Strategy - Malaysia

A New Dawn

Stocks Covered:	156
Ratings (Buy/Neutral/Sell):	70 / 76 / 10
Last 12m Earnings Revision Trend:	Negative

The New Dawn conference, co-organised by RHB, contained few ground-breaking announcements. However, it was a forum for investors to meet with new Cabinet ministers, some of whom were addressing investors for the first time since taking office. It was also an opportunity for notable panel economists, industry experts and business leaders to offer their considered opinions and suggestions on how the Government can advance its new agenda. The 2019 Budget, to be tabled in Parliament on 2 Nov, will have significant implications for the market, given fiscal constraints and the ideas being floated on new sources of revenue. We are convinced that the Pakatan Harapan government is on the right track, but the solutions will take time to implement and could require sacrifices. The regulatory risks, growing external challenges and unattractive market valuations compel us to retain our cautious view on the outlook for domestic equities. It is as they say, darkest before dawn.

Well attended. The New Dawn conference was attended by about 2,400 investors, with the Prime Minister Tun Mahathir Mohamad delivering the keynote address and involving eight ministers, the Bank Negara governor as well as a speech by PKR President Datuk Seri Anwar Ibrahim. The tone of the conference was constructive and forward-looking, and while the ministerial presenters gave broad indications on how policies could evolve, there were few specifics – given the impending Budget 2019 announcement on 2 Nov. Please refer to the detailed session notes. The key takeaways from the conference include:

i. Fiscal constraints means new sources of revenue have to be considered that could include new taxes;
ii. Asset monetisation initiatives;
iii. Budget 2019: A Budget of Sacrifice;
iv. Budget to prioritise growth over fiscal targets;
v. Previous deficit targets are not seen to be reasonable – higher fiscal deficit is possible;
vi. The private sector to drive the economy;
vii. Infrastructure projects are merely under review, not necessarily cancelled;
viii. Tapping the digital economy;
ix. Impending implementation of Industry 4.0;
x. Regulatory risks in the telecom industry prevail;
xi. Regulatory asset-based model for the aviation industry – private sector funding opportunities, new operating agreements with MAHB;
xii. Emphasis on renewable energy and green technology;
xiii. Restructuring of Khazanah Nasional's asset portfolio within 3-5 years.

Staying cautious. Our cautious view on the outlook for the domestic equity market remains unchanged. External challenges remain elevated, and near-term reform initiatives imply heightened execution risks from a policy and political perspective. The 2019 Budget announcement could be a key signpost for the market. We maintain our end-2018 FBM KLCI target of 1,720 pts. We see trading opportunities, although our core investment strategy remains a defensive one. OVERWEIGHT on utilities, oil & gas, rubber products, consumer and gaming.

Company Name	Rating	Price	Target	% Upside (Downside)	P/E (x) Dec-19F	P/B (x) Dec-19F	Yield (%) Dec-19F
BIMB	BUY	MYR3.76	MYR4.86	29.3	9.2	1.2	4.3
DRB-HICOM^	BUY	MYR1.98	MYR2.92	47.5	20.3	0.4	0.5
Genting M'sia	BUY	MYR4.93	MYR6.12	24.1	14.9	1.4	3.7
Maybank	BUY	MYR9.65	MYR11.00	14.0	12.3	1.3	6.2
PChem	BUY	MYR9.37	MYR11.23	19.9	17.5	2.2	2.9
Power Root^	BUY	MYR1.56	MYR2.38	52.6	14.5	2.8	5.8
Serba Dinamik	BUY	MYR3.95	MYR4.62	17.0	12.0	3.4	2.5
Tenaga	BUY	MYR15.38	MYR17.7	15.1	10.9	1.1	4.6
VS Industry	BUY	MYR1.67	MYR1.88	12.6	14.0	2.5	3.0

Source: Company data, RHB

VIPs & dignitaries at the New Dawn conference

Source: RHB

Breakfast session with YB Lim Guan Eng

Source: RHB

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Breakfast session with Finance Minister YB Lim Guan Eng

Topic: Fiscal and economic-related issues

- This first session was a much-anticipated breakfast meeting with Finance Minister Lim Guan Eng – it was a more intimate Q&A session vs the address he delivered later.
- There were about 23 attendees, comprising mostly foreign fund managers and bank CEOs.
- Lim said The Government is to pursue sustainable growth that will be private-sector driven. This is because the latter was more efficiently run, not constrained by funding vis-à-vis the Government, and better at sniffing out opportunities and pursuing efficient allocation of assets.
- The highest cause of leakage in government expenditure is maintenance costs. The Government will be looking to shift these operating costs to the private sector via open tender to save money.
- On a question over the current account position if oil prices fall from current levels, Lim said that, while current oil & gas production levels were not at full capacity – given a pipeline leakage in Sabah – the current account will not fall into negative territory. This is because higher production – once the leak is plugged – can help support the current account.
- On a question over China's Belt & Road Initiative (BRI), the Government fully supports the BRI but, due to less-than-transparent previous agreements with certain companies, it could not be maintained. In future, the Government will consider new BRI projects if they benefit the People.
- Back on the fiscal agenda, Lim stressed that, if fiscal consolidation caused economic growth to slow, Malaysia can carry the burden of a higher fiscal deficit – implying further spending to boost the economy.
- On questions about the competitiveness of our labour force and low total factor productivity growth, Lim said the Government was looking to focus on exports, as the Malaysian economy was small. This will be private sector-led, with the Government providing support in terms of research & development (R&D) funding that the private sector cannot afford. The Government may also consider matching grants and payroll subsidies like Singapore to attract talent. It is also looking to reduce corporate income tax over the long term.
- With regards to the open tender of contracts, the Government is looking to level the playing field: all companies can now bid for contracts – this includes those linked to the previous administration and international companies.
- Cost rationalisation on infrastructure projects was necessary to cut out leakages and luxuries (eg marble floored platforms). The Government will still honour contracts to avoid defaults, but negotiations for compensation due to cancellations are still ongoing.
- Malaysian industries that will have a competitive advantage going forward will likely be Industry 4.0 ones. The Government's quest is to identify local talents like Grab and provide full support. Tourism is also another area the Government is looking to tap due into, given its immense potential.
- Regarding Malaysia's relationship with Singapore, Lim maintained the same stance and tone as Prime Minister Tun Mahathir, but hopes for mutual understanding and cooperation. On the bright side, the new Government will start with a clean slate.

