7	73.0
Current Account Balance (% of GDP)	4.2	3.8	0.9 (6M)	3.0	4.2-4.7	4.0
Fiscal Balance (% of GDP)	(6.2)	(6.4)	(5.2) (6M)	(5.8)	(6.0)	(5.0)
Inflation Rate (CPI, %)	(1.2)	2.5	3.1 (8M)	3.3	2.2-3.2	2.8-3.3
Overnight Policy Rate (% p.a., end-period)	1.75	1.75	2.50	-	-	-
Exchange Rate (MYR/USD, end-period)	4.02	4.17	4.64 (Sep)	-	-	-
Exchange Rate (MYR/USD, average)	4.20	4.14	4.34 (9M)	-	-	-
Unemployment Rate (%)	4.5	4.6	4.0 (7M)	3.8-4.0	4.0	3.5-3.7
Crude Oil (USD/bbl, Brent average)	42.3	70.5	102.5 (9M)	100	100-120	90
Crude Palm Oil (MYR/tonne, average)	2,781	4,426	5,508 (9M)	5,000	6,200-6,600	4,300

Sources: Bloomberg, CEIC, Dept. of Statistics, BNM (Economic & Monetary Review 2021, Mar 2022), Ministry of Finance (Budget 2023, Oct 2022)

1.2 Budget 2023 in measures…

Some "positive" – and no "negative" - surprises in Budget 2023's tax measures e.g.

- **Individual income tax rate cut of 2 percentage points** to 11% from 13% for taxable annual income of MYR50,001-MYR70,000 and to 19% from 21% for taxable annual income of MYR70,001-MYR100,000. This is to help the middle-income (M40) taxpayers deal with higher inflation and cost of living by boosting their disposable incomes given the MYR800m tax revenue forgone.

- **Micro, Small and Medium Enterprises' (MSMEs) income tax rate cut of 2 percentage points** to 15% from 17% for the first MYR100,000 taxable income. This is on top of the upsizing of MSMEs funding scheme "SemarakNiaga" to MYR45b from MYR40b covering the direct loans, alternative financing and guarantees – which include MYR10b SME funds under Bank Negara Malaysia (BNM) for automation and digitalization, food security and tourism sector recovery; MYR9b financing guarantees; as well as MYR1.7b micro-lending. In addition, Budget 2023 also announced a one-off MYR1,000 grants to all registered MSMEs totalling MYR1b.

- **Budget 2022's "Cukai Makmur" is confirmed one-off**.

Sectors, industries and areas that we see as the key beneficiaries of Budget 2023 include:

- **Consumer staples** given the disposable income boosts via measures such as the abovementioned personal income tax rate cut for M40 tax payers; e-wallet credits of MYR100 800,000 M40 individuals and MYR200 to 2m youths (18-21 years old); enhancements to the cash handouts programme (additional MYR200-MYR500 for recipients of Bantuan Keluarga Malaysia or BKM); discounts on student loan repayments; MYR1.5b in civil servants' salary increment and MYR1.3b in special financial assistance to civil servants and Government pensioners.

- **Tourism** given the aim of 15m tourist arrivals and MYR47.6b tourism revenue in 2023 (2022E: 9.2m tourist arrivals and MYR26.8b tourism revenue) i.e. re-investment allowance to renovate, expand or modernise hotels and selected tourism projects such as theme parks and convention centres; income tax exemption and investment tax allowance for private healthcare companies to boost medical tourism; special tax deduction for expenditure of up to MYR500,000 on qualified Malaysian-made handicraft purchased from handicraft entrepreneur certified by Perbadanan Kemajuan Kraftangan Malaysia incurred by hoteliers; income tax exemption for tour operators for tourism packages involving at least 400 local tourists and 200 inbound tourists per year; 50% excise duty exemption for the purchase of new locally assembled tourism vehicles (hire-and-drive cars, excursion buses).

- **Automative, specifically Electric Vehicles (EVs)** i.e. tax incentives for companies doing EV rentals and manufacturing of EV charging equipment; extension of full import duty and excise duty exemptions on imported CBU EVs until 31 Dec 2024; exemption on Approved Permit (AP) until 31 Dec 2023.

- **Green technologies** i.e. Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) for solar activity, Battery Energy Storage System and green building and services; investment tax allowance, import duty and sales tax eemption as well as tax exemptions and allowances for Carbon Capture and Storage (CCS) activities, services and equipment/technology.

- **Agrofood industry** to enhance domestic food production and security i.e. tax incentives and allocations for food production projects, closed house system chicken rearing and automation and technology – including biotechnology - adoption in agriculture (e.g. Controlled Environment Agriculture of CAE); utililising lands under federal agencies like FELDA, FELCRA and RISDA and agencies under Ministry of Agriculture and Food Industry (MAFI) for food production to improve self-sufficiency level (SSL); MYR1.35b investment by Government-Linked Companiess / Investment Companies (GLCs/GLICs) in food security projects.

- **High-impact and strategic sectors like electronics** (e.g. tax incentives for electronics companies to relocate to Malaysia), **medical devices and pharmaceuticals** (e.g. Government procurement to prioritse local manufacturers), **aerospace** (e.g. extend income tax incentives and investment tax allowances until 2025); and **chemicals and petrochemicals** (e.g. special status for Pengerang Petroleum Complex).

- **Infrastructure construction and maintenance** e.g. MYR16.5b allocation to pogress/completion of existing/on-going major projects like Pan Borneo Highway, Gemas-Johor Bahru Electrified Double-Tracking Project, East Coast Rail Link (ECRL), Johor Bahru–Singapore Rapid Transit System (RTS) Link, and Central Spine Road, as well as rollout of new projects, namely the Klang Valley Mass Rapid Transit Phase 3 (KVMRT3 – MYR3.3b for 2023; MYR50.2b for 2023-2030) following the completion of KVMRT2 that will be operational in Jan 2023; GDE allocations of MYR6.3b to Sabah and MYR5.4b to Sarawak among others for water, electricity, roads, health and educational facilities infrastructure projects; MYR11.4b for repair and maintenance of Federal roads and Government buildings; MYR5.2b for State Road Maintenance Grant (MARRIS); MYR3.7b for small and medium-sized projects; MYR2.55b for rural basic infrastructure (RBI).

- **Digital infrastructure capex** of MYR2b by Digital Nasional Berhad (DNB) in 2023 for digital connectivity in 47 industrial areas and nearly 3,700 schools (MYR700m) and to expand the 5G network throughout the country to cover 70% of highly populated areas (MYR1.3b).

1.3 Budget 2023 in our opinion…

A somewhat "neutral" fiscal policy stance under Budget 2023. Despite budget deficit to GDP ratio going sub-6% to 5.5% in 2023 after 5.8% in 2022, down from the average 6.3% in 2020-2021, the size of deficit spending is little changed at MYR99.1b in 2023 (2022: MYR99.5b), pointing to the "arithmetic effect" of high nominal GDP growth in 2022-2023 (re: Fig 2).

Hint of fuel subsidy rationalisation in 2023, which lays the path for fiscal reforms. Though lacking on the specifics in terms of the mechanics and timeline, Budget 2023 speech and Ministry of Finance's Fiscal Outlook Report alluded to the implementation of "targeted" fuel subsidy.

In our Budget 2023 preview note (25 Sep 2022), we highlighted that the targeted fuel subsidy mechanism is expected to involve rebates – subject to limit/quota – that are credited into bank accounts and e-wallets of qualified fuel subsidy recipients. This is in exchange for gradual periodic adjustments in fuel prices as confirmed by the Ministry of Finance's Fiscal Outlook 2023 report, since the complete removal of subsidy for RON95 and diesel will be hugely inflationary as its is estimated that inflation rate will jump to around +10% to +11% as a result. The widening of the e-wallet credit schemes to M40 income group and youths may well be in preparation for the rollout of the targeted fuel subsidy.

The projection of a more substantive fiscal consolidation after 2023 as per the earlier mentioned budget deficit to GDP reduction under MTFF 2023-2025 requires tax measures that enhance revenue on a sustainable basis, as well as greater discipline on spending.

This is to reduce the dependence on the volatile commodity-related revenues, namely from the oil & gas and plantation sectors, as well as avoiding the need for "one-off" tax or revenue enhancement measures. Good and Services Tax (GST) was not mentioned in Budget 2023 although speculation of its comeback will remain. New taxes that are confirmed coming are the adoption of the minimum effective global tax rate of 15% – and with it the implementation of the Qualified Domestic Minimum Top-up Tax (QDMTT) - in 2024, and carbon tax (no specific timeline).

Details on sustainable tax/revenue enhancing measures are pending the Medium Term Revenue Strategy (MTRS) to be unveiled next year - after the "no show" this year. This must be complemented by addressing inefficiencies, mismanagements, wastages and leakages in Government spending, hence the expected tabling of Fiscal Responsibility Bill 2022 in current Parliament session (3 Oct – 29 Nov 2022) - "assuming there are no unforeseen circumstances" as per the Minister of Finance's speech (see Section 1.4).

Downside risk to growth forecast for 2023 after the upside in 2022 growth. We noted that the official 2023 growth forecast of between +4.0% and +5.0% - while moderating from the revised range of +6.5% to +7.0% - is based on the IMF's current 2023 global economic growth forecast of +2.9% (2022: +3.2%) made in July 2022, which the IMF has indicated is subject to downside risk. To note, there is IMF Annual Meeting on 10-16 Oct 2022 which may see further downgrades in global economic outlook. This is amid the external headwinds, especially the prospect of recessions in US due to Fed's aggressive interest rate hikes, and Europe due to the fallout from the Russia-Ukraine war. We are in the process of reviewing our current real GDP growth forecasts of +6.0% for 2022 and +4.0% for 2023.

1.4 Budget 2023 and GE15: "1999" Scenario…?

To recap, the date for the tabling of Budget 2023 at the Parliament was brought forward to 7 Oct 2022 from the original date of 28 Oct 2022. Consequently, the date of the Parliament sitting was also brought forward to 3 Oct – 29 Nov 2022 from the previous 26 Oct – 15 Dec 2022. This has sparked speculation that the 15th General Election (GE15) may be held before this year is over vs current Parliament full five-year term that will be over on 16 July 2023 when the Parliament will "automatically dissolves" and the general election must be held within 60 days after the dissolution.

To note, there was only one general election in the past that happened soon after the tabling of a budget i.e. the 10th General Election (GE10) in 1999, where Parliament was dissolved on 11 Nov 1999 after Budget 2000 was tabled by the then Barisan Nasional (BN) Government on 29 Oct 1999 to make way for GE10 on 29 Nov 1999. GE10 saw BN retained power.

After GE10, Parliament reconvened for a special session on 20-22 Dec 1999 to table a Supplementary Supply Bill to provide for Government expenditure for essentials like civil service salaries, pensions and debt services in early-2000. Budget 2000 was re-tabled on 25 Feb 2000 and passed on 12 Apr 2000. Under Article 102 of the Federal Constitution, Parliament can authorise expenditure for part of the year budget under the circumstances of "unusual urgency" until a Supply Bill is formally passed.

However, we note the tight window to do the same this time around. This is in view of the Meteorological Department's warning of heavy rains and large-scale floods from the northeast monsoon season from mid-Nov 2022 until early-2023 in view of the La Nina Weather phenomenon. The week 10-16 Oct 2022 will be key to watch for any development or announcement.

2. Equity market implications

2.1 No news is good news!

Given the continuing difficult fiscal situation faced by the government, the corporate sector was braced for Budget 2023 to potentially contain corporate levies structured along similar lines to Budget 2022's one-off *Cukai Makmur* prosperity tax. Recall the latter was applied to companies with taxable income above MYR100m via the excess income being taxed at a higher 33% rate for the 2022 tax assessment year (the first MYR100m being taxed at the statutory rate of 24%), and resulted in significant drag on KLCI and research universe 2022E market earnings forecast.

Per Fig 15 below, as most recently updated in our 2Q22 results wrap report '*Improved underlying traction*', dated Sept 2, we are projecting negative 2022E earnings growth for both the KLCI and our research universe coverage – while Cukai Makmur is a significant drag on the large-cap sectors like banks, utilities and telcos (see Fig 16 for details), the biggest overall drag is still the sharp earnings contraction for the gloves sector. Hence, while the corporate sector did not receive any significant fiscal "goodies", the equity market will be positively biased / breathing a sigh of relief that there were no tax / levy "baddies" either.

Fig 15: KLCI & research universe core earnings growth & valuations

		2021A	2022E	2023E
KLCI @ 1,420.4 on 6 Oct 2022	**PE (x)**	**13.3**	**14.2**	**12.6**
Earnings Growth (%) - current		37.5%	(6.8%)	13.4%
Earnings Growth (%) - early-Sep '22		37.6%	(6.1%)	13.5%
Maybank IBG's Research Universe	**PE (x)**	**14.7**	**15.2**	**13.1**
Earnings Growth (%) - current		35.7%	(3.1%)	16.5%
Earnings Growth (%) - early-Sep '22		35.5%	(1.9%)	17.4%
Maybank IBG's Research Universe (ex-Glove stocks)	**PE (x)**	**17.0**	**15.3**	**13.0**
Earnings Growth (%) - current		32.5%	11.3%	17.9%
Earnings Growth (%) - early-Sep '22		32.3%	12.6%	18.7%

Source: Maybank IBG Research Research

While there are numerous measures articulated in Budget 2023 that are supportive of corporate sector operating recovery and profitability, they are predominantly incremental and/or long-term in nature, and do not warrant stock/sector/market earnings adjustments at this juncture – please refer to Fig 16 for our latest by-sector earnings forecasts. Among the more notable Budget 2023 sector-related highlights are:

- **Consumer:** cash transfers and income supports were sizeable, key measures being **i)** reduction in individual income tax rate of 2ppts for two income tax bands (MYR50,001-MYR70,000 and MYR70,001-MYR100,000), effectively increasing disposable income for more than 1 million taxpayers in the M40 group by up to MYR1,000. In totality, tax rate adjustments equate to a MYR800mn increase in disposable income; **ii)** Bantuan Keluarga Malaysia (BKM) cash transfers totalling MYR7.8b, to benefit 8.7m recipients, the latter including households earnings <MYR2,500 per month, single parents and singles; **and iii)** salary increments for specific grades of civil servants, with a total value of MYR1.5b, as well as other special assistance measures totalling MYR1.3b. We are positive on these measures which will provide much needed support to consumer demand in 2023 and they will also partially

alleviate rising inflationary pressures on households. Consumer staples and retail companies that are mass market-centric in their respective product offerings stand to the gain the most from improved consumer spending. Our BUYs are premised on positive earnings growth stemming from the broader consumer market with potential benefits from consumer downtrading (**MR.DIY**, **Padini**, **AEON**, **7-Eleven**, **MyNews**), and companies who enjoy resilient demand owing to their product stickiness (**Farm Fresh**, **Carlsberg**, **Heineken** and **BFood**).

- **Construction:** sector output (at constant 2015 prices) is expected to expand a greater +4.7% in 2023F (2022E: +2.3%), supported by record high gross development expenditure (GDE) of MYR95b, +32% YoY – the latter includes allocation to meet PPP/PFI-related commitments, and financial obligations, the latter mainly to redeem USD3b 1MDB bonds maturing in Mar 2023. The transport sector will receive the highest allocation of MYR16.5b (17% of total GDE), with new projects mentioned in the *Fiscal Outlook 2023 Report* being the Pengalat-Papar bypass road in Sabah and upgrading of Pasir Gudang Highway. Major ongoing projects are Pan Borneo Highway, Sabah-Sarawak Link Road, Gemas-JB EDT, ECRL, JB-SG RTS Link, Central Spine Road and KVLRT3. The Budget also reiterated the government's commitment to constructing KVMRT3 to complete the the rail system in KL – the project comprises a 50.8km alignment with Phase 1 construction to be completed in 2028 and Phase 2 in 2030. The total project cost is MYR50.2b with MYR3.3b expected to be spent in 2023. We remain neutral on the sector, with top picks being **Gamuda** and **IJM**.

- **Auto:** numeous additional tax exemptions and incentives were announced to support accelerated EV adoption, key among which are **i)** tax exemptons (zero excise & zero import duties) on CBU EVs to be extended for another year, to end-2024; **ii)** exemption on approved permits (APs) for EVs until 31 Dec 2023; **and iii)** manufacturers of EV charging equipment given income tax exemption of 100% on statutory income for 10 years (until YA2032), or investment tax allowance of 100%. While these measures are supportive of EV adoption and development of national charging infrastructure, they do not future-proof the longer-term electrification agenda in MY (replacing ICEVs), case in point being no new measures (tax incentives) were mentioned for the CKD of EVs, hence discouraging needed FDI. Nonetheless, we are positive on the sector, top picks being **BAuto** and **MBM Resources**.

- **Renewables:** the government has proposed to extend the Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) to 5 years (to 31 Dec 2025), from 3 years previously, for eligible green activities i.e. solar-related investments integrated with Battery Energy Storage System (BESS). The extensions will incentivize more investments in renewable energy (RE), in-line with Malaysia's target to increase RE share from 23% to 31% of national capacity mix by 2025. A carbon pricing mechanism (carbon tax) is also being studied, and will likely be the next phase of transition following the launch of the Voluntary Carbon Market (VCM) in Dec 2022. We are POSITIVE on the sector, with BUY ratings for both **Solarvest** and **Cypark**.

- **Property:** we were mildly surprise by a further reduction in stamp duty i.e. stamp duty exemption for properties priced between MYR500k/unit to MYR1m/unit will be increased to 75% (from 50% exemption) until 31 Dec 2023. The 100% stamp duty exemption for properties priced at MYR500k/unit and below until Dec 2025 remains unchanged. Note that the previous 50% exemption was granted after the launch of the *Keluarga Malaysia Home Ownership Initiative (i-MILIKI)* in mid-July

2022. While we are pleasantly surprised by this stamp duty cut, we expect muted impact on property sales as compared to previous *Home Ownership Campaigns* in 2019 and June 2020-2021, respectively, due to rising interest rates (YTD: +75bps in OPR to 2.5% versus 2019-2021's 1.75% [historical low]) eroding house buyers' affordability. We remain neutral on the sector – in a rising rate environment, we prefer lowly-geared township developers with exposure in both the landed residential and industrial property segments. Our BUY picks for the sector are **ECW** (net gearing: 0.35x) and **Sime Property** (0.3x).

- **Technology: vis-a-**vis Budget 2022's c.MYR2.7b outlay for the sector, Budget 2023's net allocation for Malaysian tech players, spread across a slew of measures and incentives per usual, totalled slightly more than half of the previous year's total. Among key measures were the creation of a special fund of over MYR1b with the stated aim of attracting "high value-added" investments and generating professional employment opportunities in the domestic E&E sector, and MYR230m of Khazanah's MYR1b allocation for *Dana Impak* in 2023 to be invested in domestic high-tech companies (includes support for ex-MNC local talents to set up their own technology companies). However, while policies continue to be supportive, they fail to adequately address key structural issues being faced by local industry players ie. skilled talent shortages amidst intensifying wage competition by MNCs that have new setups or are expanding their local base of operations. Further, The multi-tiered levy on foreign workers commencing 2023 (details pending) is also a negative surprise for the electronic manufacturing services (EMS) sector, owing to its disproportionately large foreign labour force. Although we are neutral on Budget 2023's incentives for the tech sector, we remain positive (for now) on the technology hardware and the EMS sub-sectors owing to their resilient near-term earnings outlook amidst persistent industry shortages. Our top OSAT pick is **Inari**, underpinned by the global mass deployment of 5G networks and stronger anticipated year-end sales of 5G-ready premium smartphones; whilst **ViTrox** is our top ATE pick, for its exposure to key future growth industries (EG/EVs/AI) and dominant position as a global leader in cutting-edge machine vision technology. We also have BUYs on **Frontken**, as well as EMS companies **VS Ind.** and **Aurelius Tech**.

Fig 16: Research universe core earnings, growth, PER, P/B and ROE (6 Oct 2022) latest closing

	Core earnings (MYR m)			Core earnings gwth (% YoY)			PER (x)			P/B (x)	ROE
Sector	**CY21A**	**CY22E**	**CY23E**	**CY21A**	**CY22E**	**CY23E**	**CY21A**	**CY22E**	**CY23E**	**CY22E**	**CY22E**
Banks	29,025	30,005	34,948	28.0	3.4	16.5	12.3	11.9	10.2	1.1	9.4
Non-bank Financials	1,143	924	1,007	(4.3)	(19.1)	8.9	8.2	10.1	9.3	1.1	10.5
Consumer	2,158	2,830	3,238	15.5	31.1	14.4	41.1	31.4	27.4	7.6	24.3
Healthcare	1,637	1,906	2,277	91.3	16.4	19.5	33.7	28.9	24.2	2.1	7.4
Automotive	1,550	2,015	2,164	(1.2)	30.0	7.4	14.6	11.2	10.5	0.9	7.7
Construction, Infra	1,535	1,688	1,686	8.5	10.0	(0.1)	14.4	13.1	13.1	0.9	6.6
Gaming - NFO	174	324	418	(32.2)	86.2	29.1	26.1	14.0	10.8	1.4	9.8
Gaming - Casino	-2,091	745	3,093	13.2	NA	315.2	(15.8)	44.5	10.7	0.7	1.6
Glove	11,416	1,450	646	57.4	(87.3)	(55.4)	1.3	10.0	22.3	1.0	9.7
Media	480	363	427	(11.8)	(24.4)	17.7	7.9	10.5	8.9	3.1	29.8
Oil & Gas	-1,387	1,826	2,695	NA	NA	47.5	(18.3)	13.9	9.4	1.1	7.9
Petrochemical	8,179	6,364	6,425	309.6	(22.2)	1.0	8.8	11.4	11.3	1.4	12.7
Plantation	7,474	8,026	5,737	105.2	7.4	(28.5)	11.6	10.8	15.1	1.5	14.2
Property - Developer	1,039	1,424	1,813	18.0	37.1	27.4	16.6	12.1	9.5	0.3	2.8
Property - REIT	1,496	1,999	2,182	(7.4)	33.7	9.1	22.2	16.6	15.2	0.9	5.5
Renewables	71	76	91	(15.7)	6.9	19.7	10.4	9.8	8.2	0.6	6.1
Technology	1,547	1,678	1,999	36.0	8.5	19.1	26.7	24.6	20.6	4.0	16.2
Telco	5,189	5,228	6,122	8.1	0.7	17.1	21.1	21.0	17.9	3.0	14.3
Transport - Aviation	-3,583	-3,356	-188	(15.8)	(6.3)	(94.4)	NM	NM	NM	NM	NM
Transport - Shipping	1,889	1,641	1,790	(12.5)	(13.1)	9.1	16.6	19.1	17.6	0.9	4.8
Transport - Port & Logistics	783	690	835	18.7	(11.9)	21.1	14.5	16.4	13.6	2.9	17.4
Utility	8,192	7,618	8,477	8.0	(7.0)	11.3	11.8	12.7	11.4	1.0	7.8
Stocks under cvrg	**77,916**	**75,464**	**87,885**	**35.7**	**(3.1)**	**16.5**	**14.7**	**15.2**	**13.1**	**1.3**	**8.5**

Source: Bloomberg pricing, Maybank IBG Research

Coming back to the risk of further levies on the corporate sector to bridge fiscal revenue shortfalls, we note the government has updated its Medium-Term Fiscal Framework (MTFF; a framework that provides macro-fiscal projections for a three-year period by setting targets and ceilings for revenue, expenditure as well as the overall deficit). Per Fig 18 below, the 2023-2025 MTFF has been revised to reflect a broadly more subdued growth outlook vs. the 2022-2024 MTFF i.e. average real GDP growth at a lower 4.5% (from 5.5% in last year's MTFF) and average nominal GDP growth of 6.4% (vs. 7.7% previously). However, the underlying long-term target of reducing the budget deficit (as % of GDP) to 3.5% by 2025 remains intact despite the still-elevated 5.5% budget deficit projection for 2023F - aside from greater budgetary discipline anticipated over the 2023-2025 period, higher commodity prices will also help. The 2023-2025 MTFF expects average crude oil price at USD90/bbl - this compares to a significantly lower USD67/bbl for the 2022-2024 MTFF. The latter expectation means that petroleum-related revenues will remain a significant share of total fiscal revenues in 2023 i.e. per Fig 20, at around 22% (2022E: 27%, largely due to a bumper MYR50b PETRONAS dividend), notwithstanding PETRONAS 2023 dividend to be a lower MYR35bn (Fig 19).

The government is projecting, per Fig 17 below, sustained albeit slower growth in direct tax revenues in 2023F, absent 2022's low base effect and also reflecting sharply slower GDP growth forecast for 2023. While Budget 2023 did not make explicit mention of potential subsidy cuts (e.g. targeted subsidies for petrol) and/or tax broadening measures (e.g. GST), the Minister of Finance confirmed that, as announced in Budget 2022, the government intends to introduce the Fiscal Responsibility Act (FRA) to increase transparency and accountability of the country's fiscal management. We would expect the tabling of the Fiscal Responsibility Bill of 2022, likely after the general elections (GE15), to be accompanied by significant changes to the current subsidy and tax frameworks so as to strengthen the country's fiscal position vis-à-vis meeting its' deficit goals.

Fig 17: Federal Government Revenue 2021 – 2023

COMPONENT	RM MILLION			CHANGE (%)			SHARE (%)		
	2021	2022[1]	2023[2]	2021	2022[1]	2023[2]	2021	2022[1]	2023[2]
Tax revenue	**173,704**	**198,227**	**205,583**	***12.5***	***14.1***	***3.7***	***74.3***	***69.5***	***75.4***
Direct tax	130,116	147,206	152,392	*15.6*	*13.1*	*3.5*	*55.7*	*51.6*	*55.9*
of which:									
CITA	79,829	84,760	88,870	*59.5*	*6.2*	*4.8*	*34.2*	*29.7*	*32.6*
Individual	27,051	30,640	33,630	*-30.6*	*13.3*	*9.8*	*11.6*	*10.7*	*12.3*
PITA	11,570	19,302	16,189	*-9.4*	*66.8*	*-16.1*	*4.9*	*6.8*	*5.9*
Indirect tax	43,588	51,021	53,191	*4.1*	*17.1*	*4.3*	*18.6*	*17.9*	*19.5*
of which:									
SST	25,616	29,710	32,060	*-4.3*	*16.0*	*7.9*	*11.0*	*10.4*	*11.8*
Excise duties	10,241	10,720	11,970	*3.9*	*4.7*	*11.7*	*4.4*	*3.7*	*4.3*
Import duty	2,645	3,020	3,220	*12.7*	*14.2*	*6.6*	*1.1*	*1.1*	*1.2*
Export duty	2,057	2,200	1,450	*175.7*	*7.0*	*-34.1*	*0.9*	*0.8*	*0.5*
Non-tax revenue	**60,048**	**86,990**	**66,987**	***-15.0***	***44.9***	***-23.0***	***25.7***	***30.5***	***24.6***
of which:									
Licences and permits	10,578	13,330	13,788	*-3.2*	*26.0*	*3.4*	*4.5*	*4.7*	*5.1*
Investment income	35,018	63,442	42,710	*-24.0*	*81.2*	*-32.7*	*15.0*	*22.2*	*15.7*
Total revenue	**233,752**	**285,217**	**272,570**	***3.9***	***22.0***	***-4.4***	***100.0***	***100.0***	***100.0***
Share of GDP (%)	***15.1***	***16.7***	***15.0***						

1 Revised Estimate

2 Budget estimate excluding Budget 2023 measures

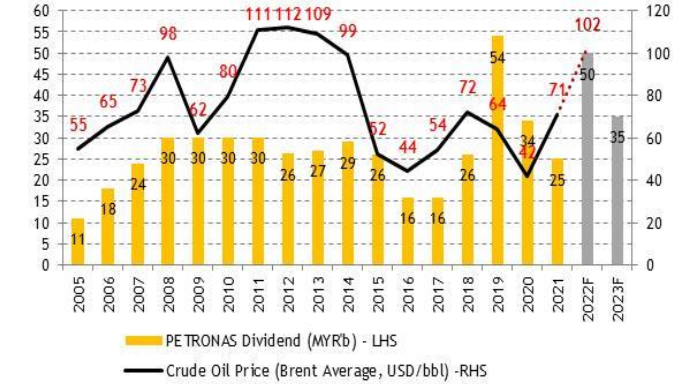
Source: MoF (Fiscal Outlook 2023)

Fig 18: Medium-Term Fiscal Framework (MTFF), 2023 – 2025

	2023 – 2025	
	RM BILLION	SHARE OF GDP (%)
Revenue	854.3	*14.7*
Non-petroleum	*699.5*	*12.0*
Petroleum-related	*154.8*	*2.7*
Operating expenditure	842.8	*14.5*
Current balance	**11.5**	***0.2***
Gross development expenditure	263.9	*4.5*
Less: Loan recovery	*1.9*	*0.0*
Net development expenditure	262.0	*4.5*
COVID-19 Fund[1]	5.0	*0.1*
Overall balance	**-255.5**	***-4.4***
Primary balance	**-106.4**	***-1.8***
Underlying assumptions:		
Average real GDP growth (%)	4.5	
Average nominal GDP growth (%)	6.4	
Average crude oil price (USD per barrel)	90	
Average oil production (barrels per day)	530,000	

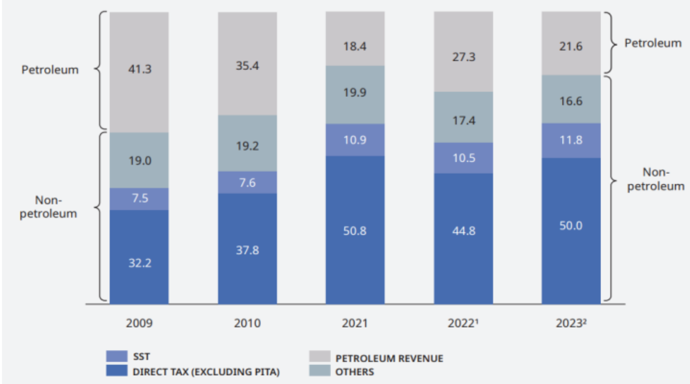
Source: MoF (Fiscal Outlook 2023)

Fig 19: PETRONAS: Dividends vs. crude oil price



Source: PETRONAS, Maybank IBG Research (chart)

Fig 20: Petroleum vs. Non-Petroleum related revenues (% of total revenue)



Source: MoF (Fiscal Outlook 2023)

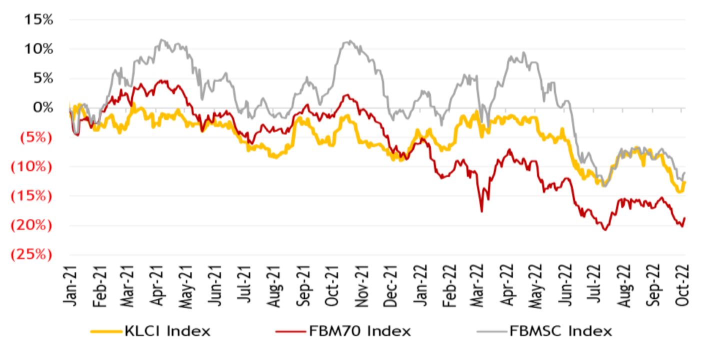
2.2 Maintaining a balanced portfolio positioning

As articulated in our recently-published 2H2022 Malaysia Equities Market Outlook report "*Storm Warning*", dated July 4, while the KLCI, and ASEAN benchmarks as a whole, have been relative outperformers YTD, macro challenges relating to surging inflation, sharply rising interest rates and growing recession risks that have weighed on developed markets are now catching up with this region. Continuing global asset price volatility, coupled with domestic factors such as weakening earnings outlook and political uncertainties relating to the outcome of pending general elections (GE15), has seen the KLCI struggle into 2H22 (Fig 21).

