

Politics & Strategy

GE14: Malaysia votes for change

A fresh 5-year mandate

GE14 ended with Pakatan Harapan (PH) securing 113 or 51% of the 222 Parliament seats, enabling them to form the Government for a fresh 5-year term. By popular votes, PH secured 66%. The previous ruling coalition, Barisan Nasional (BN) clinched 79 or 36% of the Parliament seats and 34% of the popular votes. PH wrested control of five State Assemblies (up from two previously), while BN's control narrowed to four from 10 (including Sarawak who had separate State election in Apr 2016).

Macroeconomic implications

We maintain our 2018 +5.3% GDP growth forecast for now pending details on the PH Government's economic policies, and ahead of the release of 1Q 2018 real GDP on 17 May. We are neutral to positive on the consumer spending growth outlook, based on Budget 2018 and PH's GE14 manifesto on measures to address living costs and boost disposable income. Main issue on the growth outlook now is investment, as businesses adopt a "wait-and-see" stance and amid potential Government reviews of several China-linked infrastructure projects and investments. Another key issue is the impact to Government finances - hence the risk to budget deficit and sovereign credit rating, from the various measures in PH's GE14 manifesto to alleviate living costs i.e. GST and highway tolls abolition; fuel price subsidy/stabilization; free education; and higher healthcare spending.

Market implications

The outcome for GE14 is unprecedented and unexpected. As investors do not like uncertainties, we can expect some sell-off in Malaysia equities after the market returns from its short break on 14 May. That said, we draw comfort that at the time of our writing of this report, Tun Dr Mahathir has sworn in as the country's 7th Prime Minister and Tun has also named 10 core ministries, with a PH presidential council meeting to convene on 12 May to discuss the new Cabinet line-up. This is positive as it shows that the new Government acknowledges the urgency to get down to business immediately. We also draw comfort that Tun, leaders of PH and their high-level supporters are extremely experienced leaders having been senior members of the Cabinet and/or Chief Ministers.

Catalysts for market stabilisation

Catalysts, in our view, are: (i) the new PH Government providing greater clarity on the implementation and long-term target/direction of its economic policies, and (ii) highly respected competent names in the new Cabinet line-up. From a technical perspective, the KLCI's uptrend remains intact, but we expect a short-term negative kneejerk reaction. Based on the KLCI's close on 8 May at 1,846.5 pts, the KLCI's valuation is at 16.5x 12M forward PER which is also +0.5SD its long-term mean PER (of 15.6x). We think that up to a 1SD PER de-rating (to 14.8x PER) is a possibility. Sectorally, the election results are POSITIVE on the consumer sector and sentiment-NEGATIVE for construction.

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KLCI vs MSCI



Current KLCI: 1,846.5 (8 May)
2018 YE target: 1,880 (unchanged)

M'sia equities growth & valuation

		2017A	2018E	2019E
KLCI @ 1,846.5	PE (x)	17.4	17.1	15.8
Earnings Growth	(%)	7.4%	3.1%	8.1%
Research Universe	PE (x)	18.8	17.3	15.7
Earnings Growth	(%)	7.3%	8.2%	10.7%

Malaysia voted for change

14th General Election (GE14) outcome

GE14 on 9 May 2018 ended with an historic change in Government after six decades of Barisan Nasional (BN) rule, as Pakatan Harapan (PH) gained the simple majority of 113 of the 222 Parliament seats, while BN won only 79 seats. By popular votes, PH won 66% while BN obtained 34%. In the State Assemblies, PH retained Penang and Selangor, and captured Negeri Sembilan, Melaka and Johor; the Islamic Party PAS retained Kelantan and took over Terengganu; BN remained in control of Perlis and Pahang on top of Sarawak that it retained in the separate State Assembly Election in Apr 2016; with hung State Assemblies of Kedah, Perak and Sabah. At the time of writing, BN has formed the state Government in Sabah.

Since GE13, the number of registered voters has risen by 1.6m to 14.9m as at end-Dec 2017. Of the 14.9m registered voters, 76% turned out to cast their votes, as compared with 80% of the 13.3m registered voters in GE13.

Figure 1: Results of the 14th General Election (GE14), 2018 - Parliament Seats

	BN	PH					PAS	Others			Total
	Total (*)	PKR	DAP	PAN	PPBM	Warisan		Parties	Indep.	Contested	
Perlis	2 (3)	1 (0)	1 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	3 (3)
Kedah	2 (10)	10 (5)	6 (4)	0 (0)	1 (0)	3 (0)	3 (1)	0 (0)	0 (0)	0 (0)	15 (15)
Kelantan	5 (5)	0 (9)	0 (0)	0 (0)	0 (0)	0 (0)	9 (9)	0 (0)	0 (0)	0 (0)	14 (14)
Terengganu	2 (4)	0 (4)	0 (0)	0 (0)	0 (0)	0 (0)	6 (4)	0 (0)	0 (0)	0 (0)	8 (8)
Penang	2 (3)	11 (10)	4 (3)	7 (7)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	13 (13)
Perak	11 (12)	13 (12)	3 (3)	7 (7)	2 (0)	1 (0)	0 (2)	0 (0)	0 (0)	0 (0)	24 (24)
Pahang	9 (10)	5 (4)	2 (2)	2 (1)	1 (0)	0 (0)	0 (1)	0 (0)	0 (0)	0 (0)	14 (14)
Selangor	2 (5)	20 (17)	12 (9)	4 (4)	4 (0)	0 (0)	0 (4)	0 (0)	0 (0)	0 (0)	22 (22)
N. Sembilan	3 (5)	5 (3)	1 (1)	2 (2)	1 (0)	1 (0)	0 (0)	0 (0)	0 (0)	0 (0)	8 (8)
Melaka	2 (4)	4 (2)	2 (1)	1 (1)	0 (0)	1 (0)	0 (0)	0 (0)	0 (0)	0 (0)	6 (6)
Johor	8 (21)	18 (5)	7 (1)	5 (4)	1 (0)	5 (0)	0 (0)	0 (0)	0 (0)	0 (0)	26 (26)
Sabah	10 (22)	6 (3)	3 (1)	3 (2)	0 (0)	0 (0)	0 (0)	8 (0)	1 (0)	0 (0)	25 (25)
Sarawak	19 (25)	10 (6)	4 (1)	6 (5)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	2 (0)	31 (31)
FT KL	0 (2)	10 (9)	4 (4)	5 (5)	0 (0)	1 (0)	0 (0)	0 (0)	0 (0)	1 (0)	11 (11)
FT Putrajaya	1 (1)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	1 (1)
FT Labuan	1 (1)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	1 (1)
TOTAL	79 (133)	113 (89)	49 (30)	42 (38)	10 (0)	12 (0)	18 (21)	8 (0)	1 (0)	3 (0)	222 (222)

