Maybank IB Research

October 26, 2015

Malaysia Strategy

Budget 2016: Strengthening resilience

- Budget 2016 addresses a concern of ours, while measures to support consumption and GDE expansion are positive.
- Budget 2016 reaffirms our Overweight call on construction; we have not changed forecasts, calls of any of our coverage.
- We are encouraged, and have lifted YE targets for the KLCI. Defensive strategy still, mindful of the external risks.

What we think

Strengthening resilience. Budget 2016 focuses on strengthening domestic resilience amid challenges and uncertainties at the external front. The budget allocations are guided by the 'people's economy' while the 'capital economy' remains in focus.

Measures to support consumption. One major positive of Budget 2016 is the acknowledgement of the M40 group, which will benefit from raised tax reliefs to help cushion against the higher cost of living. Together with salary adjustments for 1.6m civil servants, and higher BRIM payouts, these 'people related' measures will help to support broad-based consumption.

GDE expansion stays on course. Government development expenditure will be 5.4% higher, in line with the 11MP allocation. Two new infra projects were announced (BRT Kota Kinabalu, Jln Tun Razak traffic dispersal) while the mega rail projects (KVMRT 2, KVLRT 3, Gemas-JB, KL-SG HSR) were reiterated.

Two other pertinent measures. #1 Minimum wage will go up from 1 July 2016 by 11-15%. Our channel checks reveal that the impact to bottomline is marginal-to-small, ranging from <0.5% (auto & semi-con) to <5% (plantation). #2 Malaysian telco prepaid users will receive rebates equivalent to the amount of GST paid. It is howeer not clear as to who bears the cost of the GST credits. If telcos were made to bear, up to 4% of telcos' EBITDA could be at risk.

Positive reassurance. We view Budget 2016 as a 'defensive' management of the macro-economic resources against a backdrop of external challenges and uncertainties. That Budget 2016 is based on an average USD48/bbl crude oil price assumption (our concern in the past) shows that it is realistic - there is upside potential when commodity prices recover. We have not changed the earnings forecasts and calls of any of our stock coverage.

Strategy. We have turned more constructive on the domestic front, but stay mindful on the external risks. We lift our target valuations for the KLCI back to mean deriving a new 1,730 target for end-2015 and 1,830 for end-2016. We continue to adopt a defensive strategy for equities, focusing on values. We remain Overweight on construction, glove producers, and semi-con/technology - the latter two are also potential beneficiaries of the TPPA.

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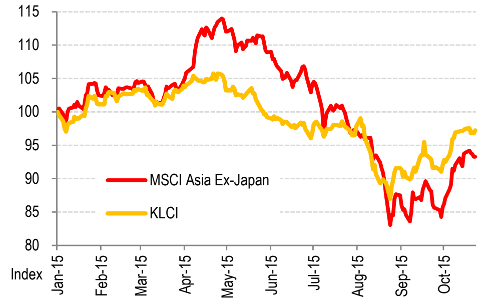
KLCI vs MSCI



Current KLCI:	1,711 (23 Oct)
2015 YE target:	1,730 (from 1,610)
2016 YE target:	1,830 (from 1,750)

M'sia equities growth & valuation

		2014A	2015E	2016E
KLCI @ 1,711	**PE (x)**	**18.5**	**16.8**	**15.4**
Earnings Growth	(%)	-0.1%	1.9%	8.1%
Research Universe	**PE (x)**	**17.6**	**17.3**	**15.8**
Earnings Growth	(%)	0.6%	1.8%	9.4%

Budget 2016 highlights

Strengthening resilience, realistic assumption

Budget 2016 focuses on strengthening domestic resilience amid challenges and uncertainties at the external front which are expected to persist into 2016. The budget allocations are guided by the 'people's economy' while the 'capital economy' remains in focus. Government operating expenditure will be flattish to support consumption, while development expenditure will expand 5.4% to stimulate growth. Government revenue is based on a realistic assumption of crude oil prices (dated Brent) averaging USD48/bbl, and consequently a lower MYR16b dividend contribution from PETRONAS in 2016 vs MYR26b in 2015. Fiscal deficit is projected to stay on a downtrend, amid just a tad lower at 3.1% of GDP in 2016 vs 3.2% in 2015, reflecting the government's commitment towards a balanced budget. The economy (real GDP) is expected to grow within the 4-5% range in 2016, in line with our house's revised forecast of 4.7%, vs 4.5-5.5% in 2015 (we forecast +.9%).

2016 Budget: Strategic initiatives

1st	Strengthening economic resilience
2nd	Ensuring inclusiveness
3rd	Empowering human capital
4th	Enhancing productivity, innovation and green technology
5th	Saveguarding the well-being of the Rakyat ('People')

Source: Economic Report 2015/16

2016 macro targets, and government finances

GDP growth	4-5% (2015: 4.5-5.5%)
Inflation	2-3% (2015: 2-2.5%)
Current account as a % of GNI	0.5-1.5% (2015: 1.5-2.5%)
Government revenue	MYR225.7b (2015: MYR222.5b)
Government operating expenditure	MYR215.2b (2015: MYR213.3b)
Government development expenditure (gross)	MYR50.0b (2015: MYR47.4b)
Government fiscal deficit (as % of GDP)	-3.1% (2015: -3.2%)
Ratio of federal government debt to GDP	"Within prudent limit of 55%" (2015: 54%)

Source: Economic Report 2015/16

GST collection and oil related revenue

	2014 Actual Brent (USD99/bbl)	2015 Budget Brent (USD100/bbl)	2015 Revised Budget Brent (USD50/bbl)	2016 Budget Brent (USD48/bbl)
Oil revenue	66,274	62,428	43,872	31,718
o/w PITA	26,956	25,600	9,529	9,331
PETRONAS dividend	29,000	27,000	26,000	16,000
GST/SST	17,216	31,608	34,635	39,000
SST	17,216	4,608 *	7,635 *	-
GST	-	27,000 **	27,000 **	39,000
TOTAL	83,490	94,036	78,507	70,718

** SST (Jan-Mar 2015), ** GST (Apr-Dec 2015); Source: Ministry of Finance Malaysia*

(Details on Budget 2016 measures are summarised in a separate piece today by our economics team entitled "Defensive Budget".)

Focusing on the 'people's economy'

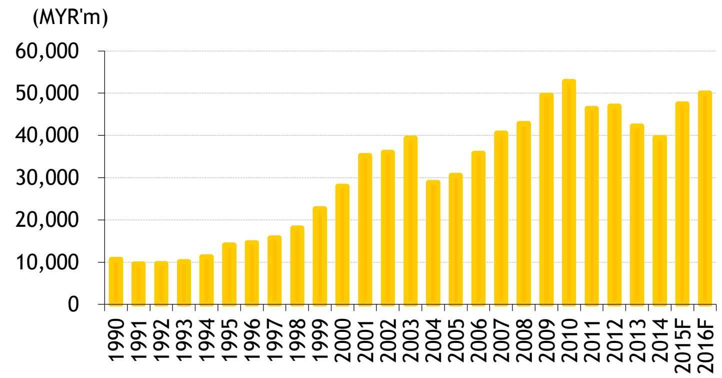
This is the second year that the 'people's economy' is emphasised in the National Budget. Following the 'introduction' of the 'people's economy' in Budget 2015, it has also found its footing in the 11th Malaysia Plan (2016-2020), unveiled by Prime Minister Najib on 21 May 2015. One major positive of Budget 2016 is the acknowledgement of the M40 group, namely households with monthly income of MYR3,860-MYR8,320, which will benefit from raised tax reliefs to help cushion against the higher cost of living. Together with salary adjustments for the 1.6m civil servants (which makes up 5.2% of the 31m Malaysia population, 11.7% of the 13.7m workforce), higher BRIM payouts, higher national and civil servant minimum wages, and higher minimum pension to retired civil servants, these 'people related' measures will help to support broad-based consumption, in our view.

(Please refer to pages 16-17 for the impact on consumption, and our views.)

GDE expansion stays on course

Government development expenditure will be 5.4% higher YoY to MYR50b (gross) in 2016. This is in line with the 11th Malaysia Plan allocation, and it represents 19% of the total MYR260b over the 5-year period (2016-2020). Construction sector real GDP is expected to sustain its growth momentum at 8.4% YoY in 2016 (2015: +8.8%). New infrastructure projects announced are (i) two Bus Rapid Transit projects - BRT KL-Klang (MYR1.5b) and BRT Kota Kinabalu (MYR1.0b), and (ii) a MYR900m Jalan Tun Razak traffic dispersal project. Elsewhere, the mega rails comprising (i) the KVMRT 2 and KVLRT 3 were reiterated, with construction to start in 2016, (ii) the Gemas-JB double track rail was mentioned (in the Economic Report 2015/16), while (iii) the KL-Singapore HSR remains very much on the radar - talks are ongoing with Singapore. Budget 2016 reaffirms our Overweight call on the construction sector.

Government development expenditure (gross)



Source: Economic Reports (Treasury), Maybank KE

(Please refer to pages 12-15 for the impact on construction, and our thoughts.)

Minimum wage goes up

Effective 1 July 2016, the monthly national minimum wage will be raised from MYR900 to MYR1,000 (+11%) for Peninsular and MYR800 to MYR920 (+15%) for East Malaysia. The new minimum wage will be implemented in all sectors except for domestic maids' services. Our channel checks with companies under our research coverage reveal that the impact is marginal-to-small, as either they can pass on/absorb the higher wage bill or their lowest salaries are already above the new minimum wage. We estimate the following bottomline impact: (i) automotive – <0.5%, (ii) glove producers – up to 2%, (iii) plantation – <5%, (iv) semi-conductors – <0.5%. 7EM will however be more impacted with 80% of its workers being paid below the new minimum wage. However, we do expect 7EM to eventually pass on the higher cost via higher merchandise prices.

(Please refer to pages 8-10 for further details and our thoughts.)