As evidenced in mixed 1H22 reporting, operating margin pressures have been rising across a broad range of sectors, underpinned by increasing labour and raw material input costs, while a damaging combination of rising inflation and interest rates are eroding disposable incomes, and hence demand, into 2H22. While resilient external demand and strong bank sector fundamentals are key market supports, the market will nonetheless continue to struggle to find traction in the face of broadening growth and earnings stresses / negative revisions stemming from an interrelated combination of margin squeeze (higher input costs) and weakening end-demand (eroding real disposable incomes and deteriorating external demand). Policy flip-flops in the past relating to subsidies have also raised market risk premium.

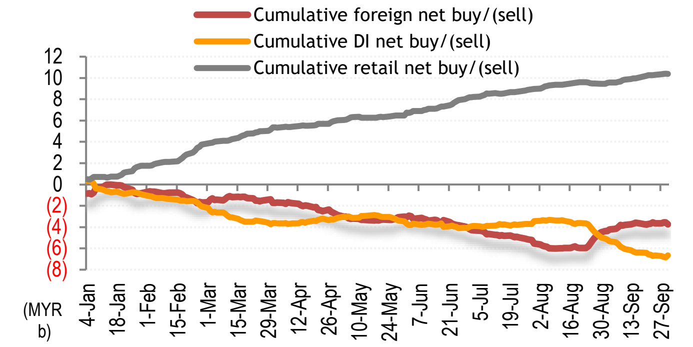
As such, per the "*Storm Warning*" report, we revised lower our end-2022 KLCI target to 1,500 (13.5x forward earnings, -1.5 SD vs. mean) vs. 1,710 (15x forward PER, -0.5SD vs. mean) previously, anticipating both negative earnings revisions into 2023 as well as a general de-rating of equity asset class multiples in the face of the sharp step-up in global interest rates. In terms of flows, per Fig 22, continued domestic institutional (DI) selling has been absorbed by a combination of net foreign as well as retail buying. For Jan-Sept 2022, DI's net sell was MYR8.9b (2021: net sell of MYR9b), and retail bought MYR2.3b (2021: net buy of MYR12.2b) – foreign net buy YTD to Sept is MYR6.6b (2021: net sell of MYR3.2b). Per Fig 23, across ASEAN, for Jan-Sept 2022, foreign flows were positive in Indonesia (+USD4.84b), Thailand (+USD4.52b) and Malaysia (+USD1.59b) but negative in the Philippines (-USD1.22b) and Vietnam (-USD0.03b).

Fig 21: Malaysia key indices, 2021 YTD (% gain/loss)



Source: Maybank IBG Research, Bloomberg

Fig 22: Cumulative foreign, domestic insti and retail net buy / (sell) in 2022 YTD (MYR b)



Source: Bursa Malaysia, Maybank IBG Research (chart)

Fig 23: Foreign net buy/(sell) across ASEAN (2020 to 2022-YTD)

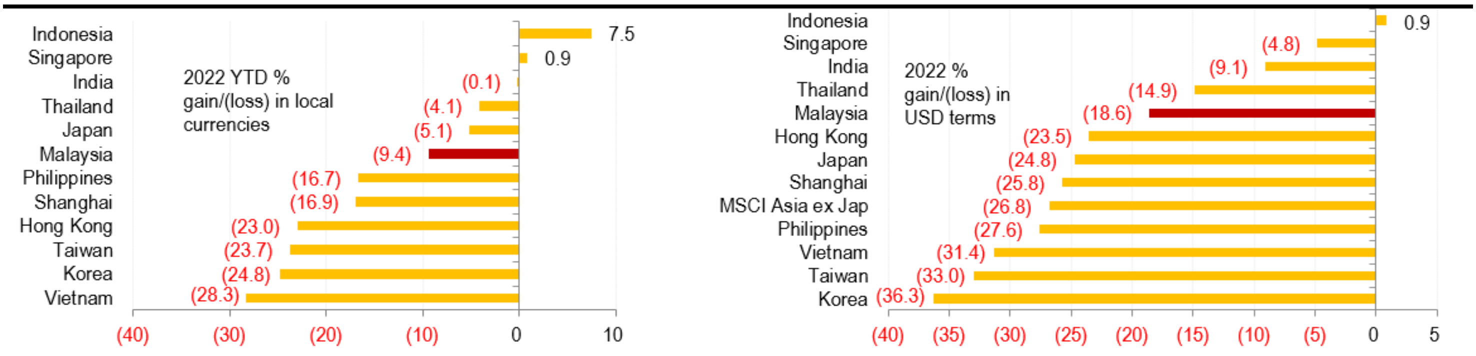
Monthly (USD mil)	Indonesia	Philippines	Thailand	Vietnam	Malaysia
Sep-22	209	(216)	(655)	(130)	(358)
Aug-22	508	(153)	1603	47	460
Jul-22	(150)	(80)	128	(18)	28
Jun-22	(501)	(207)	(841)	89	(291)
May-22	(243)	(350)	592	138	18
Apr-22	2,783	(99)	321	170	193
Mar-22	584	(204)	1,006	(174)	783
Feb-22	1,220	141	1,931	(16)	679
Jan-22	425	(56)	432	(131)	79
Dec-21	101	1,724	695	(130)	(271)
Nov-21	(214)	5	(324)	(383)	40
Oct-21	926	8	474	(234)	378
2021	2,688	(5)	(1,632)	(2,537)	(773)
2020	(3,220)	(2,513)	(8,287)	(674)	(5,811)

Source: Bloomberg, Bursa Malaysia, Maybank IBG Research (compilation)

From an ASEAN regional equity benchmark indices perspective, while not spared from de-rating headwinds, the entire region has nonetheless been a relative outperformer vs. developed market and North Asian counterparts (Fig 24), underpinned: by **i)** accelerating, broad economic reopening into 2022 as vaccination rates have surged, supporting corporate earnings and GDP recovery; **ii)** predominantly old economy-dominated equity markets that have seen their defensive/valuation attractions boosted by years of relative underperformance/deflated foreign ownership and, for Malaysia and Indonesia in particular, sizeable commodities-related weightings; **and iii)** a comparatively less aggressive multi-speed monetary policy normalization/tightening, supported by a range of ex-monetary (i.e. fiscal subsidies) policy interventions and measures to mitigate inflationary pressures. In particular, the global de-rating of growth / technology stocks in the face of sharply rising interest (discount) rates that has resulted in sharp declines in the US and North Asia, and the related switch into value stocks, has been a key lift for ASEAN benchmarks dominated by banks, utilities, telcos and consumer stocks. ASEAN also stands out positively within the broader emerging markets space for sound fiscal and monetary policy navigation through the pandemic years, including maintaining strong banking sectors, and relative insulation from the effects of surging energy and food prices.

The Indonesia and Singapore benchmarks have been particularly positive outliers within ASEAN in having been able to hold on to absolute gains YTD for much of 1H22. Indonesia is benefitting from a combination of steady economic recovery (absolute GDP has recovered to pre-pandemic levels, with 1Q22 GDP growth at +5.0% YoY) and surging prices for commodities (palm oil, coal, nickel, gas), while Singapore is supported by a combination of sharply-relaxed Covid-related restrictions, including with regards international travel, an attractively-priced and fundamentally-defensive equity market and leverage into secular themes such as sustainability/ESG investing and supply chain relocation into ASEAN.

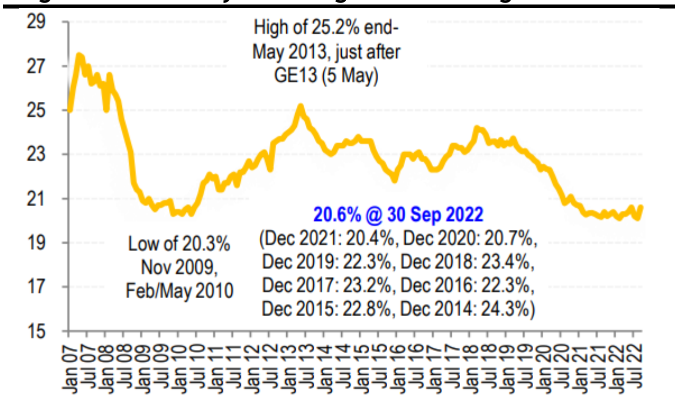
Fig 24: Asia market performance: country benchmark indices vs. MSCI Asia ex-Japan



Source: Maybank IBG Research, Bloomberg (as of 06 Oct)

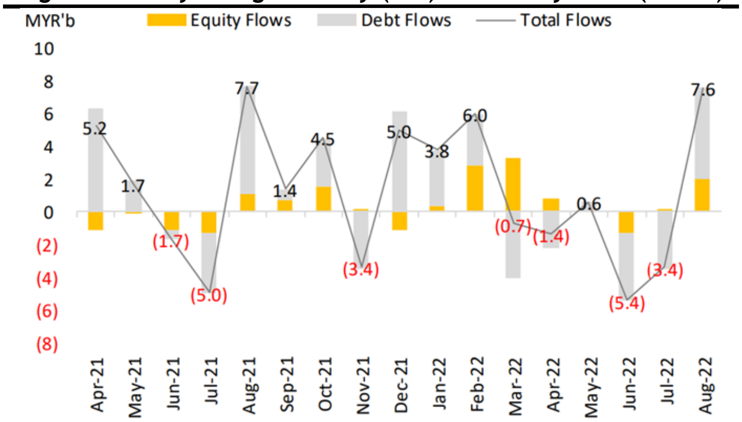
For Malaysia, returning foreign interest / net buying in the equity market means market foreign shareholding has shown recovery from recent lows, at 20.6% end-Sept 2022, +0.2ppts YTD (Fig 25). On the flipside, after an extended period of steady foreign net buying, the Ringgit fixed income market has experienced significant foreign selling / outflows YTD as US interest rate increases (+300bps YTD) have far outpaced hikes in Malaysia's Overnight Policy Rate (OPR; +75bps YTD). Per Fig 26, there was some respite in August when, after two months of selling, foreign funds turned net buyers with MYR5.6b inflows (July: net sell of MYR3.5b) amid the rally in global risk assets and relative stability compared to the wild swings in US Treasuries. This reduced YTD cumulative outflows from the Ringgit bond market to MYR1.2b., Foreign holdings of local bonds remains sizeable i.e. as at end-Aug 2022, foreign share of MGS was 36% while that of MGS + GII was 23.5%, for a combined value of c.MYR255b (c.USD55b).

Fig 25: Bursa Malaysia: foreign shareholding



Source: Bursa Malaysia, Maybank IBG Research (chart)

Fig 26: Monthly foreign net buy/(sell) since early-2020 (MYR b)



Source: BNM, CEIC

On ASEAN peer basket valuation comparison per Fig 27 below, notwithstanding a fairly resilient YTD performance, the historical average 20% PE multiple premium the Malaysian market used to command over regional peers is no longer obvious, while PB and dividend yield measures have become relatively attractive. The market's gradual structural de-rating is attributable to a combination of factors, in particular sustained foreign selling as Bursa Malaysia's weighing in benchmark global indices continues to decline, an erosion of Malaysia's historical policy and political stability premium, as well as uncertain medium-long term growth potential (i.e. middle-income trap concerns), the latter already an issue pre-Covid per the KLCI's negative earnings growth over 2018 and 2019 (and continuing in pandemic-impacted 2020). Current improving sentiment towards the KLCI as a defensive draw, underpinned by its aforementioned heavy 'old economy' financials and commodities weightings, has seen the performance gap vis-à-vis ASEAN peers narrow. However, without deeper structural economic reforms to facilitate new growth drivers, this narrowing is likely to be transient.

For a by-country rundown on 2022 equity market strategies and sector/stock positioning by MKE's regional country Heads of Research, please refer to our latest bi-monthly ASEAN+ Strategy publication, the most recent of which is dated Sept 30 ("*ASEAN+ Fortnightly: Highlights (19 - 30 Sept)*)".

Fig 27: ASEAN: regional market valuations

	Index	PER (x)		Growth (%)		ROE (%)		P/B (x)		Yield (%)	
		2022F	2023F	2022F	2023F	2022F	2023F	2022F	2023F	2022F	2023F
Malaysia	1,420	13.9	12.4	-1.7	11.8	10.2	11.2	1.4	1.3	4.3	4.6
Singapore	3,152	12.0	10.6	14.3	13.1	9.1	9.9	1.0	1.0	4.5	5.0
Indonesia	7,077	15.6	15.7	33.0	4.3	16.5	16.1	2.0	1.8	2.5	2.9
Thailand	1,589	15.0	14.4	11.2	4.7	8.9	9.3	1.6	1.5	2.9	3.1
Philippines	5,934	14.1	12.2	24.3	14.9	8.5	9.5	1.5	1.3	2.3	2.4
Vietnam	1,075	10.2	8.5	22.4	20.0	18.9	19.6	1.7	1.5	1.8	2.0

Source: Maybank IBG Research, MSCI, Bloomberg (as of 06 Oct)

A snapshot of recommended sector weightings is per Fig 28 below - recent sectoral developments of note post-our 2H2022 Malaysia Equities Market Outlook report "*Storm Warning*", dated July 4, and following 2Q22 reporting are:

- **Banks:** it was a good quarter for the sector, both in terms of immediate 2Q reporting, which were largely within-to-slightly-ahead of expectations, as well as earnings guidance. Broadly, most of the banks are revising up net interest margin (NIM) guidance on rising interest rates while moderating credit costs expectations as the economy recovers – the resulting earnings upside is only partially mitigated by weaker non-interest income (NOII) outlook as investment banking and treasury income softens. Retail lending giant **Public Bank** is maintaining its FY22 loan growth forecast of 5% but now guides for a larger NIM expansion of 8-10bps for FY22 (versus stable YoY before) as well as lower range re expected credit cost, now at 10-15bps (<20bps previously). Similarly, **RHB** raised its NIM guidance to 2.25-2.26% in FY22 (from 2.14%), and is also guiding for credit cost of about 30bps, from 30-40bps previously. **Hong Leong Bank (HLBK)** had a strong FY22 (June YE), with core profit ex-*Cukai Makmur* jumping 26% YoY; Fundamentals remain robust and we upgrade FY23-25E earnings by 5-6%.

  CIMB has upped its FY22 loan growth guidance to 6-7%, from 5.6% previously, while also expecting lower cost-income ratio of <48% (<49% previously) and credit cost (of 50-60bps, versus 60-70bps previously) – we upgrade the stock to BUY. **AMMB** posted similar, credit cost undershooting-related outperformance for its 1QFY23 results (March YE), prompting us to moderate credit cost forecasts and raise FY23/24/25E earnings by 7%/10%/13% respectively. Sector-minnow **Alliance Bank** struck a more neutral tone, maintaining its FY23E (March YE) NIM guidance of 2.5% due to concerns about a pick-up in deposit price competition but lowering credit cost guidance to 35-40bps, from 40-45bps previously. Our top picks in the sectors are HLBK, RHB and **Alliance Bank**, with AMMB looking to be a potential M&A candidate.

- **Consumer:** expectations that consumer sector 1H22 results would deliver a mix of reopening-driven revenue rebound and margin-suppressing cost inflation have generally come to pass. Consumer staples bellwether **Nestle** reported 1H22 revenue growth of a robust +18% YoY; however, gross profit margin declined 2.5ppts due to higher raw material costs, which are expected to extend into 2H22. Mass-market retailer **MR D.I.Y.** reported a stronger 20% YoY growth in 1H22 revenue, but a 1.7ppts decline in gross margin due to higher input and freight costs, which average product price hikes of c.5%-15% were unable to fully mitigate for. The brewers **Carlsberg** and **Heineken** positively bucked the trend, with both 1H22 revenue (+40% to +50% YoY) and margin expansion (4-5ppts) as rising operating leverage (helped by cost controls) overcame input cost pressures. Other consumer discretionary stocks which had a strong 1H22 include **Padini** (+28% growth in revenue, +7.8ppt expansion in EBIT margin, helped by better product mix) and **BFood** (June YE; FY22 revenue growth of 61% YoY, with +8.1ppts expansion in EBIT margin on improved product mix and lower operating expenses). Our top picks in the sector are **MR D.I.Y**, **BFood**, **Heineken**, **Farm Fresh** (slow start to FY23 for this consumer staple but expected to catch up; March YE) and **AEON** (1H22 revenue grew +11% YoY, while EBIT margin expanded +2.ppts, as mall footfall improved alongside better sales commission and tenant rental income).

- **Gloves:** recent results and guidance from the glove companies give us no reason to reverse our long-standing Underweight call on the sector; in fact, we continue to reduce earnings and target prices (TPs) as ASPs continue to undershoot and margin pressures mount. **Hartalega**'s 1QFY3/23 (March YE) results showed a whopping 96% YoY decline in earnings, with management guiding more bearishly on ASP outlook due to stiff competition (especially from aggressively ramping-up Chinese suppliers). At the same time, margins are also being pummeled by higher raw material, energy and labour costs, with the glove players unable to pass on the higher costs (as is traditionally the case) due to aforementioned competitive pressures. With ASP having resumed its downward trend since June 22 after stabilising in Apr-May 22, and industry average utilisation rate estimated to have dropped to 50%, from 70% in Apr-June 22, we continue to reduce earnings forecasts across the board. Additional downside risk would crystallise if the US cut import tariffs on Chinese goods - If the import tariff on gloves (7.5%) is being removed, industry ASP is expected to fall further as the Chinese glove makers would have more room to adjust their ASP in order to capture market share in the US. We have SELL ratings on all three stocks under coverage i.e. **Hartalega**, **Top Glove** and **Kossan**.

- **Gaming:** as articulated in Gaming sector update report "*Cut bets on NFOs but double down on casinos*", dated Sept 7, following the downgrading of **Sports Toto** and **Magnum** to HOLDs during the recent 2QCY22 results season on challenges to sales recovery from illegals NFOs, we have downgraded the NFO (Numbers Forecast Operator) subsector to NEUTRAL from POSITIVE. Yet, we still rate the gaming sector as POSITIVE as we maintain the larger casino subsector at POSITIVE, thanks to strong recoveries in sales – our picks here are **Genting (M) (GENM)** and parent **Genting**. For the NFOs, we estimate that the 2QCY22 NFO sales/draw of Sports Toto and Magnum only hit c.80%/c.70% of pre-COVID levels. We had expected a much stronger recovery in 2QCY22 because Malaysia had removed most COVID-19 related restrictions throughout 2QCY22. We posit 3 reasons why it will be difficult for sales of legal NFOs to recover to pre-COVID levels:- (i) current clamp down on illegal NFOs not as vigorous as when in 2019; (ii) illegal NFOs wrested market share during MCOs and maintained them; and (iii) departure of 2m foreign workers during the pandemic.

  Re casinos, operations of both GENM's Resorts World Genting (RWG) and GENS' Resorts World Sentosa took a positive turn in 2QCY22 as borders reopened, COVID-19 testing requirements were axed and COVID-19 related restrictions were gradually eased. Even GENT's Resorts World Las Vegas which had been struggling since opening on 24 Jun 2021 exhibited signs of a positive turnaround in 2QCY22. We expect the aforementioned positive momenta to continue for the rest of 2022 and 2023. In particular, we expect RWG 3QCY22 visitor arrivals to continue recovering after it made available another c.1,600 rooms (thanks to additional labour) to c.7,600 rooms out of its total room inventory of c.10,000 rooms in end-Jul 2022 to be 'comp-ed' to members. We would not be entirely surprised should RWG 3QCY22 visitor arrivals actually hit 100% of pre-COVID levels (i.e. 6.0m visitor arrivals).

Fig 28: Recommended sector weightings

Overweight	Neutral	Underweight
Automotive	Construction	Healthcare (Gloves)
Aviation	Consumer	
Gaming (Casinos)	EMS	
Healthcare (Hospitals)	Gaming (NFOs)	
Large-cap Oil & Gas	Large-cap Banks	
Mid-cap Financials / Banks / Insurers	Media	
Petrochemicals	Mid-cap Oil & Gas	
Renewables	Plantations	
Technology (Semicon)	Ports & Shipping	
Technology (Software)	Property	
	REITs	
	Telcos	
	Utilities	

Source: Maybank IBG Research

With regards broad market themes of note, we flag the following:

- **Reopening/Mobility:** economic reopening / ending of lockdowns has normalised intra-country people movement to pre-pandemic levels, while the subsequent relaxation of international borders into 2Q22 has seen a rebound in air traffic albeit from a depressed base. The rebound in domestic mobility benefits the broad economy, particularly consumption-linked sectors such as consumer/retail (e.g. MRDIY MK, AEON MK, BFOOD MK, MNHB MK) and retail REITs (e.g. PREIT MK) where footfall is recovering even as rental rebates decline. Other beneficiaries of greater intra-country worker mobility and easing operating restrictions include the property construction/building material (GAM MK), auto/transport (BAUTO MK) and leisure (GENM MK) sectors. Reopening of internal borders will most directly benefit the aviation sector, especially airport operators (MAHB MK) and an entrenched regional, volume-driven airline like AAGB MK (Capital A). Tourism proxies will also gain, including hotels/leisure (GENT MK) and hospital groups that benefit from medical tourism (IHH MK, KPJ MK).

- **Inflation:** While rising cost pressures is resulting in margin pressures across multiple sectors, winners in an inflationary environment with sustained growth would include commodities exposures such as oil & gas (PCHEM MK, YNS MK, HIBI MK) and palm oil (KLK MK), consumer staples where demand is relatively inelastic and pricing power is strong (FFB MK, BFOOD MK), consumer brands that benefit from down trading as real disposable incomes / affordability is eroded (MRDIY MK, PAD MK), banks from the perspective of higher inflation leading to higher interest rates, which are good for net interest margins (RHBBANK MK, ABMB MK) and green energy stocks as transition plans accelerate in the face of surging energy prices (SOLAR MK, CYP MK). A key loser from eroding real disposable incomes is consumer discretionary stocks where demand is elastic and pricing power weak. If GDP growth is increasingly under pressure i.e. stagflation scenario, a more defensive approach via utilities (GMB MK, T MK) and healthcare (IHH MK, KPJ MK) is warranted.

- **Interest Rates:** With ASEAN rate hikes, including Malaysia, likely to lag the Fed, and China's unwavering zero-Covid strategy, regional currencies are set to remain under pressure vs. the USD - this is a boon for local-cost exporters, especially the tech and manufacturing sectors, but a margin squeeze for importers of USD inputs (e.g. commodities, auto parts, media content). Per our interest sensitivity analysis, most sectors will see earnings drag from higher finance costs, especially property/REITs-centric leveraged operating models. However, sectors that are enjoying both an interest income uplift stemming from net cash balance sheets and FX tailwind given USD-exports are petrochemicals (**PCHEM MK**) and technology (**INRI MK**, **VITRO MK**, **FRCB MK**).

Re our Top BUYs (Fig 29), we flag the following recent notable initiations/rating changes, as well as deletions and additions vis-à-vis top picks recommendations:

Notable initiations/rating changes:

- **Optimax Holdings (OPTIMAX MK):** we initiate coverage of Optimax, the largest private pure-play provider of eye specialist services listed in Malaysia, with a BUY rating. As articulated in initiation of coverage report "*A safe haven amid volatility*", dated July 28, Optimax offers a diverse array of eye specialist services and has the broadest geographical presence in Malaysia with 13 specialist centres. Optimax is currently expanding its network of eye specialist centres, with plans to open a new ambulatory care centre ("ACC") in Bahau, Negeri Sembilan and a new eye specialist hospital in Kempas, Johor - these expansions will be financed by its net cash position and steady cash flows. We are also positive on Optimax's long-term growth prospects following its MOU with Selgate Group of Hospitals to establish eye specialist facilities in its hospitals. The stock is currently listed on the ACE Market of Bursa Malaysia but is expected to transfer to the Main Market by 4Q22.
- **Pintaras Jaya (PINT MK):** we initiate coverage of Pintaras, a leading piling and foundation specialist with a multi-decade track record, with a HOLD rating. As articulated in initiation of coverage report "*Building solid foundations*", dated Aug 4, Pintaras undertakes a hands-on approach, minimising subcontracting to 3rd parties, to ensure quality and efficiency. The company maintains a sizeable fleet of top-range equipment - drilling rigs, crawler cranes, vibro-hammers, etc. - offering a diverse range of geotechnical works. It has completed c.MYR2.75b of works since 2000, with key clients including the Malaysian government and prominent property developers. Pintaras entered Singapore (SG) in 2018. SG is now the main driver; it has contributed c.80% to group revenue since FY19 and our Economics Team expects SG's construction sector recovery in 2022-23 to be quicker than MY's. We forecast weaker core net profit in FY22E (-40% YoY) and flattish growth in FY23E (+2% YoY) on the expectation construction costs will stay elevated. Positively, its high cash (+ near cash) level above working capital needs (at 35% of the stock's current market value), should provide support amid the challenges posed by rising costs.
- **Ranhill Utilities (RAHH MK):** we initiate coverage of Ranhill, the exclusive water source-to-tap operator in the state of Johor, with a BUY rating. As articulated in initiation of coverage report "*An asymmetrical tariff play*", dated Aug 17, the lack of a tariff hike in recent operating periods has resulted in significant earnings pressure at RSAJ and thus the group. The Federal Government had, in June 2022, approved an average MYR0.25/m3 tariff hike for non-domestic users effective 1 Aug 2022. We assume an average hike of MYR0.15/m3 (+4.6%) for Johor non-domestic users from Jan 2023, culminating in a 2.5% increase in overall tariff. Along with volume recovery, we forecast a more than doubling of FY23 net profit. Ranhill has historically been active with pursuing new opportunities, with a notable recent success being the 50MW LSS4 solar plant. Ranhill is pursuing a water source-to-tap project in 3 areas of Jawa, Indonesia. It has submitted a tender for the development of a new 100MW gas-fired plant in Sabah (targeted 2025 commissioning). Talks are also underway with the EC for a 75MW solar farm in Kluang, Johor to partially power

RSAJ's operations. Finally, we assume a 2sen annual DPS beginning FY22 (implying c.5% yield), with potential upside risk post RSAJ's tariff hike.

- **Swift Haulage (SWIFT MK):** we initiate coverage of Swift Haulage, a leading integrated logistics service provider, operating in segments such as container haulage, land transportation, warehousing & container depot and freight forwarding, with a BUY rating. As articulated in our initiation of coverage report "*Proxy to the growing demand for logistics services*", dated Sept 27, the demand for supply chain logistics has increased significantly (also accelerated by the pandemic), partly driven by the rise of e-commerce, coupled with the trend towards supply chain integration by global businesses to establish a resilient and reliable fulfillment system. Swift is well-positioned in the market (with its asset-owning business model) to ride these tailwinds, with the group's near-term growth underpinned by its recent capacity expansion, ie. the addition of 30 new prime movers, ongoing warehouse expansion, and new venture into cold chain logistics. Longer-term, Swift will focus on its strengths (e.g. vast network of coverage, high operational efficiencies) to grow its business via M&A, wallet share increase, and capitalising on its strategic vacant land banks to generate returns. We are projecting core net profit to grow by a 3- year FY21-24E CAGR of 11% - at current price, Swift is trading at almost 50% discount to the industry's median historical PER of 14.3x.

- **IOI Corp. (IOI MK):** as articulated by plantations sector analyst Chee Ting in his FY22 (June YE) results review note ("*A strong finish for the year*", dated May 27), FY22 core PATMI was above our expectations (within street estimates) on better-than-expected downstream and associate contributions. Following the weaker-than-expected FFB output in FY22 (-7% YoY) on severe labour shortage in Malaysia, we cut our FY23E absolute output by 3.8% (which still implies a 5.7% YoY rebound in output as we expect foreign workers to return to Malaysia in the coming months). Overall, we trimmed FY23E EPS by 2%. In general, with rising cost pressures (ie higher fertiliser and labour costs) and recent low CPO price, we expect IOI to deliver softer YoY upstream and downstream earnings in FY23E. Hence, we downgrade our rating to HOLD; our preferred large-cap exposure to the sector is KLK.