Source: Election Commission

Figures in () refer to the 13th General Election (GE13)

(*) Total for GE13 includes PAS which was part of opposition alliance PR which has ceased to exist, replaced by PH

Figure 2: Results of the 14th General Election (GE15), 2018 - State Assembly Seats

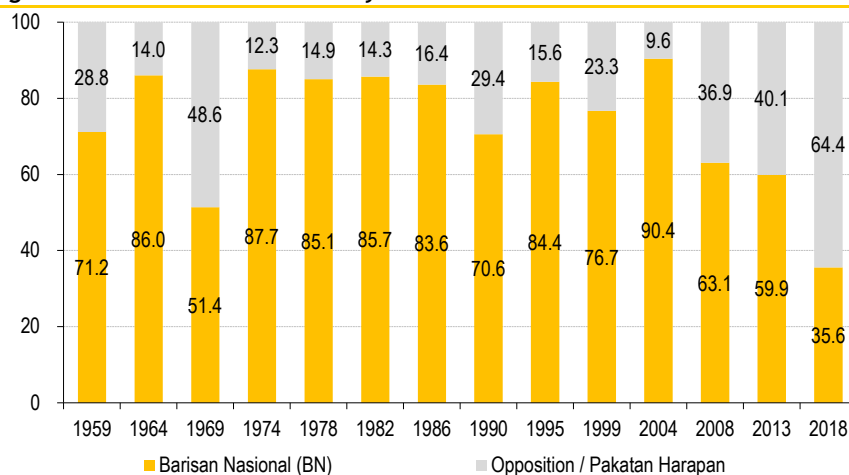
	BN	PH					Others			Total Contested	
		Total (*)	PKR	DAP	PAN	PPBM	PAS	Warisan	Parties		Indep.
Perlis	10 (13)	3 (2)	3 (1)	0 (0)	0 (0)	0 (0)	2 (1)	0 (0)	0 (0)	0 (0)	15 (15)
Kedah	3 (21)	18 (15)	8 (4)	2 (2)	3 (0)	5 (0)	15 (9)	0 (0)	0 (0)	0 (0)	36 (36)
Kelantan	8 (12)	0 (33)	0 (1)	0 (0)	0 (0)	0 (0)	37 (32)	0 (0)	0 (0)	0 (0)	45 (45)
Terengganu	10 (17)	0 (15)	0 (1)	0 (0)	0 (0)	0 (0)	22 (14)	0 (0)	0 (0)	0 (0)	32 (32)
Penang	2 (10)	37 (30)	14 (10)	19 (19)	2 (0)	2 (0)	1 (1)	0 (0)	0 (0)	0 (0)	40 (40)
Perak	27 (31)	29 (28)	4 (5)	18 (18)	6 (0)	1 (0)	3 (5)	0 (0)	0 (0)	0 (0)	59 (59)
Pahang	25 (30)	9 (12)	2 (2)	7 (7)	0 (0)	0 (0)	8 (3)	0 (0)	0 (0)	0 (0)	42 (42)
Selangor	4 (12)	51 (44)	28 (14)	14 (15)	5 (0)	4 (0)	1 (15)	0 (0)	0 (0)	0 (0)	56 (56)
N. Sembilan	16 (22)	20 (14)	7 (3)	11 (11)	2 (0)	0 (0)	0 (0)	0 (0)	0 (0)	0 (0)	36 (36)
Melaka	13 (21)	15 (7)	3 (0)	8 (6)	2 (0)	2 (0)	0 (1)	0 (0)	0 (0)	0 (0)	28 (28)
Johor	19 (38)	36 (18)	5 (1)	14 (13)	9 (0)	8 (0)	1 (4)	0 (0)	0 (0)	0 (0)	56 (56)
Sabah	29 (48)	8 (11)	2 (7)	6 (4)	0 (0)	0 (0)	0 (0)	21 (0)	2 (1)	0 (0)	60 (60)
TOTAL	166 (275)	226 (230)	76 (49)	99 (95)	29 (0)	22 (0)	90 (85)	21 (0)	2 (1)	0 (0)	505 (505)

Source: Election Commission

Figures in () refer to the 13th General Election (GE13)

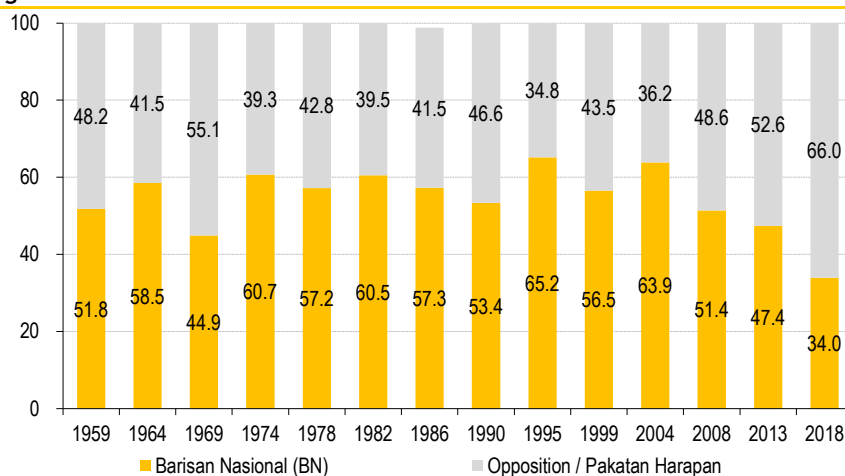
(*) Total for GE13 includes PAS which was part of opposition alliance PR which has ceased to exist, replaced by PH