GST 'rebate' for telco prepaid

Malaysian prepaid users will receive rebates equivalent to the amount of GST paid which will be credited directly to their prepaid accounts. This rebate is effective for a 12-month period from Jan to Dec 2016. It is not clear at the time of writing, as to who bears the cost of the GST credits. Given that the move was announced in Budget 2016, we think it will be the government that will forego a year's worth of GST collection from the Malaysian prepaid users. If indeed this is the case, the telco industry would benefit from the resulting incremental revenue. Conversely, if telcos were made to bear the cost of the GST credits, up to 4% of telcos' EBITDA could be at risk (ignoring elasticity considerations). Pertaining to execution, we note there is potential for abuse as this move gives rise to differing treatments between Malaysian and foreign prepaid subscribers.

(Please refer to page 23 for further details and our thoughts.)

Other highlights

Sectors	Budget measures/incentives
Banking	Higher civil servant income; measures to promote Islamic banking, DCM
Consumer	Higher tax reliefs
Media	MYR250m allocatation for the National Broadcasting Digitalization project
Oil & gas	MYR16b investment in 2016 for RAPID Complex; GST relief on re-importation of equipment for oil and floating platforms that were temporarily exported for the purpose of rental and leasing
Property	Focus on affordable housing
REITs	10% final withholding tax on REITs' profit distribution to be extended another 3 years, to 31 Dec 2019
Tourism (Gaming, M-REITs, Aviation)	E-visa system to be introduced; higher tourist arrivals targeted
Gloves, Auto, Semicon	New Special Reinvestment Allowance incentive

(Please refer to the ensuing pages for details.)

Our thoughts on Budget 2016, and Strategy

Positive reassurance

We view Budget 2016 as a 'defensive' management of macro-economic resources against a backdrop of challenges and uncertainties brought on by the weakness in commodity prices, a slowdown in China's economy and an imminent hike in US' interest rate, which will impact Malaysia in terms of its external position and capital flows. That Budget 2016 is based on an average USD48/bbl crude oil price assumption shows that it is realistic, as we take a view that global commodity prices should be less volatile in 2016. While measures under Budget 2016 will help to cushion the weakness in broad-based consumption, they will also lift the cost of doing business which is inevitable as the economy transits towards a higher income level. We have not changed the earnings forecasts and calls of any of our stock coverage as we think that the impact is manageable for now. Budget 2016 supports our Overweight call on construction, being a core beneficiary.

More constructive

Since our update on 15 Sep 2015 after PM Najib's announcement of several measures to boost the economy (some are capital market related), sentiment on the MYR and equities have turned more constructive. In our note, we had hoped for Budget 2016 to address some of our macro concerns, especially a new scenario of lower crude oil price as the 11th Malaysia Plan (2016-2020) assumes a rather 'high' USD70/bbl average. This has been addressed in Budget 2016. In addition, we take comfort that macro-economic management is unfazed by the ongoing political noises as can be seen in the Budget 2016 measures.

We are hopeful that the 1MDB debt issue will be resolved by end-2015, as reiterated by PM Najib in Invest Malaysia in New York which we co-hosted on 30 Sep 2015. And, new liquidity brought on by the repatriation of overseas monies by Malaysian GLIFs, GLICs and GLCs, and Valuecap's reactivation in late-Nov 2015 with an initial MYR6b allocation (which will build up to MYR20b eventually) will help to support sentiment.

Having said that, we are mindful that the external challenges (low commodity prices, growth risk at China) and uncertainties (US' rate hike) remain and will continue to induce volatilities. Malaysia remains vulnerable to capital outflows with still a high foreign holdings in its bonds (MGS: 45.6% end-Sep 2015) and equities (22.3% end-Sep 2015).

Taking these factors into consideration, we lift our target valuations for the KLCI back to mean (previously -0.5SD of mean which factored in higher domestic uncertainties) deriving a new 1,730 target for end-2015 and 1,830 for end-2016 (previously 1,610 for end-2015, 1,750 for end-2016).

Maintain defensive

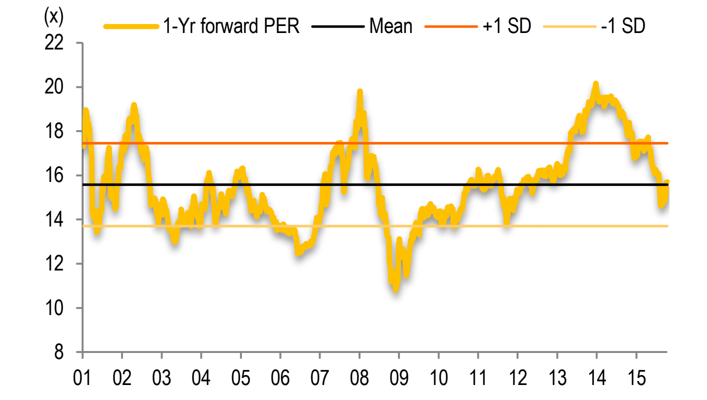
We would continue to adopt a defensive strategy for equities, focusing on values. Our top fundamental BUYs (see table below) are unchanged, while significant underperformers in our BUY list are AirAsia, MCIL, Media Prima, Gas M'sia, Ecoworld, GENT, Bumi Armada and HLFG (see chart in page 7). In terms of sector weights, we remain Overweight on construction, glove producers, and semi-con/technology – the latter two are also likely beneficiaries of the Trans-Pacific Partnership Agreement (TPPA) alongside potentially the auto parts, chemicals and plantation sectors, the details will be known in early-Nov 2015.

Our top BUYs

	Price	TP	Rec.	EPS (sen)		PE (x)		EPS Growth (%)		ROE (%)	Div yld (%)	P/B (x)	Px chg (%)
	23 Oct			CY15F	CY16F	CY15F	CY16F	CY15F	CY16F	CY15F	CY15F	CY14A	YTD
Large Cap													
Tenaga	12.80	16.00	Buy	118.1	125.3	10.8	10.2	15.1	6.0	13.5	2.6	1.6	(7.2)
KLCC Prop	7.08	7.80	Buy	39.3	40.6	18.0	17.4	1.0	3.4	6.4	5.1	1.1	5.5
Gamuda	4.72	6.00	Buy	28.4	28.2	16.6	16.7	(5.9)	(0.5)	10.6	2.5	1.9	(5.8)
BIMB	4.11	4.80	Buy	36.7	38.3	11.2	10.7	2.9	4.5	15.9	3.4	2.1	1.0
Top Glove	9.25	10.80	Buy	48.7	56.9	19.0	16.3	41.3	16.8	18.1	2.4	3.9	104.6
Small-mid Cap													
Inari Amertron	3.70	4.35	Buy	23.5	27.3	15.7	13.6	36.2	15.8	29.4	2.6	6.9	53.8
MBM Resources	2.88	3.50	Buy	28.7	38.8	10.0	7.4	0.0	35.2	7.1	3.8	0.7	(0.7)

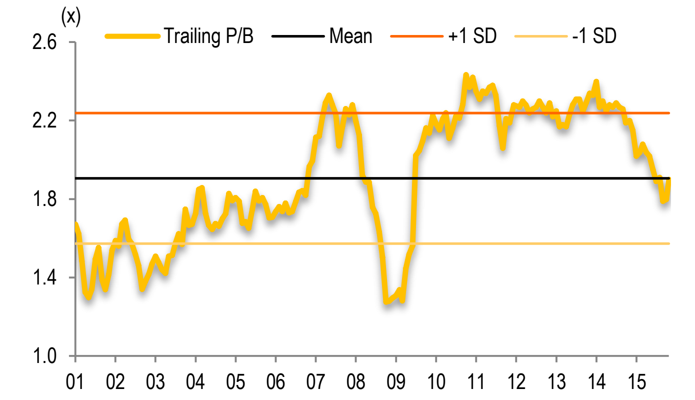
Source: Maybank KE

KLCI's 12M forward PER, at 15.7x (23 Oct)



Source: Maybank KE, Bloomberg

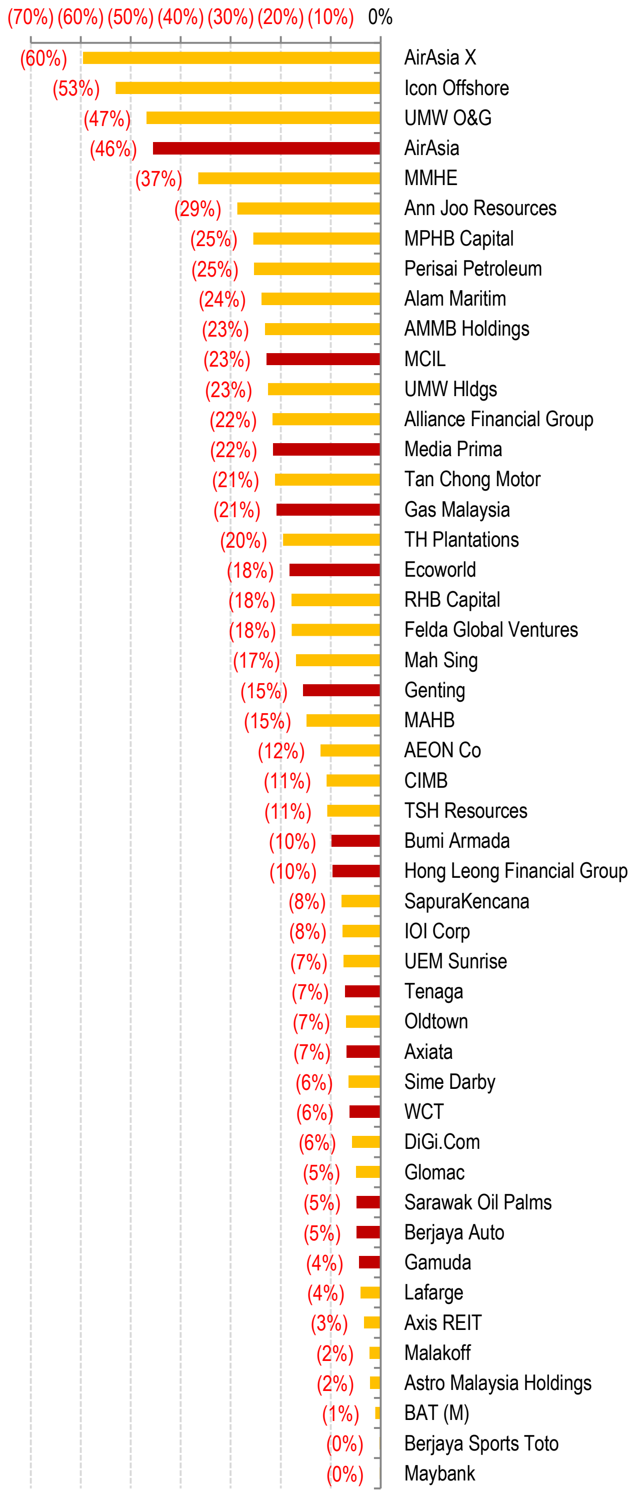
KLCI's trailing P/B: 1.9x (23 Oct)