- **CIMB Group (CIMB MK):** as articulated by banks sector analyst Desmond Ch'ng in his 2Q22 results review note ("*2Q22 results within expectations*", dated August 31), overall prospects for the regional franchise have improved and we expect CIMB to be able to achieve a higher ROE of 10.4% in FY23, vs. FY22E ROE of 9% (which is at the lower end of management's target of 9-10%). Loan loss provisioning is undershooting, loan growth has picked up momentum to 5.9% YoY while NIM improved 2bps QoQ. Against its earlier guidance, management now guides for FY22 loan growth of 6-7% from 5.6%, NIM expansion of about 5bps (unchanged), cost/income ratio of <48% (<49% previously), and credit cost of 50-60bps, versus 60-70bps previously. Our forecasts for FY22/23/24E are raised by 3%/7%/10% respectively on lower, but still elevated, credit cost assumptions of 60/50/50bps for FY22/23/24E respectively. Our TP is correspondingly raised to MYR6.20 from MYR5.70, pegging on a higher FY23E PBV of 1x (FY23E PBV of 0.9x, ROE: 9.8% previously). Upgrade to BUY, 4.8% FY22E dividend yield is decent.

- **Mynews Holdings (MNHB MK):** as articulated by consumer sector analyst Jade Tam in her upgrade report "*Recovery in sight*", dated Sept 28, when the stock was upgraded to BUY (from HOLD), MNHB's 3QFY22 results were above ours and consensus expectations with a narrowed net loss owing to stronger-than-expected sales volume. Although we expect 4QFY22 to remain in the red, we believe the group will turn profitable from FY23 onwards as its FPC breaks-even and GP margin improves with higher CU store contribution. Management's key focus in the near-term will be to launch new fresh food/RTE offerings in stores while monitoring product wastage rates closely to avoid potential cost overruns. With labour shortages alleviated for its FPC operations, its plant utilisation rate could potentially rise to 80%-90% by 1QFY23 (3QFY22: c.60%) which is above its break-even utilisation rate of 70%. The group also intends to double the number of RTE SKUs produced whilst extending its RTE food offering to a wider network of stores going forward. In sum, we expect MNHB's FY23 earnings (Oct YE) to return to the black given expectations for its FPC to breakeven and potential margin expansion from better product mix.

- **V.S. Industry (VSI MK):** as articulated by EMS sector analyst Yan Jin in her upgrade note "*Results exceed expectations*", dated Sept 28, with FY22 results coming in ahead of expectations, coupled with the easing of pandemic-led disruptions (i.e. labour and raw material shortages), we upgrade the stock to BUY (from HOLD). Operations are slowly recovering with the arrival of foreign labour and normalising supply chain, and despite headwinds from decelerating global economic growth, VSI is maintaining its c.+25% YoY sales growth guidance, mainly driven by strong orders from Customer X (supported by customers' robust demand with healthy visibility and new models win) and growth from Customer Y (from low base), to cushion the slowdown in demand from USbased customer, coffee brewer and pool cleaning customer on weak consumer sentiment. Other key developments to monitor include **(i)** Customer X's sales/restocking momentum (year-end Black Friday sales in the West/Asia's 11-11 sales could be a good "health check" for Customer X's products demand); **(ii)** any potential wins of new models from Customer X (on the watch out for potential inorganic gains to cushion the overall consumer demand slowdown impact); **(iii)** key customers' utilisation rate (ie. breaching the minimum optimal level will lead to diseconomies of scale and compress margin further); **and (iv)** inventories stock level.

Deletions:

- **Greatech Technology (GREATEC MK):** as articulated by technology sector analyst Anand Pathmakanthan in his results review note ("*2Q22: Supply chain woes far from over*", dated Aug 29), 1H22 results undershot as supply chain/inflation-induced pressures continued to squeeze GREATEC's historically vaunted margins. With few tangible signs of supply chain disruptions easing in the near-term, and notwithstanding management's expectations of alleviating margin pressures in 2H22, we have reduced FY22/23E estimates by -28%/-9% but keep FY24E unchanged. We also D/G the stock to a HOLD, pegged to 26x FY23 PER, at -0.5SD to the LT mean (from 32x FY23 PER, at the LT mean) on account of material project delivery risks and a tempered valuation premium as the Fed turns increasingly hawkish on inflation. Our revised TP is now MYR3.90 (-26%). We prefer **Frontken**, **Inari** and **Vitrox** in the MY tech (hardware) sector.

Additions:

- **Dialog Group (DLG MK):** as articulated by oil & gas sector analyst Thong Jung (TJ) in his results review update ("*4Q22 came in below, stronger FY23 outlook*", dated Aug 19), FY22 came in below, dragged down by higher QoQ losses at its SG downstream EPCC ops in 4Q22. This is a minor blip, as the project is nearing completion. Overall, we expect a stronger FY23 (+20% earnings growth), fuelled by the maiden contribution from its 100%-owned producing, upstream, onshore oil field in TH; Pacific Orient Energy Corp (POEC) from 1Q23. Developing Pengerang to its full potential remains its key long-term growth driver. Its Phase 3 project (earmarked for long-term downstream/ dedicated terminals ops) is gaining traction post pandemic and will anchor the Group's growth over the next 10-15 years. Dialog has been actively engaging with multiple prospects (post-pandemic) to invest there. We remain positive of its operating/financial strength, with the balance sheet now barely geared, and well-recognised management acumen.

Fig 29: Malaysia: Stock Recommendations

Stock	BBG Code	Mkt. cap (MYRm)	Rec.	Price (MYR)	TP (MYR)	Upside (%)	PER (x) 2022E	PER (x) 2023E	P/B (x) 2022E	P/B (x) 2023E	ROE (%) 2022E	ROE (%) 2023E	Div. Yield (%) 2022E	Div. Yield (%) 2023E
Large caps														
Petronas Chemicals	PCHEM MK	69,120	Buy	8.64	11.20	29.7%	11.0	11.1	1.8	1.7	16.5%	15.1%	4.6%	4.5%
Hong Leong Bank	HLBK MK	45,089	Buy	20.80	23.60	13.5%	12.7	11.8	1.4	1.3	10.9%	12.0%	2.7%	3.0%
Axiata Group	AXIATA MK	24,962	Buy	2.72	4.50	65.5%	19.6	15.7	1.4	1.4	7.0%	8.6%	4.3%	5.4%
RHB Bank	RHBBANK MK	23,925	Buy	5.68	7.10	25.0%	9.6	8.0	0.8	0.8	8.6%	9.8%	5.2%	6.2%
Kuala Lumpur Kepong	KLK MK	22,318	Buy	20.70	28.10	35.7%	10.1	14.7	1.7	1.7	17.1%	11.2%	5.3%	4.1%
Telekom Malaysia	T MK	20,643	Buy	5.45	7.80	43.2%	15.1	13.8	2.5	2.3	16.7%	16.7%	3.3%	3.6%
MR D.I.Y. Group (M)	MRDIY MK	19,137	Buy	2.03	2.70	33.0%	35.5	29.2	14.1	12.1	42.6%	44.4%	1.8%	2.2%
Genting Malaysia	GENM MK	15,749	Buy	2.78	3.27	17.6%	38.9	12.4	1.2	1.1	3.0%	9.2%	3.2%	7.2%
Dialog Group	DLG MK	11,454	Buy	2.03	4.90	141.4%	23.7	18.7	2.2	1.9	10.1%	11.1%	1.6%	2.0%
Gamuda	GAM MK	10,312	Buy	3.98	4.40	10.6%	11.4	14.1	1.0	1.0	8.1%	17.0%	3.2%	12.9%
Inari Amertron	INRI MK	9,585	Buy	2.57	4.14	61.1%	25.0	21.0	4.0	3.9	15.6%	18.5%	3.8%	4.8%
Malaysia Airports	MAHB MK	9,408	Buy	5.67	7.25	27.9%	nm	18.6	1.6	1.6	nm	8.4%	0.0%	2.8%
Heineken Malaysia	HEIM MK	7,190	Buy	23.80	27.70	16.4%	20.3	19.1	16.7	15.9	82.3%	83.1%	4.9%	5.2%
ViTrox Corp	VITRO MK	6,971	Buy	7.38	8.80	19.2%	33.0	29.1	8.0	6.6	24.1%	22.8%	0.8%	0.9%
Yinson Holdings	YNS MK	6,236	Buy	2.15	4.05	88.4%	17.3	11.4	3.0	1.3	16.7%	11.7%	0.9%	1.0%
Alliance Bank	ABMB MK	5,651	Buy	3.65	4.50	23.3%	10.2	8.4	0.9	0.8	9.0%	9.9%	4.9%	5.9%
Frontken Corp.	FRCB MK	4,246	Buy	2.70	3.55	31.5%	33.2	29.0	7.9	7.8	23.9%	26.9%	1.5%	1.7%
Mid-small caps														
CTOS Digital	CTOS MK	3,072	Buy	1.33	1.94	45.9%	35.2	30.0	5.6	5.4	16.7%	18.0%	1.5%	1.8%
Mega First Corp.	MFCB MK	3,072	Buy	3.25	4.30	32.3%	8.0	7.9	1.1	1.0	14.1%	12.9%	2.3%	2.6%
Axis REIT	AXRB MK	3,036	Buy	1.85	2.12	14.6%	17.9	16.7	1.2	1.2	6.7%	7.2%	5.0%	5.4%
Farm Fresh	FFB MK	2,954	Buy	1.59	1.95	22.6%	37.2	29.1	5.0	4.4	19.5%	15.9%	0.7%	0.9%
Allianz Malaysia	ALLZ MK	2,385	Buy	13.40	16.75	25.0%	7.3	6.7	1.0	0.9	10.5%	10.2%	4.7%	4.7%
Bermaz Auto	BAUTO MK	2,230	Buy	1.92	2.90	51.0%	13.2	9.6	3.2	2.9	24.5%	30.3%	4.9%	6.8%
Hibiscus Petroleum	HIBI MK	1,972	Buy	0.98	1.90	93.9%	6.0	3.5	0.9	0.6	30.2%	17.6%	2.0%	0.0%
AEON Co. (M)	AEON MK	1,909	Buy	1.36	2.35	72.8%	15.6	14.5	1.1	1.0	6.9%	7.1%	2.9%	2.9%
Berjaya Food	BFD MK	1,500	Buy	0.86	1.24	45.0%	11.8	13.8	3.1	2.7	25.3%	19.4%	1.3%	1.4%
Aurelius Technologies	ATECH MK	670	Buy	1.87	2.07	10.7%	31.8	19.4	3.8	2.7	15.6%	15.2%	0.0%	1.0%
Cypark Resources	CYP MK	259	Buy	0.44	1.01	129.5%	4.8	4.2	0.3	0.2	5.4%	5.7%	0.0%	0.0%

Source: Maybank IBG Research, FactSet, Bloomberg (as of 06 Oct)

As articulated in our 123-page Malaysia ESG Compendium entitled "*Sustainability: No longer optional*", dated April 8, 2021, the MKE equity research team across ASEAN (30+ analysts covering over 200+ stocks) has been publishing one-page ESG tear sheets for companies under coverage since mid-2020. As at end-2021, all of Maybank Investment Bank (MIB)'s ASEAN equity research coverage, spanning across all sectors, now comes with a qualitative-centric ESG tear sheet insert (ESG 1.0; Fig 30) that outlines key E, S and G considerations for the company, and how these feed into the company's core business model in terms of recognition of material ESG issues and strategies on addressing related risks and opportunities.

Since 2Q21, these qualitative tear sheets have included a quantitative scoring element for a more complete consideration of the company's ESG issues and dynamics, hence providing both a backward looking/current quantitative view and a forward-looking, MKE analyst-driven qualitative outlook. The quantitative ESG inputs are sourced from Sustainalytics which, as mentioned, is a leading external ESG research and data provider that the MKE group has partnered with for ESG services that range from company-focused ESG ratings reports, through to portfolio ESG and carbon analytics. Sustainalytics also acts as the data source for other service providers such as Morningstar (ESG fund ratings and indices) and FTSE Russell (ESG ratings and customized indices, including FTSE4Good indices).

Most recently, in parallel with the publication of the maiden Regional Utilities report ("*Geopolitics accelerating transition to renewables*", dated April 24) by the newly-established MIBG Sustainability Research Team based in India, we have launched our own proprietary ESG scoring model per the addition of a quantitative-focused tear sheet (ESG 2.0, example per Fig 31 below), with the target being to roll out ESG 2.0 to all ASEAN big-caps coverage (>USD1b market cap) by end-2022. Re methodology, we evaluate the ESG ratings based on quantitative, qualitative and ESG targets. We assign a score for each of these three parameters. The overall rating is based on the weighted average of the scores: quantitative (50%), qualitative (25%) and ESG target (25%).

For the quantitative, qualitative and ESG target, the sub-parameters are assigned a score - '0' for data not available, '+1' for improving trajectory, positive change, 'Yes', better than peers or a positive number if historical is not available and '-1' for declining trajectory, negative change, 'No', lower than peers or a negative number. The total of the scores of all the sub-parameters is divided by the total number of sub-parameters is the score of each of the three parameters. The sub-parameters may be different for different industries depending on the key areas to monitor for each industry. A company should achieve a minimum score of 50 for an average ESG rating.

Fig 30: PChem Tear Sheet: Qualitative (Original ESG 1.0)

Petronas Chemicals

ESG@MAYBANK IBG

anand.pathmakanthan@maybank-ib.com

Risk Rating & Score[1]	28.0 (Medium)
Score Momentum[2]	+1.1
Last Updated	07 Dec 2021
Controversy Score[3] (Updated: 30 Nov 2021)	0 - No reported incidents

Business Model & Industry Issues

- As an integrated chemicals producer, PCHEM's biggest ESG challenge lies in the negative sentiment surrounding single-use plastics. However, we note that its single-use plastic capacity is only <5% of its total capacity and PCHEM is actively expanding its bio-friendly product portfolio. Meanwhile, much of the world's recyclable plastics end up in landfills/oceans due to low recycling rates. Hence, via its New Plastic Economy (NPE) initiatives, PCHEM hopes to raise awareness amongst the local communities whilst simultaneously investing in infrastructure to enable recycling initiatives in the future.
- PCHEM primarily uses natural gas as its fuel, which is the cleaner option. Its key 2024 targets include: (i) capping GHG emissions at 6.98 million tonnes (2021: 7.0 million tonnes) and (ii) increasing its waste recycling (3R) rate to 82% (2021: 75%).
- We are positive on the sector's long-term growth as we believe the demand for plastics will remain robust given that there is no real alternative.
- PCHEM also scores above-average in our proprietary scoring methodology (see Pg. 3) with an overall score of 69/100.

Material E issues

- Energy intensity was 15.76 GJ/T in 2021 (2020: 15.73 GJ/T), representing a 11% reduction against the baseline in 2014. It had achieved its 10% reduction target in 2020.
- GHG emission intensity increased to 0.67 tonne CO_2e/tonne (+2% YoY). Its target is to cap its Scope 1/2 emissions at 6.92 million tonnes by 2024 (FY21: 7.0 million tonnes).
- In 2021, its freshwater withdrawal intensity was up to 3.69m^3/tonne (+5% YoY), while its wastewater discharge was lower at 171.4 tonnes (-4% YoY) due to lower discharge from plant turnarounds and ongoing improvements. PCHEM is currently in the midst of setting water reduction targets.
- PCHEM's hazardous waste recycling (3R) rate was 75% in 2021 (2020: 85%) - It has a formal target of increasing and maintaining the 3R rate to 82% by 2024.
- Its SO_x emissions were markedly lower in 2021, with a YoY reduction of 21%. Overall emissions intensity (inc. NO_x) was however up 10% YoY in 2021 from higher flaring activities.
- PCHEM aims to recover plastic waste that is the equivalent of 100% of its domestic polymer sales volume by 2030.

Material S issues

- Recorded a third straight year of zero fatalities across its scope of operations in 2021.
- Lost time injury frequency (LTIF) halved YoY to 0.07 incidents per million man-hours in 2021 (2020: 0.14).
- Women made up only c.17% of its workforce in 2021 as its manufacturing ops workers are mostly male. Encouragingly, 1/4 hires were female in FY21 while female representation at Senior Mgmt/Mgmt Committee level was 25%/36% respectively.
- Its CSR initiatives' (e.g. *ecoCare*, *Be Green*, *Back To School*) reach was 295,000 people in 2021 (2020: 70,000). It has set itself a new target to reach 1 million people by 2024.

Key G metrics and issues

- As of 31 Dec 2021, the Board had a total of 8 Directors, out of which, 4 (or 50%) were Independent Non-Executive Directors (INEDs).
- The Board has 2 female Directors, representing 25% of the Board's composition (lower than the minimum of 30%). PCHEM is considering hiring another female Director within a year in order to achieve the minimum target of 30%.
- PCHEM's major shareholder is PETRONAS, which holds a 64.4% equity stake. PETRONAS has 4 Directors on the Board (or 50% of the Board's composition).
- Datuk Md Arif Mahmood was the Non-Independent Non-Executive Chairman and also represents PETRONAS. His remuneration package was MYR326,500 in 2021. However, as a PETRONAS appointee, the remuneration was paid to PETRONAS instead.
- The Top 5 Senior Management (MD/CEO, CFO, Chief Manufacturing Officer, Chief Commercial Officer and Head of Strategic Planning and Ventures) are seconded from PETRONAS. Their remuneration packages are benchmarked against the industry but PCHEM does not disclose the remuneration amounts as it is subject to the Personal Data Protection Act (PDPA) 2010.
- KPMG PLT is the external auditor and has served PCHEM for more than 10 years.
- PCHEM has numerous related party transactions (RPTs) with PETRONAS as the businesses are inter-related. PETRONAS explores and produces gas while PCHEM uses the gas as feedstock and fuel to produce a wide range of chemical products. In FY21, the largest RPT was for the purchase of processed gas and natural gas from PETRONAS, which amounted to MYR3.8b (or 36% of its COGS in FY21). Transactions with Government related entities are also considered RPTs as the ultimate holding company of PCHEM and PETRONAS is the Government of Malaysia. Examples of these RPTs include the purchase of electricity from Tenaga Nasional (TNB MK, HOLD, TP: MYR9.30) and sale of petro-chemical products to Pertubuhan Peladang Kebangsaan.

[1]*Risk Rating & Score* - derived by Sustainalytics and assesses the company's exposure to unmanaged ESG risks. Scores range between 0 - 50 in order of increasing severity with low/high scores & ratings representing negligible/significant risk to the company's enterprise value, respectively, from ESG-driven financial impacts. [2]*Score Momentum* - indicates changes to the company's score since the last update - a negative integer indicates a company's improving risk score; a positive integer indicates a deterioration. [3]*Controversy Score* - reported periodically by Sustainalytics in the event of material ESG-related incident(s), with the impact severity scores of these events ranging from Category 0-5 (0 - no reports; 1 - negligible risks; ...; 5 - poses serious risks & indicative of potential structural deficiencies at the company).

Source: Company, Maybank IBG Research (Tear Sheet)

Fig 31: PChem Tear Sheet: Quantitative (Expanded ESG 2.0)

Petronas Chemicals

ESG@MAYBANK IBG

Quantitative parameters (Score: 39)

	Particulars	Unit	2019	2020	2021	TPIA IJ (2021)
E	Scope 1 GHG emissions	m tCO2e	5.73	5.77	5.67	1.96
	Scope 2 GHG emissions	m tCO2e	1.29	1.33	1.33	0.47
	Total	**m tCO2e**	**7.02**	**7.10**	**7.00**	**2.43**
	Scope 3 GHG emissions	m tCO2e	N/A	3.06	3.27	N/A
	Total	**m tCO2e**	**7.02**	**10.16**	**10.27**	**N/A**
	GHG intensity (Scope 1 and 2)	tCO2e/t	0.68	0.66	0.67	0.63
	Energy intensity	GJ/ton	15.37	15.73	15.76	11.43
	Share of renewable energy use in operations	%	N/A	N/A	N/A	N/A
	Wastewater discharge (chemical O_2 demand)	tonnes	153.7	177.8	171.4	22.7
	Hazardous waste 3R rate	%	70%	85%	75%	98%
	Air emissions intensity	ton/kT	2.83	2.21	2.42	N/A
	NPE (New Plastic Economy) investments	MYR m	8	3	3	N/A
	Cases of environmental non-compliance	number	0	0	0	N/A
S	% of women in workforce	%	17.4%	17.2%	17.3%	15.2%
	% of women in management roles	%	30.8%	30.2%	21.9%	21.3%
	Lost time injury frequency (LTIF) rate	number	0.08	0.14	0.07	0.11
	Lives impacted by CSR outreach ('000)	number	20	70	295	N/A
G	MD/CEO salary as % of reported net profit	%	N/A	0.10%	0.02%	N/A
	Board salary as % of reported net profit	%	0.06%	0.21%	0.04%	N/A
	Independent directors on the Board	%	50%	50%	50%	33%
	Female directors on the Board	%	25%	25%	25%	0%

Qualitative Paramaters (Score: 100)

a) is there an ESG policy in place and whether there is a standalone ESG committee or is it part of a risk committee?

Yes - as of FY21, it has an established framework and a working sustainability committee that reports quarterly to the Board.

b) is the senior management salary linked to fulfilling ESG targets?

Yes - in FY21, sustainability KPIs were introduced in top management performance appraisals.

c) Does the company follow the task force of climate related disclosures (TCFD) framework for ESG reporting?

Yes

e) Does the company have a mechanism to capture Scope 3 emissions - which parameters are captured?

Yes - purchased goods and services (Cat. I) and use of sold products (Cat. II); calculated using Simplified IPCC Tier 1 method.

f) What are the 2-3 key carbon mitigation/water/waste management strategies adopted by the company?

It has a framework to reduce 20%/80% of emissions by 2030/40 based on the 2020 baseline, in line with its 2050 NCZE aspiration. It conducted a feasibility study with a private firm to turn non-recyclable plastic waste into crude naphtha and also invested MYR40m in a plant that produces Bio-MEG from palm biomass. To reduce air emissions, it utilises UHPM fuel cell applications (24% lower CO_2 emissions) while for water mgmt, it deployed mobile reverse osmosis tech to reduce raw water consumption by 16% and has invested MYR3m in an automated water quality management system powered by renewable energy.

g) Does carbon offset form part of the net zero/carbon neutrality target of the company?

Yes

Target (Score: 100)

Particulars	Target	Achieved
Reduce Scope 1 & 2 GHG emissions (tonnes) by 2024	6.98	7.00
Reduce energy intensity (GJ/tonne) vs 2014 baseline	10%	11%
Recover plastic waste from total MY polymer production volume by 2030	100%	N/A
Increase hazardous waste 3R (reduce, reuse, recycle) rate by 2024	82%	75%
Increase number of people reached by CSR outreach initiatives ('000)	1,000	295
Reduce 2030/40 carbon emissions vis-a-vis 2020 baseline	20%/80%	N/A
Net-zero carbon emissions by 2050	Net 0	N/A

Impact

NA

Overall score: 69

As per our ESG matrix, Petronas Chemicals Group (PCHEM MK) has an overall score of 69.

ESG score	Weights	Scores	Final Score
Quantitative	50%	39	19
Qualitative	25%	100	25
Target	25%	100	25
Total			69

As per our ESG assessment, PCHEM has an established framework, internal policies, and tangible mid/long-term targets but needs to make headway in improving its quantitative "E" metrics YoY. PCHEM's overall ESG score is 69, which makes its ESG rating above average in our view (average ESG rating = 50; refer to Appendix I for our ESG Assessment Scoring).

Source: Company, Maybank IBG Research (Tear Sheet)

In sum, we combined the granular insights from the Tear Sheets with data and risk scoring from Sustainalytics to generate our maiden 16-stock ESG Portfolio in April 2021. In guiding us on the constituent make-up of our ESG portfolio, we take a combination of factors and parameters into consideration as follows:

- **Analyst stock rating:** as ESG factors lend support and de-risk existing business models that are fundamental drivers of long-term shareholder returns, we include both BUY and HOLD-rated companies with attractive business models and long-term growth outlooks, but exclude SELL-rated stocks, the latter notably including some companies with attractive ESG credentials / scores such as filter-satisfying Nestle and UEM Sunrise;

- **Sustainalytics risk score / category + filters:** for many of the constituents we have chosen, there is clear positive correlation or cross-check between the analysts' fundamental stock rating and the risk score from the external ESG research provider – examples are across a diverse set of sectors and include BUY-rated names like Bermaz and Inari, as well as HOLD-rated Westports and Sunway, all of which have strong Sustainalytics risk scores /low risk ratings. For our latest revision of the Malaysia ESG Portfolio, as articulated in our recent MIBG Sustainability Research report "*Malaysia ESG Portfolio Refresh*", dated Sept 27, To ascertain low/medium ESG risk companies, we used the following three Sustainalytics-based criteria / filters:

1. Sustainalytics ESG risk ratings (Low and Medium risk only);
2. Sustainalytics Controversy score (no mention and score 1 only); *and*
3. Sustainalytics Management Quality rating (high and average).

- **Momentum assessment:** while Sustainalytics momentum indicators are useful for flagging near-term changes in risk score, and where they are coming from (i.e. exposure or management issues), the analysts may, from their frequent dialogues with company management and deep understanding of the underlying business, have greater insights into management's commitment and plans to address and improve the company's ESG factors. This bottom-up, forward-looking understanding underscores portfolio picks that are not currently in the filtered 31 stocks list but show strong signs of joining this list over the medium-term i.e. where current relatively high ESG risk scores have scope to improve significantly on positively pivoting business models and improving ESG factor measurements and disclosures.

  We have chosen 4 such "momentum" stocks to include in our refreshed ESG portfolio notwithstanding these names not satisfying all the 3 filters, namely telco Telekom (controversy score of 2 relating to Bribery and Corruption events over the past decade, the last being in 2019), construction company Gamuda (high overall ESG Risk Score / Rating), shipper MISC (controversy score of 2 relating to Emissions, Effluents and Waste issues from environmentally-damaging shipbreaking activities, the last such report being in Feb 2022) and tech play ViTrox (weak management score related to poor disclosures, and lack of policies and programmes to manage risks related to its material ESG issues).

- **FTSE4Good membership:** considering whether portfolio constituent stocks are in Bursa's FTSE4Good Bursa Malaysia Index is a useful cross-check - recall this index adopts best-in-class positive screening and inclusion criteria are consistent with the global ESG model that FTSE has developed. However, we note that the 30-stock KLCI substantially overlaps with the 87-stock FTSE4Good index (as at end-June 2022; 26 of the KLCI constituent stocks are also in the FTSE4Good) – hence, there is a very high positive correlation between the two indices – therefore, for investors looking to capture differentiated performance vs. the KLCI benchmark, a more refined ESG portfolio appears to be required; and

- **Risk scores and ESG Tear Sheet completion:** we have required constituent stocks to have both a Sustainalytics risk score as well as completed ESG Tear Sheets (1.0 and 2.0). We note that this results at the moment in exclusion of smaller-cap stocks with prima facie promising ESG underpinnings such as Allianz and Aurelius Technologies.

Our most recent iteration of the 15-stock ESG Portfolio as contained in our 4Q21 results wrap report dated March 2 was updated in our recently-published 2H2022 Malaysia Equities Market Outlook report "*Storm Warning*", dated July 4. Per the latter, and as already articulated earlier in this report, we had removed **Bursa** (BURSA MK) and **V.S. Industry** (VSI MK). For our refreshed, filter-centric recommended ESG Portfolio per Fig 32 below, we flag the following changes to constituents as articulated in our most recent MIBG Sustainability Research report "*Malaysia ESG Portfolio Refresh*", dated Sept 27:

- Inclusion of Axis REIT: this logistics and warehouses-focused REIT is our top pick in the REITs sector, with stable earnings/yield profile and good pipeline of new assets; it not only has one of the lowest ESG Risk Scores among the 110 Malaysian corporates covered by Sustainalytics' but it also has the lowest risk rating among its global peers of similar market capitalization. Management rating is average, with no controversies.

- Inclusion of RHB Bank: the fourth largest bank in Malaysia by asset size has been positively surprising the market with a combination of strong earnings delivery, strengthening balance sheet and rising dividend payouts. Management rating is average while controversy score is 1, relating to carbon impact of products (coal financing) and business ethics (one NPO report on processing transactions involving illicit funds and one fine by the regulator of an employee for unauthorized trades).

- Re-inclusion of Bursa Malaysia: the national stock exchange not only has one of the lowest ESG Risk Scores but its' management is rated as (a relatively rare) strong, underpinned by very strong disclosures (signalling a high degree of accountability) and clear initiatives to manage risks related to material ESG issues. Of note, Bursa launched its Sustainability Roadmap 2021-23 in 2021, and has publicly committed to achieving carbon neutrality by 2022, and net zero by 2050. No controversies.

- Exclusion of IOI Corp: this plantation company did not pass our controversy score filter, where it is scored a 3 by Sustainalytics due to **i)** operations incidents relating to land use and biodiversity – IOI was temporarily suspended from selling Certified Sustainable Palm Oil (CSPO) by the RSPO in 2016 and has been implicated in multiple environmental concerns; **and ii)** employee incidents relating to human rights, where Finnwatch, a Finnish civic organization focused on global social responsibility, has flagged poor working / forced labour conditions for plantation workers, to which IOI has responded positively with action plans and process improvements.

Per Fig 32, while the bulk of our ESG Portfolio (11 out of the 15 stocks) are constituted of stocks which satisfy the three quantitative/qualitative Sustainalytics-derived filters as previously articulated, we have also included 4 "momentum" stocks (MISC, Telekom, Gamuda, ViTrox) which, while they do not immediately satisfy all three filters, are, per our on-the-ground research assessment, showing positive momentum re closing the implied disclosure and operational gaps to improve their ESG metrics / scoring over the medium-term.