Figure 3: % Share of Parliamentary Seats



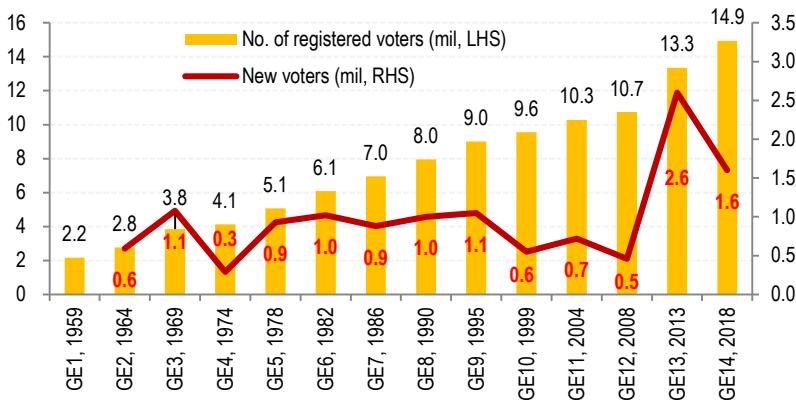
Source: Election Commission

Figure 4: % Share of Votes



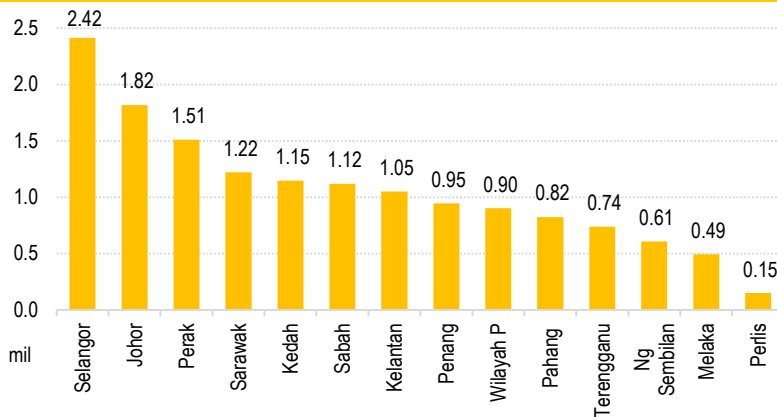
Source: Election Commission

Figure 5: Number of Registered Voters & New Voters



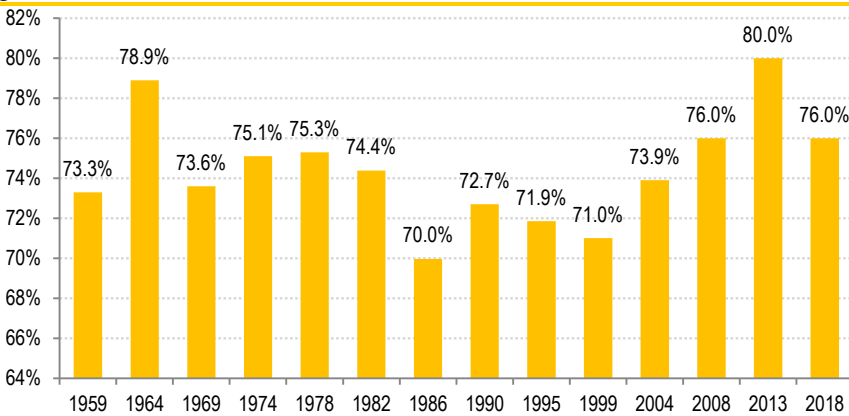
Source: Election Commission

Figure 6: Number of Registered Voters for GE14, by States



Source: Election Commission

Figure 7: Voters' Turnout



Source: Election Commission

Malaysia's 7th Prime Minister sworn in, orderly transition. Within 24 hours of the official release of the final GE14 results, the country's 7th Prime Minister, Tun Dr Mahathir Mohamad, was sworn in before the King at the Royal Palace. Tun Dr Mahathir, the Chairman of PH, became Malaysia's 4th Prime Minister in 1981, and stepped down in 2003 after holding office for 22 years. Tun Dr Mahathir has named Datuk Seri Wan Azizah Wan Ismail as Deputy Prime Minister and will convene a PH presidential council meeting tomorrow, 12 May, to discuss the new Cabinet line-up. Tun has announced 10 core ministries - Finance, Home Affairs, Defence, Education, Rural Development, Economy, Public Works, Transport, Multimedia Science and Technology, and Foreign Affairs. The transition of power to PH from BN has been orderly with BN Chairman and former PM, Dato' Sri Najib Razak addressing the nation on 10 May that BN is committed to respect the principles of Parliament.

Who is who in PH - no novice in governing. PH, as a new opposition alliance announced on 22 Sep 2015, consists of Anwar Ibrahim's Parti Keadilan Rakyat (PKR), Chinese-dominated Democratic Action Party (DAP) and new parties Parti Amanah Negara (PAN or Amanah) and Parti Pribumi Bersatu Malaysia (PPBM or Bersatu). Bersatu was founded by former UMNO members on 7 Sep 2016 and is currently led by Tun Dr Mahathir as Chairman, former Deputy PM and UMNO Deputy President Muhyiddin Yassin as President, and Tun Dr Mahathir's son Mukhriz Mahathir as Deputy President.

Tun Dr Mahathir, leaders of PH and their high-level supporters are extremely experienced personalities, having been senior members of the Cabinet and/or Chief Ministers (CM). Tun Dr Mahathir has steered the country out of two recessions (1985 and 1998) including the 1997-98 Asian Financial Crisis, while within PH (and its supporters), there are:

- **two former Deputy Prime Ministers** (Anwar Ibrahim, Muhyiddin Yassin),
- **three former Finance Ministers** (Tun Dr Mahathir, Anwar Ibrahim, Tun Daim Zainuddin)
- **three former International Trade and Industry Ministers** (Rafidah Aziz, Muhyiddin Yassin, Mukhriz Mahathir - Deputy), and
- **four Chief Ministers** (Muhyiddin Yasin - former CM of Johor, Mukhriz Mahathir - former CM of Kedah and who is likely to be restated for another term from 2018, Azmin Ali - CM of Selangor since 2014 and who has sworn in as the CM of Selangor for another term from 2018, Lim Guan Eng - CM of Penang since 2008 and who has also sworn in as CM of Penang for another term from 2018).