Source: Maybank KE, Bloomberg

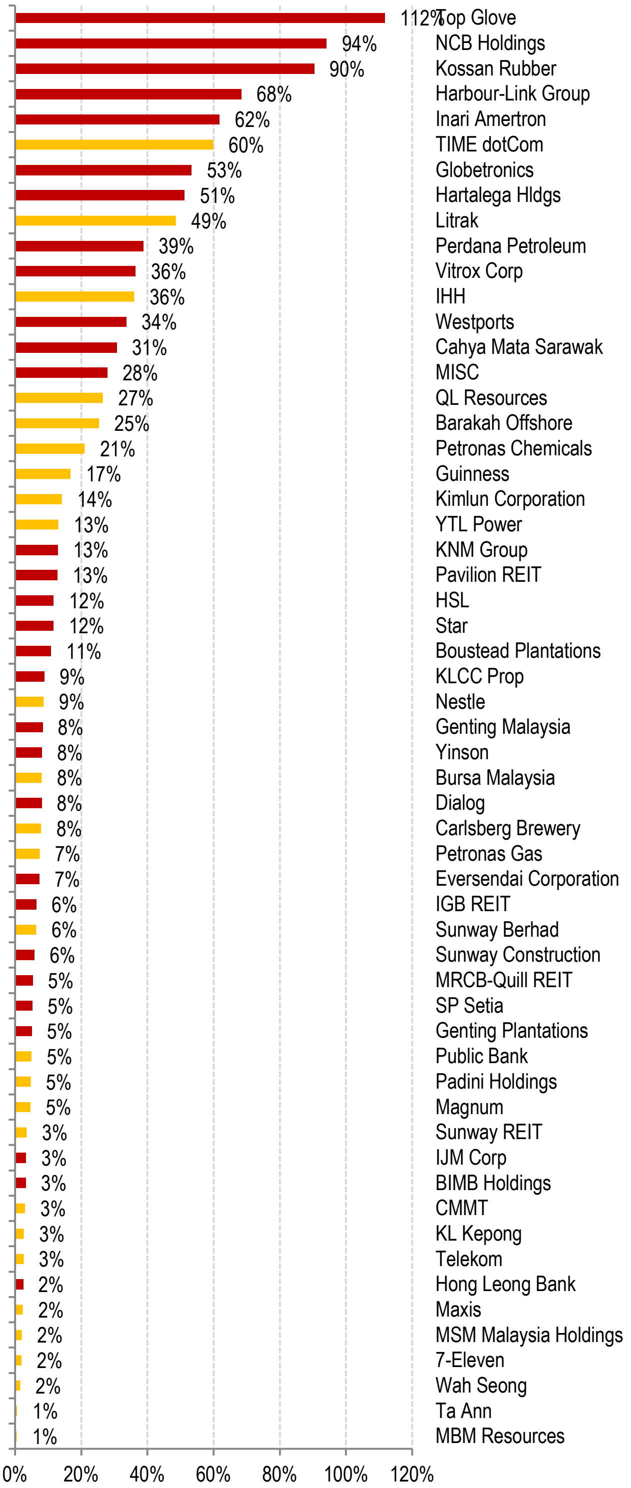
Values … (stocks highlighted in RED are our BUYs)

Stock losses YTD



Source: Maybank KE

Stock gains YTD



Source: Maybank KE

MINIMUM WAGE: Upped by 11%-15%

Negligible-to-small impact to most under coverage

Budget measures/incentives:

- Effective 1 July 2016, the monthly national minimum wage will be raised from (i) MYR900 to MYR1,000 (+11%) for Peninsular Malaysia and (ii) MYR800 to MYR920 (+15%) for Sabah, Sarawak and the Federal Territory of Labuan. The new minimum wage will be implemented in all sectors except for domestic maids' services.

Impact/benefits:

Negligible-to-small impact to most corporate earnings. Our channel checks with companies under our research coverage reveal that the impact is marginal-to-small, because either (i) the companies are able to pass on the higher wage bill or absorb the cost increases (auto, glove producers, semiconductors) or (ii) the lowest salaries in these companies are already above the new minimum wage (plantation).

We estimate the following bottomline impact on companies under our coverage: (i) automotive – <0.5%, (ii) glove producers – up to 2%, (iii) plantation – <5%, (iv) semi-conductors – <0.5%.

(*See table overleaf for details*).

7-11 Malaysia (7EM) may take a bigger hit. 7EM will however be more impacted with 80% of its workers being paid below the revised minimum wage. We estimate MYR5m/MYR9m in incremental staff cost in FY16/FY17 which would negatively impact FY16/FY17 net profit by 6%/10% (half year impact in FY16, full year impact in FY17). However, since this is an industry wide cost inflation issue, we do expect 7-11 to eventually pass on the higher cost via higher product and merchandise prices.

No change in our earnings forecasts for now. There is no change in the earnings forecasts for any of our stock coverage for now pending clarity from management on their strategies/plans to tackle this wage hike. We remain Overweight on glove producer/semiconductor names and are Neutral on the consumer/plantation sectors.

New minimum wage: Impact on the sectors

Sector	Impact
Automotive	Car assembly/manufacturing plants are mostly located in Peninsular Malaysia. Among the auto players within our coverage, we estimate that about 1,000/800/300 workers in Toyota's/Perodua's/Nissan's plants are paid lower than the revised minimum wage of MYR1,000 per month. Assuming a current monthly wage of MYR900 for these workers, the estimated additional cost impact to Toyota (UMWH) / Perodua (UMWH & MBM) / Nissan (TCM) is negligible, up to MYR1.2m/MYR1.0m/ MYR0.4m p.a. at the operating company (Toyota/Perodua/Nissan) level, which in turn is <0.5% of the respective listed group's (UMWH, MBM, TCM) earnings.
Consumer	For QL Resources, the impact is likely negligible as we believe most of its employees are paid above the new minimum wage. As for 7-11 Malaysia, it has about 9,500 staff of which we estimate about 80% to be on the current minimum wage. We estimate additional costs of MYR5m in FY16 (6 months impact) and MYR9m for FY17 arising from new minimum wage. This could negatively impact FY16/FY17 earnings by 6%/10%. However, since this is an industry wide cost inflation issue, we do expect 7-11 and its peers to eventually pass through the higher cost to the end consumers through higher merchandise and product prices.
Glove producers	Glove producers' factories are all situated in Peninsular Malaysia. Labour accounts for 5%-8% of the glove makers' total costs while workers under the current minimum wage accounts for 20%-30% of the glove makers' workforce. We estimate that a MYR100 (+11%) p.m. hike in the minimum wage will reduce the glove producers' bottomlines by 0.3%-2.0% in 2016-17. While we believe the glove producers can raise the glove ASPs to pass on the minimum wage hike based on the present balanced demand-supply environment, we think the glove producers will absorb the minimum wage inflation for now as the impact to earnings is minimal and the glove producers are already seeing substantial margin expansion from the current USD/MYR strength, which more than offsets the impact of wage inflation.
Plantation	Raising the minimum wage level to MYR1,000 (+11%) p.m. for Peninsular and MYR920 (+15%) for East Malaysia will have minimal impact on the plantation players as the increase is manageable. Most, if not all, of the plantation workers are already taking home more than MYR1,000 p.m. (inclusive of incentives and allowance) with some far exceeding the minimum wage. We understand the impact is likely to be less than 5% to the bottom line for most companies. Companies with nearly its entire operations in Malaysia and those with relatively higher cost of production (such as Felda Global Ventures, Boustead Plantations and TH Plantations) will be most impacted by the minimum wage hike in the short term given present low CPO price of ~MYR2,200/t. But over the medium term, any wage hike is typically compensated by higher productivity. Hence, we expect minimal impact on the plantation companies under our coverage.
Semiconductor	Factories of semiconductor companies within our coverage are located in Peninsular Malaysia. Our channel checks suggest that 700/1,000 operators in Inari's/Globetronics' factories are currently paid lower than the revised minimum wage of MYR1,000 per month. Assuming a current monthly wage of MYR900 for these workers, the estimated additional cost impact to Inari/Globetronics is negligible - up to MYR0.8m/MYR1.2m p.a., representing <0.5% of their respective earnings.