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Keynote address by Prime Minister Tun Dr Mahathir Mohamad

- Under the previous government:
  - Achieved Independence, but subsequently did not do what was expected of them
  - Economic growth has lagged
  - Headline GDP appears strong, but has decoupled from the people's wellbeing
  - People suffering from the high cost of living
  - There was a loss of faith in the country in the absence of political change
  - 14th General Election (GE14) democratic change was achieved without violence
- The people are expecting change and want the Government to deliver on its promises
- The Pakatan Harapan (PH) Government inherited a disoriented country
- Ministries and civil servants became a part of the previous ruling party
- Difficult task ahead for the new Government – needs to deliver on election manifesto promises
- Malaysia is a trading nation, but there a lot of uncertainties globally: wars and trade disputes
- The Government needs new sources of funds – this may not be welcome by the people
- New taxes to raise revenue
- Asset monetisation initiatives to raise funds, eg land and other valuable assets
- The machinery of government needs rebuilding
- New people in authority – learning curve
- In time the PH Government can restore the country's finances
- Malaysians can overcome economic problems
- Funds needed to repay debts
- There is a need to grow the economy to repay debt
- Recent trips to the UK and US – inviting investors to boost FDIs
- Need to revitalise the *Malaysian Tiger*
- The PH Government pledges to be business-friendly

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Address by Finance Minister YB Lim Guan Eng

Topic: Crouching Tiger, Hidden Dividends: The New Malaysia Story

- Malaysia is a small open economy that will be affected by the current external economic environment that is challenging – due to monetary policy tightening and the global trade war.
- The economy, however, is resilient, as it is still on steady growth path – driven by both external and domestic demand. Additionally, it is well diversified and the labour market is still favourable, which is supportive of growth. Other positives: current account is still in surplus, there is the adopted flexible exchange rate system, as well as sufficient external buffers.
- Consumer and business confidence remains high, which would be supportive of economic growth.
- Malaysia should be able to take advantage of the global trade war, as China and the Organisation for Economic Co-operation and Development countries could potentially shift their production to the country.
- The new Government will prioritise spending and take care of the wealth-being of the people.
- However, the high government debt levels and non-refund in GST, as well as income tax that amounted to MYR35bn, suggests that next year's budget will not be an easy one.
- Prime Minister Tun Mahathir mentioned about sacrifices, and next year's budget will see sacrifice and we must accept such sacrifices.
- The previous government's budget deficit target was not reasonable.
- The present Government will undertake a clean-up.
- Although the new Government will conduct prudent expenditure, it will ensure that it does not fall into an "austerity trap" through smart spending.
- Infrastructure projects will be reviewed and not cancelled – this is to ensure they are done at reasonable costs in order to reduce future government debt.
- The private sector will be allowed to drive the economy.

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Bank Negara Malaysia Governor YB Datuk Nor Shamsiah Yunus' Address

Topic: Special Address By Bank Negara Malaysia Governor

- Malaysia's economic outlook remains positive despite a challenging environment. Although economic growth has been slower, it remains on a steady growth path while inflation moderates.
- The private sector will lead economic activities in 2018-2019, supported by employment, wage growth, and strong consumer and business sentiments. Capital outflows in previous episodes are becoming smaller, while financial volatility remains manageable.
- Emerging markets were hit recently, but the MYR remains relatively resilient. Bond markets are supported by matured domestic players.
- The economy is well-diversified. The current account remains in surplus, while financial sector liquidity ratios are strong. Malaysia is among the most open of trading nations – it also possesses financial openness, which is measured by external assets-to-liabilities. The latter has improved to 250% in 2017 from 150% in 2000.
- Malaysia's external debt is still manageable, while the debt profile is favourable. Foreign debt is skewed towards the longer term, while short-term debt is mostly held by banks, which are subject to prudent liquidity management practices, ie internal limits and maturity mismatches.
- Trade tensions and contagion risks bring about volatility, but this is contained in the financial markets. The central bank not fixated with the level of the MYR, but views it as a buffer against financial volatility.
- Malaysia may stand to benefit from the US-China trade war, as Chinese firms have indicated interest in relocating production to Malaysia. The question remains on how fast they are able to expand here – there is some possible time lag before the country is able to fully benefit from this scenario.
- The current monetary policy stance remains accommodative and conducive, which financial liquidity remains ample. Bank Negara Malaysia (BNM) will continue to assess growth and financial stability going forward.
- Governor Datuk Nor Shamsiah's personal budget wish-list priority: the education sector – she believes there is an urgent need to revamp this area.
- On cryptocurrency and blockchain technologies, BNM has published a regulatory sandbox to encourage Fintech development. Datuk Nor Shamsiah hopes finance can play a role in terms of environmental sustainability.

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Track 1 Morning: Keynote address by YB Gobind Singh Deo
Panel members: Jeffrey Tan (RHB) & Foong Choong Chen (CIMB)
Topic: In Conversation With Gobind Singh Deo

- There was overwhelming attendance for the session with Communications & Multimedia Minister Gobind Singh Deo.
- Deo said the full scope and targets of the National Fiberisation & Connectively Plan (NFCP) will be announced in due course – the NFCP is an inclusive technology-neutral blueprint to deliver broadband via a combination of fixed and/or wireless technologies.
- He said Malaysia targeted to have 98% fibre broadband coverage by 2023, with copper technology being phased out by then. He also said 70% of all schools and government premises are to have broadband by 2020.
- In terms of broadband pricing, Deo said the Government continues to engage with the fixed broadband operators (including Telekom Malaysia) following the recent review of the mandatory standard on access pricing (MSAP), but did not rule out further price competition.
- He said Universal Service Provision (USP) funds are under audit/review, and that the Government was open to lowering the telcos' 6% contributions.
- Deo said his ministry was looking at commencing 5G trials – with Putrajaya and Cyberjaya as test hubs.
- He said Tenaga Nasional will complement the NFCP with trials and feasibility studies underway in Melaka. The Government is open to further collaborations.
- On the 700MHz spectrum, Deo said the Malaysian Communications & Multimedia Commission had not decided on the allocation process – ie beauty contest or competitive auction – with assignment to take place in mid-2019.