Fig 32: Malaysia ESG portfolio: recommended constituents

Stock	BBG Code	Mkt Cap. (MYRm)	Rec.	Price (MYR)	TP (MYR)	PER (x) FY22E	PER (x) FY23E	ROE (%) FY22E	Yield (%) FY22E	Risk Rating*	Risk Score*	Management Rating*	Controversy Score*	MIBG ESG Score	In FBM4G Index?^
Filtered Stocks															
Petronas Chemicals	PCHEM MK	69,120	Buy	8.64	11.20	11.0	11.1	16.5%	4.6%	23.7	Medium	Average	0	69	Yes
Hong Leong Bank	HLBK MK	45,089	Buy	20.80	23.60	12.7	11.8	10.9%	2.7%	18.5	Low	Strong	0	76	Yes
DiGi	DIGI MK	27,290	Hold	3.51	3.50	28.1	22.8	nm	3.6%	24.1	Medium	Average	0	67	Yes
RHB Bank	RHBBANK MK	23,925	Buy	5.68	7.10	9.6	8.0	8.6%	5.2%	25.4	Medium	Average	1	65	Yes
Westports	WPRTS MK	10,912	Hold	3.20	3.63	17.2	14.0	19.3%	4.4%	10.4	Low	Strong	1	62	Yes
Inari	INRI MK	9,585	Buy	2.57	4.14	25.0	21.0	15.6%	3.8%	28.1	Medium	Average	0	70	Yes
Sunway	SWB MK	7,823	Hold	1.60	1.63	17.4	15.3	4.4%	1.7%	13.6	Low	Strong	0	74	Yes
Yinson	YNS MK	6,562	Buy	2.26	4.05	17.3	11.4	16.7%	0.9%	21.7	Medium	Strong	1	78	Yes
Bursa	BURSA MK	5,074	Hold	6.27	6.26	24.0	20.2	26.7%	4.0%	13.1	Low	Strong	0	73	Yes
Axis REIT	AXRB MK	3,052	Buy	1.86	2.12	17.9	16.7	6.7%	5.0%	14.9	Low	Average	0	59	No
Bermaz Auto	BAUTO MK	2,230	Buy	1.92	2.90	13.2	9.6	24.5%	4.9%	10.8	Low	Average	0	65	Yes
Momentum Stocks															
MISC	MISC MK	31,425	Hold	7.04	6.95	19.0	17.5	4.8%	4.7%	18.1	Low	Strong	2	71	Yes
Telekom	T MK	20,643	Buy	5.45	7.80	15.1	13.8	16.7%	3.3%	26.1	Medium	Average	2	67	Yes
Gamuda	GAM MK	10,312	Buy	3.98	4.40	11.4	14.1	8.1%	3.2%	35.3	High	Average	1	68	No
ViTrox	VITRO MK	6,971	Buy	7.38	8.80	33.0	29.1	24.1%	0.8%	24.6	Medium	Weak	0	55	Yes

* *derived from leading external ESG research & data provider Sustainalytics*

^ *FTSE4Good Bursa Malaysia (F4GBM) Index (88 constituents as of Jun 2022)*

Source: Maybank IBG Research, Sustainalytics, FactSet, Bloomberg (as of 06 Oct)

Turning to performance, in Fig 33 below, we backtest the performance of the above 15-stock ESG Portfolio against Sustainalytics and MIBG Malaysia overall and filtered coverage. When considering relative performance vs. the benchmark MSCI Malaysia, both overall and filtered coverage generated significantly superior returns. The 42 filtered Sustainalytics stocks continued to generate the best overall performance i.e. 11.7%/7.0%/8.9% over 1/3/5 years. This was then followed by our backtested 15-stock ESG Portfolio per Fig 32, which generated returns of 8.4%/5.3%/9.6% over 1/3/5 years, handily beating both overall market coverage baskets as well as the 31 filtered Malaysian stocks covered by MIBG.

Fig 33: Backtesting our 15-stock ESG Portfolio performance vs. both MSCI and broad coverage

	no of companies	MCAP weighted return: MSCI Malaysia 5Y Ann. Ret	MSCI Malaysia 3Y Ann. Ret	MSCI Malaysia 1Y Ret	annualised returns 5Y Ann. Ret	annualised returns 3Y Ann. Ret	annualised returns 1Y Ret	Out/underperformance 5Y Ann. Ret	Out/underperformance 3Y Ann. Ret	Out/underperformance 1Y Ret
Malaysia										
Total companies - Sustainalytics	110	1.6%	-2.1%	-0.7%	7.6%	3.8%	4.2%	6.0%	5.9%	4.9%
ESG risk score -- low/medium + controversy (no or 1) + mgmt (medium or strong)	42	1.6%	-2.1%	-0.7%	11.7%	7.0%	8.9%	10.0%	9.1%	9.6%
MIBG coverage (overlaps with Sustainalytics)	73	1.6%	-2.1%	-0.7%	5.8%	1.5%	3.5%	4.1%	3.6%	4.2%
ESG risk score -- low/medium + controversy (no or 1) + mgmt (medium or strong)	31	1.6%	-2.1%	-0.7%	8.3%	2.4%	7.9%	6.7%	4.5%	8.6%
MIBG 15-stock ESG Portfolio	**15**	**1.6%**	**-2.1%**	**-0.7%**	**8.4%**	**5.3%**	**9.6%**	**6.8%**	**7.4%**	**10.4%**

Source: Sustainalytics, Maybank IBG Research

In regard to our Top Sells (Fig. 34), which remains anchored by our continuing Underweight stance on the gloves sector (i.e. reiterate SELL ratings for **Hartalega**, **Top Glove** and **Kossan**), the list has seen some modest expansion with the inclusion of **Lotte Chemical** following our downgrade to SELL (from HOLD) after disappointing 1Q22 results where higher feedstock costs continued to exact a toll on product spreads. FY22 is set to be challenging as product spreads are likely to compress further: as **i)** higher feedstock costs catch up with front-running ASP gains; **and ii)** TTNP's domestic premium (c.USD50-100) is likely to erode with Petronas Chemicals' (PCHEM) entry into the down-stream market for HDPE/LLDPE/PP via PIC's impending start-up. With PP/HDPE margins currently below EBIT breakeven levels (c.USD500/USD350 respectively) and closing in on its March 2020 lows, we have slashed TTNP's FY22-24 earnings estimates by 30-46%. Our preferred petrochemicals sector exposure is **PCHEM MK**.

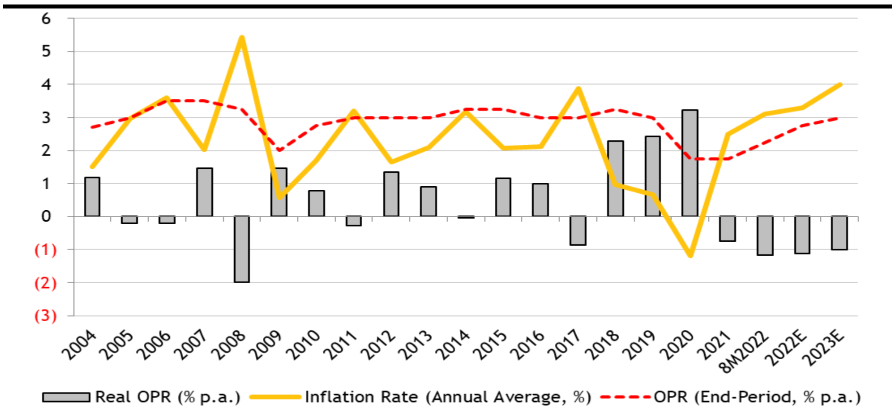
Fig 34: Malaysia: Sell-rated stocks

Stock	BBg Code	Mkt. cap (MYRm)	Rec.	Price (MYR)	TP (MYR)	Downside (%)	PER (x) 2022E	PER (x) 2023E	P/B (x) 2022E	P/B (x) 2023E	ROE (%) 2022E	ROE (%) 2023E	Div. Yield (%) 2022E	Div. Yield (%) 2023E
Nestle Malaysia	NESZ MK	30,602	Sell	130.50	101.20	-22.5%	45.8	43.4	52.0	51.8	113.6%	119.2%	2.2%	2.3%
QL Resources	QLG MK	12,314	Sell	5.06	4.25	-16.0%	56.2	41.8	4.9	4.6	8.8%	10.9%	0.7%	0.7%
Hartalega	HART MK	6,151	Sell	1.80	1.86	3.5%	5.1	21.3	3.2	1.1	63.2%	5.3%	11.7%	2.8%
Top Glove	TOPG MK	5,405	Sell	0.68	0.52	-22.3%	28.0	29.3	1.0	0.8	4.2%	3.2%	1.5%	1.7%
Lotte Chemical Titan	TTNP MK	3,189	Sell	1.40	1.75	25.0%	48.7	16.3	0.3	0.3	0.5%	1.6%	0.9%	2.8%
Kossan Rubber	KRI MK	2,883	Sell	1.13	1.10	-2.6%	12.7	14.3	0.7	0.6	5.2%	4.5%	2.8%	2.4%
UEM Sunrise	UEMS MK	1,315	Sell	0.26	0.27	3.8%	18.0	12.6	0.2	0.2	1.1%	1.5%	1.1%	1.6%
Sapura Energy	SAPE MK	639	Sell	0.04	0.03	-25.0%	nm	nm	2.8	nm	nm	nm	0.0%	0.0%
Eco World Int'l	ECWI MK	636	Sell	0.27	0.31	17.0%	nm	nm	0.2	0.3	nm	nm	0.0%	0.0%
Al-Salam REIT	SALAM MK	244	Sell	0.42	0.40	-4.8%	14.3	10.7	0.4	0.4	2.9%	3.8%	5.9%	7.8%

Source: Maybank IBG Research, FactSet, Bloomberg (as of 06 Oct)

In the wake of BNM's unexpected hiking of the OPR by +25bps to 2.0% at the 10-11 May 2022 Monetary Policy Committee meeting, which was then followed by two further back-to-back hikes i.e. +25bps hike in July and Sept, respectively (Fig 36), rate increase expectations have taken on a hawkish tilt, especially with August CPI data that showed inflation accelerating further to 4.7% (July: +4.4%). As such, we are now expecting one more rate hike this year (in the Nov MPC meeting; this expected hike would take total 2022 OPR increase to +100bps) and a further +25bps increase next year, with OPR to peak at its pre-COVID level of 3.0% by end-1Q23. Even with this more aggressive interest rate hike trajectory, the OPR will still be substantially below forecast 2022/23 headline CPI of +3.3%/+4.0%, with "passive easing" remaining in place via negative monthly real OPR for the forecast period to end-2023, and potentially beyond that if inflation overshoots, as would be the case if there is some dismantling of energy and food subsidies due to fiscal pressures.

Fig 35: Malaysia: OPR, Inflation Rate & Real OPR (Annual)



Source: BNM, Dept. of Statistics, Maybank IBG Research (chart)

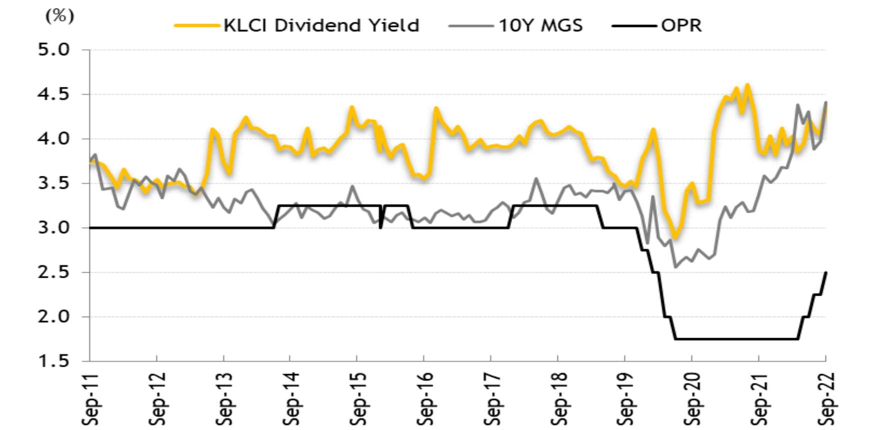
Fig 36: BNM's MPC Meetings, 2020-2022

Date	Outcome
21-22 January 2020	OPR cut by 25bps to 2.75%
2-3 March 2020	OPR cut by 25bps to 2.505
	(Note: SRR cut by 100bps to 2.00% announced on 19 March 2020, effective 20 March 2020)
4-5 May 2020	OPR cut by 50bps to 2.00%
6-7 July 2020	OPR cut by 25bps to 1.75%
9-10 September 2020	OPR maintained at 1.75%
2-3 November 2020	OPR maintained at 1.75%
19-20 January 2021	OPR maintained at 1.75%
3-4 March 2021	OPR maintained at 1.75%
5-6 May 2021	OPR maintained at 1.75%
7-8 July 2021	OPR maintained at 1.75%
8-9 September 2021	OPR maintained at 1.75%
2-3 November 2021	OPR maintained at 1.75%
19-20 January 2022	OPR maintained at 1.75%
2-3 March 2022	OPR maintained at 1.75%
10-11 May 2022	OPR raised by 25bps to 2.00%
5-6 July 2022	OPR raised by 25bps to 2.25%
7-8 September 2022	OPR raised by 25bps to 2.50%
2-3 November 2022	TBA

Source: BNM

While interest rates are rising, they are expected to increase in a paced manner and remain at relatively low levels vs. historical – hence, the dividend thematic for the equity market will remain a powerful one, especially as the pace of earnings recovery (i.e. capital gains) is becoming increasingly uncertain. Average KLCI forward dividend yield (>4.0%; Fig 37) is comparable to the benchmark 10-year MGS yield notwithstanding the latter's YTD uptrend which has been spurred by a combination of tapering concerns, moderating net foreign buying interest, rising government debt issuance per >6% fiscal deficits, heightened fiscal stress points and negative revision of Malaysia's sovereign debt rating outlook to negative (from stable) by both S&P and Fitch (which was followed by an actual rating downgrade by Fitch in Dec 2020, from A- to BBB+; S&P has recently raised its rating outlook to stable, after two years on negative watch). Hence, the relative attractiveness (i.e. implied undervaluation) of equity market high-dividend stocks vis-a-vis yield alternatives of bonds and cash remains intact.

Fig 37: KLCI dividend yield vs. OPR, 10-year MGS yield



Source: Bloomberg (as of 06 Oct)

As detailed in our maiden yield strategy report ('*Yield Dynamics and top picks*', dated 23rd Aug 2019) and reiterated since, we screen for stocks under our coverage that are forecast to have a cash yield of over 4% and, for these stocks, assess the following dividend-relevant parameters:

- **Dividend frequency:** higher payout frequency is indicative of confidence in cashflow generation/resilience, and management focus on maximising ROE via continual returning of excess cash (capital) to shareholders;
- **Payout ratio:** while prima facie a primary indicator of potential headroom to raise total dividend paid, note corporates can also opt for share buybacks (for example, power utility stocks such as Malakoff have active programmes) as another means, albeit indirect, to return cash to shareholders;
- **Free cash flow yield:** this is calculated as operating cash flow after deducting capex, with the positive gap to dividend yield being the available cushion to absorb potential cash-flow shortfalls without necessitating dividend cuts (note total net debt is assumed to be constant);
- **Net gearing:** an indicator of how much balance sheet slack is available to support dividend payout, though note geared companies can further boost cash flow support by refinancing their debt as interest rates decline; and
- **Net debt to EBITDA:** to be read in conjunction with the net gearing ratio, i.e. where the latter is a snapshot of the balance sheet and would be biased higher by aggressive capital management policies that suppress balance sheet equity growth (MNCs-owned companies like DiGi, Nestle and BAT are good examples of this), this ratio provides colour on actual cash flow coverage for debt at any given gearing level.

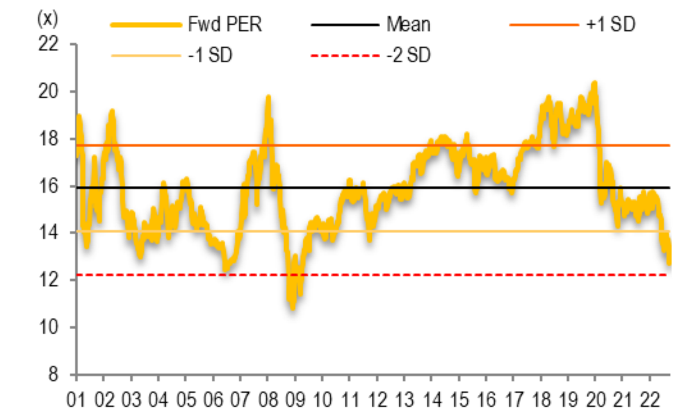
Re our dividend portfolio (Fig 38), we had not made any changes as compared to the last 11-stock iteration contained within our recently-published 2H2022 Malaysia Equities Market Outlook report "*Storm Warning*", dated July 4, with recent 2Q22 reporting largely reinforcing or strengthening our dividend convictions. In particular, **Gas Malaysia's** (GMB MK) strong 2Q22 results per results note "*Another beat*", dated August 19 - recall the stock was upgraded to BUY (from HOLD) following strong 1Q22 results, as articulated in results review "*Beneficiary of liberalization*", dated May 12. The outperformance stemmed primarily from higher retail margin following price liberalization (since the start of 2022) more than offsetting slight volume loss. With customers having signed on to multi-year contracts and gas prices still elevated, we believe elevated spreads are potentially sustainable – hence, we have again raised our FY22/23/24 net profit, this time by 8%/5%/5% respectively. On the flipside, **Sentral REIT**'s 2Q22 disappointed due to rising vacancy rate for its office buildings – while we have downgraded to HOLD (see "*2Q22: Sequential decline in earnings*", dated August 26), new tenants are expected into 2023, and revised yields remain attractive.

Fig 38: Malaysia: Top-yield stocks

Stock	Ticker	Div. Yield (%)			FCF Yield (%)			Net Gearing (%)
		2021A	2022E	2023E	2021A	2022E	2023E	2021A
Malakoff Corp	MLK MK	7.1%	8.7%	10.0%	44.9%	38.7%	45.5%	87.4%
MBM Resources	MBM MK	6.3%	7.4%	7.7%	0.0%	4.0%	3.9%	net cash
Astro Malaysia	ASTRO MK	9.4%	7.0%	6.8%	34.8%	20.1%	35.0%	239.2%
Sentral REIT	SENTRAL MK	7.4%	6.8%	7.1%	10.4%	11.5%	12.0%	58.6%
Gas Malaysia	GMB MK	6.7%	6.6%	6.6%	12.3%	8.0%	4.5%	net cash
LITRAK	LTK MK	5.2%	6.4%	5.0%	15.3%	12.8%	13.2%	net cash
Sime Darby	SIME MK	6.9%	5.6%	6.4%	15.1%	16.4%	14.3%	net cash
RHB Bank	RHBBANK MK	7.4%	5.2%	6.2%	nm	nm	nm	nm
Axis REIT	AXRB MK	4.0%	5.0%	5.4%	6.4%	6.8%	8.3%	39.1%
MISC	MISC MK	4.7%	4.7%	4.7%	nm	nm	1.1%	26.0%
Tenaga Nasional	TNB MK	4.3%	4.4%	4.7%	9.2%	10.7%	12.4%	72.7%

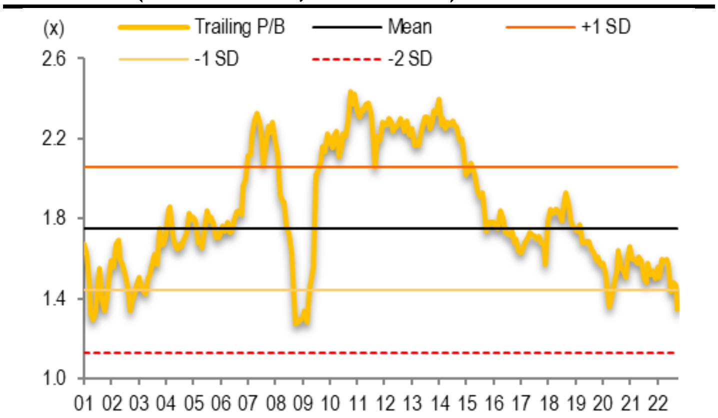
Source: Maybank IBG Research, FactSet (as of 06 Oct)

Fig 39: KLCI's 12M forward PER at 12.7x @ 30 Sep 2022, or -1.7SD of LT mean (mean = 15.9x, 1SD = 1.8x)



Source: Bursa Malaysia, Maybank IBG Research (chart)

Fig 40: KLCI's trailing P/B at 1.35x @ 30 Sep 2022, or -1.3SD of LT mean (mean = 1.75x, 1SD = 0.31x)



Source: Bursa Malaysia, Maybank IBG Research (chart)

3. Sector commentary …

AUTOMOTIVE: Incentivising EVs adoption but …

Positive (unchanged)

Budget measures/incentives:

- Tax exemptions (zero excise & zero import duties) on CBU EVs to be extended for another year, until 31 Dec 2024 (from 31 Dec 2023).
- Exemption on Approved Permit (AP) for EVs until 31 Dec 2023.
- Companies renting non-commercial EVs are given tax deduction up to MYR300k (on rental amount; avg: MYR100k p.a.) for 2023-25.
- Manufacturers of EV charging equipment are given income tax exemption of 100% on statutory income from YA2023 until YA2032 (10 years), or Investment tax Allowance of 100%.
- GENTARI, a subsidiary of PETRONAS is committed to provide 500 units of EV charging stations nationwide.
- Sales rebates of up to MYR4,000 to motorcycle rental entrepreneurs at Pulau Tuba, Langkawi who replace their existing motorcycles with electric motorcycles.
- The Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) will be extended until 31 Dec 2025, by improving the incentive period from 3 years to 5 years for eligible green activities such as solar activities intergrated with Battery Energy Storage System (BESS).

Impact/benefits:

Encourages EVs adoption. The:

(i) extended tax breaks (excise and import duties) by another year (until 31 Dec 2024) for CBU BEVs (battery electric vehicles); and

(ii) zero exemption on APs for CBU EVs for 1 year (up to 31 Dec 2023)

are some positives in encouraging the EV adoption amid the current global automotive chips shortage issue. This considers:

- the price-point attractiveness for prospective EV buyers whom have made prior bookings or are considering getting one; and
- a constant flow of EV models to be brought in by auto OEMs, that would lead to a rise in BEVs on the road and subsequently, an expansion of charging infrastructure nationwide. PROTON, which will sell their inaugural BEV, Smart #1 model, by 4Q23 will now enjoy this benefit.

Also, the tax breaks given to companies that want to lease EVs will lead them to the e-mobility experience and cut costs along the way.

But, these are just short-term incentives, which do not future-proof the longer-term electrification agenda in MY (replacing ICEVs). The case in point is that no new measure (tax incentive) was mentioned for the CKD of EVs.

The zero excise duty and sales tax for CKD EVs for 4 years, from 1 Jan 2022 to 31 Dec 2025 (mentioned in Budget 2022) is unchanged. This is a disappointment, in our view, for the current tenure (up to Dec 2025) is too short.

Analyst: Liaw Thong Jung
tjliaw@maybank-ib.com

MY's existing EV policy is not attractive enough yet, from the FDIs viewpoint. A longer CKD EV tax exemption tenure (for up to 10-15 years), for example, would be one of the better alternative incentive, in ensuring a more sustainable growth of EV in the country.

A zero AP fee policy for 1 year may or may not see a cheaper EV. Also, while the zero exemption on APs for CBU EVs for 1 year (up to 31 Dec 2023) would see savings of MYR10k-MYR20k/unit for open franchise (Tesla, Polestar, Honda, etc) AP holders, the entire savings may or may not be fully transferred to customers/buyers, as these AP holders weigh the cost-and-benefits, from volume/margins/profits perspectives.

Meanwhile, putting on our 'guesstimate hat' on the tax incentives:

(i) for manufacturers of EV charging equipment, this may be aimed at getting Tesla to deploy its superchargers network in MY; and

(ii) for the GITA and GITE incentives for solar activities intergrated with Battery Energy Storage System (BESS), **Yinson**, which has these solutions, would come to mind.

We are BUYers of BAuto, MBM, TCM and UMW.

Automotive sector – Peer valuation summary

Stock	Rec	Mkt Cap **(MYR m)**	Shr Px **(MYR)**	TP **(MYR)**	PER (x) **CY21**	PER (x) **CY22E**	PER (x) **CY23E**	PBV (x) **CY22E**	ROE (%) **CY22E**	DY (%) **CY22E**	Px chg (%) **YTD**
UMW Hldgs	Buy	3,517	3.01	5.00	22.5	8.1	9.4	0.8	9.6	3.1	1.3
Bermaz Auto	Buy	2,230	1.92	2.90	15.1	10.8	8.6	3.3	28.6	6.0	21.5
MBM Resources	Buy	1,286	3.29	4.60	7.7	6.0	5.7	0.6	10.6	7.4	2.8
Tan Chong Motor	Buy	743	1.14	1.35	n.a.	16.1	13.3	0.3	1.6	1.3	2.7
Simple average					**15.1**	**10.2**	**9.3**	**1.2**	**12.6**	**4.5**	

Source: *Maybank IBG Research, FactSet (as of 6 Oct)*

CONSTRUCTION: No surprises

Neutral (unchanged)

Budget measures/incentives:

- **Construction sector output (at constant 2015 prices) to expand by 4.7% in 2023F,** after a small 2.3% growth in 2022E (2021: -5.2%). In absolute value, sector real output (at constant 2015 prices) of MYR54.4b in 2023F will still be below pre-pandemic's (2017-19) level of MYR60+b p.a. (2022E: MYR51.9b, 2021: MYR50.8b, 2020: MYR53.6b).

- **Supported by higher gross development expenditure (GDE) by +32% YoY in 2023F.** The GDE allocation for 2023F is MYR95b (2022E: MYR71.8b, 2021: MYR64.3b, 2020: MYR51.4b) which includes allocation to meet PPP/PFI-related commitments, and financial obligations - mainly to redeem USD3b 1MDB bonds maturing in Mar 2023.

  By sectoral allocation, economic sector will receive the lion's share of the GDE (MYR54b, or 57%), followed by social (MYR25.2b, or 27%), security (MYR10.8b, or 11%) and general administration (MYR5b, or 5%).

- **By sub-sectoral allocation, transport will receive the highest** allocation of MYR16.5b (or 17% of total GDE), where MYR11.4b will go towards the repair & maintenance of federal roads and buildings. New projects mentioned in the *Fiscal Outlook 2023 Report* are Pengalat-Papar bypass road in Sabah and upgrading of Pasir Gudang Highway. Major ongoing projects are Pan Borneo Highway, Sabah-Sarawak Link Road, Gemas-JB EDT, ECRL, JB-SG RTS Link, Central Spine Road and KVLRT3.

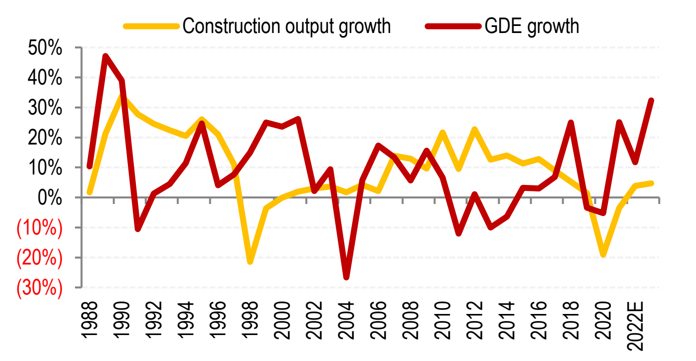
  Energy and public utilities sub-sector meanwhile will receive MYR3.3b allocation (3% of total GDE). Among the new projects are a water treatment plant in Landeh, Sarawak; solar hybrid system in Beluran, Sabah; and upgrading of regional sewerage treatment plant in Pasir Gudang, Johor.

- **Committed to constructing the KVMRT3,** to complete the rail system in KL. Per the *2023 Budget Speech*, the project comprises a 50.8km alignment with Phase 1 construction to be completed in 2028 and Phase 2 in 2030. The total project cost is MYR50.2b with MYR3.3b expected to be spent in 2023.

- **Higher MYR6.3b development allocation for Sabah (+21% YoY), and MYR5.4b for Sarawak (+17% YoY) in 2023F,** to construct and upgrade water, electricity and road infrastructure, health and education facilities (*source: 2023 Budget Speech*). This compares with Budget 2022's allocation of MYR5.2b for Sabah and MYR4.6b for Sarawak.

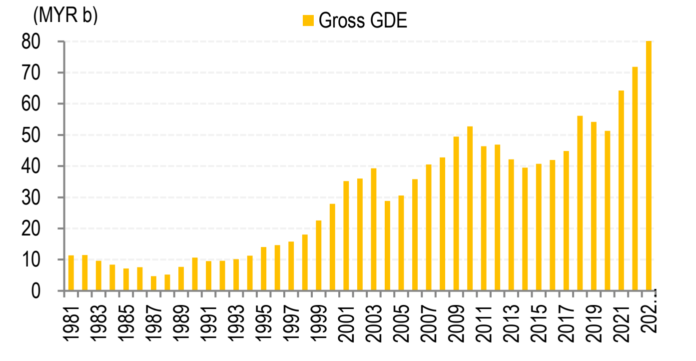
Wong Chew Hann, CA
wchewh@maybank-ib.com

Construction sector output growth vs. GDE growth



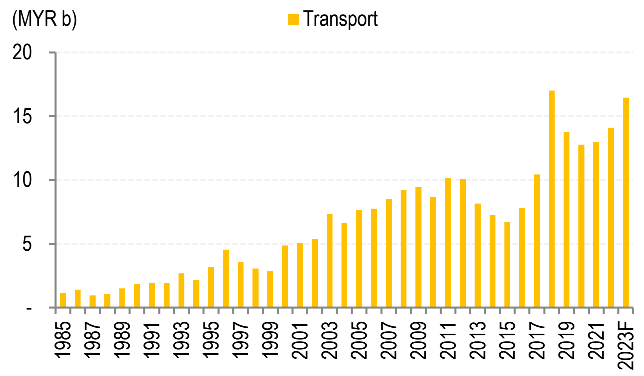
Source: Economic Reports (MoF), Maybank IBG Research (chart)

Gross development expenditure (GDE)



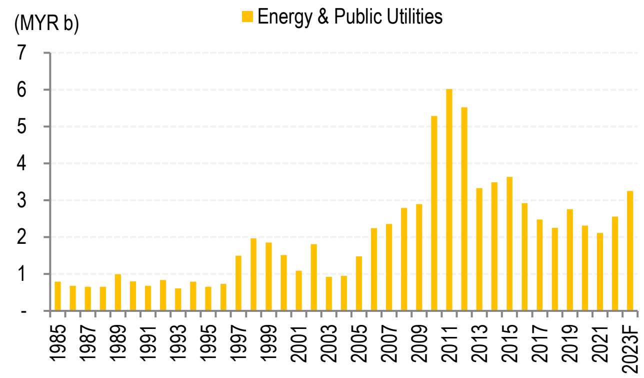
Source: Fiscal Reports (MoF), Maybank IBG Research (chart)

GDE allocation to transport sub-sector



Source: Fiscal Reports (MoF), Maybank IBG Research (chart)

GDE allocation to energy & public utilities sub-sector



Source: Fiscal Reports (MoF), Maybank IBG Research (chart)

Impact/benefits:

Not surprising (for the 2nd year) that no new major infrastructure projects (apart from the KVMRT3) was mentioned in the *Economic & Fiscal Reports* nor *Budget Speech*. Reiteration of the Government's commitment to the KVMRT3 project is however reassuring.