Figure 8: Personalities in Pakatan Harapan and its high-level supporters

Name	Experience
Tun Dr. Mahathir bin Mohamad (92 years old)	<ul style="list-style-type: none"> • Longest serving Prime Minister of Malaysia from 16 Jul 1981 to 31 Oct 2003 (~22 years) gaining him the nickname, 'Father of Modernization'. • During his tenure as Prime Minister, Tun Dr. Mahathir held various positions such as the Minister of Finance, Minister of Defence, Minister of Home Affairs, Minister of Trade and Industry, and Minister of Education.
Datuk Seri Anwar Ibrahim (71 years old)	<ul style="list-style-type: none"> • 7th Deputy Prime Minister of Malaysia to Prime Minister, Tun Dr Mahathir Mohamad from 1 Dec 1993 to 2 Sep 1998 (5 years). • Datuk Seri Anwar was also the Minister of Finance from 1991 until 1998 (7 years). • Datuk Seri Anwar's other ministerial appointments include that of Minister of Culture, Youth and Sports, Minister of Agriculture, and Minister of Education.

Source: Various

Figure 8: Personalities in Pakatan Harapan and its high-level supporters (continue)

Name	Experience
Tan Sri Dato' Haji Muhyiddin bin Haji Mohd. Yassin (70 years old)	<ul style="list-style-type: none"> • 10th Deputy Prime Minister of Malaysia to Prime Minister, Dato Sri Najib Razak (-6 years) till 28 Jul 2015, during which time he also served as the Minister of Education. • Tan Sri Muhyiddin was also the Deputy Chairman of both UMNO and Barisan Nasional from 26 Mar 2009 to 26 Feb 2016 (-7 years). • Other notable positions held include the Minister of International Trade and Industry, Minister of Agriculture and Agro-Based Industry, Minister of Domestic Trade and Consumerism, and Minister of Youth and Sports. • Tan Sri Muhyiddin also served as the 13th Chief Minister of Johor from 1986 to 1995 (-9 years).
Dato' Seri Mukhriz bin Mahathir (53 years old)	<ul style="list-style-type: none"> • Served as the 11th Menteri Besar of Kedah from 2013 to 2016 (-3 years). • Held the position of Deputy Minister of International Trade and Industry from 10 Apr 2008 to 3 Apr 2013 (-5 years).
YAB Dato' Seri Mohamed Azmin bin Ali (53 years old)	<ul style="list-style-type: none"> • Chief Minister of Selangor since 23 Sept 2014 (-4 years).
YAB Lim Guan Eng (57 years old)	<ul style="list-style-type: none"> • Chief Minister of Penang since 11 Mar 2008 (-10 years).
Tan Sri Rafidah binti Aziz (74 years old)	<ul style="list-style-type: none"> • Longest serving Minister of International Trade and Industry from 20 May 1987 to 18 Mar 2008 (-21 years). • Tan Sri Rafidah was also the Chairman of the UMNO's Women's Wing till 26 Mar 2009 (-10 years).
Tun Abdul Daim bin Zainuddin (80 years old)	<ul style="list-style-type: none"> • Tun Daim served as the Minister of Finance from 14 Jul 1984 to 14 Mar 1991 (-7 years) and from 19 Jan 1999 to 31 May 2001 (-2 years) during Tun Dr. Mahathir's tenure as Prime Minister.

Source: Various

Macroeconomic impact of GE14 outcome

Maintain 2018 growth forecast for now

No change in our 2018 real GDP growth forecast of +5.3% for now pending more details on the new PH Government's economic policies, and ahead of the release of 1Q 2018 real GDP scheduled on 17 May 2018.

Neutral to positive outlook on consumer spending. Aside from the stable job markets conditions amid the low and steady unemployment rate and income growth, underpinning consumer spending growth are existing Budget 2018 measures targeted at the low and middle income groups to boost disposable income and stimulate consumer spending (e.g. BR1M; 2-ppt cut in personal income tax rate; one-off financial assistance to other targeted groups). At the same time, PH's GE14 manifesto contains additional measures to address cost of living issues that should be positive for consumer sentiment and spending, such as abolishing the Goods & Services Tax (GST), fuel price stabilization/subsidies, removing highway tolls in stages, relaxing/deferring repayments of student loans and increasing minimum wage.

Figure 9: Budget and non-budget measures to address cost of living issues, raise disposable income and stimulate consumer spending

Key Measures	2016	2017	2018	PH GE14 Manifesto
BR1M	MYR5.4b (+0.2%)	MYR6.3b (+17.7%)	MYR6.8b (+7.8%) - 1st payment Feb; 2nd payment June/July; 3rd payment Aug	Continue with BR1M
Civil service salary & pension adjustments	MYR1.4b	-	-	-
Bonus for civil servants & pensioners,	MYR1.0b bonus (MYR500 for Civil Servants, MYR250 for Pensioners); MYR1.4b in salary & pension adjustments	MYR1.0b bonus (MYR500 for Civil Servants, MYR250 for Pensioners)	MYR3.0b bonus (MYR1,500 for Civil Servants, MYR750 for Pensioners) - two-thirds paid in Jan; remaining one-third in June	-
Other direct cash & one-off payments to target groups e.g. farmers, fishermen, rural folks, FELDA settlers, army veterans	MYR0.7b	MYR1.3b	MYR1.0b	-
Income and Non-Income Tax Measures	Increase tax reliefs for spouse, children, education fees. Introduce tax relief for parental care	Introduce tax reliefs for childcare centre / kindergarten fees & "lifestyle"	2ppts cut in tax rates equal to MYR1.5b; extend tax relief for education savings (SSP1N) until 2020	Abolish the broad-based 6% Goods & Services Tax (GST); reinstate the narrower based 10% Sales & Services Taxes (SST)
Employees' Monthly EPF Contribution	Option for 8% rate instead of 11% rate (Mar 2016 - Dec 2017)		Back to 11% rate	-
BNM Overnight Policy Rate (OPR)	-25bps cut to 3.00% in July	Maintain at 3.00%	+25bps hike to 3.25%	-
Minimum Wage	11%-15% increase w.e.f. 1 July	"Full-year effect" of 2016's hike	Under review	Increase to MYR1,500 over the next five years
Others	-	-	-	Fuel price subsidies/stabilization; abolish highway tolls in stages; relax/defer repayments of student loans