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Track 2 Morning: In Conversation With YB Datuk Darell Leiking, Minister of International Trade & Industry

Moderator: Mr Suhaimi Ilias, Malayan Banking chief economist

Topic: Q&A Session

- The room is overflowing with attendees interested to listen to Datuk Darell Leiking. Due to limited seats (220) a few attendees are standing up at back. The overall reception towards the session was positive, with many participants active in asking questions.
- The session marked Datuk Darell's first 100 days in office – over the course of this period, the instructions the International Trade & Industry Ministry (MITI) received from Prime Minister Tun Mahathir were: focus on bringing back business confidence and investments, as well as improve Malaysia's exports.
- MITI will focus on addressing queries as it works on the People's confidence and trust. The ministry also announced that it will answer all letters and queries within seven days compared to months under the previous administration.
- On the issue of trade wars, MITI accepts that there will be an impact on Malaysia, but the strategy is to create a new dynamic focused on ASEAN. The region has a population of 650 million, with great economic opportunity within this grouping.
- MITI will also start to streamline investment agencies in the country. There are over 30-40 such entities under many ministries and jurisdictions. MITI plans to become a singular place to sort out the investment perks and incentives so that such agencies do not compete against each other
- Plans for outstanding trade agreements:
  - Comprehensive & Progressive Agreement for Trans-Pacific Partnership (CPTPP) – it is pending ratification. There are 17 laws to be amended that could take some time to sort as they cover several jurisprudences.
  - Regional Comprehensive Economic Partnership (RCEP) – looks much more promising. The concern is on the investor-state dispute settlement side. The Government is concerned on the fairness of the RCEP.
  - EU-Free Trade Agreement (EU-FTA) – negotiations to restart after Prime Minister Tun Mahathir visits the EU.
- On the third national car, Datuk Darell stated that it was a collective decision by the Cabinet, though the initiative will be spearheaded by MITI. Prime Minister Tun Mahathir's vision is to have an ASEAN car as a single common product for the region. All countries within ASEAN can contribute to the building of parts. Most importantly, it will be private sector-driven, but facilitated by the Government.
- On new industries, MITI identified the digital economy as one with great potential. Few IT companies have highlighted their interest in setting up operations in Malaysia.

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Track 3 Morning: Economics Panel
Panellists: Dr Bernard Ng, Lim Chee Sing, Dr Chua Hak Bin, Dr Donald Hanna, Peck Boon Soon
Topic: Opportunities & Challenges For The New Malaysia

- **Dr Bernard Ng:** Growth in developing Asia remains solid at 6% in 2018 and 5.8% in 2019. Economic growth for Malaysia has been relatively unscathed at 5% this year, adding that the country must remain vigilant.
- Trade tariffs will not only impact the US and China but other regions as well, although Asia will have a rather positive impact from production relocations, especially ASEAN. Malaysia is to benefit from this, but Dr Ng warned about investor confidence: if it weakens too much, it can cause instability.
- **Lim Chee Sing:** Fiscal sustainability is a major challenge – this is constraining the Government from conducting an efficient fiscal policy. It has been overspending not only on opex but also on off-balance sheet items. Emoluments and pension charges are expected to go up, and Government may soon need to borrow money to finance opex – this is a big negative for the international ratings agencies.
- There is a need to define the Government's involvement in the economy to avoid crowding out the private sector. It needs to strengthen the integrity of institutions, ie setting up a framework for selecting personnel and leaders. Malaysia is no longer cost-competitive, relies on foreign labour, and has poor education standards. Going forward, Malaysia should capitalise on Industry 4.0 and transform the economy.
- **Dr Donald Hanna:** Fiscal policy should focus more on governance, accountability, and transparency. Dr Hanna hoped to see more transparency on the Government's balance sheet. He also hoped that the Government will show how future taxes are spent, as it is taxpayers' money.
- Other changes Dr Hanna hoped to see included the separation between opex and investments, as well as the MYR35bn in unpaid tax refunds to be shown as debt – this is because it is owed by the Government and repayment should also include interest. He also said the broader public balance had to include government-linked companies, as finances may not be consolidated as fast as budgeted.
- **Dr Chua Hak Bin:** The economy was undergoing a period of repair, restructure and revive. Repair: Dr Chua thinks the Government should introduce property stamp duties for foreigners – just like Singapore – that can raise property-related revenue.
- Restructure: The Government needs to implement a Fiscal Discipline Act to reduce or place limits on spending, as well as apply checks and balances on government guarantees.
- Revive: With the US-China trade war brewing, Malaysia stands to benefit as it is among the top countries for electrical & electronics exports. We can find success in drawing production from China to Malaysia. Tourism can also be improved, as growth has been trailing Thailand and Vietnam.
- **Peck Boon Soon:** There is need to put the fiscal position on a stronger footing. New taxes may be implemented – eg inheritance and capital gains taxes – but these may affect future prospects. He stressed the need to change the mind-set of the people: promoting hard work and raising the competitiveness of the labour force. Countries like Taiwan, Hong Kong and Singapore have all have faced economic hardships before reaching their current status.
- Banking assets are channelled primarily to the property & real estate sector (around 40% of total banking assets) in recent years as opposed to manufacturing. Peck hopes the Government can do something to change this.