Source: Maybank KE

(Analysts: Ivan Yap – automotive, semiconductor; Liew Wei Han – consumer; Lee Yen Ling – glove producer;, Ong Chee Ting - plantation)

Automotive sector - peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY14A	PER (x) CY15F	PER (x) CY16F	P/B (x) CY14A	P/B (x) CY15F	ROAE (%) CY14A	ROAE (%) CY15F	Net yield CY15F
Berjaya Auto	Buy	2.17	2,471	2.70	12.7	11.3	10.0	5.7	4.5	45.4	40.1	4.8
MBM Resources	Buy	2.88	1,125	3.50	10.0	10.0	7.4	0.7	0.7	7.4	7.1	3.8
Tan Chong Motor	Hold	2.68	1,749	2.55	25.5	34.4	22.3	0.6	0.6	2.5	1.8	2.2
UMW Hldgs	Hold	8.10	9,463	7.80	12.5	23.3	16.0	1.4	1.4	11.5	6.1	3.2
Simple average					**15.2**	**19.7**	**14.0**	**2.1**	**1.8**	**16.7**	**13.8**	**3.5**

Source: Maybank KE

Consumer sector - peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY14A	PER (x) CY15F	PER (x) CY16F	P/B (x) CY14A	P/B (x) CY15F	ROAE (%) CY14A	ROAE (%) CY15F	Net yield CY15F
7 - Eleven	Hold	1.47	1,778.7	1.50	31.3	30.6	24.9	7.7	6.7	24.6	22.3	1.6
QL Resources	Hold	4.15	5,179.3	4.00	29.3	25.3	22.8	3.7	3.3	12.7	13.2	1.2

Source: Maybank KE

Glove producers sector - peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY14A	PER (x) CY15F	PER (x) CY16F	P/B (x) CY14A	P/B (x) CY15F	ROAE (%) CY14A	ROAE (%) CY15F	Net yield CY15F
Hartalega	Hold	5.30	8,696.6	4.25	38.3	32.4	26.8	3.4	2.9	18.2	18.0	1.4
Top Glove	Buy	9.25	5,743.0	10.80	26.8	19.0	16.3	3.9	3.4	14.6	18.1	2.4
Kossan Rubber	Buy	8.46	5,409.9	8.30	37.6	26.1	23.6	6.7	5.8	17.9	22.0	1.3
Simple average					**34.3**	**25.8**	**22.2**	**4.7**	**4.0**	**16.9**	**19.4**	**1.7**

Source: Maybank KE

Plantation sector - peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY14A	PER (x) CY15F	PER (x) CY16F	P/B (x) CY14A	P/B (x) CY15F	ROAE (%) CY14A	ROAE (%) CY15F	Net yield CY15F
Sime Darby	Hold	8.59	53,353.9	7.98	19.5	25.1	22.7	1.8	1.7	9.2	6.9	2.6
IOI Corp	Hold	4.34	27,338.2	3.97	23.3	31.4	28.1	5.0	5.3	21.7	16.9	1.9
KL Kepong	Hold	23.32	24,835.0	22.24	26.5	30.3	27.4	3.2	3.0	12.0	10.0	2.0
FGV	Hold	1.80	6,566.7	1.30	69.2	47.6	22.2	1.0	1.0	1.5	2.1	1.4
Genting Plant	Buy	10.72	8,340.7	10.55	21.7	31.0	22.4	2.1	2.0	9.7	6.5	0.6
SOP	Buy	4.86	2,138.0	5.23	18.9	26.8	13.9	1.6	1.5	8.5	5.7	0.5
Boustead Plant	Buy	1.50	2,400.0	1.56	38.5	123.0	36.9	1.0	1.0	2.7	0.8	4.7
TSH Resources	Hold	2.08	2,819.9	1.80	20.5	32.3	22.1	2.3	2.2	11.5	6.9	0.9
TH Plantations	Hold	1.36	1,202.0	1.30	34.9	50.2	27.7	1.0	1.0	2.8	2.0	1.0
Ta Ann	Buy	3.84	1,422.9	5.55	12.9	11.5	10.4	1.3	1.3	10.5	11.0	3.9
Simple average					**28.6**	**40.9**	**23.4**	**2.1**	**2.0**	**9.0**	**6.9**	**2.0**

Source: Maybank KE

Semiconductor/Technology sector - peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY14A	PER (x) CY15F	PER (x) CY16F	P/B (x) CY14A	P/B (x) CY15F	ROAE (%) CY14A	ROAE (%) CY15F	Net yield CY15F
Inari Amertron	Buy	3.70	2,702.8	4.35	21.4	15.7	13.6	6.9	4.6	32.5	29.4	2.6
Globetronics	Buy	6.36	1,791.1	7.35	27.8	23.4	14.7	6.3	6.1	22.6	26.2	3.9
Vitrox Corp	Buy	3.02	704.9	3.65	14.5	13.9	11.1	4.0	3.4	27.8	24.3	2.1
Simple average					**21.2**	**17.7**	**13.1**	**5.7**	**4.7**	**27.6**	**26.6**	**2.8**

Source: Maybank KE

BANKING: Higher civil servant income; measures to promote Islamic banking, DCM

Neutral (unchanged)

Budget measures/incentives:

- Higher take-home income for civil servants:
  - Salary adjustment equivalent to one annual increment according to grade, which will benefit 1.6m civil servants.
  - Minimum starting salary in the civil service of MYR1,200/month, which will benefit 60,000 civil servants.
  - Higher BR1M allocations to households.
- Measures to promote Islamic banking/debt capital markets:
  - Double deduction or further deduction on issuance costs for retail bonds and retail sukuk to be extended for another three years.
  - 20% stamp duty exemption on principal or primary instrument for Shariah home financing products extended for another two years.

Impact/benefits:

Sustained growth in personal financing (PF) to civil servants. The higher take-home pay for civil servants and BR1M payouts provide impetus for sustained growth in PF to civil servants. This would benefit the likes of BIMB Holdings, MBSB (Not Rated) and AEON Credit (Not Rated). PF accounts for about 31% of Bank Islam's (100%-owned by BIMB) total financing portfolio, of which civil servants make up about half of this. PF makes up about 70% of MBSB's total financing portfolio while in the case of AEON Credit, PF by civil servants make up about 20-25% of its total PF portfolio, which in turn, accounted for about 20% of its total financing receivables as at end-Aug 2015.

The promotion of Shariah home financing is positive to Bank Islam, which is actively targeting this segment of the retail market for growth. House financing grew at an annualized rate of 25% and accounted for 34% of Bank Islam's financing portfolio as at end-Jun 2015.

(Analyst: Desmond Ch'ng)

Banking sector – peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYR m)	TP (MYR)	PER (x) CY15E	PER (x) CY16E	P/B (x) CY15E	P/B (x) CY16E	ROAE CY15E	ROAE CY16E	Net CY15E	Net CY16E
AFG	HOLD	3.64	5,635	4.00	10.4	10.2	1.2	1.1	11.7	11.2	4.3	4.4
AMMB	HOLD	4.91	14,800	5.50	9.4	9.5	1.0	0.9	11.4	10.2	5.3	5.3
CIMB	HOLD	4.91	41,685	5.60	12.2	9.9	1.1	1.0	7.5	10.5	3.3	4.1
HL Bank	BUY	14.20	25,543	15.20	11.3	11.0	1.5	1.4	13.7	13.1	2.9	3.0
Maybank *	NR	8.59	81,943	NR	11.9	12.2	1.4	1.3	12.1	11.1	6.6	6.4
Public Bank	HOLD	18.64	71,978	19.40	15.0	14.2	2.5	2.3	16.9	16.6	3.1	3.3
RHB Cap	HOLD	6.23	16,126	7.00	9.2	8.8	0.7	0.7	9.4	8.2	1.0	1.0
Simple avg			**257,710**		**11.3**	**10.8**	**1.3**	**1.2**	**11.8**	**11.6**	**3.8**	**3.9**
MC-wtd					**12.4**	**11.8**	**1.6**	**1.5**	**12.6**	**12.5**	**4.2**	**4.4**
BIMB	BUY	4.11	6,338	4.80	11.2	10.6	1.8	1.6	17.2	16.1	3.6	3.6
HLFG	BUY	14.70	15,476	16.90	9.2	8.9	1.2	1.1	13.0	12.5	2.6	2.5

*Source: Maybank KE, Consensus **

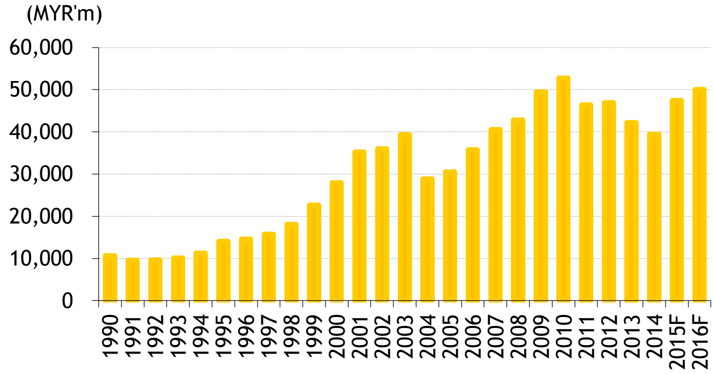
CONSTRUCTION: Crystalising mega projects

Overweight (unchanged)

Budget measures/incentives:

- **Government development expenditure sustains its expansion mode (2016E: MYR50b gross, +5.4% YoY).** In terms of sectoral allocation, economic services will receive the highest share at 60.6% or MYR30.3b, followed by social services (MYR13.1b), security (MYR5.0b) and general administration (MYR1.6b). Under economic services, expenditure on trade & industry will be MYR8.3b (+23.4% YoY) and transport MYR8.4b (-3.4% YoY). In addition, allocation to housing that is included in social services will increase 12.9% YoY (MYR2.6b). Construction sector real output/GDP is anticipated to also sustain its growth momentum at 8.4% YoY in 2016 (2015: +8.8%, 2014: +11.8%).

Government development expenditure (gross)



Source: Economic Reports (Treasury), Maybank KE

- **Transportation projects in focus.** Positive surprise came from the two Bus Rapid Transit projects comprising the BRT KL-Klang (MYR1.5b) and BRT Kota Kinabalu (MYR1.0b) and a MYR900m Jalan Tun Razak traffic dispersal project. The upcoming mega rail projects comprising the KVMRT 2 and KVLRT 3 were reiterated with construction to start in 2016 and completion in 2022 (KVMRT 2) and 2020 (KVLRT 3). The Gemas-JB double track rail project was mentioned in the Economic Report 2015/16, to complete the 'missing' link in the Peninsular double track rail project from JB to Padang Besar. Meanwhile, four Klang Valley highways would be implemented in 2016 comprising the Damansara-Shah Alam Highway (DASH), Sungai Besi-Ulu Klang Expressway (SUKE), Pulau Indah and Central Spine Road.

- **KL-Singapore HSR still very much on the radar.** Negotiations are still ongoing with the Singapore government, according to the 2016 Budget Speech. We understand that the timeline is to firm up on the details by end-2016, tender and award of construction works to happen in 2017, and physical construction to start in 2018. This would mean that the HSR should be operational in 2022/23, we estimate, assuming a 5-6 years construction period.