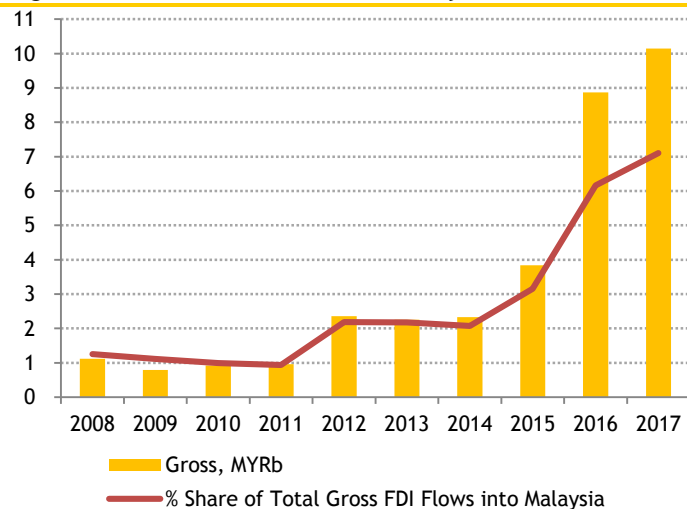
Source: Budget 2016-2018, MKE Economics Research, PH GE14 Manifesto

Growth uncertainty stems mainly from investment outlook. This stems from the likelihood of businesses adopting a “wait-and-see” stance pending more clarity and details on the politics and policies. Furthermore, the investment growth outlook is also premised on the implementation of major infrastructure projects and investments.

Positively, we do not expect the on-going and planned major public transport infrastructure projects like KVMRT 2 & 3, KVLRT 3 and Pan Borneo Highway to be affected by the change in the Government.

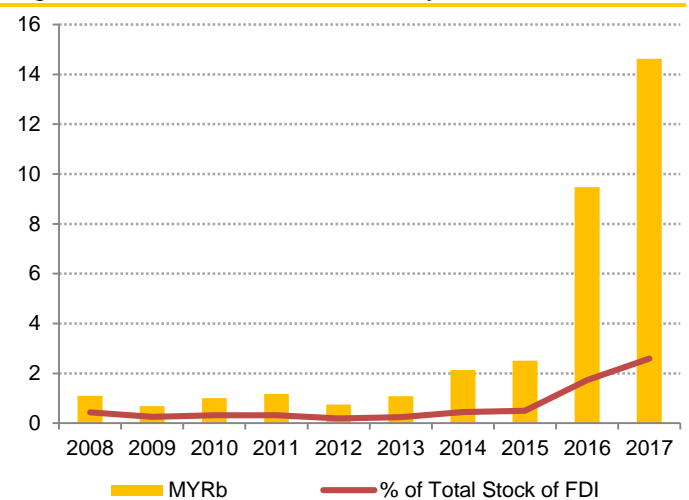
However, the PH GE14 manifesto talks about reviewing major projects awarded to foreign countries, which puts the spotlight on major “China-linked” infrastructure projects and investments. But overall, we assume this to be limited to infrastructure projects and investments such as the East Coast Rail Link (ECRL), Gemas-Johor Bahru Railway Double Track, KL-Singapore High Speed Rail, Kuantan Port/Malaysia-China Kuantan Industrial Park, and Proton-Geely JV, where the PH Government may want to review these projects and investments to address the issues of costs and benefits to the domestic economy such as debt and local content.

Figure 10: Flows of China FDI into Malaysia



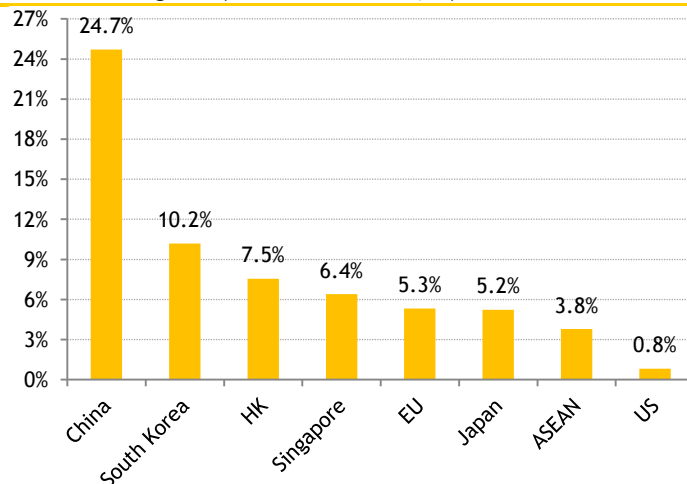
Source: BNM

Figure 11: Stock of China FDI in Malaysia



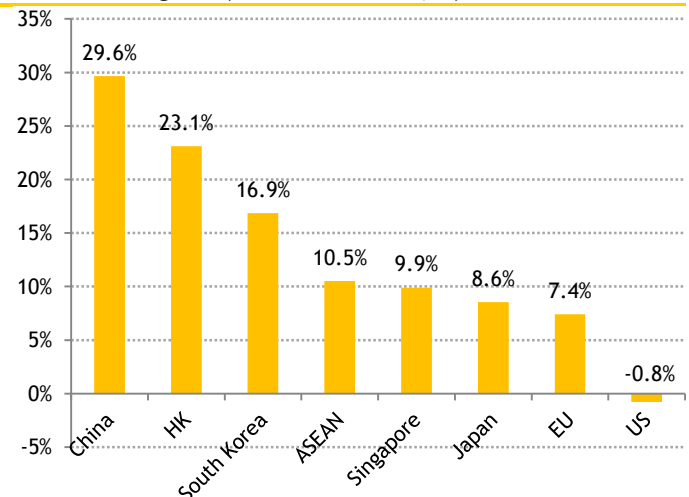
Source: BNM

Figure 12: Growth in Gross FDI Flows into Malaysia by Key Countries/Regions (CAGR 2008-2017, %)