Small-midsized projects to benefit the smaller contractors – ie. Pengalat-Papar bypass road, upgrading of Pasir Gudang Highway (MYR510m), water treatment plant in Landeh, upgrading of regional sewerage treatment plant in Pasir Gudang, and construction of sabo dams in 46 locations to mitigate floodings (MYR562m) – where the projects value are less than MYR1b each.

We remain NEUTRAL on the sector, and make no changes to the earnings forecasts, TPs and recommendations of our any of our stock coverage. Our BUYs in the sector are GAM, IJM and CMS (for a liquid exposure to higher construction activities in Sarawak).

Construction sector – Peer valuation summary

Stock	Rec	Mkt Cap (MYR m)	Shr Px (MYR)	TP (MYR)	PER (x) CY21	PER (x) CY22E	PER (x) CY23E	PBV (x) CY22E	ROE (%) CY22E	DY (%) CY22E	Px chg (%) YTD
Gamuda	Buy	10,312	3.98	4.40	14.5	12.9	15.1	1.1	7.8	7.1	37.2
IJM Corp	Buy	5,775	1.64	2.14	19.8	19.6	16.8	0.6	3.0	5.2	7.9
LITRAK	Hold	2,676	4.95	5.08	15.2	10.8	9.0	2.0	18.5	5.1	31.6
Sunway Construction	Hold	2,024	1.57	1.58	18.0	15.0	15.2	2.7	18.2	4.5	0.6
Cahya Mata Sarawak	Buy	897	0.84	1.27	4.1	4.6	4.4	0.3	6.1	2.4	(34.8)
Pintaras Jaya	Hold	353	2.13	2.20	8.2	11.2	9.9	0.9	7.8	4.7	(23.9)
Simple average					**13.3**	**12.3**	**11.7**	**1.3**	**10.2**	**4.8**	

Source: *Maybank IBG Research, FactSet (as of 6 Oct)*

CONSUMER: Reinforcing the propensity to spend

Neutral (unchanged)

Budget measures/incentives:

- Reduction in individual income tax rate of 2ppts for two income tax bands (MYR50,001-MYR70,000 and MYR70,001-MYR100,000) and an increase of 0.5ppt for tax bands within MYR250,000-MYR400,000. This will increase disposable income for more than 1 million taxpayers in the M40 group by up to MYR1,000. It is estimated that this will collectively raise MYR800m in disposable income.
- BKM cash handouts of MYR7.8b to benefit 8.7m recipients. This will include cash handouts to households earnings <MYR2,500 p.m., single parents (up to MYR3,000) and singles (up to MYR1,250); and one-off incentive for females who give birth in 2023 (MYR500).
- Civil service monthly salary increment of MYR100 and a one-off financial aid of MYR700 to benefit 1.3m civil servants.
- Allocated MYR200m to promote tourism recovery, MYR90m in grants for tourism activities and MYR25m in incentives to promote domestic tourism.
- 100% accelerated capital allowance and income tax exemption on capex for poultry farmers who adopt environmentally-friendly closed house systems.

Impact/benefits:

Bolstering consumer demand. We are positive on these measures which will provide much needed support to consumer demand in 2023 and they will also partially alleviate rising inflationary pressures on households. Consumer staples (NESZ, LHIB, FFB, and QLG) and retail companies (PAD, AEON, SEM and MNHB) that are mass market-centric in their respective product offerings stand to gain the most from improved consumer spending. The revival of international tourism will also drive store footfall for companies with retail presence in tourist/transit areas (eg. CAB, HEIM, BFD, INNATURE).

Maintain NEUTRAL on the consumer sector. Our BUYs are premised on positive earnings growth stemming from the broader consumer market with potential benefits from consumer downtrading (eg. MRDIY, PAD, AEON, SEM, MNHB), and companies who enjoy resilient demand owing to their product stickiness (eg. CAB, HEIM, BFD).

Analyst: Jade Tam
jade.tam@maybank-ib.com

Consumer sector – Peer valuation summary

Stock	Rec	Mkt Cap (MYR m)	Shr Px (MYR)	TP (MYR)	PER (x) CY21	PER (x) CY22E	PER (x) CY23E	PBV (x) CY22E	ROE (%) CY22E	DY (%) CY22E	Px chg (%) YTD
Nestle (Malaysia)	Sell	30,602	130.50	101.20	52.8	46.0	43.6	52.4	113.6	2.2	(2.8)
MR D.I.Y. Group (M)	Buy	19,137	2.03	2.70	44.1	36.3	29.9	14.4	39.7	1.8	(15.7)
QL Resources	Sell	12,314	5.06	4.25	55.9	44.8	39.6	4.7	10.4	0.7	10.7
Heineken M'sia	Buy	7,190	23.80	27.70	29.3	20.6	19.4	18.2	82.3	4.9	14.2
Carlsberg Brewery M'sia	Buy	6,916	22.62	27.80	33.5	21.5	19.6	31.9	89.1	4.6	12.6
Farm Fresh	Buy	2,954	1.59	1.95	36.3	30.4	24.3	7.8	14.7	0.8	17.8
Padini Holdings	Buy	2,086	3.17	4.35	20.1	14.5	14.6	2.3	15.5	3.2	13.2
AEON Co. (M)	Buy	1,909	1.36	2.35	20.3	15.3	14.3	1.1	6.9	2.9	(3.5)
Leong Hup Intl.	Hold	1,624	0.45	0.50	19.3	13.5	7.2	0.9	6.4	2.2	(15.2)
7 - Eleven M'sia Hldgs	Buy	1,757	1.56	2.05	40.0	21.1	18.4	13.7	65.0	2.6	4.0
Berjaya Food	Buy	1,500	0.86	1.24	17.0	12.9	13.6	0.8	22.4	1.3	98.8
InNature	Buy	420	0.60	0.65	28.0	21.3	18.0	2.7	13.2	3.4	(11.9)
Mynews Holdings	Buy	327	0.48	0.60	n.a.	n.a.	56.5	1.5	(8.2)	0.0	(42.5)
Simple average					**33.1**	**24.8**	**24.5**	**11.7**	**36.2**	**2.4**	

Source: *Maybank IBG Research, FactSet (as of 6 Oct)*

OIL & GAS: PETRONAS enablers

Positive (unchanged)

Analyst: Liaw Thong Jung
tjliaw@maybank-ib.com

Budget measures/incentives:

- PETRONAS to contribute MYR2b to KWAN in 2023.
- A special status for Pengerang for chemical and petrochemical industry's investment incentives.
- Companies:

  1. undertaking carbon capture and storage technology (CCS) in-house activity are given:
     - Investment Tax Allowance (ITA) of 100% of qualifying capex for 10 years and can be offset against up to 100% of business statutory income;
     - full import duty and sales tax exemption on equipment for CCS technology from 1 Jan 2023 until 31 Dec 2027; and
     - tax deduction for allowable pre-commencement expenses within 5 years prior to the date of commencement of operations.
  2. undertaking CCS services are given:
     - Investment Tax Allowance (ITA) of 100% of qualifying capex for 10 years and can be offset against up to 100% of business statutory income; **or**
     - tax exemption of 70% on statutory income for 10 years; and
     - full import duty and sales tax exemption on equipment for CCS technology starting 1 Jan 2023 until 31 Dec 2027.
  3. engaging CCS services to be given tax deduction on fees incurred for use of CCS services.

  These incentives (1-3) - i.e. application and tax deduction via Income tax returns - are from 1 Jan 2023 until 31 Dec 2027.

Impact/benefits:

PETRONAS' additional contribution to the nation. Following the recent step-up of its dividends commitment to the Government for 2022 (to MYR50b; +100% YoY), its contribution for 2023 (excluding taxes, duties, etc) will now be MYR37b: (i) MYR2b to KWAN and (ii) MYR35b in dividends.

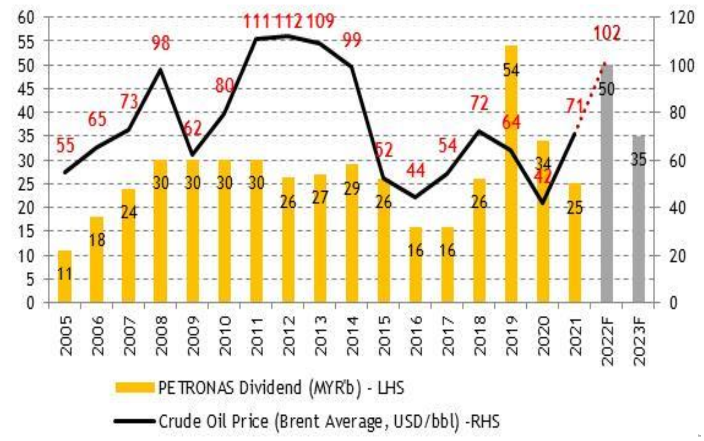
A 'vague' special status policy on Pengerang… Nothing was elaborated on this, apart from the statement in the Budget Speech. The main question is: Is the special status tax related?

… Dialog and PCHEM to benefit? Nonetheless, a special tax rate for O&G-related companies operating in Pengerange would help develop the area and provide a boost to companies like Dialog and Petronas Chemical (PCHEM MK; BUY; TP: MYR11.20) that have existing presence there.

CCS incentives is aligned to the PETRONAS' net zero 2050 aspiration. We understand that PETRONAS is a license holder for this (CCS) in MY but E&P players like Hibiscus may also benefit from this.

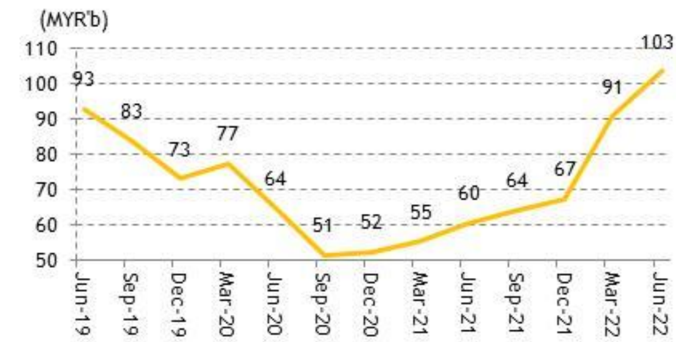
Our key BUYs are Yinson, Hibiscus and Dialog. Other notable SMID BUYs include BArmada, Velesto, MMHE, Wah Seong and Icon.

PETRONAS: Dividends vs. crude oil price



*Note: *Special dividends: 2019: MYR30b/ 2020: MYR18b/ 2021: MYR7b*
Source: *PETRONAS, Maybank IBG Research*

PETRONAS: Quarterly net cash



Source: *PETRONAS, Maybank IBG Research*

Oil and gas sector – Peer valuation summary

Stock	Rec	Mkt Cap (MYR m)	Shr Px (MYR)	TP (MYR)	PER (x) CY21	PER (x) CY22E	PER (x) CY23E	PBV (x) CY22E	ROE (%) CY22E	DY (%) CY22E	Px chg (%) YTD
Dialog Group	Buy	11,454	2.03	4.90	21.7	20.6	18.1	2.2	9.6	1.8	(22.5)
Yinson Hldgs	Buy	6,236	2.15	4.05	15.4	11.6	10.6	1.9	11.9	1.0	(17.6)
Bumi Armada	Buy	2,338	0.40	0.58	3.5	3.2	3.1	0.5	15.4	-	(16.0)
Hibiscus Petroleum	Buy	1,972	0.98	1.90	8.7	4.5	3.6	1.0	16.7	1.0	20.2
Sapura Energy	Sell	639	0.04	0.03	n.a.	n.a.	n.a.	0.1	609.6	-	(20.0)
Velesto Energy	Buy	986	0.12	0.22	n.a.	n.a.	13.3	0.4	(1.3)	-	-
M'sia Marine and Heavy Engg	Buy	624	0.39	0.85	n.a.	10.8	8.1	0.4	3.2	-	(1.3)
Wah Seong Corp	Buy	453	0.59	1.20	146.3	7.1	4.9	0.7	9.8	-	(11.4)
Favelle Favco	Hold	369	1.58	1.95	7.3	8.0	6.3	0.6	9.1	53.8	(34.4)
Icon Offshore	Buy	284	0.11	0.16	11.7	5.8	5.5	0.7	10.7	-	-
Simple average					**30.6**	**9.0**	**8.2**	**0.9**	**69.5**	**5.8**	

Source: *Maybank IBG Research, FactSet (as of 6 Oct)*

PLANTATION: Muted impact

Neutral (unchanged)

Budget measures/incentives:

- MYR70m allocated to support the Malaysian Sustainable Palm Oil (MSPO) certification programme (which has achieved 98% certified area).
- The government will also intensify its efforts to promote and campaign against anti-palm oil at the global level.
- To introduce multi-tiered levy for foreign workers by 2023. Companies with higher number of foreign workers will be subjected to higher worker levy. The collection of these additional levies will be channeled to incentivize and support employers' automation initiatives.
- In order to further drive productivity and improve efficiency through automation, it is proposed that the Accelerated Capital Allowance (ACA) for automation equipment be enhanced as follows:

  i. scope of automation to include the adaptation of Industry 4.0 elements;

  ii. scope of tax incentive is expanded to cover the agricultural sector; and

  iii. capital expenditure threshold is aligned and increased up to MYR10m.

  The incentive is for applications from 1 Jan 2023 until 31 Dec 2027.

Impact/benefits:

Budget 2023 appears to be marginally negative on larger cap growers as they will likely have to pay more levies to the government given their larger pool of foreign workers. But details of the multi-tiered levy remains unknown for now. Positively, it is also highlighted that the additional levies collected will be channeled to incentivize and support employers' automation initiatives (ie. companies can claim tax allowances to introduce / accelerate automation in their operations to reduce foreign workers reliance).

Maintain Neutral on the sector. We make no changes to our earnings forecasts.

Analyst: Ong Chee Ting
ct. ong@maybank-ib.com

Plantation sector – Peer valuation summary

Stock	Rec	Mkt Cap (MYR m)	Shr Px (MYR)	TP (MYR)	PER (x) CY21	PER (x) CY22E	PER (x) CY23E	PBV (x) CY22E	ROE (%) CY22E	DY (%) CY22E	Px chg (%) YTD
Sime Darby Plantation	Hold	28,839	4.17	4.42	12.1	11.5	16.6	1.8	15.4	5.8	10.9
IOI Corp	Hold	23,545	3.79	4.21	15.8	14.9	17.1	2.1	14.1	3.7	1.6
KL Kepong	Buy	22,318	20.70	28.10	11.9	11.0	15.0	1.7	15.6	5.0	(5.0)
Genting Plantations	Hold	5,123	5.71	6.40	11.8	9.0	14.3	1.0	10.6	6.7	(14.8)
Sarawak Oil Palms	Hold	2,208	2.48	2.67	4.2	4.4	7.4	0.5	15.1	4.6	6.6
Ta Ann Hldgs	Buy	1,484	3.37	4.06	5.2	4.8	7.5	0.9	17.8	12.5	(4.0)
Boustead Plantations	Buy	1,445	0.65	0.87	6.0	4.9	11.9	0.5	9.7	20.3	(0.8)
TSH Resources	Hold	1,332	0.97	0.98	7.7	7.6	10.8	0.8	9.6	6.3	(10.6)
TH Plantations	Hold	371	0.42	0.55	5.1	5.0	8.2	0.5	10.5	-	(30.0)
Simple average					**8.8**	**8.1**	**12.1**	**1.1**	**13.2**	**7.2**	

Source: *Maybank IBG Research, FactSet (as of 6 Oct)*

PROPERTY: Better than nothing

Neutral (Maintained)

Budget measures/incentives:

- Stamp duty exemption for properties priced between MYR500k/unit to MYR1m/unit will be increased to 75% (from 50% exemption) until 31 Dec 2023. The 100% stamp duty exemption for properties priced at MYR500k/unit and below until Dec 2025 is unchanged.
- Stamp duty for the transfer of property between family members will be MYR10 (from 100% exemption between husband and wife, and 50% between other family members).

Impact/benefits:

Mild surprise. Budget 2023 measures positively surprised as we did not expect further reduction in stamp duty (-25ppt) for properties priced from MYR500k-MYR1m/unit after the launch of the *Keluarga Malaysia Home Ownership Initiative (i-MILIKI)* in mid-July 2022. *i-MILIKI* offers a 100% stamp duty exemption for first-time homeowners for properties priced at MYR500k/unit and below and 50% exemption for properties priced between MYR500k/unit to MYR1m/unit. While we are pleasantly surprised by this, we expect muted impact on property sales as compared to previous *Home Ownership Campaigns* in 2019 and June 2020-2021 due to higher interest rate (YTD: +75bps in OPR to 2.5% versus 2019-2021's 1.75% [historical low]) that could hit house buyers' affordability.

Risks that could overshadow improving sector fundamentals. Budget 2023 is expected to have a mild impact on the overall local property market though it would help to relieve some of the developers' operating costs as they are absorbing stamp duties for their buyers depending on project salebility. In our view, further interest rate hikes (4Q22E: +25bps, 2023E: +25bps) and political uncertainties ahead of GE15 (which usually affect the purchase of big ticket items) remain as key risks to the sector.

Maintain NEUTRAL. No change to our earnings forecasts, sector and stock ratings. We stay defensive in stock picking and advocate investors to be selective. In a rising interest rate environment, we prefer lowly-geared township developers with exposure in both the landed residential and industrial property segments. Our BUY picks for the sector are ECW MK (net gearing: 0.35x) and SDPR MK (0.3x).

Analyst: Wong Wei Sum, CFA
weisum@maybank-ib.com

Property sector – Peer valuation summary

Stock	Rec	Mkt Cap (MYR m)	Shr Px (MYR)	TP (MYR)	PER (x) CY21	PER (x) CY22E	PER (x) CY23E	PBV (x) CY22E	ROE (%) CY22E	DY (%) CY22E	Px chg (%) YTD
Sunway Berhad	Hold	7,823	1.60	1.63	25.8	17.6	15.5	0.8	4.4	1.8	(7.0)
Sime Darby Property	Buy	2,992	0.44	0.54	22.0	10.5	8.5	0.3	3.1	4.8	(26.1)
SP Setia	Hold	2,323	0.57	0.73	7.8	7.4	5.3	0.2	2.2	1.1	(55.8)
Eco World Development	Buy	1,811	0.62	0.81	7.9	7.9	6.5	0.4	4.7	6.5	(27.2)
UEM Sunrise	Sell	1,315	0.26	0.27	n.a.	18.6	12.4	0.2	1.1	1.2	(18.8)
Eco World International	Sell	636	0.27	0.31	9.8	n.a.	n.a.	0.2	(3.1)	-	(39.1)
Tambun Indah Land	Hold	310	0.71	0.85	4.8	5.1	5.6	0.4	8.1	7.8	(2.8)
Simple average					**13.0**	**11.2**	**8.9**	**0.4**	**2.9**	**3.3**	

Source: *Maybank IBG Research, FactSet (as of 6 Oct)*

RENEWABLE ENERGY: Booster for clean energy

Positive (unchanged)

Budget measures/incentives:

- The Government proposes to extend the Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) to 5 years (to 31 Dec 2025) from 3 years for elegible green activities e.g. solar activities integrated with Battery Energy Storage System (BESS).
- To introduce a carbon tax and study the feasibility of a carbon pricing mechanism.

Impact/benefits:

Extension of Green Technology Tax Incentives. In Budget 2020, the Government announced the extension of both GITA and GITE for another three years until YA 2023. With a further extension by two years to 31 Dec 2025, we believe this initiative will subsequently encourage more investments in renewable energy (RE), in-line with Malaysia's target to increase RE share from 23% to 31% of national capacity mix by 2025.

Carbon tax introduction will lead the adoption and transition to clean energy and encourage better energy efficiency. We view this initiative as positive to RE players as this can be implemented alongside carbon trading, which will increase transparency and encourage investments for more RE projects. Meanwhile, Bursa Malaysia's Voluntary Carbon Market (VCM), intended to be operational in end-2022, will support carbon pricing discovery and trading.

We maintain our POSITIVE stance for RE sector. We have BUY calls for both Cypark and Solarvest.

Analyst: Nur Farah Syifaa
nurfarahsyifaa.mohamadfuad@maybank-ib.com

Renewable energy sector – Peer valuation summary

Stock	Rec	Mkt Cap	Shr Px	TP	PER (x)	PER (x)	PER (x)	PBV (x)	ROE (%)	DY (%)	Px chg (%)
		(MYR m)	**(MYR)**	**(MYR)**	**CY21**	**CY22E**	**CY23E**	**CY22E**	**CY22E**	**CY22E**	**YTD**
Solarvest Holdings	Buy	484	0.73	0.93	53.7	27.4	19.9	3.0	9.7	0.8	(41.5)
Cypark Resources	Buy	259	0.44	1.01	4.4	4.7	4.1	0.2	5.5	-	(51.6)
Simple average					**29.1**	**16.0**	**12.0**	**1.6**	**7.6**	**0.8**	

Source: *Maybank IBG Research, FactSet (as of 6 Oct)*

SOFTWARE: Support continues for the digital industry

Positive (unchanged)

Budget measures/incentives:

- A total allocation of MYR1.2b under the e-Pemula initiative, of which MYR100 in eWallet credits will be channeled for individuals under the M40 group and MYR200 for the youths and full-time students.
- MYR59m for digitalisation and automation initiatives through e-commerce activities under MATRADE, MARA and MDEC.
- MYR750m allocation to the HRD Corp to upskill 800,000 workers.
- MYR50m allocation to Cradle Fund for the development of the startup ecosystem.
- Government to table the Consumer Credit Bill in 2Q23 that could see the establishment of Consumer Credit Oversight Board (CCOB) task force to further enhance the fairness of the consumer credit market.

Impact/benefits:

A small boost. Amid the rising interest rates and the general inflationary environment that could impede consumer spending, the allocation of MYR800m in eWallet credits for the M40 group, as well as MYR400m for the youth *e-Pemula* (MYR1.2b in total) is a welcomed boost that would benefit payment companies like **GHL Systems** and **Revenue Group** through higher Transaction Processed Value (TPV) growth.

The allocation towards HRD Corp (HRDC) could indirectly benefit **Ramssol Group** as a certified HRDC trainer. The group has been diversifying its revenue base via the education pillar through offering more HRDC-certified training programmes to the industry that are relevant to its expertise in digitization and enterprise solutions.

A more stringent credit lending decisioning for digital moneylenders? As part of streamlining and enhancing the various consumer credit laws, the government is intending to table the Consumer Credit Bill that could see a greater number of moneylending companies to be regulated under the CCOB, including *Buy Now Pay Later* (BNPL) providers, leasing companies and debt collection agencies, among others. With a bigger pool of companies under the oversight, we view there could be a need for credit decisioning solutions that could benefit **CTOS** through its vast data and credit products.

Analyst: Shafiq Kadir
msshafiqk.abkadir@maybank-ib.com

Software sector – Peer valuation summary

Stock	Rec	Mkt Cap (MYR m)	Shr Px (MYR)	TP (MYR)	PER (x) CY21	PER (x) CY22E	PER (x) CY23E	PBV (x) CY22E	ROE (%) CY22E	DY (%) CY22E	Px chg (%) YTD
My E.G. Services	Buy	6,736	0.91	1.30	21.5	21.5	19.3	3.8	18.0	1.3	(15.4)
CTOS Digital	Buy	3,072	1.33	1.94	57.8	35.0	30.2	7.9	16.7	1.5	(26.5)
GHL Systems	Hold	816	0.72	1.26	25.5	26.5	22.3	1.5	5.7	-	(58.9)
Revenue Group	Buy	446	0.94	1.27	40.7	36.7	29.2	2.6	9.5	-	(39.7)
Ramssol Group	Buy	88	0.40	0.60	9.6	12.0	8.4	1.9	14.2	-	(50.0)
Simple average					**31.0**	**26.3**	**21.9**	**3.5**	**12.8**	**0.6**	

Source: *Maybank IBG Research, FactSet (as of 6 Oct)*

TECHNOLOGY: Broad-based but still inadequate

Positive (unchanged)

Budget measures/incentives:

- The creation of a special fund of over MYR1b with the stated aim of attracting "high value-added" investments and generating professional employment opportunities in the domestic E&E sector.
- MYR230m of Khazanah's MYR1b allocation for *Dana Impak* in 2023 to be invested in domestic high-tech companies; includes support for ex-MNC local talents to set up their own technology companies.
- MYR100m allocation under the Domestic Investment Strategic Fund (DISF) to support the development of local technology hardware companies.
- MYR10m allocation for establishment of a venture capital (VC) fund to finance equity injections in high-tech E&E/renewable energy companies.
- MYR10m allocation for the development Radio Frequency (RF) and Bluetooth technology applications for the automotive industry under The Collaborative Research in Engineering, Science and Technology Centre (CREST).
- MYR20m in matching grants to support product development and nurturing local talents in the medical device industry; government to also prioritise procurement of medical devices from local manufacturers.
- MYR20m in matching grants to support the development of aerospace components by local industry players; extension of income tax incentives and allowances to 31 Dec 2025 for the industry.
- Extension of tax incentives and 15% flat personal income tax rate for C-Suite executives to 31 Dec 2024 for E&E companies looking to relocate supply chains domestically from ongoing geopolitical uncertainty and trade war.
- Extension of tax deduction up to MYR1.5m until YA25 on listing expenses incurred for new IPOs on ACE/LEAP markets, as well as technology companies listing on the Main Board.
- Commencement of multi-tiered levy on foreign labour from 2023 onwards with a higher levy imposed on companies employing a larger number of foreign workers; additional levies collected to be re-allocated to assist employers in undertaking automation initiatives.

Impact/benefits:

We are neutral on Budget 2023's policies and incentives for the local technology hardware sector. Vis-a-vis Budget 2022's c.MYR2.7b outlay for the sector, Budget 2023's net allocation for Malaysian tech players totalled slightly more than half of the previous year's total. While it continues to be accommodative (as expected), it failed to adequately address key structural issues being faced by local industry players ie. skilled talent shortages amidst intensifying wage competition by MNCs that have new setups or are expanding their local base of operations. Acknowledging that the presence of thriving MNCs are crucial for the sustained long-run development of the local ecosystem, the industry would've been better served had a more conciliatory policy/incentive approach been adopted to strike a balance between maintaining healthy FDI inflows into the sector, whilst ensuring local champions have equal and adequate access to the skilled local talent pipeline.

Analyst: Anand Pathmakanthan
anand.pathmakanthan@maybank-ib.com

Analyst: Loh Yan Jin
lohyanjin.loh@maybank-ib.com

In continuing Budget 2022's largely broad-based approach, Budget 2023 features sizeable, albeit smaller allocations (MYR1b "special fund", MYR230m under Dana Impak, MYR100m under DISF, MYR10m VC fund) for the continued support and development of high-end E&E manufacturing capabilities – we view this as generally positive for the sector.

- The announced targeted measures for specific sub-sectors (RF and Bluetooth, aerospace, nanotechnology and medical devices) however, are unlikely to have a tangible impact on most companies under our coverage as they're geared towards companies/start-ups lower in the value chain, whilst the allocated quantum for each sub-sector is also relatively insignificant in comparison to the listed players' operating segment size/R&D expenditures.

- Both Inari's RF and Globetronics Bluetooth capabilities are predominantly consumer electronic/smartphone-related (as opposed to CREST's proposed automotive application) but Greatech could potentially benefit from the medical device-related policies as it is still in the process of setting up its medical devices division and would therefore be classed as a nascent incumbent. We note however, that Greatech is unlikely to benefit from the proposed extension of the Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) through to 31 Dec 2025 as its solar and battery pack storage production line systems are entirely manufactured for export.

The multi-tiered levy on foreign workers commencing 2023 is also a negative surprise for the electronic manufacturing services (EMS) sector, owing to its disproportionately large foreign labour force. Although further details of the levy and its application are yet to be announced, this development is potentially adverse for VS Industry as c.60% of its existing workforce consists of foreign nationals. Conversely, Aurelius Technology (our top BUY pick for the EMS sector) will not be affected by the levy as its hiring of foreign labourers are negligible.

Maintain POSITIVE. Although we are neutral on Budget 2023's incentives for the tech sector, we remain positive (for now) on the technology hardware and the EMS sub-sectors owing to their resilient near-term earnings outlook amidst persistent industry shortages. Our top OSAT pick is Inari, underpinned by the global mass deployment of 5G networks and stronger anticipated year-end sales of 5G-ready premium smartphones; whilst ViTrox is our top ATE pick, for its exposure to key future growth industries (EG/EVs/AI) and its dominant position as a global leader in cutting-edge machine vision technology. We also have BUYs on Frontken, VS Industry and Aurelius Technology, while Greatech and Globetronics remain a HOLD.