- **More major property developments and affordable housing.** In addition to the ongoing government land developments in the Klang Valley (Kwasa land, TRX, Bandar Malaysia, Pudu Jail, Cochrane, Warisan 118, etc), three more major property developments would kick off in 2016 - Malaysian Vision Valley, Cyber City Centre and KLIA Aeropolis with a total GDV of MYR23b. Affordable housing projects would also continue in 2016 under various house ownership programmes and government entities. ***(Please refer to the 'Property' segment of this writeup for details.)***

- **Sabah and Sarawak under the spotlight,** with the Pan Borneo Highway worth MYR28.9b as the largest infrastructure project in West Malaysia. The Sarawak portion (MYR16.1b) that has started construction in 2015 is expected to complete in 2021. Elsewhere, construction works on the Sabah portion (MYR12.8b) would start in 2016. These signify that the project delivery partner (PDP) role for the Sabah portion and more construction works for the Sarawak portion would be awarded soon. The award of works for the Sabah portion will follow the PDP award.

- **MYR3.1b rural development programmes.** This encompasses the construction of 700km of rural roads and Felda settlement roads (MYR1.6b), electricity connection for 10,000 houses (MYR878m) and clean rural water supply for 3,000 houses (MYR568m).

Major projects to be implemented in 2016

	MYR'b		MYR'b
Public Transporation		Rural Infrastructures	
KVMRT 2 (Sungai Buloh - Serdang - Putrajaya,52km)	28.0	Building and upgrading 700km of rural roads	1.4
KVLRT 3 (Bandar Utama - Klang, 36km)	10.0	Upgrading of roads in FELDA settlements	0.2
Gemas-JB Double Tracking Railway	NA	Rural Electrification Project (10,000 houses)	0.9
BRT KL - Klang	1.5	Rural Water Supply Project (3,000 houses)	0.6
BRT Kota Kinabalu	1.0	Social Amenities Programme (drainage)	0.1
Highways		Public Infrastructures	
Damansara - Shah Alam Highway (DASH) in Klang Valley (KV)	NA	Water treatment plants	0.9
Sungai Besi - Ulu Klang Expressway (SUKE) in KV	NA	Ensure reliability of electricity supply in Sabah	0.5
Pulau Indah Road	NA	New Mukah Airport & upgrades at Kuantan and Kota Bahru Airports	0.04
Central Spine Road	NA	Batu Berendam Airport runway extension, Melaka	Understudy
Jalan Tun Razak Traffic Dispersal Project	0.9	New education facilities including schools and colleges	0.5
Masjid Tanah - Klebang - Jambatan Syed Abdul Aziz road in Melaka	Understudy	2 sports complex in Bagan Datoh, Perak & Kuantan, Pahang	0.02
Pan-Borneo Highway Sarawak (1,090km)	16.1	5 hospitals in Cyberjaya, Kemaman, Maran, Pasir Gudang, Pendang	NA
Pan-Borneo Highway Sabah (Sidumin - Tawau, 706km)	12.8	Redevelopment of Kajang Hospital	NA
		Rural clinics, health clinics, dental clinics, 1M'sia clinics	0.3
		2 police headquarters in Lawas and Kota Kinabalu	0.2
Industry-specific Development		Others	
RAPID Complex Project, Pengerang	18.0	IBS Promotion Fund	0.5
Rubber City, Kedah	0.3	20 Community-Based Rehabilitation Centres	0.1
Samalaju Industrial Park, Sarawak	0.1	Flood Mitigation Project nationwide	0.7
Property Development Projects	GDV (MYR'b)		
Malaysian Vision Valley (108,000 ha, Nilai-Port Dickson)	5.0 *		
Cyber City Centre, Cyberjaya	11.0		
KLIA Aeropolis (1,300 acres)	7.0		
Affordable housing	2.7		

** Initial investment value; Source: 2016 Budget Speech, Economic Report 2015/16*

- **Industrialised Building System (IBS) promotion fund of MYR500m.** As a measure to reduce labour requirement and improve sustainability of the construction sector, the government will establish an IBS promotion fund of MYR500m via SME Bank to provide soft loans to developers and contractors (category G5 and below) for the adoption of IBS.

Impact/benefits:

Infrastructure projects to boost the construction sector. The reaffirmation of earlier identified infrastructure projects and the new infrastructure projects announced in Budget 2016 would drive infrastructure job awards in 2016. Meanwhile, non-residential construction projects would also show positive growth with higher investments in commercial buildings, manufacturing and O&G especially with the MYR18b investment in RAPID, Pengerang. In addition, the major property developments and affordable housing projects would cushion the construction industry from the slowdown in the residential property sector.

2016 to be a record year? We maintain our view that there would be a record potential infrastructure job awards of up to MYR76b in 2016 coming from the KVMRT 2, KVLRT 3 and highway projects. This would provide positive replenishment to the construction companies' orderbooks. The expected 2016 construction GDP growth of 8.4% YoY is lower than the projected average 10.3% p.a. growth under the 11th Malaysia Plan (2016-2020). This could be due to the timing of construction works especially the mega rails that would only start in mid-2016.

Maintain Overweight on the construction sector. We think Gamuda will be the biggest direct beneficiary of the mega infrastructure projects including KVMRT 2 (tunneling), KVLRT 3, Penang Transport Master Plan and the potentially revived Gemas-JB double track rail. Meanwhile, IJM, SCG and WCT could also win construction jobs from the KVMRT 2 (elevated portion), KVLRT 3, Klang Valley highway projects, BRT projects and major property developments.

As for the Pan Borneo Highway, aside of CMS that would be the key beneficiary as the largest building material supplier in Sarawak, we think Peninsular Malaysia players including IJM, SCG and Gamuda that have been in talks with the Sarawak players for partnerships could also clinch part of the construction works. SCG could also benefit from the IBS promotion fund with its strong track record in producing precast products for Singapore HDB properties and excess capacity at its precast plant in Johor. Our top pick of the sector remains as Gamuda.

Maintain Neutral on the building materials sub-sector, as we think the slowdown in the property sector could offset the stronger demand in the construction sector. Additionally, the local steel players remain susceptible to dumping activities from China while the cement players will see rising capacity into the industry, potentially outpacing the industry's demand.

(Analyst: Chai Li Shin – construction; Lee Yen Ling – building materials)

Construction sector – peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY14A	PER (x) CY15F	PER (x) CY16F	P/B (x) CY14A	P/B (x) CY15F	ROAE (%) CY14A	ROAE (%) CY15F	Net yield CY15F
Gamuda	Buy	4.72	11,355.9	6.00	15.7	16.6	16.7	1.9	1.8	12.0	10.6	2.5
IJM Corp	Buy	3.36	12,004.2	3.70	18.2	18.6	17.6	1.2	1.3	6.7	7.0	2.2
WCT	Buy	1.40	1,655.8	2.20	15.7	16.9	11.1	0.7	0.7	4.4	4.0	4.4
Litrak	Hold	5.19	2,708.5	4.90	19.5	16.3	11.2	5.1	4.5	25.9	27.9	3.9
CMS	Buy	5.13	5,511.5	5.35	23.6	22.5	18.2	2.9	2.7	12.2	11.9	1.8
Eversendai	Buy	0.82	630.7	1.00	17.0	11.2	9.7	0.7	0.7	4.1	5.9	1.8
HSL	Buy	1.87	1,027.6	2.15	13.4	13.4	11.0	1.7	1.6	12.9	11.9	1.8
Sunway Con	Buy	1.29	1,667.8	1.40	14.7	14.0	12.2	5.0	4.6	34.2	32.8	1.2
Kimlun	Hold	1.35	405.7	1.20	11.9	8.3	11.2	1.0	0.9	8.5	11.2	3.3
Simple average					**16.6**	**15.3**	**13.2**	**2.2**	**2.1**	**13.4**	**13.7**	**2.5**

Source: Maybank KE

CONSUMER: Higher tax reliefs

Neutral (unchanged)

Budget measures/incentives:

Tax reliefs raised. These include:

- An increase in tax relief for each child below 18 years of age, to MYR2,000 from MYR1,000;
- An increase in tax relief for individual taxpayers whose spouse has no income, to MYR4,000 from MYR3,000;
- Tax relief for children who provide for their parents of MYR1,500 for the mother and MYR1,500 for the father subject to each parent not having income exceeding MYR2,000 per month and must be 60 years in age and above; and
- An increase in tax relief for each child above 18 years of age who is studying at a local or foreign institution of higher learning, to MYR8,000 from MYR6,000;
- A higher tax relief for disabled children above 18 years of age who is studying at a local or foreign institution of higher learning, of MYR8,000 from MYR6,000, on top of the revised MYR8,000 child relief.

Impact/benefits:

M40 group, in particular, to benefit. This M40 group refers to households with monthly income of MYR3,860-MYR8,320. Based on our estimates:

(i) a household with a monthly income of MYR5,000 (and assuming it takes home 13 months of salary per annum plus bonus) with a non-working spouse and three school going children (aged <18 years) will see its tax liability reducing by MYR400 per annum,

(ii) a household with a monthly income of MYR8,000 (and assuming it takes home 13 months salary per annum plus bonus) with a non-working spouse and three school going children (aged <18 years) will see its tax liabiity reducing by MYR840 per annum,

under the increased tax relief for spouse and children. These represent add-ons of 0.7% and 0.9% to their monthly salary, which are meaningful.

Provides support to consumer demand. Undoubtedly the rise in living cost has been a dampener to consumer demand and this is currently being felt across the whole spectrum by the consumer companies. MIER's CSI has fallen to a new low of 70.2 pts in 3Q15 while retail sales have contracted 2% QoQ in 2Q15 (3Q15 data not available yet). The higher tax reliefs should help to alleviate some of the cost pressure on the households and support spending on mass market consumer goods. Companies that we think would benefit from a recovery in consumer spending on mass market items include the likes of Nestle, AEON as well as Padini's Brands Outlets.

In the case of **Nestle**, its domestic sales revenue improved 1.7% YoY in 3Q15 after a weak 2Q15 immediately post-GST implementation. This, however, was due to increased promotional efforts and marketing campaigns to drive demand rather than a recovery in consumer sentiment. Nevertheless, we do think that Nestle is one of the larger beneficiaries of improved spending power from the middle income group given its diverse product offerings in the mass market segment.

AEON's sales was also impacted by the GST and its SSSG slipped into a slight single-digit negative position in 2Q15 from just about +3% in 1Q15. We expect a mild recovery in 3Q15's SSSG largely on the back of Hari Raya sales. AEON stands out as the retail 'destination' for the middle income group and any such recovery in demand would be positive. AEON currently has about 30 AEON stores nationwide.