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Private Lunch Session 1: YB Lim Guan Eng, Minister of Finance
Hosted by Maybank group CEO Datuk Abdul Farid Alias
Topic: Q&A Session

- Lim wanted to correct people's perceptions – the Finance Ministry will not cut too much at the expense of growth. If the Government is to choose between fiscal targets and economic growth, it will choose economic growth.
- The Government wants to create an environment to promote greater private sector involvement with best pricing. For public-private partnership projects, while the private sector may need to put up some money, it may be allowed to run them.
- Mass Rapid Transit Line 2 (MRT2) question: Why did the Government make the decision to call for a new tender for the underground portion, given that a reported c.2,000 workers will be out of jobs? Answer: The Government is not abandoning MRT2, just looking for better pricing. Lim said the underground portion still needed workers.
- Questions: What are areas of priority in Budget 2019? Does the Government have the political will to reduce the size of emoluments? Answer: The Government will not be looking to cut civil service numbers – it just needs to make civil servants more efficient. He said there were "3Es" in each budget: equity, employment, and enterprise. For the Finance Ministry, Lim said he will focus on employment and enterprise in Budget 2019.
- The Government has identified areas that are highly-reliant on foreign labour: plantations and construction. Malaysia is facing a shortage of labour, but workers are not gainfully employed. This is a complicated issue and a committee has been formed to address this matter. Lim said the Government was keen to get people to obtain jobs that pay fairly, so that they can survive.
- Regarding market talk on capital gains tax, Lim said he was not able to make tax announcements now – the answer would have to wait for Budget 2019.
- To a question on how to encourage the private sector to invest more, Lim said government-linked companies are competing with firms in the private sector, but have not been as efficient. He sees the need to level the playing field for the private sector. Corporates should also be encouraged to go global, he added.
- Question: What are challenges are there to replicate Penang's successes? Lim said civil servants needed to work together, as there were many with talents that can be tapped. That said, he acknowledged that Penang's successes could not be replicated country-wide – given the different scale – but added that each region needed to look at what the local area was good at and to build from there.
- Lim's key messages: The country needs to improve its ability to execute, civil service needs to be improved, and private sector has to take the lead.

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Private Lunch Session 2: YB Anthony Loke, Minister of Transport
Hosted by Dato' Khairussaleh bin Ramli, RHB group MD & CEO
Topic: Q&A Session

Public Transport

- Under the previous administration, the Transport Ministry (MOT) was not fully consolidated, eg the Land Public Transport Commission – the former public transport regulator – was under the Prime Minister's Office. Now renamed the Land Public Transport Agency and transferred to MOT, Transport Minister Anthony Loke aims to improve efficiency for all modes of public transportation.

- Having taken the monorail to the conference, Loke noticed the congested trains and wants this issue solved by 2019. There are apparently five sets of 4-car train sets grounded at the monorail depot due to a dispute between Prasarana Malaysia and Scomi Engineering that has hindered progress. Loke said this dispute will be resolved soon, either with a fresh contract signed or a new company selected to supply the train sets.

- Loke wants to promote a more transparent and accountable public transport system in Malaysia. He said that, in future, any public transport delays – such as the Light Rail Transit (LRT) being more than 15 minutes late – would require the services operator to host a media conference to explain the delay.

- A proposed car-scrapping policy is on hold, as the Government has found it to be impractical at this juncture. To partially reduce road congestion, the Government will be encouraging the wider use of public transportation via a monthly pass that will be rolled out soon.

- For future public infrastructure projects, the Government will be adopting Penang's model of self-planning and funding. There will be less reliance on the Government, who will act as the project-approving authority and regulator. This decentralisation allows states to have higher participation in planning local infrastructure for their own needs. In particular, the Penang Transport Masterplan is unlikely to obtain the MYR1bn soft loan touted earlier, with funding via land reclamation the most likely source of funding.

Aviation

- The MOT has made good progress in aviation. The Government under the existing operating agreement (OA - which lasts until 2034) with airport operator Malaysia Airports (MAHB) is required to fund airport expansions.

- However, in view of the tight federal budget, the Government is unable to fully fund airport expansions, especially those in urgent need: Kota Kinabalu, Sandakan, Penang, Langkawi and Melaka. As such, in order for airports to be expanded without the need for federal funding, MOT is in negotiations with MAHB to draft a new OA. This new agreement – based on the regulated asset base model – will allow the latter to seek equity partners for the expansion of existing airports or the construction of new ones. In return, MAHB – along with these partners – will be allowed to collect passenger service charges (PSCs) from passengers based on the amount of investment for expansion/construction. This effectively reduces MAHB's monopoly by allowing new equity partners. In addition, it solves a longstanding issue pertaining to a similar PSC rate charged for all airports in Malaysia, regardless of facilities provided.

- For giving up its monopoly, MAHB will be allowed to renegotiate its annual user fee rate, which is essentially a royalty payment to the Government based on its annual revenue. Besides, it is likely that the former will be granted an extension to its concession beyond 2034. The Government aims to sign the new OA with MAHB by end-2018 and begin the new unbundled model by 2019.

- To solve the matter of differences in opinion between aviation stakeholders – ie airlines, MAHB and regulators – MOT has created the Malaysian Aviation Council where all stakeholders can sit down and discuss various matters. Loke would be the mediator at these discussions.

Ports

- For Westports, the Government has not received any proposals to increase tariffs for its CT10-19 expansion. Loke added that any increases in tariffs must be accompanied by higher efficiency, safety, and better service offerings. The MOT wants to encourage more cruise lines to use Malaysia as their home port, eg Penang Port, in partnership with Royal Caribbean Cruises, has signed a MoU to double capacity, allowing more cruise ships to berth there. Being a home port, where a ship is based, it will create job opportunities and fuel demand for related industries such as hospitality, as well as other supply chains.