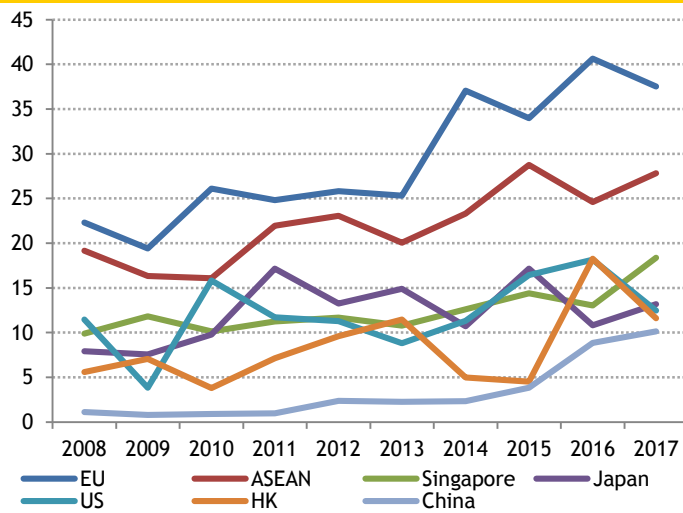
Source: BNM

Figure 13: Growth in Stock of FDI in Malaysia by Key Countries/Regions (CAGR 2008-2017, %)



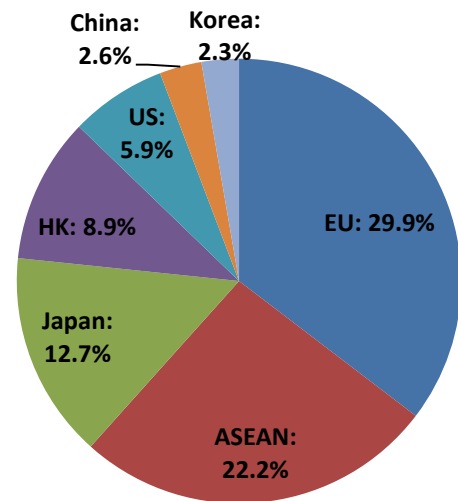
Source: BNM

Figure 14: Flows of FDI into Malaysia by Key Countries/Regions (Gross, MYRb)



Source: BNM

Figure 15: Stock of FDI in Malaysia by Key Countries/Regions, as at end-2017 (% of Total FDI Stock)



Source: BNM

Figure 16: Key Infrastructure Projects and Investments in Malaysia Involving China

Manufacturing	<p>Zhejiang Geely Holding Grp bought a 49.9% stake in Proton Holdings for MYR460m (MYR170m cash + MYR290m Boyue Model license) in Sep 2017</p> <p>Investments (realised and unrealised) in Malaysia-China Kuantan Industrial Park</p> <ul style="list-style-type: none"> Alliance Steel (M) Sdn Bhd - Modern integrated steel mill (MYR5.6b) Wuxi Suntech Power Co Ltd - Crystalline silicon solar cells and modules project (MYR4.0b) Guangxi Zhongli Enterprise Group Co Ltd - Clay porcelain manufacturing (MYR2.0b) LJ Hightech Material Sdn Bhd - Production of concrete panels for the construction of buildings and bridges and activated rubber particles from scrap tires (MYR1.0b) Guangxi Investment Group Co Ltd - Aluminium processing plant (MYR1.0b) Zkenegy (Yiyang) New Resources Science & Technology Co Ltd - Renewable energy application system manufacturing and engineering base (MYR0.2b)
Infrastructure	<ul style="list-style-type: none"> MYR55b East Coast Rail Link (ECRL): Awarded to China Communications Company Ltd with 85% financing by China EXIM Bank MYR9.4b Gemas-Johor Bahru Railway Double Tracking: CRCC-CREC-CCCC consortium appointed as main contractor Kuantan Port: Guangxi Beibu Gulf International Port Group has 40% stake
Power	<p>China General Nuclear Power Corporation holds a 100% stake in Edra Global Energy for MYR9.83b in 2016. Edra Global Energy accounts for 15% (3,400 MW) of the power generating capacity in Malaysia, comprising one coal- and four gas-fired power plants.</p>
Oil & Gas	<p>Malaysia Hengyuan International Ltd, owned by China's Shandong Hengyuan Petrochemical Co Ltd, completed the acquisition of a 51% equity stake in Shell Refining Company for USD66m (MYR296m) in Dec 2016.</p>
Education	<p>Xiamen University Malaysia Campus - China's first overseas university</p>
Tourism	<p>Sino Haijing, via Impression Culture Asia Ltd, holds a 28.7% stake in Yong Tai. Yong Tai is developing Impression City - together with Impression Malacca - on 117 acres in Melaka with a 30-year concession to produce and stage live large-scale tourism stage performances.</p>
E-Commerce	<p>Alibaba Group investing in Digital Free Trade Zone (DFTZ) as strategic collaborative partner with MDEC to develop Electronic World Trade Platform (eWTP) and a Regional Hub for eCommerce business, trade facilitation, SME onboarding, cloud services for enterprises and an eFulfilment and logistics hub. Malaysia Airports Holdings Berhad (MAHB) and Cainiao Network for the development of a regional e-commerce and Logistics Hub in KLIA Aeropolis as part of DFTZ.</p>
Property/Real Estate	<p>Country Garden Holdings: Forest City (3,425 acres; MYR450b GDV)</p> <p>Powerchina International Group: Melaka Gateway Island 1 (1,326 acres; MYR40b GDV) (unrealised)</p>

Compiled by MKE Research

Implications on Government finance

Aside from the growth impact, the other key immediate issue is the impact on Government finance from measures in the PH GE14 manifesto to alleviate living costs. Measures such as removing GST and reinstating fuel subsidies within 100 days in office, reverse the cornerstones of fiscal reforms under the BN Government, which will have implications on Government finance in terms of revenue and expenditure, budget deficit and debt.