Spending on consumer discretionary is typically more negatively impacted when consumers tighten their belts. Stronger middle income demand should nevertheless support apparel demand at **Padini's** Brands Outlets (BO) stores, which house more affordable clothing apparel. Padini had 32 BO outlets as at end-June 2015, which contributed to about 32% of group revenue in FYE6/15.

(Analysts: Liew Wei Han – consumer staple; Kevin Wong – consumer discretionary)

Consumer – peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY14A	PER (x) CY15F	PER (x) CY16F	P/B (x) CY14A	P/B (x) CY15F	ROAE (%) CY14A	ROAE (%) CY15F	Net yield CY15F
AEON Co	Hold	2.74	3,847.0	2.85	16.9	23.2	19.2	2.2	2.0	12.9	8.8	1.4
Nestle	Hold	72.08	16,902.8	68.00	30.7	29.2	27.7	21.8	21.3	70.8	73.0	3.3
Padini Holdings	Hold	1.47	967.1	1.30	11.3	11.8	10.8	2.4	2.3	21.6	19.7	6.8

Source: Maybank KE

MEDIA: Accelerating TV digitalization process?

Neutral (unchanged)

Budget measures/incentives:

- MYR250m will be allocated for the National Broadcasting Digitalization project. This is to enhance audio visual quality and provide value-added services to TV content as well as interactive data transactions.

Impact/benefits:

May entail government supplying 1m STBs. The wording of the statement in the 2016 Budget Speech is vague but we gather that this entails the government supplying 1m set-top-boxes (STB) to the low income households. We understand that each STB costs MYR200-MYR300. These 1m STBs may be over and above the 2m STBs that MYTV (Not Listed) will supply to low income households.

60% of Malaysian households may still need to buy STBs. With 3m STBs accounted for, ~40% of Malaysian households will be equipped to receive digital TV signals. Another 4m households or ~60% of households will still need to purchase STBs or integrated digital TVs (IDTV). As it is, it may not be easy for Malaysia to achieve analogue-switch-off (ASO) by 2017.

ASTRO carrying FTA TV channels may aid 2017 ASO target. All FTA TV channels are currently carried on ASTRO. If all new FTA TV channels are carried on ASTRO, only 0.5m households need to purchase STBs or IDTVs. Even if they do not, the 90% threshold for ASO would have been crossed. This may be the only route for Malaysia to meet the 2017 ASO timeline.

Households that may actually need to buy STBs or IDTVs (‘000)

Number of households	7,061
(Astro pay-TV subscribers)	(3,520)
(Astro NJOI subscribers)	(1,071)
(MYTV STBs to low income households)	(2,000)
Balance	**470**

Source: Department of Statistics, Astro, Maybank KE

MPR and ASTRO may be negatively impacted in the long run. Recall that with ASO, come the capacity to introduce more FTA TV channels. As the incumbent, MPR may lose adex share. If the content on the new FTA channels is decent, viewers may also not be compelled to subscribe to ASTRO. Until then, we maintain our BUY call on MPR on cheap valuation and high dividend yields and HOLD call on ASTRO.

(Analyst: Samuel Yin)

Media sector – peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY14A	PER (x) CY15F	PER (x) CY16F	P/B (x) CY14A	P/B (x) CY15F	ROAE (%) CY14A	ROAE (%) CY15F	Net yield CY15F
Astro Malaysia	Hold	2.88	14,990.4	3.15	29.1	22.8	20.2	22.3	20.7	74.7	95.6	4.5
Media Prima	Buy	1.33	1,475.2	1.45	10.6	14.8	13.9	0.9	0.9	8.9	6.3	6.0
Star Media	Hold	2.40	1,771.1	2.30	11.7	15.6	14.9	1.5	1.5	13.3	9.9	6.3
Media Chinese	Buy	0.57	961.7	0.65	6.5	7.8	8.0	1.3	1.1	19.4	14.6	5.1
Simple average					**14.5**	**15.2**	**14.2**	**6.5**	**6.1**	**29.1**	**31.6**	**5.5**

Source: Maybank KE

OIL & GAS: RAPID to the front

Neutral (unchanged)

Budget measures/incentives:

- #1: GST relief is provided on the re-importation of equipment (i.e. equipment for oil and floating platforms) that is temporarily exported for the purpose of rental and leasing.
- #2: Investment of MYR18b estimated in 2016 for the Refinery and Petrochemical Integrated Development Project (RAPID) Complex in Pengerang, Johor.

Impact/benefits:

#1: GST relief to favour service providers? As we to interpret it, the GST relief will favour service providers with operating assets (i.e. OSVs, rigs, FPSOs) outside Malaysia that has the intention of re-chartering to Malaysia. The beneficiaries from this measure are few, in our view, considering (i) the slowdown in O&G activities following the fall in E&P capex and oil price and (ii) as majority of these assets owned by the local service providers are already working in Malaysia. Nevertheless, among the companies under our coverage, we see UMWOG as a potential beneficiary as 4 of its jack-up rigs are now off-hire and reside overseas.

#2: Positive RAPID reaffirmation. The MYR18b investment for 2016: (i) reflects continuity of this mega-project and (ii) makes up 34% of PETRONAS RAPID's MYR53b investment for refinery and petrochemicals projects (ex-MYR36b investment on the associated facilities). Based on our estimate, the MYR18b investment would be the pinnacle of RAPID, considering that the mega-project is scheduled for start-up by early 2019. Following the EPCC awards for refineries packages in 2014, the EPCC for petrochemical packages, storage tanks and warehousing logistics are among the significant few that are being lined up for awards in 2016. The potential beneficiaries are KNM, Dialog, MMHE, Muhibbah Engineering (Not Rated).

(Analyst: Liaw Thong Jung)

Oil & Gas sector – peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY14A	PER (x) CY15F	PER (x) CY16F	P/B (x) CY14A	P/B (x) CY15F	ROAE (%) CY14A	ROAE (%) CY15F	Net yield CY15F
Alam Maritim	Sell	0.48	443.7	0.35	7.9	13.0	12.3	0.5	0.5	6.8	4.0	0.0
Barakah	Hold	0.97	798.5	0.75	9.9	33.4	12.9	2.1	1.9	24.1	6.6	0.0
Bumi Armada	Buy	0.99	5,778.3	1.20	12.5	29.0	25.9	0.7	0.9	6.0	3.2	0.0
Dialog	Buy	1.64	8,370.8	1.90	32.8	29.8	30.1	4.6	4.0	13.9	13.2	1.3
Icon Offshore	Sell	0.36	423.8	0.25	7.2	51.4	15.7	0.4	0.4	5.5	0.8	0.0
KNM Group	Buy	0.54	1,047.0	1.00	22.5	7.7	6.5	0.4	0.4	1.7	5.0	0.0
MMHE	Hold	1.14	1,824.0	1.32	10.6	13.1	15.4	0.7	0.7	6.6	5.0	0.0
Perisai	Sell	0.34	405.5	0.22	34.0	n.a.	n.a.	0.3	0.3	1.0	(0.2)	0.0
SapuraKencana	Hold	2.13	12,763.3	2.00	10.6	12.7	14.3	1.1	1.0	10.1	8.2	1.2
UMW O&G	Sell	1.24	2,680.9	0.80	10.8	n.a.	n.a.	0.8	0.8	7.8	(3.3)	0.0
Wah Seong	Sell	1.19	920.9	0.90	6.6	12.7	13.4	0.9	0.8	13.0	6.4	4.2
Yinson	Buy	2.91	3,180.0	4.35	22.1	18.8	17.8	2.2	1.9	9.9	10.1	0.7
Simple average					**14.4**	**20.1**	**14.9**	**1.1**	**1.1**	**8.2**	**4.5**	**0.6**

Source: Maybank KE

PROPERTY: Focus on affordable housing

Neutral (unchanged)

Budget measures/incentives:

- Development of (i) Malaysian Vision Valley (MVV; initial investment cost of MYR5b in 2016) covering an area of 108,000 ha from Nilai to Port Dickson, and (ii) an airport township or KLIA Aeropolis (which is expected to attract an investment of MYR7b) covering 1,300 acres, will start. Also, the implementation of Cyber City Centre in Cyberjaya with a development cost of almost MYR11b for a period of five years.
- A First House Deposit Financing Scheme under the Ministry of Housing and Local Government will be set up to assist first-time house buyers of affordable houses to pay the deposit. MYR200m is allocated for this scheme.
- PR1MA to build 175,000 houses priced 20% below market prices. A total of 10,000 units are expected to be completed in 2016.
- Syarikat Perumahan Negara Berhad will build 10,000 units of *Rumah Mesra Rakyat* with a subsidy of MYR20,000 for each house via an allocation of MYR200m.
- 100,000 houses priced between MYR90k-MYR300k each will be built under the *Perumahan Penjawat Awam 1 Malaysia* (PPA1M) by 2018. A facilitation fund of up to 25% of development cost will be provided.
- 22,300 units of apartments and 9,800 units of terrace houses will be built under the People's Housing Programme (PPR) with an allocation of MYR863m to the Ministry of Housing and Local Government.
- 5,000 units of PR1MA and PPA1M houses will be built in 10 locations in the vicinity of LRT and monorail stations, including in Pandan Jaya, Sentul and Titiwangsa.
- GLCs to build affordable houses (800 units by EPF, 4,600 units by Sime Darby Property) in the vicinity of the MRT station in Bandar Kwasa Damansara.

Impact/benefits:

Affordable homes remain the focus. As expected, incentives provided under Budget 2016 are mostly focused on affordable housing. While there are no further details on the First Home Deposit Financing Scheme, the scheme should boost demand for affordable homes further, in our view. Most developers have continued to focus on affordable housing and landed properties and have put their high-end/luxury projects on the backburner due to the weak property market condition.

Real estate landscape to benefit from infrastructure projects (MRT/LRT) in the long term, BUT the short-term outlook for the overall property sector remains challenging in view of the macro headwinds and tightened lending measures; hence, demand for projects under the KVMRT 2 alignment may not be as strong as with the KVMRT1 (in 2011).