Technology sector – Peer valuation summary

Stock	Rec	Mkt Cap (MYR m)	Shr Px (MYR)	TP (MYR)	PER (x) CY21	PER (x) CY22E	PER (x) CY23E	PBV (x) CY22E	ROE (%) CY22E	DY (%) CY22E	Px chg (%) YTD
Inari Amertron	Buy	9,585	2.57	4.14	25.0	22.5	19.8	6.2	17.4	4.3	(35.8)
Vitrox Corp	Buy	6,971	7.38	8.80	39.7	33.4	29.4	8.0	24.1	0.8	(25.9)
Frontken Corp	Buy	4,246	2.70	3.55	40.9	32.9	28.7	7.5	23.9	1.5	(32.5)
Greatech Technology	Hold	4,232	3.38	3.90	28.9	35.2	22.4	7.7	21.8	-	(49.8)
V.S. Industry	Buy	3,588	0.94	1.15	14.6	16.3	13.1	1.6	10.7	2.7	(31.8)
Globetronics Tech	Hold	777	1.16	1.22	14.7	16.1	15.7	2.5	15.3	4.9	(30.1)
Aurelius Technologies	Buy	670	1.87	2.07	28.7	20.8	13.7	0.7	13.9	0.9	(20.8)
Simple average					**27.5**	**25.3**	**20.4**	**4.9**	**18.2**	**2.2**	

Source: *Maybank IBG Research, FactSet (as of 6 Oct)*

4. Research stock universe …

Fig 41: Maybank IBG Equity Research Stock Universe

Ticker	Company		FYE	Price	Market	TP	Rec	Core Net Profit			EPS			CAGR	PER			ROE	Div Yld	PBV	*Px chg*
				6 Oct	Cap			CY21	CY22E	CY23E	CY21	CY22E	CY23E	21-23E	CY21	CY22E	CY23E	CY22E	CY22E	CY22E	*YTD*
				MYR	MYR m	MYR		|---------- MYR m ----------|			|--------- MYR sen --------|			(%)	|------------- (x) ------------|			(%)	(%)	(x)	*(%)*
Auto																					
BAUTO MK	Bermaz Auto	*	4	1.92	2,230	2.90	Buy	147.4	206.5	257.5	12.7	17.8	22.2	32.2	15.1	10.8	8.6	28.6	6.0	3.3	*21.5*
MBM MK	MBM Resources	*	12	3.29	1,286	4.60	Buy	167.8	215.2	225.0	42.9	55.0	57.6	15.9	7.7	6.0	5.7	10.6	7.4	0.6	*2.8*
TCM MK	Tan Chong Motor	*	12	1.14	743	1.35	Buy	(36.4)	45.7	55.3	(5.6)	7.1	8.6	n.a.	n.a.	16.1	13.3	1.6	1.3	0.3	*2.7*
UMWH MK	UMW Holdings	*	12	3.01	3,517	5.00	Buy	156.1	433.0	373.3	13.4	37.1	32.0	54.5	22.5	8.1	9.4	9.6	3.1	0.8	*1.3*
Banks																					
AMM MK	AMMB Holdings		3	3.99	13,214	4.95	Buy	1,201.0	1,432.3	1,598.3	37.0	46.3	52.8	19.4	10.8	8.6	7.6	8.1	3.5	0.7	*25.9*
BIMB MK	Bank Islam M'sia	*	12	2.61	5,625	2.70	Hold	561.0	481.2	575.5	23.0	22.0	26.0	6.3	11.3	11.9	10.0	7.0	3.8	0.8	*(13.0)*
ABMB MK	Alliance Bank		3	3.65	5,651	4.50	Buy	519.3	640.8	712.9	33.5	41.5	46.0	17.2	10.9	8.8	7.9	9.4	5.6	0.8	*27.6*
CIMB MK	CIMB Group		12	5.26	55,095	6.20	Buy	4,648.2	5,457.8	6,691.9	46.0	54.0	67.0	20.7	11.4	9.7	7.9	8.8	4.9	0.9	*(3.5)*
HLBK MK	Hong Leong Bk		6	20.80	45,089	23.60	Buy	3,075.0	3,448.6	3,764.1	150.5	168.5	183.5	10.4	13.8	12.3	11.3	10.7	2.8	1.3	*11.7*
HLFG MK	HL Fin Group		6	18.54	21,233	21.30	Hold	2,358.8	2,458.2	2,571.3	208.0	216.5	226.5	4.4	8.9	8.6	8.2	9.7	2.5	0.8	*6.9*
PBK MK	Public Bank		12	4.25	82,495	5.00	Hold	5,656.5	5,813.5	6,748.6	29.0	30.0	35.0	9.9	14.7	14.2	12.1	11.4	3.8	1.6	*2.2*
RHBBANK MK	RHB Bank		12	5.68	23,925	7.10	Buy	2,804.5	2,453.1	2,935.8	70.0	59.0	71.0	0.7	8.1	9.6	8.0	8.4	5.3	0.8	*5.8*
Construction / Infra																					
GAM MK	Gamuda	*	7	3.98	10,312	4.40	Buy	689.9	784.8	675.0	27.4	31.0	26.4	(1.8)	14.5	12.9	15.1	7.8	7.1	1.1	*37.2*
IJM MK	IJM Corp	*	3	1.64	5,775	2.14	Buy	296.7	297.1	347.2	8.3	8.4	9.8	8.5	19.8	19.6	16.8	3.0	5.2	0.6	*7.9*
LTK MK	LITRAK	*	3	4.95	2,676	5.08	Hold	173.6	243.7	291.2	32.6	45.9	54.8	29.6	15.2	10.8	9.0	18.5	5.1	2.0	*31.6*
CMS MK	Cahya Mata Swak	*	12	0.84	897	1.27	Buy	219.3	195.1	204.9	20.5	18.2	19.1	(3.5)	4.1	4.6	4.4	6.1	2.4	0.3	*(34.8)*
SCGB MK	Sunway Con	*	12	1.57	2,024	1.58	Hold	112.6	135.8	132.2	8.7	10.5	10.3	8.8	18.0	15.0	15.2	18.2	4.5	2.7	*0.6*
PINT MK	Pintaras	*	6	2.13	353	2.20	Hold	43.2	31.7	35.6	26.1	19.1	21.5	(9.3)	8.2	11.2	9.9	7.8	4.7	0.9	*(23.9)*
Consumer																					
AEON MK	AEON Co. (M)	*	12	1.36	1,909	2.35	Buy	93.5	124.5	133.2	6.7	8.9	9.5	19.1	20.3	15.3	14.3	6.9	2.9	1.1	*(3.5)*
CAB MK	Carlsberg Brew		12	22.62	6,916	27.80	Buy	206.3	321.4	353.2	67.5	105.1	115.5	30.8	33.5	21.5	19.6	89.1	4.6	31.9	*12.6*
HEIM MK	Heineken Msia		12	23.80	7,190	27.70	Buy	245.7	349.9	370.9	81.3	115.8	122.8	22.9	29.3	20.6	19.4	82.3	4.9	18.2	*14.2*
PAD MK	Padini Holdings	*	6	3.17	2,086	4.35	Buy	104.1	144.0	143.0	15.8	21.9	21.7	17.2	20.1	14.5	14.6	15.5	3.2	2.3	*13.2*
NESZ MK	Nestle (Malaysia)	*	12	130.50	30,602	101.20	Sell	579.8	664.8	701.5	247.2	283.5	299.1	10.0	52.8	46.0	43.6	113.6	2.2	52.4	*(2.8)*
QLG MK	QL Resources	*	3	5.06	12,314	4.25	Sell	221.1	274.6	310.8	9.1	11.3	12.8	18.8	55.9	44.8	39.6	10.4	0.7	4.7	*10.7*
SEM MK	7 - Eleven Msia		12	1.56	1,757	2.05	Buy	44.3	83.1	95.8	3.9	7.4	8.5	47.6	40.0	21.1	18.4	65.0	2.6	13.7	*4.0*
MNHB MK	Mynews Holdings		10	0.48	327	0.60	Buy	(39.7)	(17.9)	5.8	(5.8)	(2.7)	0.9	n.a.	n.a.	n.a.	56.5	(8.2)	0.0	1.5	*(42.5)*
BFD MK	Berjaya Food	*	6	0.86	1,500	1.24	Buy	89.8	119.0	113.3	25.1	33.1	31.5	12.0	3.4	2.6	2.7	22.4	6.7	0.6	*98.8*
LHIB MK	Leong Hup Intl.		12	0.45	1,624	0.50	Hold	85.4	120.7	225.2	2.3	3.3	6.2	64.2	19.3	13.5	7.2	6.4	2.2	0.9	*(15.2)*
MRDIY MK	MR D.I.Y. Group	*	12	2.03	19,137	2.70	Buy	431.8	528.5	641.3	4.6	5.6	6.8	21.6	44.1	36.3	29.9	39.7	1.8	14.4	*(15.7)*
INNATURE MK	InNature	*	12	0.60	420	0.65	Buy	15.0	19.8	23.3	2.1	2.8	3.3	24.5	28.0	21.3	18.0	13.2	3.4	2.7	*(11.9)*
FFB MK	Farm Fresh	*	3	1.59	2,954	1.95	Buy	81.4	97.5	121.2	4.4	5.2	6.6	22.4	36.3	30.4	24.3	14.7	0.8	7.8	*17.8*

** Shariah compliant, based on Securities Commission's latest Shariah compliant list effective 27 May 2022; Source: Bloomberg pricing, Maybank IBG Research*

… continued

Ticker	Company		FYE	Price 6 Oct MYR	Market Cap MYR m	TP MYR	Rec	Core Net Profit CY21 |---------- MYR m ----------|	CY22E	CY23E	EPS CY21 |--------- MYR sen --------|	CY22E	CY23E	CAGR 21-23E (%)	PER CY21 |------------- (x) ------------|	CY22E	CY23E	ROE CY22E (%)	Div Yld CY22E (%)	PBV CY22E (x)	*Px chg YTD (%)*
Gaming																					
SPTOTO MK	Sports Toto		6	1.76	2,377	1.86	Hold	174.0	196.0	231.9	13.0	14.6	17.2	14.9	13.5	12.1	10.3	21.3	8.3	2.9	*(6.6)*
MAG MK	Magnum		12	1.50	2,156	1.58	Hold	-	128.0	186.4	-	8.9	13.0	n.a.	n.a.	16.9	11.5	5.4	5.7	0.9	*(21.1)*
GENT MK	Genting Bhd		12	4.51	17,366	5.25	Buy	(1,176.0)	339.3	1,819.5	(30.5)	8.8	47.3	n.a.	n.a.	51.3	9.5	1.1	3.3	0.6	*(3.4)*
GENM MK	Genting Msia		12	2.78	15,749	3.27	Buy	(915.1)	405.6	1,273.1	(16.2)	7.2	22.5	n.a.	n.a.	38.6	12.4	3.0	3.2	1.1	*(3.5)*
Glove																					
HART MK	Hartalega Hldgs	*	3	1.80	6,151	1.86	Sell	3,169.9	1,015.2	242.3	92.6	29.7	7.0	(72.5)	1.9	6.1	25.6	19.5	9.9	1.0	*(68.6)*
KRI MK	Kossan Rubber	*	12	1.13	2,883	1.10	Sell	2,903.5	217.4	192.7	113.5	8.5	7.5	(74.3)	1.0	13.3	15.1	5.2	2.7	0.7	*(41.1)*
TOPG MK	Top Glove Corp	*	8	0.68	5,405	0.52	Sell	5,342.2	217.0	211.5	66.4	2.7	2.6	(80.2)	1.0	25.3	26.0	3.9	1.7	0.9	*(73.9)*
Healthcare																					
KPJ MK	KPJ Healthcare	*	12	0.83	3,583	1.01	Buy	47.7	129.8	186.8	1.1	2.9	4.2	95.4	75.0	28.4	19.6	5.9	1.9	1.7	*(25.7)*
OPTIMAX MK	Optimax	*	12	0.75	405	0.74	Buy	12.3	13.3	14.0	1.8	2.0	2.1	8.0	41.7	37.5	35.7	22.5	2.3	3.7	*16.3*
Media																					
ASTRO MK	Astro Msia Hldgs		1	0.73	3,807	0.82	Hold	479.8	362.8	427.1	9.2	6.9	8.2	(5.7)	7.9	10.6	8.9	29.8	7.1	3.2	*(23.2)*
Non-Banking Financials																					
BURSA MK	Bursa Malaysia	*	12	6.31	5,107	6.26	Hold	355.3	210.6	250.2	43.9	26.0	30.9	(16.1)	14.4	24.3	20.4	26.7	4.0	6.2	*(3.7)*
ALLZ MK	Allianz Malaysia		12	13.40	2,385	16.75	Buy	523.5	453.2	482.1	138.3	130.9	139.3	0.4	9.7	10.2	9.6	10.0	4.7	0.6	*4.2*
RCE MK	RCE Capital	*	3	1.54	1,128	1.65	Hold	131.1	132.1	132.6	18.1	18.0	18.0	(0.3)	8.5	8.6	8.6	14.2	5.7	1.2	*(22.2)*
MNRB MK	MNRB		3	0.93	728	1.10	Hold	133.2	128.3	141.6	17.0	16.4	18.1	3.3	5.5	5.7	5.1	5.0	3.0	0.3	*(17.0)*
Oil & Gas																					
DLG MK	Dialog Group	*	6	2.03	11,454	4.90	Buy	525.9	555.5	631.6	9.4	9.9	11.2	9.4	21.7	20.6	18.1	9.6	1.8	2.2	*(22.5)*
ICON MK	Icon Offshore	*	12	0.11	284	0.16	Buy	25.2	49.2	51.9	0.9	1.8	1.9	45.3	11.7	5.8	5.5	10.7	0.0	0.7	*0.0*
WSC MK	Wah Seong Corp	*	12	0.59	453	1.20	Buy	2.9	63.6	92.3	0.4	8.2	11.9	445.4	146.3	7.1	4.9	9.8	0.0	0.7	*(11.4)*
MMHE MK	MMHE	*	12	0.39	624	0.85	Buy	(116.4)	57.0	77.3	(7.3)	3.6	4.8	n.a.	n.a.	10.8	8.1	3.2	0.0	0.4	*(1.3)*
BAB MK	Bumi Armada		12	0.40	2,338	0.58	Buy	669.9	722.0	749.5	11.4	12.2	12.7	5.5	3.5	3.2	3.1	15.4	0.0	0.5	*(16.0)*
YNS MK	Yinson Hldgs		1	2.15	6,236	4.05	Buy	416.2	551.8	620.6	14.0	18.5	20.4	20.7	15.4	11.6	10.6	11.9	1.0	1.9	*(17.6)*
SAPE MK	Sapura Energy	*	1	0.04	639	0.03	Sell	(2,996.8)	(629.4)	(208.7)	(18.8)	(3.9)	(1.3)	n.a.	n.a.	n.a.	n.a.	609.6	0.0	0.1	*(20.0)*
VEB MK	Velesto Energy	*	12	0.12	986	0.22	Buy	(181.3)	(28.2)	71.8	(2.2)	(0.3)	0.9	n.a.	n.a.	n.a.	13.3	(1.3)	0.0	0.4	*0.0*
FAVCO MK	Favelle Favco	*	12	1.58	369	1.95	Hold	48.4	45.2	56.9	21.7	19.8	24.9	7.1	7.3	8.0	6.3	9.1	53.8	0.6	*(34.4)*
HIBI MK	Hibiscus Petro	*	6	0.98	1,972	1.90	Buy	219.3	439.7	551.6	11.3	21.9	27.5	55.9	8.7	4.5	3.6	16.7	1.0	1.0	*20.2*
Petrochemical																					
PCHEM MK	Petronas Chem	*	12	8.64	69,120	11.20	Buy	7,206.0	6,300.5	6,234.5	90.1	78.8	77.9	(7.0)	9.6	11.0	11.1	16.5	4.6	1.8	*(3.1)*
TTNP MK	Lotte Chemical	*	12	1.40	3,189	1.75	Sell	972.9	63.6	190.6	42.7	2.8	8.4	(55.6)	3.3	50.0	16.7	0.5	0.9	0.2	*(41.7)*

** Shariah compliant, based on Securities Commission's latest Shariah compliant list effective 27 May 2022; Source: Bloomberg pricing, Maybank IBG Research*

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Ticker	Company		FYE	Price 6 Oct MYR	Market Cap MYR m	TP MYR	Rec	Core Net Profit CY21	CY22E	CY23E	EPS CY21	CY22E	CY23E	CAGR 21-23E (%)	PER CY21	CY22E	CY23E	ROE CY22E (%)	Div Yld CY22E (%)	PBV CY22E (x)	Px chg YTD (%)
								|---------- MYR m ----------|			|--------- MYR sen --------|			|------------- (x) ------------|					
Plantation																					
GENP MK	Genting Plant	*	12	5.71	5,123	6.40	Hold	434.9	570.9	358.7	48.5	63.6	40.0	(9.2)	11.8	9.0	14.3	10.6	6.7	1.0	*(14.8)*
IOI MK	IOI Corp	*	6	3.79	23,545	4.21	Hold	1,494.2	1,581.5	1,377.9	24.0	25.4	22.2	(3.8)	15.8	14.9	17.1	14.1	3.7	2.1	*1.6*
KLK MK	KL Kepong	*	9	20.70	22,318	28.10	Buy	1,881.0	2,034.6	1,491.6	174.4	188.7	138.3	(10.9)	11.9	11.0	15.0	15.6	5.0	1.7	*(5.0)*
SDPL MK	Sime Plantation	*	12	4.17	28,839	4.42	Hold	2,383.6	2,503.0	1,734.7	34.5	36.2	25.1	(14.7)	12.1	11.5	16.6	15.4	5.8	1.8	*10.9*
BPLANT MK	Boustead Plant	*	12	0.65	1,445	0.87	Buy	241.3	294.0	120.7	10.8	13.1	5.4	(29.3)	6.0	4.9	11.9	9.7	20.3	0.5	*(0.8)*
SOP MK	Swak Oil Palms	*	12	2.48	2,208	2.67	Hold	504.4	483.1	286.4	58.8	56.3	33.4	(24.6)	4.2	4.4	7.4	15.1	4.6	0.5	*6.6*
TSH MK	TSH Resources	*	12	0.97	1,332	0.98	Hold	173.8	175.6	123.2	12.6	12.7	8.9	(16.0)	7.7	7.6	10.8	9.6	6.3	0.8	*(10.6)*
THP MK	TH Plantations	*	12	0.42	371	0.55	Hold	73.2	74.7	45.2	8.3	8.4	5.1	(21.6)	5.1	5.0	8.2	10.5	0.0	0.5	*(30.0)*
TAH MK	Ta Ann Hldgs	*	12	3.37	1,484	4.06	Buy	287.2	308.9	198.9	65.2	70.1	45.2	(16.7)	5.2	4.8	7.5	17.8	12.5	0.9	*(4.0)*
Property Dev																					
SPSB MK	SP Setia	*	12	0.57	2,323	0.73	Hold	296.0	315.5	440.0	7.3	7.7	10.8	21.6	7.8	7.4	5.3	2.2	1.1	0.2	*(55.8)*
UEMS MK	UEM Sunrise	*	12	0.26	1,315	0.27	Sell	(120.9)	73.0	104.2	(2.4)	1.4	2.1	n.a.	n.a.	18.6	12.4	1.1	1.2	0.2	*(18.8)*
SWB MK	Sunway Berhad	*	12	1.60	7,823	1.63	Hold	369.3	540.1	612.1	6.2	9.1	10.3	28.9	25.8	17.6	15.5	4.4	1.8	0.8	*(7.0)*
ECW MK	Eco World Devt	*	10	0.62	1,811	0.81	Buy	229.2	229.0	280.4	7.8	7.8	9.5	10.9	7.9	7.9	6.5	4.7	6.5	0.4	*(27.2)*
ECWI MK	Eco World Intl	*	10	0.27	636	0.31	Sell	64.6	(79.2)	(33.9)	2.7	(3.3)	(1.4)	#NUM!	9.8	n.a.	n.a.	(3.1)	0.0	0.2	*(39.1)*
TILB MK	Tambun Indah	*	12	0.71	310	0.85	Hold	63.6	59.8	55.1	14.7	13.8	12.7	(7.1)	4.8	5.1	5.6	8.1	7.8	0.4	*(2.8)*
SDPR MK	Sime Darby Prop	*	12	0.44	2,992	0.54	Buy	136.9	285.5	355.3	2.0	4.2	5.2	61.2	22.0	10.5	8.5	3.1	4.8	0.3	*(26.1)*
REIT																					
AXRB MK	Axis REIT	*	12	1.85	3,036	2.12	Buy	137.4	169.7	182.3	8.9	10.4	11.2	12.2	20.8	17.8	16.5	6.7	5.0	1.2	*(4.6)*
SALAM MK	Al-Salam REIT	*	12	0.42	244	0.40	Sell	14.6	17.1	22.8	2.5	2.9	3.9	24.9	16.8	14.5	10.8	2.9	6.0	0.4	*(13.4)*
KLCCSS MK	KLCCP Stapled	*	12	6.60	11,915	6.67	Hold	617.1	655.1	738.8	34.2	36.3	40.9	9.4	19.3	18.2	16.1	4.8	4.6	0.9	*0.8*
SENTRAL MK	Sentral REIT		12	0.87	927	0.97	Hold	82.2	73.0	76.2	7.7	6.8	7.1	(4.0)	11.2	12.7	12.2	5.5	6.7	0.7	*(4.4)*
CLMT MK	Capitaland MT		12	0.53	1,156	0.55	Hold	37.3	87.8	94.3	1.8	4.1	4.4	56.3	29.2	12.8	11.9	3.7	6.7	0.5	*(8.7)*
SREIT MK	Sunway REIT		12	1.42	4,863	1.46	Hold	147.9	291.7	298.2	4.7	8.5	8.7	36.5	30.4	16.7	16.3	5.7	5.4	1.0	*0.7*
IGBREIT MK	IGB REIT		12	1.58	5,661	1.59	Hold	200.1	320.6	362.6	5.6	9.0	10.1	34.3	28.2	17.6	15.6	8.4	5.2	1.5	*(4.2)*
PREIT	Pavilion REIT		12	1.26	3,850	1.41	Buy	125.9	243.4	262.2	4.1	8.0	8.5	44.0	30.7	15.8	14.8	6.1	6.1	1.0	*0.8*
YTLREIT MK	YTL REIT		6	0.90	1,525	0.96	Hold	133.3	141.0	144.9	7.8	8.3	8.5	4.4	11.5	10.8	10.5	5.1	6.3	0.5	*(2.7)*
RENEWABLES																					
CYP MK	Cypark Res	*	10	0.44	259	1.01	Buy	62.0	58.1	66.2	9.9	9.3	10.7	3.7	4.4	4.7	4.1	5.5	0.0	0.2	*(51.6)*
SOLAR MK	Solarvest Hldgs	*	3	0.73	484	0.93	Buy	9.2	18.0	24.9	1.4	2.7	3.7	64.4	53.7	27.4	19.9	9.7	0.8	3.0	*(41.5)*

** Shariah compliant, based on Securities Commission's latest Shariah compliant list effective 27 May 2022; Source: Bloomberg pricing, Maybank IBG Research*

5. Summary of key measures

Summary of Budget 2023

Strategy	Key Measures, Incentives & Allocations

FIRST AGENDA: RESPONSIVE BUDGET

Strategy 1 **EXPANSIONARY FISCAL POLICY**

1. The 2023 budget will allocate a total of RM372.3 billion. This is a significant increase compared to Budget 2022's allocation of RM332 billion and Budget 2021's of RM322 billion.
2. From this allocation, the Government proposes to provide RM272.3 billion for operating expenditure, RM95 billion for development expenditure and RM5 billion under the COVID-19 fund. A total of RM2 billion is allocated for the Contingency Reserve Advance Warrant.

Strategy 2 **PRIORITY TO THE RAKYAT**

Focus 1: B40 Group

1. For 2023, RM2.5 billion has been allocated to help the poor. More than 450,000 households are eligible to receive the Social Welfare Department (JKM) monthly assistance following the expansion of income eligibility requirements for welfare recipients, in line with the 2019 Food Poverty Line Income (PLI) at RM1,169.
2. Starting 2023, the provision of electricity bill subsidy of up to RM40 will be expanded according to the latest Food PLI, which refers to the households with an income of RM1,169 and below, as compared to the existing requirement of RM980 and below.
3. Enhancements of the Bantuan Keluarga Malaysia (or BKM):
   - Households earning less than RM2,500 with five children or more will receive BKM of RM2,500. This is a new category that reflects the Government's efforts in easing the burden of families with many children. Meanwhile, households with up to four children are eligible to receive BKM of between RM1,000 to RM2,000.
   - For households earning between RM2,500 to RM5,000, the BKM cash assistance of between RM500 to RM1,250 has been provided depending on the number of children.
   - For single senior citizens and singles, they will continue to receive BKM of RM600 and RM350 respectively subject to certain income thresholds.
   - In 2023, the Government will continue to provide additional assistance of RM500 to single parents with children. This means that single parents are eligible to receive a maximum assistance up to RM3,000. The BKM maximum rate has increased as compared to RM2,500 in 2023.
4. BKM 2023 will benefit 8.7 million recipients with an allocation of RM7.8 billion. BKM 2023 is a comprehensive assistance that has been improved significantly as compared to Bantuan Sara Hidup 2020 with 5 million recipients and total allocation of RM5 billion.
5. In total, cash assistance under the JKM and BKM in 2023 will be more than RM10 billion.
6. Following the implementation of the Keluarga Malaysia Hardcore Poverty Eradication Programme in 2022 with a total allocation RM150 million, RM1 billion will be allocated to accelerate the agenda of eradicating hardcore poor whereby RM750 million is provided by the Government, whereas RM250 million will be provided by GLCs as corporate social responsibility (CSR).
7. For 2023, the Hardcore Poverty Eradication Programme will provide economic opportunities to more than 50,000 hardcore poor households to elevate their income, among others, through agricultural projects as well as entrepreneurial ventures involving products and services. The assistance includes training, start-up capital and incentives for agricultural, marketing and digitalisation.

Focus 2: M40 group

1. Resident individual's income tax rate will be reduced by 2 percentage points for the chargeable income brackets band of between more than RM50,000 to RM 100,000. This will benefit around one million taxpayers: -
   - First: For the chargeable income band of between more than RM50,000 to RM70,000, the income tax rate will be lowered from 13% to 11%; and
   - Second: For the chargeable income band of between more than RM70,000 to RM100,000, the income tax rate will be lowered from 21% to 19%.

Source: Budget 2023 Speech

Summary of Budget 2023 (continued)

Strategy	Key Measures, Incentives & Allocations

FIRST AGENDA: RESPONSIVE BUDGET (continued)

2. At the same time, the chargeable income band of between more than RM250,000 will be combined with the chargeable income band of more than RM400,000 to RM600,000 and subject to the tax rate of 25%.
3. With the above special income tax treatment, the income tax savings for middle income group is up to RM1,000, meanwhile, for top income group is up to RM250 per taxpayer. An estimated RM800 million is the additional income available to be spent by the Rakyat.
4. Towards embracing a cashless society, the e-Pemula initiative for M40 will be implemented by offering e-wallet credits amounting RM100 to per M40 individual with annual earnings less than RM100,000. It is estimated that 8 million individuals are eligible to claim this e-wallet credit, resulting in a total allocation of RM800 million.

<u>Focus 3: Women & Children</u>

1. Tribunal for Anti-Sexual Harassment will be established in early 2023.
2. In dealing with mental health issues and domestic violence, the Government will reinforce Local Social Support Centres. A total of RM8 million is allocated for these centres to serve as a location to provide early intervention as well as psychosocial advocacy and counselling. The Government will also continue to collaborate with relevant NGOs and shelters in supporting victims.
3. The Government will increase screening tests by subsidizing mammogram tests and cervical cancer screening programmes for women with a total allocation of RM11 million.
4. To encourage more women entrepreneurs to grow their businesses and enhance their marketing strategy, a total of RM235 million of financing will be provided specifically for women under BSN Semarak-Nita, Tekunita TEKUN, DanaNITA MARA and Biz Lady Bank Rakyat schemes.
5. To strengthen the role of women in corporate sector leadership, the Securities Commission will introduce a special training programme to enhance women's skills, identify and subsequently increase the numbers of qualified women to be appointed as board members.
6. To encourage women to return to the workforce after a career break, the Government proposes income tax exemptions on the income received from 2023 to 2028 year of assessment.
7. The Government will allocate RM188 million for early childhood education programs under the Community Development Department or KEMAS. This allocation includes the construction of 10 KEMAS nurseries including 3 new projects in Port Dickson, Negeri Sembilan, Limbang, Sarawak and Pasir Putih, Kelantan. The allowance for KEMAS voluntary community assistants will be increased in 2023.
8. To ease the financial burden for parents who provide early education for their children, the Government has agreed to extend until the year assessment 2024, the tax relief of up to RM3,000 on fees paid for TASKA and TADIKA registered with the Government.
9. To increase the birth rate as well as reduce the incidence of stunting among children, under the Cahaya Mata Keluarga Malaysia Initiative, mothers from BKM households who give birth in 2023 will be provided a one-off cash assistance of RM500, with a total allocation of RM150 million.

<u>Focus 4: Youth</u>

1. To ensure appropriate access to employment for youth, the Government will provide hiring incentives under SOCSO to employers who hire youth aged between 18 to 30 years old who have been unemployed for more than 3 months. This hiring incentive will also be extended to employers who hire TVET graduates.
2. To encourage youth to venture into business, a total of RM305 million financing facilities reserved for youths will be provide by SME Bank, TEKUN, MARA, BSN and Agrobank.
3. The Penjaja Muda Keluarga Malaysia scheme by BSN with a fund of RM50 million will offer loans of up to RM500,000, potentially benefitting 10,000 youths.
4. To assist the B40 especially youths to earn an income through services such as taxi, bus and e-hailing, the Government has agreed to waive the fees of getting taxi, bus and e-hailing licenses under MyPSV programme.
5. The Government has also agreed to waive the fees for B40 in getting B2 motorcycle license.
6. To further encourage youth to work, the TEKUN Mobilepreneur Financing Scheme will be continued with RM10 million to finance youth interested to provide delivery services using motorcycles.