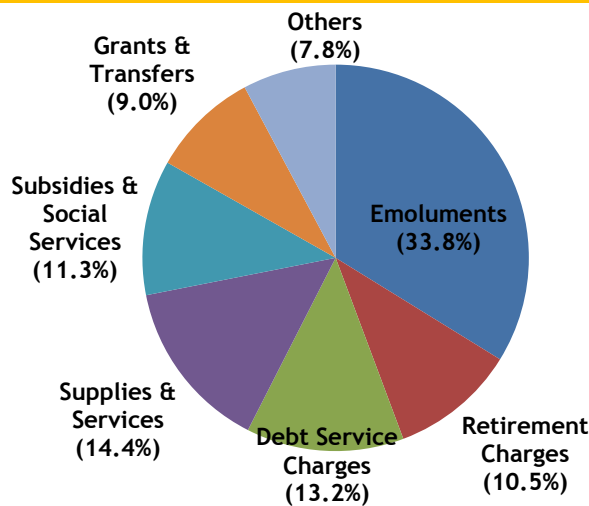
PH GE14 manifesto on the cost of living issue is about tackling what is seen as the “root causes” of higher living costs, hence the proposals to remove GST; reinstate fuel subsidies (but targeted); stabilise prices of fuel and essential goods; abolish highway tolls in stages; relax/defer repayments of student loans; and strengthen MYR. In addition, PH GE14 manifesto talks about free education and doubling health spending to around 4% of GDP vs. around 2% of GDP now.

Net revenue loss due to GST removal, despite reinstating SST and upside to oil-related revenues, *ceteris paribus*. Removing GST entails a revenue loss of MYR44b (based on Budget 2018 projection). Even with the GST being replaced by re-instating the previous Sales Tax and Services Tax (SST), which last earned a full-year revenue of MYR17b in 2014, there is the prospective net tax revenue loss of MYR27b. On this basis alone i.e. everything else unchanged, the country’s budget deficit to GDP ratio will arithmetically increase by as much as 1.9 percentage points.

However PH’s Alternative Budget 2018 released in Oct 2017 in conjunction with the tabling of the Federal Government Budget 2018 pointed out that abolishing GST will stimulate economy and raise other tax revenues by boosting consumer and business activities, including big ticket spending such as motor vehicles and properties, hence overall economic growth, in turn boosting other revenues such as corporate income tax; import, excise and stamp duties; motor vehicle licenses; and real property gains tax.

Plus scope for operating expenditure rationalisation. PH’s Alternative Budget 2018 further argues that these are also coupled with reductions in specific expenditures such as lowering “*the Prime Minister’s Department budget to MYR8.4b from MYR20.8b*”, hence alleviating the budget deficit impact of GST abolition. Looking at the structure of the Government’s annual operating expenditure or OE (based on 2018 Budget figures), 57.5% of OE are “fixed costs”, namely for “Emoluments” (33.8% of total OE), “Retirement Charges” (10.5% of total OE) and “Debt Service Charges” (13.2% of total OE). To note, “Subsidies & Social Assistance (including BR1M)” is 11.3% of OE. In our opinion, areas of OE where cost efficiencies in terms of open tenders and transparent budget as well as rationalisation in non-critical spending can be derived include reviews in “Supplies and Services” (14.4% of total OE), “Grants and Transfers to State Governments and Statutory Bodies” (9% of total OE) and the “Others’ category (7.8% of total OE) consisting of grants to statutory funds, public corporations and international organizations as well as insurance claims and gratuities.

Figure 17: Breakdown of Government Operating Expenditure

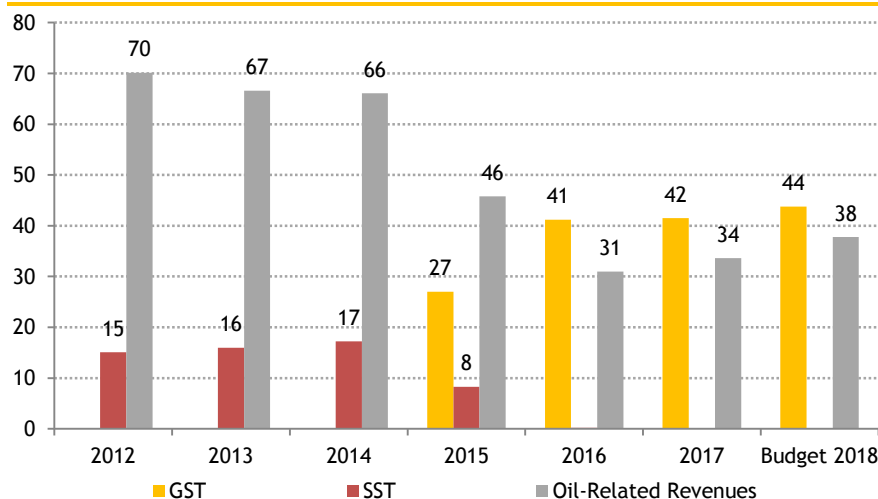


Source: Budget 2018

It can also be argued that the net revenue loss from removing GST and re-instating SST could be mitigated by better-than-expected oil-related revenues amid the sustained uptrend in crude oil price since last year (2018 YTD: USD68/bbl vs Budget 2018 assumption: USD52/bbl). Our analysis is that every USD10/bbl rise in annual average crude oil price will boost Government coffers by MYR7b-MYR8b via oil-related revenues (including Petronas dividend). To note, last year’s crude oil price averaged USD54/bbl, up USD10/bbl from USD44/bbl in 2016, and the previous BN Government tabled a supplementary supply bill of MYR7.122b for 2017 Federal Government spending at the Parliament session on 5 Mar - 5 Apr 2018, indicating the positive fiscal space effect from higher than expected oil revenue i.e. allowing higher spending while achieving the -2.8% of GDP budget deficit target.