Booster to property/land value in Nilai, Sepang and Cyberjaya. Government developments such as the Malaysian Vision Valley (Nilai), KLIA Aeropolis (Sepang) and Cyber City Centre (Cyberjaya) should create more business activities around these areas. This will serve as a population catchment and consequently boost demand for properties (hence, land/ property values) in Nilai, Sepang and Cyberjaya areas, we think.

Beneficiaries include Sime Darby where ~50% of the 108,000 ha in MVV belongs to Sime, Genting Plantations with ~1,000 acres of plantation estates near KLIA, SP Setia (145 acres in Cyberjaya), Glomac (171 acres in Sepang, 2.8acres in Cyberjaya), IOI Properties (IOIPG MK; Not Rated), Sunsuria (SSR MK; Not Rated), Gamuda (1,530 acres) and MCT (MCT MK; Not Rated).

Muted impact, maintain NEUTRAL. The property sector lacks a strong re-rating catalyst and the slowdown in property demand could last till 2H16-early 2017, we believe. We advocate investors to go defensive in stock selection. SP Setia is our top pick for the property sector.

(Analyst: Wong Wei Sum – property; Ong Chee Ting – plantation conglo)

Property sector – peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY14A	PER (x) CY15F	PER (x) CY16F	P/B (x) CY14A	P/B (x) CY15F	ROAE (%) CY14A	ROAE (%) CY15F	Net yield CY15F
Ecoworld	Buy	1.40	3,310.0	1.69	52.8	64.1	33.3	1.1	0.9	1.6	1.4	0.0
Glomac	Hold	0.91	660.5	0.96	7.4	6.5	5.7	0.7	0.7	9.7	10.3	4.9
Mah Sing	Hold	1.32	3,180.4	1.39	7.2	6.9	6.4	1.1	1.0	15.0	12.0	5.8
SP Setia	Buy	3.36	8,830.9	4.07	19.6	12.7	14.9	1.1	1.0	7.3	10.9	4.7
Sunway Berhad	Hold	3.05	5,455.8	3.31	9.4	10.6	11.8	0.9	0.9	10.0	8.8	11.5
UEM Sunrise	Hold	1.27	5,762.5	1.10	12.0	15.6	13.6	0.9	0.9	7.6	5.6	2.1
Simple average					**18.1**	**19.4**	**14.3**	**1.0**	**0.9**	**8.5**	**8.2**	**4.8**

Source: Maybank KE

Other beneficiaries – peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY14A	PER (x) CY15F	PER (x) CY16F	P/B (x) CY14A	P/B (x) CY15F	ROAE (%) CY14A	ROAE (%) CY15F	Net yield CY15F
Sime Darby	Hold	8.59	53,353.9	7.98	19.5	25.1	22.7	1.8	1.7	9.2	6.9	2.6
GENP	Buy	10.72	8,340.7	10.55	21.7	31.0	22.4	2.1	2.0	9.7	6.5	0.6
Gamuda	Buy	4.72	11,355.9	6.00	15.7	16.6	16.7	1.9	1.8	12.0	10.6	2.5

Source: Maybank KE

REITs: Status quo on withholding tax

Overweight (unchanged)

Budget measures/incentives:

- Existing tax incentive in the form of just a 10% final withholding tax on REITs' profit distribution will be extended another 3 years, from 1 Jan 2017 to 31 Dec 2019.
- This extended tax incentive is offered to all foreign institutional investors (pension funds, collective investment funds), non-corporate investors (resident, non-resident individuals) and other local entities.
- The exception is on non-resident companies which are still subject to a 25% withholding tax (unchanged) on the REITs' profit distribution.

Impact/benefits:

Sustaining the appeal. This is a positive welcome, and will sustain the appeal of M-REITs which generally offer decent dividend yields. We remain Overweight on the sector and our top BUY pick is KLCCP.

(Analyst: Kevin Wong)

Property (REITS) sector – peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY14A	PER (x) CY15F	PER (x) CY16F	P/B (x) CY14A	P/B (x) CY15F	ROAE (%) CY14A	ROAE (%) CY15F	Net yield CY15F
IGB REIT	Buy	1.32	4,574.6	1.50	19.5	17.9	17.2	1.2	1.2	6.3	6.9	5.8
Pavilion REIT	Buy	1.53	4,617.3	1.70	19.9	19.6	18.3	1.2	1.2	6.1	6.0	4.6
KLCCP	Buy	7.08	12,781.8	7.80	18.2	18.0	17.4	1.1	1.2	5.8	6.4	5.1
Sunway REIT	Hold	1.53	4,498.1	1.55	19.0	16.7	14.8	1.2	1.1	6.2	6.6	5.3
CMMT	Hold	1.37	2,774.0	1.45	16.3	16.2	15.8	1.1	1.1	6.5	6.2	6.4
Axis REIT	Hold	1.69	1,851.4	1.60	22.8	19.7	17.9	1.4	1.4	6.1	7.1	4.4
MRCB-Quill REIT	Buy	1.15	760.6	1.17	11.2	13.1	12.7	0.8	0.8	7.4	6.4	6.5
Simple average					**18.1**	**17.3**	**16.3**	**1.1**	**1.1**	**6.4**	**6.5**	**5.4**

Source: Maybank KE

TELCO: Who bears GST rebates?

Neutral (unchanged)

Budget measures/incentives:

- Malaysian prepaid users will receive rebates equivalent to the amount of GST paid (to be credited directly to their prepaid accounts), effective from Jan to Dec 2016.
- MCMC will provide MYR1.2b, among others, for rural broadband projects.

Impact/benefits:

Details still unclear; industry yet to be notified. It is not clear at the time of writing, as to who bears the cost of the GST credits. Given that the move was announced in Budget 2016, we think it will be the government that will forego a year's worth of GST collection from Malaysian prepaid users. As at now, we understand mobile telcos have yet to receive the official details.

Boils down to who bears the cost. If the government is indeed bearing the cost of the GST credits, it would be a positive, as the industry would benefit from the resulting incremental revenue. Conversely, if telcos were hypothetically made to bear the cost of the credits, up to 4% of telcos' EBITDA could be at risk (ignoring elasticity considerations). Pertaining to execution, we note there is potential for abuse as this move gives rise to differing treatments between Malaysian and foreign subscribers.

Impact to 2016 EBITDA if telcos bear cost of credits

(MYR m)	Prepaid revenue	Attributable GST	EBITDA margin	Incremental cost	2016 EBITDA	Impact to EBITDA
Celcom	4,680	281	39.5%	170	3,303	-5%
Digi	4,992	300	45.0%	165	3,393	-5%
Maxis	4,187	251	49.5%	127	4,401	-3%
Total	**13,860**	**832**		**462**	**11,097**	**-4%**

Source: Maybank KE

Rural investment is a recurring event. The investment in rural broadband projects is part of an ongoing initiative by the government to improve overall telecommunication infrastructure. The investments are mainly funded by the USP (Universal Service Provision) Fund of which all telcos contribute to. Beneficiaries of these rural broadband projects generally comprise of the fixed-line telcos and telco-related contractors.

(Analyst: Tan Chi Wei)

Telecommunication sector – peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY14A	PER (x) CY15F	PER (x) CY16F	EV/EBITDA (x) CY15F	EV/EBITDA (x) CY16F	Net yield CY15F	Net yield CY16F
Maxis	Hold	6.75	50,690.5	7.00	29.5	27.7	24.5	13.6	13.1	3.7	3.9
DiGi.Com	Hold	5.63	43,773.3	5.80	21.6	21.8	21.5	13.6	13.2	4.6	4.7
Telekom	Hold	6.83	25,666.7	7.30	26.4	26.2	25.2	7.6	7.1	3.4	3.6
TIME dotCom	Hold	6.94	3,994.7	5.50	31.3	25.1	23.2	11.9	10.9	11.6	1.2
Simple average					**27.1**	**25.1**	**23.6**	**11.7**	**11.1**	**5.8**	**3.3**

Source: Maybank KE

TOURISM: E-visa system introduced

Neutral (unchanged)

Budget measures/incentives:

- An e-visa system will be introduced to facilitate the issue of visas to tourists from major countries by mid-2016. The major countries are China, India, Myanmar, Nepal, Sri Lanka, United States and Canada.
- The Ministry of Tourism and Culture is allocated a budget of MYR1.2b, a whopping 3.8x higher than 2015's MYR315m budget. There was no further disclosure on how the MYR1.2b will be disbursed, which should include the implementation of the e-visa system.
- 100% income tax exemption on statutory income for tour operators will be extended from YA2016 until YA2018.
- Rural air services to Sabah and Sarawak will be exempted from GST in 2016.

Impact/benefits:

Obtaining visas for Mainland Chinese was onerous in the past. One year ago, a free and independent traveler (FIT) from China would have to (i) pay a CNY80 visa-application fee, (ii) pay a CNY120 visa-processing fee, (iii) pay a CNY200-400 runner's fee, and (iv) risk losing their passports by sending them to only four embassies/consulates, in Beijing, Guangzhou, Kunming and Shanghai.

Mainland Chinese will find it easier to visit Malaysia. With an e-visa system, we understand that three of the above four steps will be eliminated. The only step is to pay the CNY120 visa-processing fee. This makes it a lot cheaper and convenient for free and independent travelers not living in Beijing, Guangzhou, Kunming and Shanghai to obtain a visa to Malaysia.

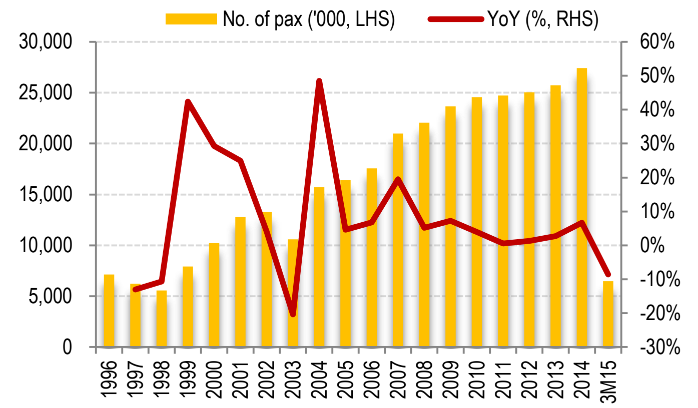
More Mainland Chinese tourists will be positive for gaming. This e-visa system is over and above the visa waiver for Mainland Chinese groups of at least 20 tourists for 15 days. Known the world over to be avid gamblers, more Mainland Chinese tourists to Malaysia will be positive for GENM and its 49% shareholder, GENT. We understand that Mainland Chinese currently account for only about 5% or ~1m of Resort World Genting's total visitorship base.