Source: Budget 2023 Speech

Summary of Budget 2023 (continued)

Strategy	Key Measures, Incentives & Allocations

FIRST AGENDA: RESPONSIVE BUDGET (continued)

7. To help to bridge the digital gap among the youth as well as to facilitate learning lessons, Pakej Remaja Keluarga Malaysia, which has facilitated access to an affordable prepaid package with a subscription to internet data plan of only RM30 for 3 months, will be extended until April 2023.
8. The e-Pemula initiative will be continued with an increase to RM200 from RM150 for the benefit of 2 million youths aged between 18 and 20 years old and full-time students aged 21 years old and above with an estimated allocation of RM400 million.

Focus 5: Social Protection

1. To alleviate the burden of SOCSO payments by self-employed individuals, the Government will bear 80% of the contribution value, thus self-employed individuals will only have to pay 20% of contributions. In 2023, a total of RM150 million will be allocated and extended to those who are self-employed such as taxi drivers and gig workers from information technology sectors.
2. In 2023, the Government will start to gradually make mandatory SKSPS contributions for all self-employed sectors, particularly the high-risk sectors. The implementation will be phased, commencing with the public transportation sector and goods or food delivery sectors.
3. The EPF voluntary contribution will be raised from RM60,000 to RM100,000 per year. To further encourage voluntary contribution, the Government will also expand the scope of tax relief for life insurance premiums or life takaful contribution by including voluntary contributions to EPF of up to RM3,000.
4. Extension of the I-Saraan programme to 2023 and will be improved through raising the matching contribution ceiling from RM250 to RM300. With a total allocation of RM30 million, this initiative is expected to help more than 100,000 contributors.
5. Extension of the Kasih Suri Keluarga Malaysia Programme to 2023 and enhance the programme through additional protection under SOCSO Scheme. Housewives who make EPF contribution of at least RM60 annually will stand to receive a government matching incentive worth up to RM600 per year, comprising RN480 of EPF contributions and RM120 contributions for SOCSO coverage. This programme is expected to benefit 200,000 housewives with total allocation of approximately RM120 million.
6. To increase the equity holdings among Bumiputera, the maximum investment limit for Amanah Saham Bumiputera (ASB) and ASB2 has been increased from RM200,000 to RM300,000.
7. The BSN will also provide soft loans to assist B40 Bumiputera in investing ASB with loans offered at the rate of 1.5% annually, with a fund size of RM100 million.

Focus 6: Cost of Living

1. The Government will allocate over RM55 billion for subsidies, aid and incentives under Budget 2023 to mitigate the challenge of rising cost of living, in conjunction with other measures such as, through price controls on goods and services.
2. RM200 million will be provided to support the cost of transportation of essential goods. The Government will also expand the coverage of the program to 23 new areas.
3. An allocation of RM100 million for the Jualan Murah Keluarga Malaysia (JMKM) program. JMKM will be implemented across the country, covering 600 Dun and 12 Parliament of the Federal Territory in addition to being extended to public universities.

Focus 7: Jobs & Skills Training

1. The Hiring Incentive under SOCSO will continue in 2023 to encourage employers to provide new job opportunities for unemployed particularly from among the disabled, Orang Asli, ex-convicts and women returning to work. A hiring incentive of between RM600 to RM750 per month will be paid for 3 months to the employer. These incentives will also be provided to veterans and employers and Private Employment Agencies that replace foreign workers with local workers.
2. Under this Hiring Incentives, SOCSO will be provide RM150 million and is expected to provide career opportunities for more than 700,000 job seekers.

Source: Budget 2023 Speech

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Summary of Budget 2023 (continued)

Strategy	Key Measures, Incentives & Allocations

FIRST AGENDA: RESPONSIVE BUDGET (continued)

3. To ease the job seekers' burden, SOCSO will provide mobility assistance of RM500 to those who secure employment outside of their state of residence. A mobility assistance of RM1,000 will be provided for work related migration from Sabah or Sarawak to the Peninsular and vice versa.
4. Continuation of MySTEP with 50,000 career opportunities on a contract basis, comprising of 15,000 jobs in the public sector and 35,000 jobs with GLCs. Public sector jobs under MyStep will be extended until 31 December 2023.
5. Increase the MySTEP salary rate by RM100, which is between RM1,500 to RM2,100 compared to RM1,400 to RM2,000 previously.
6. HRD Corp will provide a total of RM750 million which will provide skills training to more than 800,000 to increase their productivity and enhance income opportunities.
7. The Securities Commission, in collaboration with the Capital Market Development Fund, will implement Capital Market Graduate Program involving a fund of RM30 million to enhance the employability of 9,000 graduates for careers in the capital market.
8. RM20 million will be provided for Program Usahawan Siswazah (PUSh) to enable 1,000 graduates to venture into entrepreneurship.

Focus 8: Education & TVET

1. The Ministry of Education has received the largest allocation of RM55.6 billion compared to RM52.5 billion in 2022.
2. Bantuan Awal Persekolahan (BAP) will be given to all students regardless of their parents' income. A total of RM825 million has been provided for this purpose, larger than RM450 million allocated in 2022.
3. Enhancement of Rancangan Makanan Tambahan (RMT) with the increase in the per student rate for RMT supplied food from RM2.50 to RM3.50 for the Peninsular and RM3 to RM4 for Sabah, Sarawak, and Labuan. These rate increments will take effect starting, October 2022.
4. A total of RM777 million is provided for RMT, a significant increase from RM280 million in 2020 due to the rise in the number of recipients, rate increases, and the provision of daily milk supply. More than 800,000 students, 7,300 food operators, and local milk suppliers will benefit.
5. A total of RM2.3 billion will be allocated to provide a conducive and safe learning space for school students, a significant increase from RM1.7 billion in 2022.
6. Of that amount, RM1.1 billion is provided for school maintenance and repair works, including for National Schools, National-type Chinese Schools, National-type Tamil Schools, and religious schools.
7. A total of RM1.2 billion is provided to upgrade the infrastructure of dilapidated schools, with 123 projects in Sabah and 182 projects in Sarawak.
8. The Government will build 5 new schools at the cost of RM430 million
9. The Ministry of Higher Education will be allocated RM1.5 billion.
10. RM3.8 billion will be provided as scholarships and educational loans to benefit the youth.
11. The cost-of-living allowance for MARA and PETRONAS students has been increased while the cost of living for local JPA-sponsored students and officers will be standardised and increased by RM100 per month at all levels of study (Elaun Sara Hidup of a JPA-sponsored student will be between RM730 to more than RM980 per month).
12. A large part of the allocation of RM6.6 billion provided for MARA, Yayasan Peneraju, and UiTM will be to provide Bumiputera with access to education loans and opportunities to pursue professional fields such as engineering.
13. The Government will provide RM10 million to encourage public universities to inculcate green campus activities. More than RM300 million will also be provided for upgrading and maintaining public university facilities.
14. RM35 million will be allocated to upgrade The Malaysia Research and Education Network (MYREN) project at public universities, polytechnics, and community colleges in terms of bandwidth capacity.

Source: Budget 2023 Speech

Summary of Budget 2023 (continued)

Strategy	Key Measures, Incentives & Allocations

FIRST AGENDA: RESPONSIVE BUDGET (continued)

15. In line with the agenda to upgrade TVET as led by the National TVET Council, a total of RM6.7 billion is allocated under the 7 main ministries implementing various TVET initiatives.
16. Among them, RM180 million is provided as a TVET Training Fund to the Perbadanan Tabung Pembangunan Kemahiran to offer loans for the benefit of 12,000 of Malaysian Skills Certification program trainees. The Government will also continue the Dual National Training Scheme program with an allocation of RM20 million for the benefit of 3,000 trainees.
17. The Government proposes to extend until 2024, the individual income tax relief of up to RM8,000 for annual net savings into the Skim Simpanan Pendidikan Nasional (SSPN).
18. Discounts on the PTPN loan repayment from 1 November 2022 to 30 April 2023 at the following rates:
    - First: A discount of 20% on the outstanding debt for full settlement
    - Second: A discount of 15% for repayment of at least 50% of the outstanding debt made in a single payment
    - Third: A discount of 15% for repayment through salary deductions or direct debit according to a repayment schedule.

Focus 9: Home Ownership

1. The stamp duty exemption will be increased from 50% to 75% and effective until 31 December 2023 with respect to property transfer documents and loan agreements for homes valued between RM500,001 and RM1 million.
2. Real estate transfers between families, such as from husband to wife, father to child, or grandfather to grandson, will only be subject to a stamp duty at the flat rate of RM10.
3. The allocation for the construction of new rural houses and renovation of rural houses will be increased from RM361 million to RM460 million. The ceiling rate for building new houses has been raised, for example, from RM68,000 to RM79,000 per unit in Sabah and Sarawak.
4. For the urban areas, an allocation of RM367 million will be provided for Program Perumahan Rakyat (PPR), including new projects In Marang, Teremgganu and Arau, Perlis for the benefit of 12,400 potential new residents. At the same time, the Rumah Mesra Rakyat program will involve the construction of 4,250 housing units with an allocation of RM358 million.
5. The Government guarantee facility through Syarikat Jaminan Kredit Perumahan (SJKP) will be increased by RM3 billion.
6. To build a harmonious community, the Government is committed to:
    - First: Ensuring the safe condition of low and medium-cost strata homes through maintenance, including replacing obsolete lifts with an allocation of RM290 million
    - Second: Improving mobile health services, including in low-cost housing areas, with an allocation of RM22 million
    - Third: Providing classes for the children of low-cost home residents who fell behind in education during the COVID-19 pandemic
    - Fourth: Intensified income-enhancing activities by Yayasan Hassanah, including helping food entrepreneurs utilise Cloud Kitchen platforms

Focus 10: Public Transportation

1. The Government will continue to subsidise service costs and increase public transport accessibility throughout the country.
2. RM180 million is provided to improve public bus accessibility for citizens in Melaka, Kota Kinabalu, and Kuching. For the benefit of Kedah residents, the Government will also replace 18 stage buses operated by MARA.
3. For the benefit of rural residents, the Government is committed to continue the subsidisation of air transport services with an allocation of RM209 million.
4. The Government will improve facilities at 7 airports in Sabah and Sarawak by building wheelchair ramps to benefit around 2,300 MASWings wheelchair bound users.

Source: Budget 2023 Speech

Summary of Budget 2023 (continued)

Strategy	Key Measures, Incentives & Allocations

FIRST AGENDA: RESPONSIVE BUDGET (continued)

5. To reduce travel costs, the Government will continue the My50 monthly pass initiative to benefit nearly 180,000 users. Through My50, users enjoyed a subsidy of RM150 per month or RM1,800 per year from the Government.
6. Provision of RM9 million for JKR to replace the existing ferry over 34 years old for ferry services between Pengkalan Kubor and Takbai, Narathiwat, Thailand.
7. For individual taxi owners, the Government will extend the scope of the exemption from excise duty and sales tax on the sale, ownership transfer, personal use, or disposal of car taxis to executive taxis, TEKS1M and airport taxis.

Focus 11: Community

1. The Orang Asli community will be allocated RM305 million, an increase from RM274 million in 2022. Allocations, among others, include the social assistance programs, programme to improve the quality of life and Orang Asli Settlement Integrated Development.
2. The Government will carry out the Plantation Replanting Projects for Orang Asli, including replanting of rubber and oil palm, which will benefit more than 2,100 Orang Asli. The Government will also intensify the Entrepreneurship Development Program to aid with business equipment and entrepreneurial guidance to 550 Orang Asli.
3. Foundations under the GLC will sponsor at least 10 Orang Asli to further their studies abroad.
4. Almost RM1 billion will be specifically provided for the welfare of the elderly, which is a significant increase compared to RM580 million in 2020.
5. The Government continues to provide grants amounting to RM21 million to support the operation of private care institutions for the elderly, children, and disabled run by NGOs.
6. A total of RM1.2 billion is allocated specifically for the disabled, including assistance for chronic patients care, allowance for disabled workers who cannot work, and allowances for disabled workers.
7. The Government will continue to empower Skim 1 OKU 1 Perniagaan by exempting business by disabled from paying registration fees and business license renewal fees under the Companies Commission of Malaysia.
8. RM10 million will be allocated to provide travel vouchers to the disabled via e-hailing services.
9. RM20 million will be allocated for teaching aids and facilities improvement in special needs schools.
10. The Government will provide special incentives to establish 50 new TASKA OKU in addition to the existing 13.
11. The Government will establish Pusat Panggilan Mesra OKU, which will pilot the use of video call mode and signs interpreter services to convey information to the disabled.
12. The Government will provide RM10 million under the Agropenjara initiative to expand agricultural and plantation activities involving 70 acres of prison land.
13. The addition tax deductions provided to employers who employs ex-convicts will also be extended to employers who employ former students at the Henry Gurney School as well as Government protection and rehabilitation institutions and non-Government care centres registered under JKM.
14. The Government will establish the Pusat Transit-Anjung Sinar as a centre to provide temporary shelter before getting a job and starting a new life for the welfare of children under the care of JKM institutions. GLCs will also help them with sustainable job opportunities.

Focus 12: Paddy Farmers, Fisherman & Smallholders

1. To ensure the welfare and support of paddy farmers, fishermen, and smallholders, the Government will provide the following:
   - **First:** Various subsidies and incentives include subsides for the price of rice, rice fertiliser, Huma rice fertiliser, and rice production incentives, as well as fishing incentives with an allocation of RM1.8 billion, an increase of RM100 million compared to 2022

Source: Budget 2023 Speech

Summary of Budget 2023 (continued)

Strategy	Key Measures, Incentives & Allocations

FIRST AGENDA: RESPONSIVE BUDGET (continued)

- **Second:** Reintroduction of aid to paddy farmers for 2023 with RM200 per month for 3 months per season to 240,000 paddy farmers with an allocation of RM228 million.
- **Third:** Bantuan Musim Tengkujuh (BMT) to rubber smallholders amounting to RM200 per month for 4 months to 320,000 smallholders with an allocation of RM256 million. This means that smallholders will get BMT of RM800 compared to RM600 previously.
- **Fourth:** To increase farmers' income, the Insentif Pengeluaran Lateks was introduced together with the Target program to improve the supply chain of rubber raw materials through cooperatives
- **Fifth:** Skim Perlindungan Pertanian will be introduced to protect agricultural producers from unpredictable risks such as weather, disease, and pests, and will initially be piloted to paddy farmers.

Strategy 3 **BUSINESS SUPPORT**

Focus 1: Tax Deductions & Cash Grants

1. The Government proposes that the tax rate on chargeable income for the first RM100,000 be reduced from 17% to 15%. This reduction will provide savings of up to RM2,000 each for approximately 150,000 MSMEs taxpayers.
2. To assist the micro small traders, the Government proposes to give a one-off grant of RM1,000 to all registered MSMEs and registered taxi drivers. It is expected that 1 million businesses will benefit from this grant with a total allocation of RM1 billion.

Focus 2: Financing Facilities

1. SemarakNiaga 2023 is enhanced with a total value of RM45 billuon compared to the RM40 billion announced 2022. This value includes direct loans, alternative financing and financing guarantees.
2. In 2023, RM1.7 billion will be available as microcredit loans and financing facilities to benefit small entrepreneurs. Among others include:
   - **First:** BSN microcredit loans with funds of RM950 million, which includes RM350 million for the Skim Penjaja Kecil Keluarga Malaysia, of which RM150 million is for Bumiputera entrepreneurs
   - **Second:** Loan facilities for small entrepreneurs under TEKUN specifically for Bumiputera, women, youth, and the informal sector with an allocation of RM300 million
   - **Third:** Financing facilities specifically for the Chinese community with an allocation of RM200 million with an interest rate as low as 4%
   - **Fourth:** The Micor-funding scheme under the Indian Community Entrepreneur Development Scheme (or SPUMI) with a fund of RM25 million. RM100 million is also provided under MITRA, among others for the development of entrepreneurs
   - **Fifth:** The iTEKAD social finance program provided RM10 million and was also matched with funds from financial institutions through zakar and cash waqf contributions
3. RM100 million will be allocated for Tabung Modal Pusingan Suruhanjaya Koperasi Malaysia to provide funding to help cooperatives develop the agro-food industry. This effort is also supported by the Supply Chain Empowerment for Cooperative Program towards a consistent supply of food and consumer needs at lower prices.
4. Through Bank Negara Malaysia, RM10 billion in loan funds are provided to encourage the automation and digitisation of SMEs and support the food security agenda and the recovery of the tourism sector.
5. TERAJU, with a total allocation of RM135 million will provide financing support and facilities under the Dana Kemakmuran Bumiputera
6. 200 million worth of funds will be allocated under the Perbadanan Usahawan Nasional Behad (PUNB) to provide financing facilities and entrepreneur development programs for Bumiputera in the retail sector.
7. The Government will extend 100% stamp duty exemption on restructuring or rescheduling loans or financing agreements until 2024

Source: Budget 2023 Speech

Summary of Budget 2023 (continued)

Strategy	Key Measures, Incentives & Allocations

FIRST AGENDA: RESPONSIVE BUDGET (continued)

Focus 3: Strategic Financings, Alternatives & Financing Guarantees

1. The Government also finances strategic projects through Bank Pembangunan Malaysia Berhad (BPMB). Various financing funds are offered with an interest subsidy of 1.5% per year. Among others include:
    - **First:** Sustainable Development Financing Scheme worth RM1.5 billion to facilitate the effort to achieve the 17 sustainable development goals
    - **Second:** Tourism Infrastructure Scheme amounting to RM1 billion to strengthen the recovery of the tourism sector, including funding for hotel rehabilitation, urban renewal, and heritage conservation
    - **Third:** Maritime and Logistics Scheme of RM1 billion, expanded scope to support Malaysia oil and gas, ship building and ship repair.
2. The Government will also continue the Rehabilitation and Support Through Equity facility (or RESET) and Skim Modal Kerja through BPMB with a total fund amounting to RM1 billion, to provide support in the form of equity injection and working capital for high-potential companies affected by COVID-19.
3. For 2023, Syarikat Jaminan Pembiayaan Perniagaan (SJPP), will provide financing guarantees of up to RM9 billion for SMEs, especially for strategic sectors such as agro-food, sustainable technology, tourism, and oil and gas.
4. New forms of financial innovation, such as equity crowdfunding (ECF), will continue to be supported.
5. To support start-up companies in the sustainability and social enterprise agenda, the Government will provide Malaysia Co-investment Fund (MyCIF) funds amounting to RM30 million in addition to ECF funds.
6. The Government also plans to expand the scope of tax incentives for individual investors in start-up companies through equity crowdfunding to cover investments made through Limited Liability Partnership Nominee companies.

Focus 4: Recovery of Tourism Industry

1. RM200 million will be allocated to strengthen the recovery of the tourism sector with incentives, promotion, and marketing initiatives.
2. The Government will focus on high-value tourists from specific market segments or nice markets segments such as ecotourism, golf, scuba sports, and international exhibitions and conventions.
3. A total of RM90 million is allocated as matching grants, such as the Geran Padanan Galakan Melancong (GAMELAN) program, which involves promotion and marketing campaigns with the industry. Matching grants are also provided for organising tourism programs, including international sports events.
4. There are also matching grants to encourage charter flight services, especially from the Middle East and East Asia. The Government with Malaysia Airport Holdings Berhad and international airlines, will work on new direct flight routes from international destinations, such as from West Asia and the Middle East, to Malaysia, including the international airports of Kota Kinabalu and Penang.
5. RM10 million will be provided through a joint venture with a network of ecotourism industry players for:
    - **First:** Upgrading ecotourism attractions in Gua Kelam, Perlis
    - **Second:** Pioneering sustainable solid waste management efforts in Pulau Perhentian, Terengganu
    - **Third:** Intensified activities at Taman Pertanian Jubli Perak Sultan Ahmad Shah, Kuantan, Pahang
6. To promote Keluarga Malaysia to travel to domestic destinations, the Government has allocated RM25 million to provide incentives to the people in the form of discounts, vouchers, and rebates for accommodation, tourism packages, handicrafts and works of art up to RM100.
7. To further encourage the tourism sector to prioritise local handicrafts, the Government proposes special tax deduction for hotels that purchases local handicraft products limited up to RM500,000.
8. To support funding for tourism industry operators, the Government proposes the following initiatives:
    - **First:** BNM Tourism Financing (PTF) with RM500 million allocation with an increase of financing size from RM300,000 to RM500,000

Source: Budget 2023 Speech

Summary of Budget 2023 (continued)

Strategy	Key Measures, Incentives & Allocations

FIRST AGENDA: RESPONSIVE BUDGET (continued)

- **Second:** 100% tax exemption on statutory income for tour operators who guide at least 200 foreign tourists a year or at least 400 local tourists
- **Third:** Excise duty exemption of 50% be given to tourism operators on the purchase of new CKD tourism vehicles such as hire and drive cars and excursion buses
- **Fourth:** Reinvestment Allowance for selected hotel and tourism projects will be introduced under the Income Tax Act 1967

9. To further transform Kuala Lumpur City Centre into a creative and cultural hub, RM10 million is allocated to ThinkCity for the Kuala Lumpur City Centre restoration initiative.

10. Existing tax incentives for the export of private healthcare services will be extended until 2025. Malaysia Healthcare Travel Council will be provided with RM20 million to strengthen Malaysia's position as a destination of choice for health tourists.

Summary of Budget 2023 (continued)

Strategy	Key Measures, Incentives & Allocations

SECOND AGENDA: RESPONSIBLE BUDGET

Strategy 1 **FISCAL RESPONSIBILITY**

Focus 1: Fiscal Consolidation

1. The Fiscal Responsibility Bill 2022 will be presented at this meeting, assuming no unforeseen circumstances.

Focus 2: Revenue Sustainability

1. To improve the efficiency of tax administration, the Government is implementing 2 initiatives as follows:
   - **First:** e-Invoicing will be implemented in phases from 2023 with the system development, and pilot project involving selected taxpayers
   - **Second:** From the year 2023, individual citizens and permanent residents who reach the age of 18 will be given TIN automatically and made mandatory for all stamping documents and instruments.
2. The Government will introduce the minimum effective tax rate at the global level as recommended under Pillar 2 of the BEPS Action Plan 1 and implement the Qualified Domestic Minimum Top-up Tax upon completion of detailed study and targeted for the year 2024.

Focus 3: Addressing Revenue Leakage

1. The strategy to eradicate cigarette and liquor smuggling activities is being carried out through the Multi-Agency Task Force and will be continued with the following steps:
   - **First:** Tighten the control of cigarette and liquor imports through legal landing places, including private jetties
   - **Second:** Limit liquor trans-shipment activities to certain ports only
   - **Third:** Bukit Kayu Hitam Immigration, Customs, Quarantine and Security Complex as a single exit point for the northern region
   - **Fourth:** Provision of special rewards to strengthen efforts to combat cigarette and liquor smuggling.
2. The Government will also implement comprehensive reforms in 2023 to address the leakage of essential goods subsidies. Among the main focuses are to ensure that subsidies petrol is used by citizens and not by non-citizens; that subsidies diesel is enjoyed by vehicle carriers and not smuggled to business premises or abroad; that subsidized cooking oil and LPG are used by low-income households; and that the quota is not used up by traders.

Source: Budget 2023 Speech

Summary of Budget 2023 (continued)

Strategy	Key Measures, Incentives & Allocations
SECOND AGENDA: RESPONSIBLE BUDGET (continued)	
Strategy 2	**BUILDING NATIONAL RESILIENCE**

Focus 1: Healthcare

1. The Ministry of Health will be allocated RM36.1 billion, compared to RM32.4 billion in 2022, which is one of the biggest increases among ministries.
2. A total of RM4.9 billion will be allocated for the procurement of medicines, reagents, vaccines, and consumables, which is 12% more than in 2022.
3. The Government will provide RM420 million for the refurbishment of underfunded hospitals and clinics as well as the replacement of obsolete equipment, with priority given to dilapidated health facilities in the rural areas of Sabah and Sarawak.
4. Several new hospitals, clinics, and facilities will be built, including the procurement of equipment at a cost of nearly RM1.8 billion. This includes Maran Hospital in Pahang costing RM350 million, the women and children building at Hospital Melaka; 5 New Health Clinics, among others, in Linggi Negeri Sembilan, Penampang, Sabah and Sepupok Sarawak; and the procurement of mobile CT scans to provide CT scan services, especially for the benefit of rural areas in Sabah and Sarawak.
5. The Government plans to establish a National Mental Health Centre of Excellence which will integrate all parties under MyMYNDA for the well-being of the people's mental health with an allocation of RM34 million.
6. The scope of income tax relief on personal, spouse, and child medical treatment expenses will be expanded to include dental examination and treatment expenses limited to expenses of up to RM1,000 from the year assessment 2023.
7. RM10 million is also allocated for the procurement of 10 units of 3D printing machines to produce dentures, which can reduce the patient's visit time to the dental clinic from 5 times to 2 times.
8. The Government plans to exempt import duty and sales tax on nicotine replacement therapy products.
9. Increase allocation for rare disease to RM25 million to cover the increasing cost of treating rare diseases.
10. The Government will establish a Trust Fund for the Treatment of Rare Diseases for public donations. Tax deductions equivalent to the actual contribution amount will be given to the contributors.
11. The Government will intensify the Rakyat's screening agenda through the skim Peduli Kesihatan for B40 Group (PEKA B40), including for diabetes screening, with an allocation of RM80 million.
12. The Government will enhance the SOCSO Health Screening Program as a precaution to detect critical illnesses. This program will benefit 2.3 million workers registered under SOCSO Disability Scheme with an allocation of RM80 million.
13. Proposes to continue MySalam to BKM recipients throughout 2023. This scheme is open to insurance and takaful companies to ensure the continuity of MySalam.
14. Extension of Perlindungan Tenang Voucher to the purchase of flood disaster protection products for residential homes.
15. PETRONAS plans to contribute RM2 billuon to KWAN in 2023.

Focus 2: National Defence & Public Safety

1. Allocation of RM18.3 billion and RM17.4 billion to the Ministry of Home Affairs and the Ministry of Defence respectively.
2. In 2023, the key initiatives are:
    - **First:** The purchase and maintenance of ATM assets to increase defence readiness with an allocation of nearly RM4 billion
    - **Second:** The purchase and maintenance of PDRM assets to improve domestic security with an allocation of RM431 million.
    - **Third:** The maintenance of all APMM ships and boats to ensure the safety of the country's maritime areas with an allocation of RM485 million
    - **Fourth:** The procurement of body scanners and upgrading facilities in 5 prisons, with an allocation of RM19 million

Source: Budget 2023 Speech

Summary of Budget 2023 (continued)

Strategy	Key Measures, Incentives & Allocations

SECOND AGENDA: RESPONSIBLE BUDGET (continued)

- **Fifth:** Improve border control by establishing 25 border control posts with PGA, Immigration, ESSCOM, and APMM, among others at Bau, Sarawak and Tanjung Gemok, Pahang.

3, The welfare of the uniformed bodies and retirees will be provided with initiatives as follows:

- **First:** RM118 million to maintain the Rumah Keluarga Angkatan Tentera (RKAT). The Government plans to build new RKAT of various classes at Butterworth Air Base, Penang, in addition to the 12 ongoing RKAT construction projects
- **Second:** RM42 million to repair and upgrade PDRM residential quarters
- **Third:** RM28 million to continued 3 construction projects of quarters under the Prison Department
- **Fourth:** Offer a 50% discount on public transport operated by PRASARANA to more than 21,000 ATM veteran card holders and Police retiree cards in Kuala Lumpur, Selangor, Pahang and Penang.

Focus 3: Food Security

1. To increase food production, the Government intends to utilise the abandoned lands owned by FELDA, FELCRA and RISDA and agencies under MAFI with an area of up to 800 acres of food crops.
2. To increase the self-sufficiency level (SSL) and encourage the use of technology in the agricultural sector, the following initiatives will be implemented:
    - **First:** SKIM Agrofood BNM up to RM5 million at a rate of 3.75% for agrifood entrepreneurs to increase the production productivity with a fund of RM1 billion
    - **Second:** Agrovest investment program by Agrobank to provide seed funding to agricultural startup companies and to establish an e-commerce platform with a fund of RM250 million.
    - **Third:** Investment of RM200 million under Khazanah's Dana Impak with a focus on increasing the income and productivity of smallholders
    - **Fourth:** The Digital AgTech program under MDEX will be expanded to 264 Pertubuhan Peladang Kawasan with an allocation of RM20 million to train more smallholders to adapt to digital technology
    - **Fifth:** Proposed Pembasmian Kemiskinan Tegar Keluarga Malaysia Program will focus on the promotion of low SSL food crops such as chili, ginger, and cabbage and among selected households.
3. To support sustainable agriculture efforts, RM56 million is allocated MAFI for various initiatives.
4. Tax incentive period for food production projects will be extended until the end of 2025, with the scope expanded to include modern agricultural projects based on Controlled Environment Agriculture.
5. Extension of tax incentive application period for companies with BioNexus status until the end of 2024 with enhancements such as increased income tax exemption on statutory income from 705 to 100%.
6. Accelerate the Capital Allowance claim and exempt 100% of income tax on capital expenditure. The incentive applies to the manufacturing, service, and agricultural sectors that adapt to the elements of Industry 4.0, including entrepreneurs who implement a closed cage system.