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Private Lunch Session 3: YB Yeo Bee Yin, Energy, Science, Technology, Environment & Climate Change Minister
Hosted by CIMB CEO Zafrul Aziz
Topic: Powering Malaysia Forward

- Reform 2.0 is the main agenda for Malaysia's power industry.
- Market structure reforms will be undertaken by instilling more competition across the various value chains in the utilities market.
- More regulations will also be implemented in energy infrastructure to promote new technology.
- The main focus of the Government's energy initiatives are: affordability, reliability, and sustainability. More policies are to be announced next year.
- The renewable energy mix target is to be expanded to 25% by 2025 from the 2% of total generation mix currently.
- Storage technologies in renewables are still not at maturity levels in terms of generation costs, but more developments in future are expected to bring such costs down.
- The Government will not rush to award renewable energy power purchase agreements while the technology is still in progress towards maturity.
- The National Energy Efficiency Action Plan will provide incentives for businesses for retrofitting costs to improve efficiency, with the Government being the first mover.
- The Government intends to create more wealth through science and technology by encouraging higher investments in industrial research, instead of just academic research.
- Tech commercialisation funds are to be consolidated – this is for improved capital-raising for start-ups.
- The definition of technology commercialisation is to be reviewed: the Government is seeking to change the definition metrics, ie towards commercial revenue generated from new technologies instead of just intellectual properties issued.
- Higher environmental issue enforcement with "3Es":
    - Enforcement
    - Engagement
    - Education
- Cut plastic usage by creating an ecosystem for alternative packaging solutions by providing incentives for private players to scale up and reduce costs.
- In general, Yeo's ministry intends to encourage higher private investments in green technologies, as well as more environment-related projects that are also commercially-viable.

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Track 1 Afternoon

Panel members: YB Sim Tze Sin, Deputy Minister of Agriculture & Agro-Based Industry; Renaka Ramachandran, Sime Darby Plantation CFO; Datuk Wira Azhar Abdul Hamid, Felda Global Ventures chairman; and Dato' Lee Yeow Chor, IOI Corp CEO

Moderator: MR Chandran

Topic: Improving Efficiency & Value Addition In Malaysia Agri And Commodity Sector

- Chandran started off the session by talking about what the PH manifesto entailed with respect to the agriculture sector. Food security is one of the main thrusts of New Malaysia, and he touched on the fact that the country's food imports are rising rapidly: touching MYR51bn in 2017.
- Although the agriculture industry only contributes to about 8% of GDP, about 52% of this comes from palm oil and employment by the palm oil industry comprises about 430,000 people.
- There is a need for restructuring to avoid being labelled a low-cost, labour-intensive investment centre. There is a lot of value addition that can be done for palm oil: from industrial chemicals to nutraceuticals, cosmeceuticals and pharmaceuticals. The Economic Transformation Programme aim for the industry is to reach a GNI contribution target of MYR178bn by 2020 from MYR70-80bn currently.
- Sim touched on the three problems facing the industry: the increases in world population and dietary consumption, and climate change.
- Sim highlighted that there are many investment opportunities in the agri industry, ranging from ruminants, inputs, floriculture, mechanisation, to fruits, aquaculture, and dairy. The Government is giving many incentives for investments in these industries, including tax exemptions, tax deductions for new projects, pioneer status, investment tax allowances, export increase allowances, and the like.
- Corporate speakers Datuk Azhar from Felda Global Ventures, Dato' Lee from IOI and Ramachandran from Sime Darby Plantation talked about similar issues: the challenges faced by the industry (eg stagnating yields and negative perceptions), ways to improve efficiency, sustainability, and research & development.
- Dato Lee mentioned that, since 40% of palm oil landbank in Malaysia is owned by smallholders and managed by centralised government schemes, there is a lot of difficulty in getting second or third generation family members to become interested in this sector. He recommended opening up these land areas to the private sector.
- Another suggestion to resolve the labour issue was to extend foreign labour visas to longer periods, which will enable the labourers to move up the workforce – and even become management.
- In terms of sustainability, a centralised credible certification system – acceptable to all stakeholders – was required

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Track 2
Panellists: YB Baru Bian, YB Zuraida Kamaruddin
Moderator: Dato' Soam Heng Choon
Topic: Building Sustainable Infrastructure & Housing

Ministry of Works

- The Works Ministry (MOW) is focusing on the implementation and maintenance of projects, enhancement of connectivity between federal and state roads, and improving connectivity between rural and urban areas.
- MOW will also introduce intelligent traffic systems.
- The abolishment of toll concessions will be put on hold while Malaysia stabilises its financial standing. The Government will review alternative options: eg extension of toll concession tenures, reduction in toll prices, or a reduction in tolls on the road to aid road users.
- MOW is also putting emphasis on the importance of mandatory road maintenance moving forward. In the past, annual budget allocations have been insufficient. In the coming Budget 2019, allocation for road maintenance is expected to be minimal but sufficient.
- The Pan Borneo Sabah project will continue despite the recent delays in construction. Causes: delays in land acquisition and relocation of utilities.
- Further clarification was given on the 4% cost reduction for the Pan Borneo Sarawak initiative. The reduction was based on the project delivery partner cost portion of the project.

Ministry of Housing

- The Government is working to iron out several issues – ways to reduce construction costs via the lowering of compliance costs, high land costs, adoption of Industrialised Building Systems (IBS), and the housing overhang.
- Zuraida also gave some preview on the National Housing Policy 2.0 (NHP 2.0), which will be launched in November. Under NHP 2.0, the Government will encourage developers to comply with smart city or certain international standards. It will also promote the rent/rent-to-own scheme, especially for the affordable housing segment. She cited that some banks were now offering 40-year loan tenures and step-up policies to ease the burden of the lower income group in terms of their monthly instalments.
- The minimum size for affordable housing going forward will be 850 sqf – this is to ensure that the units are more liveable.
- With regards to the cross subsidy of *bumiputra* discounts/*bumiputra* quotas in housing development, the Housing Ministry (MOH) said it engage with developers before coming to a conclusion on this matter.
- To develop the 1m affordable housing within 10 years promise under the PH Manifesto, Zuraida said funding would not come from the Government. MOH will have to identify the suitable landbank and work with the private sector. Private-public partnership was still needed, and land parcels will be put up for open tender for developers to undertake the development – for normal property and affordable housing.
- The Government is also working on data centralisation, so that supply/mortgage loan/income level data is more up to date.