Aviation to benefit from higher tourist arrivals. Malaysia's overall tourist arrivals have taken a big hit with a decline of 9% YoY growth for Jan-Jun 2015. This weak performance was due to the aftermath of the multiple air disasters in 2014, as well as MAS' capacity cuts in 2Q15. The target for 2016 is for 30.5m tourist arrivals with a receipt of MYR103b. This appears an optimistic target as it represents a growth of nearly 20% assuming the current tourist arrival shrinkage remains for the full year. Typically, tourist arrival grows at an average of 5-6% per year. MAHB, AirAsia and AirAsia X will benefit from the higher tourist arrivals.

Positive for M-REITs with hotels, malls. We believe the e-visa system and higher tourist arrivals are also beneficial for M-REITs with hotel and retail mall assets which could see a rise in hotel occupancy rates and shopper traffic. M-REITs under our coverage with such exposure are: 1) KLCCP Stapled Group (a hotel and a shopping mall), 2) Sunway REIT (five hotels, three shopping malls), 3) IGB REIT (two shopping malls), 4) Pavilion Mall (a shopping mall); 5) CapitaLand Malaysia Mall Trust (five shopping malls).

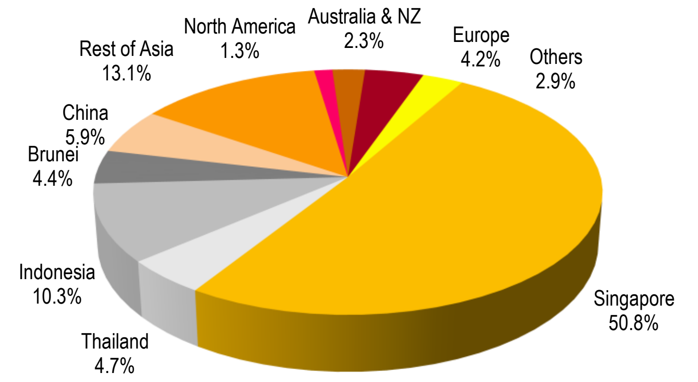
(Analysts: Samuel Yin - gaming; Mohshin Aziz - aviation; Kevin Wong -M-REITs)

Malaysia: Yearly tourist arrivals



Source: Tourism Malaysia, Maybank KE (chart)

Malaysia: Tourist arrivals by country of origin, 2004



Source: Tourism Malaysia, Maybank KE (chart)

Gaming (casino) sector - peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY14A	PER (x) CY15F	PER (x) CY16F	P/B (x) CY14A	P/B (x) CY15F	ROAE (%) CY14A	ROAE (%) CY15F	Net yield CY15F
Genting Bhd	Buy	7.51	27,915.2	9.35	16.3	17.1	14.9	1.0	1.0	6.6	6.4	0.5
Genting Malaysia	Buy	4.40	24,947.7	4.55	18.4	18.8	17.7	1.5	1.4	8.3	7.7	1.5
Simple average					**17.3**	**18.0**	**16.3**	**1.3**	**1.2**	**7.5**	**7.1**	**1.0**

Source: Maybank KE

Aviation sector - peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY13A	PER (x) CY14E	PER (x) CY15E	P/B (x) CY13A	P/B (x) CY14E	ROE (%) CY14E	ROE (%) CY15E	Net yield CY15E
AirAsia	Buy	1.52	4,230.1	2.05	10.4	6.0	5.8	0.9	0.8	8.9	13.6	0.0
AirAsia X	Hold	0.21	850.4	0.22	n.a.	n.a.	41.0	0.6	0.9	(50.5)	(7.2)	0.0
MAHB	Hold	5.44	9,026.0	5.45	49.0	n.a.	54.4	1.0	0.9	2.0	(0.1)	0.0
Simple average					**29.7**	**6.0**	**33.7**	**0.8**	**0.9**	**(13.2)**	**2.1**	**0.0**

Source: Maybank KE

Property (REITS) sector - peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY14A	PER (x) CY15F	PER (x) CY16F	P/B (x) CY14A	P/B (x) CY15F	ROAE (%) CY14A	ROAE (%) CY15F	Net yield CY15F
IGB REIT	Buy	1.32	4,574.6	1.50	19.5	17.9	17.2	1.2	1.2	6.3	6.9	5.8
Pavilion REIT	Buy	1.53	4,617.3	1.70	19.9	19.6	18.3	1.2	1.2	6.1	6.0	4.6
KLCC Prop	Buy	7.08	12,781.8	7.80	18.2	18.0	17.4	1.1	1.2	5.8	6.4	5.1
Sunway REIT	Hold	1.53	4,498.1	1.55	19.0	16.7	14.8	1.2	1.1	6.2	6.6	5.3
CMMT	Hold	1.37	2,774.0	1.45	16.3	16.2	15.8	1.1	1.1	6.5	6.2	6.4

Source: Maybank KE

SPECIAL REINVESTMENT ALLOWANCE: Time to re-invest

Selectively positive

Budget measures/incentives:

- To further promote reinvestment among existing companies in the manufacturing and agriculture sectors whose Reinvestment Allowance incentive has expired, a new incentive, Special Reinvestment Allowance, will be introduced. The rate of claim is at 60% of the qualifying capital expenditure and is allowed to be set off against 70% of the statutory income from YA2016 to YA2018.
- Agriculture activities qualified are: (i) cultivation of rice, maize, (ii) cultivation of vegetables, tuber and roots, (iii) cultivation of fruits, (iv) livestock farming, (v) spawning, breeding or culturing of aquatic products, (vi) any other activities approved by the Ministry of Finance.

Impact/benefits:

Glove producers to benefit? We understand this Special Reinvestment Allowance incentive will be applicable only for reinvestments in the older plants of the glove producers that used to enjoy the 15-year Reinvestment Allowance which have expired. Given the glove makers' aggressive expansion, we think that expansion at the sites of these old plants could have already been exhausted in terms of space. However, the glove producers will enjoy the other tax incentives for their new capex.

What about auto players? Auto stocks with presence in the energy efficient vehicles (EEVs) segment may not benefit from this incentive as the incentive is intended for reinvestments, but these auto players may benefit from the other tax incentives already in place, eg pioneer status, investment tax allowance, as the EEV segment is a National Automotive Policy effort to establish Malaysia as a regional hub for EEVs. Within our auto coverage, only Mazda (under BAuto) and Perodua (under UMWH and MBM) have been aggressively investing/considering an expansion into the energy efficient vehicles (EEV) production segment.

And the semiconductor players? Within our coverage, Inari and ViTrox are already enjoying pioneer status for their domestic operations and are unlikely to benefit further from this new Special Reinvestment Allowance incentive. Globetronics could benefit from the incumbent Reinvestment Allowance incentive should there be any new capex to be incurred in the near future. Apart from its sensor business which is currently enjoying pioneer status, the remaining businesses (i.e. quartz crystal & timing devices, LED, traditional ICs) which contributed 68% of FY14 group revenue, are presently not enjoying any incentives. The renewed focus on Reinvestment Allowance incentive could prompt Globetronics to embark on an automation drive to reduce its reliance on labour.

(Analysts: Lee Yen Ling – glove producers; Ivan Yap – automotive, semiconductor)

Glove producers sector – peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY14A	PER (x) CY15F	PER (x) CY16F	P/B (x) CY14A	P/B (x) CY15F	ROAE (%) CY14A	ROAE (%) CY15F	Net yield CY15F
Hartalega	Hold	5.30	8,696.6	4.25	38.3	32.4	26.8	3.4	2.9	18.2	18.0	1.4
Top Glove	Buy	9.25	5,743.0	10.80	26.8	19.0	16.3	3.9	3.4	14.6	18.1	2.4
Kossan Rubber	Buy	8.46	5,409.9	8.30	37.6	26.1	23.6	6.7	5.8	17.9	22.0	1.3
Simple average					**34.3**	**25.8**	**22.2**	**4.7**	**4.0**	**16.9**	**19.4**	**1.7**

Source: Maybank KE

Automotive sector – peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY14A	PER (x) CY15F	PER (x) CY16F	P/B (x) CY14A	P/B (x) CY15F	ROAE (%) CY14A	ROAE (%) CY15F	Net yield CY15F
Berjaya Auto	Buy	2.17	2,471	2.70	12.7	11.3	10.0	5.7	4.5	45.4	40.1	4.8
MBM Resources	Buy	2.88	1,125	3.50	10.0	10.0	7.4	0.7	0.7	7.4	7.1	3.8
Tan Chong Motor	Hold	2.68	1,749	2.55	25.5	34.4	22.3	0.6	0.6	2.5	1.8	2.2
UMW Hldgs	Hold	8.10	9,463	7.80	12.5	23.3	16.0	1.4	1.4	11.5	6.1	3.2
Simple average					**15.2**	**19.7**	**14.0**	**2.1**	**1.8**	**16.7**	**13.8**	**3.5**

Source: Maybank KE

Semiconductor/Technology sector – peer valuation summary

Stock	Rec	Shr px (MYR)	Mkt cap (MYRm)	TP (MYR)	PER (x) CY14A	PER (x) CY15F	PER (x) CY16F	P/B (x) CY14A	P/B (x) CY15F	ROAE (%) CY14A	ROAE (%) CY15F	Net yield CY15F
Inari Amertron	Buy	3.70	2,702.8	4.35	21.4	15.7	13.6	6.9	4.6	32.5	29.4	2.6
Globetronics	Buy	6.36	1,791.1	7.35	27.8	23.4	14.7	6.3	6.1	22.6	26.2	3.9
Vitrox Corp	Buy	3.02	704.9	3.65	14.5	13.9	11.1	4.0	3.4	27.8	24.3	2.1
Simple average					**21.2**	**17.7**	**13.1**	**5.7**	**4.7**	**27.6**	**26.6**	**2.8**

Source: Maybank KE

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