Focus 4: Disaster Preparedness

1. The Government is committed to implementing the Flood Mitigation Plan until 2030 as a long-term strategy with a total allocation of RM15 billion. For 2023, most of the projects will be awarded with an estimated expenditure of RM700 million. Among the main projects are:
    - **First:** The implementation of the Sabo Dam project worth RM500 million in 46 locations
    - **Second:** The construction of dual-purpose reservoir worth nearly RM2 billion, which involves alignment along the Klang River and the Rasau River, Selangor as a 2-pronged strategy to overcome the flood problem and as a raw water storage.
    - **Third:** Additional phase for the Integrated River Basin in Sungai Golok, Kelantan wort RM500 million
    - **Fourth:** Upgrade of the weather forecast system to strengthen flood forecasts and warnings at the national level

Source: Budget 2023 Speech

Summary of Budget 2023 (continued)

Strategy	Key Measures, Incentives & Allocations
SECOND AGENDA: RESPONSIBLE BUDGET (continued)	
	2. Allocation of RM174 million to the National Disaster Management Agency (NADMA) and an additional RM400 million to get ready to assist if there is a flood at the end of 2022. 3. Early allocation of RM100 million under the National Disaster Relief Fund and the MoF is ready to increase the allocation if needed. 4. 2 additional field hospitals costing RM47 million will be completed by the end of 2022 in Kluang, Johor and Kota Kinabalu, Sabah. 50 ambulance units will be stationed in 50 military camps, ready to be deployed in the event of a disaster. 5. Allocation of RM20 million under Pertubuhan Prihatin Komuniti Grant to 2,000 resident associations that carry out voluntary activities. **Focus 5: Financial Scams** 1. Several measures to curb scam will be implemented, including: • **First:** Establishment of National Scam Response Centre (NSRC) involving a joint venture of PDRM, BNM, MCMC and NFCC and partnerships with financial institutions. • **Second:** Banking institutes to tighten internet banking security measures by discontinuing the usage of SMS-based-one-time-passwords (OTP) for high-risk transactions • **Third:** Provide a platform for the public to report any account or number suspected of being used by online scam criminals • **Fourth:** Raise individual's awareness of financial and digital literacy to reduce the risk of becoming victims of fraud. **2.** Allocation of RM73 million to CyberSecurity Malaysia to strengthen the monitoring, detection, and reporting of cyber threats. **3.** To protect credit consumers while promoting a fair and orderly consumer credit market, the Government is committed to present the Consumer Credit Bill in 2Q2023 as well as the establishment of the Consumer Credit Monitoring board under the MoF.
Strategy 3	**PUBLIC SERVICE DELIVERY EFFICIENCY** **Focus 1: Public Private Partnership** 1. The Public-Private Partnership Master Plan 2023-2032 will be launched. In this respect, the Infrastructure Facilitation Fund is provided worth RM250 million to support the implementation of high impact PPP projects in the infrastructure, social and security sectors. **Focus 2: Government Linked Companies** 1. GLC and GLIC have committed to invest up to RM50 billion in 2023, including, among others: • **First:** Investment of up to RM1.3 billion in venture capital to support start-up companies and entrepreneurs • **Second:** Food security projects totaling RM1.35 billion • **Third:** Propelling the sustainability agenda with the establishment of a sustainability framework for investments and setting targets to achieve a fully ESG compliant portfolio and carbon neutral operations • **Fourth:** Green procurement implementation of up to RM330 million as well as provision of EV infrastructure • **Fifth:** Domestic direct investment of up to RM45 billion **2.** KWSP will continue the development of Kwasa Damansara by creating more than 6,000 job opportunities with a total investment of more than RM3 billion until 2025. **3.** PNB, through the Merdeka Tower 118 project, undertake a gross development value (GDV) of more than RM10 billion and create up to 4,000 new job opportunities.

Source: Budget 2023 Speech

Summary of Budget 2023 (continued)

Strategy	Key Measures, Incentives & Allocations

SECOND AGENDA: RESPONSIBLE BUDGET (continued)

4. Khazanah Nasional Berhad will be investing RM1 billion under Dana Impak in 2023 of which RM230 million of that fund will be invested in local high technology companies.
5. Extension of the intellectual property development tax incentive until 31 December 2025
6. To encourage more angel investors to contribute to economic activities through capital funding in investee companies, the tax incentive will be extended until 31 December 2026.
7. To further develop competent Bumiputera businesses, Ekuiti Nasional Berhad (EKUINAS) will provide Dana Asas investment amounting to RM100 million as a direct investment fund specifically for Bumiputera companies with a minimum investment of 10 million each.

<u>**Focus 3: Government Administration**</u>

1. An allocation of RM20 million to establish 2 new UTCs while maintaining the upkeep of existing UTCs
2. The Government through MDEC will spearhead efforts to transform UTC as a digital hub. Among them, transactions will be carried out on a cashless basis while promoting various digital activities.
3. The Government will develop 13 Pusat Satelit MYFutureJobs in UTCs across the country with an allocation of RM8 million. HRD Corp and SOCSO will also establish a National Placement Centre in the Kang Valley as a one-stop centre to assist the Rakyat to secure employment.
4. Strengthen consumer advocacy, especially in relation to consumer rights.
5. Provide special funding asssiatance for the appointment of private lawyers to assist consumers in the handling of judicial review application cases at the Tribunal for Consumer Claims Malaysia.
6. The process of documents stamping and stamp duty payment to the Inland Revenue Board will be entirely online through the Stamp Assessment and Payment System by 2024.

<u>**Focus 4: Civil Servant's Welfare**</u>

1. Widen the definition of digital services under the Computer and Smart Phone Financing Scheme to include smart watches.
2. Provision of RM100 subsidy to include insurance and takaful home content coverage worth RM20,000 to lighten the burden on borrowers impacted by disasters.
3. Early redemption of Cash Award in Lieu of Leave (CGR) up to 50% will be increased to a maximum of 90 days.
4. Increased the Special Annual Leave for civil servants in education for more than 10 years by 5 days to 15 days to benefit 500,000 teachers.
5. Award 2023 Special Salary Increment of RM100 to all civil servants Grade 11 to 56, with a financial implication of RM1.5 billion.
6. Provide Special Financial Assistance to 1.3 million civil servants grade 56 and below, amounting to RM700 and 1 million Government pensioners amounting to RM350 with financial implications amounting to RM1.3 billion.
7. Increase the Aidilfitri 2023 Special Financial Assistance to RM600 and will be paid in March 2023. Together with the Special Salary Increment of RM100 effective January 2023 and the Special Financial Assistance of RM700, the total additional amount for eligible civil servants in 2023 will be RM2,5000.

Source: Budget 2023 Speech

Summary of Budget 2023 (continued)

Strategy	Key Measures, Incentives & Allocations

THIRD AGENDA: REFORMIST BUDGET

1. The MoF will prioritise addressing issues by the private sector in the PEMUDAH platform by implementing the following reforms:
    - **First:** Allow accumulated losses that cannot be absorbed by companies in sectors that have a long gestation period of up to a maximum of 20 years to be brought forward
    - **Second:** Propose inclusion of tangible asset such as software as part of the definition of plant under Schedule 3, Income Tax Act 1967
    - **Third:** Establish guideline for charitable hospitals registered as Company Limited by Guarantee to be given income tax exemption equivalent to the amount charitable expenditure incurred. Donors are also given tax deductions of up to 10% from the aggregate income under subsection 44(11C) of the Income Tax Act 1967.
    - **Fourth:** Taxpayers to make electronic transmissions for tax payments from the year assessment 2024
    - **Fifth:** Extend to the end of 2023, the relaxation of Government procurement procedures and regulations, including allowing Government agencies to increase procurement limit by quotations form RM500,000 to RM800,000.

Strategy 1

PROMOTE INVESTMENT AND TRADE

Focus 1: Promote Investment & Trade

1. Creating an investment of over RM1 billion to attract high-value-added investment and generate professional employment opportunities.
2. Provide RM10 million to The Collaborative Research in Engineering, Science and Technology Centre (CREST) to develop applications based on Radio Frequency and Bluetooth technology for the automotive industry.
3. Provide a relocation incentive to attract affected E&E sector investors by extending the tax incentives and 15% flat tax rate for C-Suite until 2024.
4. RM20 million worth of matching grants to support product development and nurture local talents in the medical device industry as well as prioritizing the procurement of pharmaceutical products and medical devices from local manufacturers. Tax incentive for pharmaceutical companies will be extended until 31 December 2025.
5. To attract more aerospace companies and encourage the expansion of existing companies, income tax incentives and investment tax allowances will be extended until 31 December 2025. The Government will provide RM20 million in the form of a matching grant to support the development of aerospace components by local industry players.
6. The Government proposes a special status for Pengerang for the chemical and petrochemical industry's investment incentives as well as agrees to upgrade the Senai Utara-Pandan, Johor North-South Highway from 4 to 6 lanes at a cost of RM510 million.
7. The Government will provide a fund of RM100 million under the Domestic Investment Strategic Fund (DISF) and extend the tax deduction of up to RM1.5 million on expenses incurred for listing on the ACE and LEAP markets until 2025.

Focus 2: Science, Technology & Innovation

1. Allocation of RM364 million for R&D activities led by the Ministry of Higher Education and the Ministry of Science, Technology and Innovation.
2. Allocation of RM50 million which includes:
    - **First:** The development and commercialization of nanotechnology under NanoMalaysia Berhad with an allocation of RM16 million
    - **Second:** Establish a Venture Capital Fund with a fund size of RM10 million to finance high tech companies in the E&E and renewable energy sectors through equity injections
    - **Third:** Allocation of RM7 million to ensure the success of the Malaysia Techlympics 2023
3. The Cradle Fund, as the coordinating of the Malaysian startup ecosystem, will be provided with an allocation of RM50 million.

Source: Budget 2023 Speech

Summary of Budget 2023 (continued)

Strategy	Key Measures, Incentives & Allocations

THIRD AGENDA: REFORMIST BUDGET (continued)

4. For 2023, DE Rantau will provide 6 new locations involving 2,000 short-term rental accommodations certified as Digital Nomad Hubs and expected to benefit 120 start-up companies and will contribute more than RM180 million to the economy.
5. Allocation of RM20 million to MRANTI Technology Park for transformation towards becoming a world-class innovation hub for clusters such as health technology and smart manufacturing.

Focus 3: Commodity Sector

1. Allocation of RM2.6 billion to FELDA, FELCRA and RISDA
2. The National Agricommodity Policy 2030 targets to have at least 1.1 million hectares of rubber planting areas by 2030. A total of RM315 million is provided to implement the Program Pembangunan Kawasan Bertanam Getah Pekebun Kecil to replace old rubber trees.
3. An allocation of RM40 million for Program Pembangunan Semula Hasil Baharu to encourage alternative income for smallholders aside from rubber
4. An allocation of RM70 million to continue improving the level of sustainability in the palm oil industry as well as intensifying efforts to promote and counter anti palm oil campaign at a global level
5. The multi-tiered levy for foreign workers is expected to commence in 2023. Thus the Government intends to re-allocate the additional levies collected to assist employers to undertake automation initiatives.

Focus 4: Local Products

1. The Government will:
    - **First:** Intensify digitisation and automation efforts through the promotion of e-commerce activities under MARTRADE, MARA and MDEC with an allocation of RM59 million
    - **Second:** Empower franchise entrepreneurs under the Vendor Capacity and Development Program 2.0 and the Vendor Research and Commercialisation Grant 2.0 with an allocation of RM15 million
    - **Third:** Encourage the purchase of locally made products through Buy Malaysian Products campaign with an allocation of RM10 million

Focus 5: Creative Sector

1. Allocation of RM50 million to Dana Penerbitan Filem Kenegaraan (DEKAN)
2. Allocation of RM102 million to Dana Kandungan Digital to help market artists' products
3. Tax deduction of up to 10% from the aggregate income for the industry players contributing to the Tabung Komunity Filem and Pembangunan Filem Kenegaraan under FINAS
4. Import duty and sales tax exemption on studio and filming production equipment for providers of equipment and production services including post-production, studio and cinema
5. Intensify Program Merakyatkan Seni, Budaya dan Warisan with an allocation of RM30 million.

Focus 6: Sports industry

1. Allocation of RM332 million which includes:
    - **First:** RM145 million to maintain, upgrade and build sports facilities
    - **Second:** RM154 million to develop a comprehensive sports ecosystem
    - **Third:** RM20 million to provide opportunities for youth to participate in the right motorsports platforms through developments of a drag circuit
    - **Fourth:** RM13 million for development of e-sports
    - **Fifth:** Tax deduction of up to 10% from aggregate income to individuals or corporation contributing to no-profit organisations focusing on sports development at the grassroot level
2. Allocation of RM12 million for the development of paralympic sports

Source: Budget 2023 Speech

Summary of Budget 2023 (continued)

Strategy	Key Measures, Incentives & Allocations

THIRD AGENDA: REFORMIST BUDGET (continued)

3. Allocation of RM5 million to the National Athlete Welfare Foundation (YAKEB) for 2023 onwards.
4. Allocation of RM15 million to the Healthy Malaysia Agenda to promote healthy lifestyle and to reduce risk of non-communicable diseases.

Strategy 2

NATIONAL INFRASTRUCTURE DEVELOPMENT

Focus 1: Largest Development Allocation

1. RM95 billion allocation for development expenditure, largest in comparison to RM75.6 billion in 2022 and RM64 billion in 2021.

Focus 2: Major Development Projects

1. Allocation of RM16.5 billion for the transportation sector through major projects such as Pan Borneo Highway, Gemas-Johor Bahru Electrified Double-Tracking Project, ECRL, RTS Link and Central Spine Road.
2. Allocation of RM11.4 billion for repair and maintenance of Federal roads and Government buildings

Focus 3: Strategic Projects

1. Government's commitment to complete the Kuala Lumpur rail network with 50.8kilometer line. MRT 3 Phase 1 is expected to be completed in 2028, while Phase 2 in 2030. The cost of the project is RM50.2 billion with the projected allocation for 2023 at RM3.3 billion.

Strategy 3

INCLUSIVE DEVELOPMENT

Focus 1: Syiar Islam

1. Allocation of RM1.5 billion for managing and developing Islamic affairs
2. Allocation of RM150 million to maintain educational institutes under the supervision of JAKIM
3. Special one-off payment of RM500 to KAFA teachers, Takmir teachers, Imams, Bilal, Siak, Noja, and Marbut benefitting 72,000 people with the allocation of RM36 million.
4. RM92 million to spur the development of the halal industry which includes:
   - First: Allocation of RM59 million for the Halal Hub Centre Development Project in Tanjung Manis, Sarawak
   - Second: Allocation of RM8 million for the implementation the Malaysia Services and Halla Global program
   - Third: Allocation of RM6.5 million for the implementation of halal industry development initiatives
   - Fourth: Allocation of RM2.5 million to introduce Wakaf Halal PKS OKU

Focus 2: Rural Infrastructure

1. Allocation of RM2.55 billion with a focus on Sabah and Sarawak. Projects include:
   - First: Allocation of RM1.5 billion for rural road inter-village road projects benefitting 110 thousand residents
   - Second: Allocation of 472 million for the Rural Electricity Supply project
   - Third: Allocation of RM381 million for the Rural and Alternative Water Supply Project
   - Fourth: Allocation of RM123 million for the Kampung Street Lights Project
   - Fifth: Allocation of RM54 million for preliminary works to build 85 new bridges
2. Increase in State Road Maintenance Grant (MARRIS) to RM5.2 billion
3. Allocation of RM11 million for the Mobile Bank initiative

Focus 3: Inter-Regional Development

1. Allocation of RM6.2 billion for Sabah and RM5.4 billion for Sarawak.

Source: Budget 2023 Speech

Summary of Budget 2023 (continued)

Strategy	Key Measures, Incentives & Allocations

THIRD AGENDA: REFORMIST BUDGET (continued)

2. Allocation of RM1.4 billion for the 5 main Corridor Regions which imcludes:
    - <u>First:</u> A dairy farm **project in Chuping, Perlis costing RM80 million**
    - <u>Second:</u> Allocation of RM63 million for Human Capital Development Program
    - <u>Third:</u> Allocation of RM80 million for the Rapid Transit Bus Transport System in Johor
    - <u>Fourth:</u> Expansion of Sapangar Bay Container Port, Sabah with the allocation of RM250 million
    - <u>Fifth:</u> An allocation of RM100 million for the Samalaju Water Supply Infrastructure Project Phase 3
3. Extension of existing tax incentive package for another 2 years
4. Allocation of RM25 million for development of key infrastructure in addition to the private sector investing in business assets with potential domestic investments of up to RM4 billion
5. Development of cities bordering Thailand and Kalimantan, Indonesia. Project will cost RM150 million.

<u>**Focus 4: Small & Medium Projects**</u>

1. Allocation of RM3.7 billion which includes RM500 million allocated to class G1 to G4 contractors, RM20 million through the Skim Pembiayaan Kontrak Ekspres (SPIKE) and RM50 million through the Kontraktornita initiative.

<u>**Focus 5: Digital Connectivity**</u>

1. Investment of RM8 billion under the National Digital Infrastricture Plan (JENDELA) Phase 2 project.
2. TNB will pilot the implementation of the Rural Internet
3. The Digital Nasional Berhad (DNB) will expand the 5G network throughout the country to cover 70% of highly populated areas

Strategy 4 **SUSTAINABILITY DEVELOPMENT**

<u>**Focus 1: Commitment towards Carbon Neutral 2050**</u>

1. The Government has tabled the Environment Quality Act (Amendment) 2022 Phase 1
2. Proposal to extend the Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) until 31 December 2025 by improving the incentive period from 3 to 5 years for eligible green activities.
3. Enhancement of Green Technology Financing Scheme (GTFS) through the increase in guarantee schemes to RM3 billion until 2025, expansion of the scope of financing to provide guarantees for the EV sector with guarantee limit up to 60% and increase the waste management sector's financing guarantee up to 80%.
4. Provision of a soft loan under BNM worth RM1 billion under the High Technology & Green Fcility
5. Provision of RM150 million through Dana Impak from Khazanah
6. To support EV adoption, the Government proposes the exemption of import and excise duty exemption until 31 December 2024, exemption on Approved Permit (AP) until 31 December 2023 and exemption for on 100% statutory income tax for year assessment 2023 until 2032 or Investment Tax Allowance of 100% for manufacturers of EV charging equipment.
7. Provide sales rebates of up to RM4,000 to motorcycle entrepreneurs who replace their existing motorcycles with electric motorcycles on Pulau Tuba in Langkawi, Kedah.
8. The Government intends to introduce a carbon tax and will study the feasibility of a carbon mechanism. To support the mechanism, the Government will provide RM10 million as a matching grant to help prepare carbon assessment for SME companies and eligible related products.

<u>**Focus 2: Survival of Biodiversity**</u>

1. Intensify the forest restoration project by planting seedlings
2. Allocation of RM100 million per year to Ecological Transfer for Biodiversity Conservation (EFT)

Source: Budget 2023 Speech

Summary of Budget 2023 (continued)

Strategy	Key Measures, Incentives & Allocations
THIRD AGENDA: REFORMIST BUDGET (continued)	
	3. Allocation of RM39 million to community rangers who control the forest biodiversity
	4. Allocation of RM216 million for rivers conservation projects
	<u>Focus 3: Sustainable Communities</u>
	1. Provision of RM100 million to Yayasan Hasanah
	2. Allocation of RM20 million to the UNDP and the All-Party Parliamentary Group Malaysia
	3. Allocation of RM5 million to empower Bahasa Melayu through the implementation of Program Diplomasi Bahasa dan Budaya by the Ministry of Foreign Affairs and related agencies
	4. Allocation of RM10 million for preservation of other languages and cultures at the community level such as Kadazan Dusun and Siam

Source: Budget 2023 Speech

Research Offices

ECONOMICS

Suhaimi ILIAS
Chief Economist
Malaysia | Philippines | Global
(603) 2297 8682
suhaimi_ilias@maybank-ib.com

CHUA Hak Bin
Regional Thematic Macroeconomist
(65) 6231 5830
chuahb@maybank.com

LEE Ju Ye
Singapore | Thailand | Indonesia
(65) 6231 5844
leejuye@maybank.com

Dr Zamros DZULKAFLI
(603) 2082 6818
zamros.d@maybank-ib.com

Fatin Nabila MOHD ZAINI
(603) 2297 8685
fatinnabila.mohdzaini@maybank-ib.com

Brian LEE Shun Rong
(65) 6231 5846
brian.lee1@maybank.com

Luong Thu Huong
(65) 6231 8467
hana.thuhuong @maybank.com

FX

Saktiandi SUPAAT
Head of FX Research
(65) 6320 1379
saktiandi@maybank.com.sg

TAN Yanxi
(65) 6320 1378
tanyx@maybank.com.sg

Fiona LIM
(65) 6320 1374
fionalim@maybank.com.sg

STRATEGY

Anand PATHMAKANTHAN
ASEAN
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

FIXED INCOME

Winson PHOON, FCA
Head of Fixed Income
(65) 6340 1079
winsonphoon@maybank.com

SE THO Mun Yi, CFA
(603) 2074 7606
munyi.st@maybank-ib.com

PORTFOLIO STRATEGY

CHAN Han Chin
(603) 2297 8888
hanchin.chan@maybank-ib.com

ONG Seng Yeow
(65) 6231 5839
ongsengyeow@maybank.com

MIBG SUSTAINABILITY RESEARCH

Jigar SHAH
Head of Sustainability Research
(91) 22 4223 2632
jigars@maybank.com

Neerav DALAL
(91) 22 4223 2606
neerav@maybank.com

REGIONAL EQUITIES

Anand PATHMAKANTHAN
Head of Regional Equity Research
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com

WONG Chew Hann, CA
Head of ASEAN Equity Research
(603) 2297 8686
wchewh@maybank-ib.com

MALAYSIA

Anand PATHMAKANTHAN *Head of Research*
(603) 2297 8783
anand.pathmakanthan@maybank-ib.com
• Strategy

WONG Chew Hann, CA
(603) 2297 8686
wchewh@maybank-ib.com
• Non-Bank Financials (stock exchange)
• Construction & Infrastructure

Desmond CH'NG, BFP, FCA
(603) 2297 8680
desmond.chng@maybank-ib.com
• Banking & Finance

LIAW Thong Jung
(603) 2297 8688 tjliaw@maybank-ib.com
• Oil & Gas Services- Regional
• Automotive

ONG Chee Ting, CA
(603) 2297 8678 ct.ong@maybank-ib.com
• Plantations - Regional

YIN Shao Yang, CPA
(603) 2297 8916 samuel.y@maybank-ib.com
• Gaming – Regional
• Media • Aviation • Non-Bank Financials

TAN Chi Wei, CFA
(603) 2297 8690 chiwei.t@maybank-ib.com
• Power • Telcos

WONG Wei Sum, CFA
(603) 2297 8679 weisum@maybank-ib.com
• Property • Glove

Jade TAM
(603) 2297 8687 jade.tam@maybank-ib.com
• Consumer Staples & Discretionary

Nur Farah SYIFAA
(603) 2297 8675
nurfarahsyifaa.mohamadfuad@maybank-ib.com
• Renewable Energy • REITs

Arvind JAYARATNAM
(603) 2297 8692
arvind.jayaratnam@maybank.com
• Petrochemicals • Technology

Shafiq KADIR, CFA
(603) 2297 8691
msshafiqk.abkadir@maybank-ib.com
• Healthcare • Software

LOH Yan Jin
(603) 2297 8687
lohyanjin.loh@maybank-ib.com
• Ports • Shipping

Eugene HOO Yee Hui
(603) 2082 6819
eugene.hoo@maybank.com

TEE Sze Chiah *Head of Retail Research*
(603) 2082 6858 szechiah.t@maybank-ib.com
• Retail Research

Nik Ihsan RAJA ABDULLAH, MSTA, CFTe
(603) 2297 8694
nikmohdihsan.ra@maybank-ib.com
• Chartist

Amirah AZMI
(603) 2082 8769 amirah.azmi@maybank-ib.com
• Retail Research

SINGAPORE

Thilan WICKRAMASINGHE *Head of Research*
(65) 6231 5840 thilanw@maybank.com
• Banking & Finance - Regional
• Consumer

Eric ONG
(65) 6231 5924 ericong@maybank.com
• Healthcare • Transport • SMIDs

Kelvin TAN
(65) 6231 5837 kelvintan1@maybank.com
• Telcos • Industrials

LI Jialin
(65) 6231 5845 jialin.li@maybank.com
• REITs

Jarick SEET
(65) 6231 5848 jarick.seet@maybank.com
• Technology

PHILIPPINES

Jacqui de JESUS *Head of Research*
(63) 2 8849 8840
jacqui.dejesus@maybank.com
• Strategy • Conglomerates

Rachelleen RODRIGUEZ, CFA
(63) 2 8849 8843
rachelleen.rodriguez@maybank.com
• Banking & Finance • Transport • Telcos

Daphne SZE
(63) 2 8849 8847
daphne.sze@maybank.com
• Consumer

Miguel SEVIDAL
(63) 2 8849 8844
miguel.sevidal@maybank.com
• REITs • Property • Gaming

Fiorenzo de JESUS
(63) 2 8849 8846
fiorenzo.dejesus@maybank.com
• Utilities

THAILAND

Jesada TECHAHUSDIN, CFA
(66) 2658 6300 ext 1395
jesada.t@maybank.com
• Banking & Finance

Vanida GEISLER, CPA
(66) 2658 6300 ext 1394
Vanida.G@maybank.com
• Property • REITs

Yuwanee PROMMAPORN
(66) 2658 6300 ext 1393
Yuwanee.P@maybank.com
• Services • Healthcare

Wasu MATTANAPOTCHANART
(66) 2658 6300 ext 1392
wasu.m@maybank.com
• Telcos

Surachai PRAMUALCHAROENKIT
(66) 2658 5000 ext 1470
Surachai.p@maybank.com
• Auto • Conmat • Contractor • Steel

Suttatip PEERASUB
(66) 2658 5000 ext 1430
suttatip.p@maybank.com
• Food & Beverage • Commerce

Jaroonpan WATTANAWONG
(66) 2658 5000 ext 1404
jaroonpan.w@maybank.com
• Transportation • Small cap

INDONESIA

Jeffrosenberg CHENLIM *Head of Research*
(62) 21 8066 8680
Jeffrosenberg.lim@maybank.com
• Strategy

Willy GOUTAMA
(62) 21 8066 8500
willy.goutama@maybank.com
• Consumer

Richard SUHERMAN
(62) 21 8066 8691
richard.suherman@maybank.com
• Metals & Mining

Etta Rusdiana PUTRA
(62) 21 8066 8683
etta.putra@maybank.com
• Telcos

Satriawan, CTA
(62) 21 8066 8682
satriawan@maybank.com
• Chartist

VIETNAM

Quan Trong Thanh *Head of Research*
(84 28) 44 555 888 ext 8184
thanh.quan@maybank.com
• Strategy • Banks

Hoang Huy, CFA
(84 28) 44 555 888 ext 8181
hoanghuy@maybank.com
• Strategy • Technology

Le Nguyen Nhat Chuyen
(84 28) 44 555 888 ext 8082
chuyen.le@maybank.com
• Oil & Gas • Logistics

Nguyen Thi Sony Tra Mi
(84 28) 44 555 888 ext 8084
trami.nguyen@maybank.com
• Consumer Discretionary

Tyler Manh Dung Nguyen
(84 28) 44 555 888 ext 8085
manhdung.nguyen@maybank.com
• Utilities • Property

Tran Thi Thanh Nhan
(84 28) 44 555 888 ext 8088
nhan.tran@maybank.com
• Consumer Staples

Nguyen Le Tuan Loi
(84 28) 44 555 888 ext 8088
loi.nguyen@maybank.com
• Industrials

Nguyen Thi Ngan Tuyen
Head of Retail Research
(84 28) 44 555 888 ext 8081
tuyen.nguyen@maybank.com
• Retail Research

Nguyen Thanh Lam
(84 28) 44 555 888 ext 8086
thanhlam.nguyen@maybank.com
• Chartist

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Malaysia

Maybank Investment Bank Berhad
(A Participating Organisation of
Bursa Malaysia Securities Berhad)
33rd Floor, Menara Maybank,
100 Jalan Tun Perak,
50050 Kuala Lumpur
Tel: (603) 2059 1888;
Fax: (603) 2078 4194

Stockbroking Business:
Level 8, Tower C, Dataran Maybank,
No.1, Jalan Maarof
59000 Kuala Lumpur
Tel: (603) 2297 8888
Fax: (603) 2282 5136

Singapore

Maybank Securities Pte Ltd
Maybank Research Pte Ltd
50 North Canal Road
Singapore 059304

Tel: (65) 6336 9090

London

Maybank Securities (London) Ltd
PNB House
77 Queen Victoria Street
London EC4V 4AY, UK

Tel: (44) 20 7332 0221
Fax: (44) 20 7332 0302

Hong Kong

MIB Securities (Hong Kong) Limited
28/F, Lee Garden Three,
1 Sunning Road, Causeway Bay,
Hong Kong

Tel: (852) 2268 0800
Fax: (852) 2877 0104

Indonesia

PT Maybank Sekuritas Indonesia
Sentral Senayan III, 22nd Floor
Jl. Asia Afrika No. 8
Gelora Bung Karno, Senayan
Jakarta 10270, Indonesia

Tel: (62) 21 2557 1188
Fax: (62) 21 2557 1189

India

MIB Securities India Pte Ltd
1101, 11th floor, A Wing, Kanakia
Wall Street, Chakala, Andheri -
Kurla Road, Andheri East,
Mumbai City - 400 093, India

Tel: (91) 22 6623 2600
Fax: (91) 22 6623 2604

Philippines

Maybank Securities Inc
17/F, Tower One & Exchange
Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: (63) 2 8849 8888
Fax: (63) 2 8848 5738

Thailand

Maybank Securities (Thailand) PCL
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road Pathumwan,
Bangkok 10330, Thailand

Tel: (66) 2 658 6817 (sales)
Tel: (66) 2 658 6801 (research)

Vietnam

Maybank Securities Limited
Floor 10, Pearl 5 Tower,
5 Le Quy Don Street,
Vo Thi Sau Ward, District 3
Ho Chi Minh City, Vietnam

Tel : (84) 28 44 555 888
Fax : (84) 28 38 271 030

Sales Trading

Kevin Foy
Regional Head Sales Trading
kevinfoy@maybank.com
Tel: (65) 6636-3620
US Toll Free: 1-866-406-7447

Indonesia
Helen Widjaja
helen.widjaja@maybank.com
(62) 21 2557 1188

London
Greg Smith
gsmith@maybank.co.uk
Tel: (44) 207-332-0221

Philippines
Keith Roy
keith_roy@maybank.com
Tel: (63) 2 848-5288

India
Sanjay Makhija
sanjaymakhija@maybank.com
Tel: (91)-22-6623-2629

www.maybank.com/investment-banking
www.maybank-keresearch.com