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Track 3 Afternoon Session
Panel members: Datuk Shahril Ridza Ridzuan, Richard Record, Tan Kim Eng, Michelle Chia
Moderator: Dato' Lee Kok Kwan
Topic: New Malaysia : Resiliency Of The Economy & Credit Profile

- Funding capacity is not an issue for Malaysia. Pension funds, banks and insurance have the capacity to absorb new debts that are going to be issued by the Government.
- A short-term pick-up in budget deficit is not a major issue. It is important for the Government to make clear its medium- to long-term plans for its deficit. This is because the country can finance its deficit, given its current account surplus and pool of local savings. However, this may come at higher borrowing costs if the budget deficit is higher.
- Malaysia's debt is elevated but is not unusually high. The debt to GDP ratio is just one of the indicators. A maturing debt profile and currency risks are other indicators that need to be taken into consideration when evaluating the credit profile.
- Malaysia may want to consider issuing debt to pay back the GST non-refund and income taxes of MYR35bn. Although it will contribute to a higher debt level, it can still be managed and may not affect the country's credit rating if done in a transparent matter. Such an exercise will enable the refund to be considered as a one-off and will not add to the Government's expenditure and contribute to a widening budget deficit.
- Mis-match of foreign debt to assets is not an issue for Malaysia.
- Malaysia's flexible exchange rate policy will allow it to act as a shock-absorber.
- Khazanah Nasional will separate its commercial from strategic investments. Its portfolio will be restructured in 3-5 years.

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Panel Session Afternoon

Panel Members: YB Tan Sri Datin Paduka Rafidah Aziz, YB Tony Pua, YB Nik Nazmi Nik Ahmad, and YB Datuk Dr Rais Hussin Mohamed Ariff

Topic: New Malaysia – Forging Ahead Together

Moderator: Ibrahim Suffian, Co-Founder & Director of Programs, Merdeka Centre for Opinion

- To a full house, Tony Pua said that the new Government has to manage expectations, as some promises made before GE14 have to be postponed due to the state of the Federal Government's finances. That said, the Government will address some of these promises, once economic conditions have recovered. While the rakyat should brace for more sacrifices, he has been tasked to work with the private sector to find new growth channels, as well as new schemes and ideas to raise cash. While there will be some additional taxes, Malaysia will also look to monetising some government assets.
- The Government will also promote real public-private partnerships (PPP), eg with the insurance sector to implement basic insurance coverage for the B40 income group. It will also review projects like the MRT and LRT to cut excess fat, ie there is no need for iconic designs for the stations.
- Datuk Dr Rais told the audience that the Pakatan Harapan (PH) manifesto took eight months to develop, and involved a committee of members from the four component parties. Based on independent surveys, it found that the people's key issues were jobs and price increases.
- In the manifesto, the PH-led Government aimed to deliver 10 promises within 100 days, and 60 promises within the first term. That said, while PH inherited a government system in flux, it will honour the promises it made during the election.
- Next, Nik Nazmi stressed that the younger segment of the population need to understand the "perut" economy, ie bread and butter issues. The manifesto itself is not centred on austerity, but the Government has to address the issue of the lack of jobs and move away from a low-wage economy. Thus, businesses will have to swallow the "painful pill". The "gig" economy is good for consumers but not good for the workers.
- He added that Malaysia needs to invest heavily in education, so that our workforce can compete with the rest of the world. Still, there are concerns that if the Government does not deliver within the next five years, the racial and religious perspectives will affect the country. In the meantime, the voting age will soon be lowered to 18 years, from 21 years – and the administration will have to reach out to those who will be allowed to vote in five years' time.
- Tan Sri Rafidah said that we have to forget about sticking to the manifesto as the external environment is fluid, as an effective government is one that can look beyond the general election and beyond the annual budget.
- As such, approaches and strategies must be adaptable. Malaysia has to move towards people-centric governance, ie beyond party direction and party elections. To achieve this, stakeholders of this country (government, private sector and the people) need to come together, and use consultative procedures before new strategies and policies are announced, to give the private sector and people a sense of ownership. The government's role is only to facilitate. In conclusion, the Government's role is to solve problems, not create them.
- To achieve these goals, Malaysia has to catch up with education and skill-training, in order to be better aligned with the global marketplace. She called for the revival of the Malaysian Business Council (chaired by the PM) and comprising representatives from the private sector. Also, on bureaucracy, she also said that the "chimney" mentality should be eradicated, ie to do away with narrow-minded, archaic attitudes.
- Tan Sri Rafidah added that while it was vital to strengthen regional integration, Malaysia must first be a leader again in the region, and forge the national economic agenda into the regional agenda to develop economic resilience. She is looking forward to Industry 4.0, which was originally crafted by the Ministry of International Trade & Industry many years ago but was not implemented by the previous government. Industry 4.0 is expected to be announced soon. In her conclusion, she said that "forging ahead together" must be done in concert among the political parties, and between the private sector and the Government. There can be criticism, too – but this must be constructive.

- During the Q&A session, on GLC reform, Tony Pua said that Khazanah Nasional and PNB are reviewing non-core assets for proper and orderly liquidation. Tan Sri Rafidah suggested changing the government-linked companies (GLCs) to development-linked companies, so that they may be directed by development needs rather than the government of the day.
- In reply to a question on the Government's ability to deliver a social safety net as promised in the PH manifesto, Datuk Dr Rais stated that the manifesto allows for sufficient flexibility and latitude to deliver on its promises, and the Government has every intention to deliver on the people-centric manifesto. Tony Pua added that the Government is discussing with the private sector including property developers to deal with the unsold stock of housing in the MYR400,000-500,000 range to meet the unfulfilled demand from people who cannot afford homes in that range. The Government is expected to announce several new policy solutions in the next Budget announcement, after discussions are held with the private sector.
- In closing, Datuk Dr Rais said that it is only after GE14 that people are talking about the manifesto – this did not happen after previous general elections, but is a positive development. Nik Nazmi remarked that Malaysia has to focus on finding solutions for unemployment and the affordability of basic necessities such as public transportation. Tony Pua stressed that the Government has to be very careful with its finances, and is working with the private sector to leverage on digital innovations, eg substituting feeder buses with Grab services. Tan Sri Rafidah capped it off by reminding the audience that the PH-led Government has only had five months of being in power – and people have to allow it to evaluate the situation and adjust measures, where necessary. Her advice to the private sector was that companies should alert the Government if there is anything wrong, so that corrective measures can be taken.

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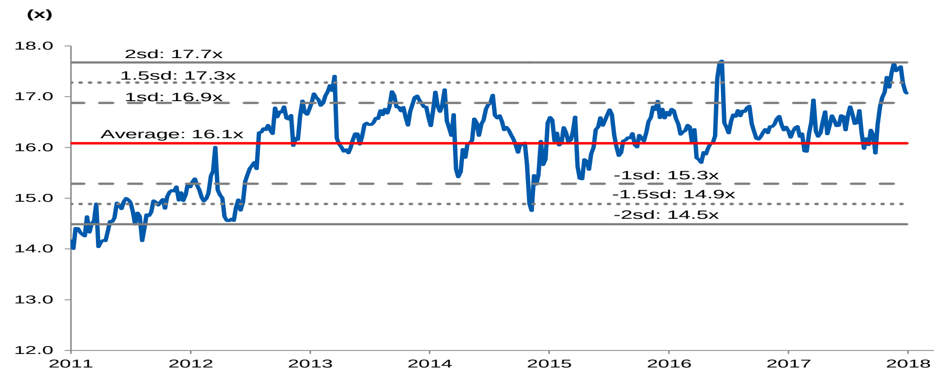
Figure 1: Earnings outlook and valuations

COMPOSITE INDEX @ 1,774.15 09-Oct-2018	FBM KLCI 2016	FBM KLCI 2017	FBM KLCI 2018F	FBM KLCI 2019F	RHB BASKET 2016	RHB BASKET 2017	RHB BASKET 2018F	RHB BASKET 2019F
Revenue Growth (%)	(5.0)	9.9	2.1	4.9	(1.9)	8.6	1.8	4.6
EBITDA Growth (%)	5.4	8.7	3.4	4.7	3.7	6.0	3.1	3.8
Pre-Tax Earnings Growth (%)	6.8	7.2	6.0	3.2	6.3	8.1	8.7	3.5
Normalised Earnings Growth (%)	(3.8)	8.9	3.8	7.4	(0.9)	9.2	3.4	9.3
Normalised EPS (sen)	41.7	42.3	42.1	44.8	25.4	24.9	24.2	26.3
Normalised EPS Growth (%)	**(4.9)**	**7.6**	**2.9**	**6.6**	**(3.7)**	**5.5**	**0.5**	**8.7**
Normalised EPS Growth (%) ex-Plantation	(5.2)	5.8	3.2	6.9	(4.4)	3.7	1.0	8.8
Prospective PER (x)	**17.9**	**18.5**	**18.0**	**16.9**	**18.4**	**18.6**	**17.5**	**16.2**
Price/EBITDA (x)	9.0	9.1	9.0	8.7	8.9	9.0	8.6	8.3
Price/BV (x)	1.8	1.9	1.8	1.7	1.7	1.8	1.6	1.5
Price/NTA (x)	2.2	2.4	2.2	2.0	2.1	2.2	1.9	1.8
Net Interest Cover (x)	8.5	9.6	9.2	9.4	5.8	6.4	6.6	7.0
Net Gearing (%)	41.5	38.2	19.3	17.3	46.8	45.8	36.9	33.3
EV/EBITDA (x)	7.2	6.9	6.6	6.2	8.4	8.2	7.5	7.1
Div Yld (%)	3.1	3.1	3.3	3.3	2.9	3.0	3.3	3.4
ROE (%)	10.0	10.4	10.0	10.1	9.3	9.5	9.1	9.5

Note: FBM KLCI stocks not under our coverage = Hong Leong Financial Group (HLFG), PPB, Petronas Dagangan, RHB Bank and Hap Seng Consolidated
Source: Bloomberg, RHB

Figure 2: FBM KLCI – 7 year forward consensus P/E



Source: Bloomberg

Figure 3: Top BUYs

	FYE	Price (MYR/s) 9-Oct-2018	TP (MYR/s)	*Shariah* compliant	Market Cap (MYRm)	EPS (sen) FY18F	EPS (sen) FY19F	EPS Growth (%) FY18F	EPS Growth (%) FY19F	3 yrs EPS CAGR (%)	P/E (x) FY18F	P/E (x) FY19F	P/BV (x) FY19F	P/CF (x) FY19F	DY (%) FY19F
Maybank	Dec	9.65	11.00	N	104,299	72.3	78.6	0.3	8.8	8.5	13.4	12.3	1.3	n.a.	6.2
Tenaga	Dec	15.38	17.70	Y	86,799	136.9	140.6	4.9	2.7	(0.7)	11.2	10.9	1.1	5.4	4.6
PChem	Dec	9.37	11.23	Y	74,960	53.3	53.5	2.0	0.4	13.4	17.6	17.5	2.2	15.8	2.9
Genting M'sia	Dec	4.93	6.12	N	29,275	28.3	33.2	18.7	17.0	8.5	17.4	14.9	1.4	9.1	3.7
BIMB	Dec	3.76	4.86	Y	6,368	38.7	41.1	2.1	6.0	5.2	9.7	9.2	1.2	n.a.	4.3
Serba Dinamik	Dec	3.95	4.62	Y	5,273	29.0	33.0	24.3	13.7	20.4	13.6	12.0	3.4	12.3	2.5
DRB-HICOM^	Mar	1.98	2.92	Y	3,828	1.1	9.8	n.a.	+>100.0	n.a	+>100.0	20.3	0.4	3.4	0.5
VS Industry	Jul	1.67	1.88	Y	3,156	8.3	11.9	(10.9)	43.9	15.1	20.2	14.0	2.5	139.1	3.0
Power Root^	Mar	1.56	2.38	Y	616	9.1	10.8	+>100.0	18.0	n.a	17.1	14.5	2.8	3.6	5.8

Note: ^FY18-19 valuations refer to those of FY19-20
Source: RHB

Figure 4: High-dividend yield stocks

	Price (MYR/s) 9-Oct-2018	DY (%) FY18F	FY19F	EPS Growth (%) FY18F	FY19F	P/E (x) FY18F	FY19F	P/BV (x) FY19F	ROE (x) FY19F
Tong Herr Resources	4.18	8.4	8.4	9.5	9.9	10.3	9.4	1.4	15.3
Pintaras	2.45	8.2	8.6	(42.3)	19.6	19.2	16.0	1.3	7.9
WCT	0.85	7.9	8.1	44.6	2.5	6.3	6.2	0.4	6.6
Astro^	1.45	7.4	8.9	(19.3)	19.6	12.2	10.2	14.0	162.1
B-Toto^	2.26	7.2	7.6	8.7	1.8	10.7	10.5	3.6	35.2
MRCB-Quill REIT	1.09	7.1	7.2	(5.1)	3.7	13.9	13.4	0.8	6.2
Matrix Concepts^	2.04	6.9	7.4	5.4	7.9	6.1	5.6	0.9	17.7
CMMT	1.16	6.7	6.7	(10.7)	4.0	16.7	16.0	0.9	5.5
TM	3.03	6.5	6.1	(23.6)	(23.2)	17.3	22.5	1.5	6.6
Prestariang	0.95	6.3	6.8	+>100.0	42.4	8.9	6.3	2.0	35.3
Magnum Bhd	1.86	6.3	6.5	(4.4)	4.1	13.6	13.0	1.0	8.0
Datasonic^	0.63	6.2	6.7	10.5	8.9	11.4	10.4	2.7	26.8
Maybank	9.65	6.1	6.2	0.3	8.8	13.4	12.3	1.3	11.1
UOA Development	2.30	6.1	6.5	(8.0)	5.1	10.8	10.3	0.9	9.4
Bermaz Auto^	2.00	6.1	7.5	33.1	24.1	12.4	10.0	4.1	43.5
Apollo Food^	4.16	6.0	7.2	30.6	6.2	20.6	19.4	1.4	7.3
Tambun Indah	0.86	5.8	5.8	(37.4)	2.8	7.1	6.9	0.6	8.7
Mah Sing	1.03	5.8	5.8	(23.9)	(4.5)	9.5	10.0	0.7	7.4
IGB REIT	1.68	5.7	5.9	3.9	4.1	18.5	17.8	1.6	9.0
Sunway REIT	1.69	5.7	6.1	4.0	8.0	17.6	16.3	1.1	7.0
Pavilion REIT	1.57	5.6	6.1	14.0	9.2	17.9	16.4	1.2	7.4
CBIP	1.10	5.5	5.5	(9.7)	(13.2)	8.0	9.3	0.8	8.3

Note: ^FY18-19 valuations refer to those of FY19-20
Source: RHB

Figure 5: RHB basket of stocks – sector weightings & valuations

Covered Stocks	Mkt cap MYRbn	Weight %	EPS growth (%) FY17	FY18F	FY19F	P/E (x) FY17	FY18F	FY19F	Recommendation
Oil & Gas	140.0	10.2	22.8	(14.8)	9.4	17.5	20.6	18.8	Overweight
Utilities	137.0	9.9	(9.7)	1.2	1.6	13.3	12.8	12.6	Overweight
Consumer	109.7	8.0	(6.3)	(9.4)	14.3	31.4	33.8	29.5	Overweight
Gaming	64.1	4.7	8.4	16.2	8.4	14.5	12.5	11.5	Overweight
Healthcare	48.2	3.5	(40.1)	32.1	41.8	63.1	47.8	33.7	Overweight
Rubber Products	42.6	3.1	0.8	20.9	20.4	38.8	32.1	26.7	Overweight
Basic Materials	25.7	1.9	31.6	14.1	20.6	22.9	20.3	16.8	Overweight
Non-Bank Financials	18.3	1.3	5.2	16.6	8.7	17.1	14.7	13.5	Overweight
Banking	328.4	23.9	10.3	4.0	7.2	14.4	13.7	12.7	Neutral
Telecommunications	135.2	9.8	(5.9)	(5.2)	6.0	23.0	24.3	22.9	Neutral
Plantation	110.6	8.0	46.4	(8.9)	6.0	25.9	28.5	26.9	Neutral
Property	53.3	3.9	4.3	(20.4)	7.2	10.7	13.5	12.7	Neutral
Transport	46.9	3.4	8.8	(7.4)	5.4	14.4	15.6	14.8	Neutral
Property-REITs	34.6	2.5	(0.8)	2.2	5.5	18.8	18.4	17.4	Neutral
Auto	35.5	2.6	49.8	66.2	23.0	31.0	18.7	15.2	Neutral
Construction	20.0	1.4	(13.4)	32.3	4.9	12.1	9.1	8.7	Neutral
Technology	16.8	1.2	20.1	4.7	19.4	22.3	20.9	17.5	Neutral
Media	8.1	0.6	(23.6)	8.1	29.1	15.4	14.2	11.0	Neutral
Timber	1.8	0.1	15.9	(59.4)	84.8	8.5	21.0	11.4	Neutral
RHB BASKET	**1376.7**	**100.0**	**5.5**	**0.5**	**8.7**	**18.6**	**17.5**	**16.2**	

Source: RHB

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