But the upside to oil-related revenues has to be balanced against other PH promises that entail “claims on” or expenditures arising from oil-related revenues e.g. higher royalty of 20% vs 5% currently to oil-producing East Malaysian states of Sabah and Sarawak (note: Based on State Budget 2018, Sabah and Sarawak expect MYR1.6b and MYR1.3b this year from the 5% petroleum royalty); stabilization of fuel prices; targeted fuel subsidies.

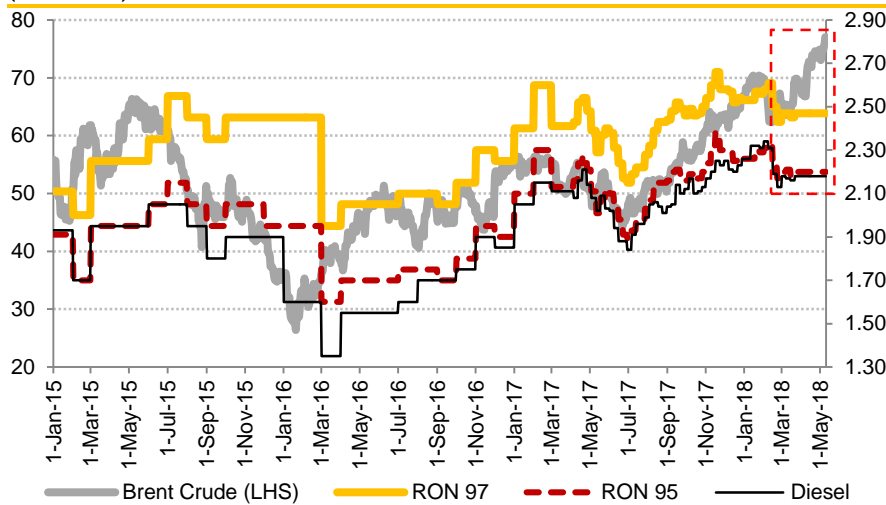
Figure 18: GST, SST and Oil-Related Revenues (MYRb)



Source: BNM, Budget 2018

Technically, “fuel subsidies/fuel price stabilisation” is already in place. Despite officially abolishing fuel subsidies in Dec 2014 and adopting a managed floating fuel price mechanism, the Ministry of Finance’s Secretary General was quoted in the press in late-Oct 2017 as saying that the Government provides some fuel price subsidies from time to time when fuel prices go up (source: <http://www.malaymail.com/s/1498803/treasury-putrajaya-still-paying-a-few-hundred-millions-in-fuel-subsidies>). This is validated by the observation that retail fuel prices of RON97, RON95 and diesel have not changed since 22 Mar 2018 despite the 12.6% rise in Brent crude since then up to 10 May 2018 (Fig 19), indicating fuel prices being subsidised as Malaysia headed to the general election on 9 May 2018.

Figure 19: Global Crude Oil Price (Brent, USD/bbl) vs Domestic Fuel Price (MYR/litre)



Source: Bloomberg, MKE Economics Research

There are costs to abolishing highway tolls. The PH manifesto talks about reviewing all highway concession agreements, taking over every toll concession with the ultimate aim of abolishing highway tolls in stages. In this regard, among the costs involved are the outstanding debts issued by the concessionaires, based on the compilation by our Fixed Income Research as per Fig 20 overleaf.

Figure 20: Outstanding Amount of Bonds Issued by Tolled Highways Concessionaires

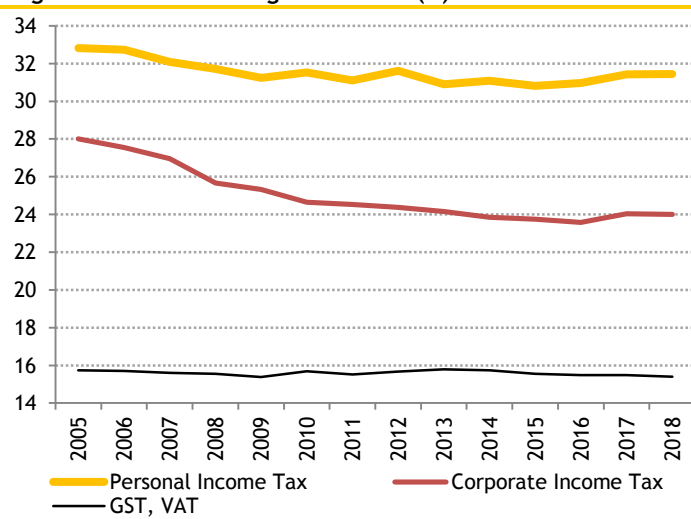
Issuers	MYRb
Anih Berhad	2.79
Besraya (M) Sdn Bhd	0.65
Bright Focus Bhd	1.27
Cerah Sama Sdn Bhd	0.42
EKVE Sdn Bhd	1.00
Grand Sepadu (NK) Sdn Bhd	0.21
Kesas Sdn Bhd	1.06
Konsortium Lebuhraya Utara-Timur (KL) Sdn Bhd	2.48
Lebuhraya DUKE Fasa 3 Sdn Bhd	3.64
Lebuhraya Kajang Seremban Sdn Bhd	1.14
Lingkar Trans Kota Sdn Bhd	1.01
Maju Expressway Sdn Bhd	0.40
MEX II Sdn Bhd	1.45
MRCB Southern Link Bhd	1.04
Projek Lebuhraya Usahasama Bhd	30.20
Projek Lintasan Shah Alam Sdn Bhd	0.42
Projek Lintasan Sungai Besi-Ulu Klang Sdn Bhd	0.51
Projek Smart Holdings Sdn Bhd	0.33
Prolintas Expressway Sdn Bhd (formerly Guthrie Corridor Expressway Sdn Bhd)	0.50
Senai Desaru Expressway Bhd	2.70
Sistem Penyuraian Trafik KL Barat Sdn Bhd	0.34
West Coast Expressway Sdn Bhd	1.14
TOTAL	55.29

Compiled by MKE Fixed Income Research

PH tax initiatives hint at replacing “regressive” tax with “progressive” tax...?

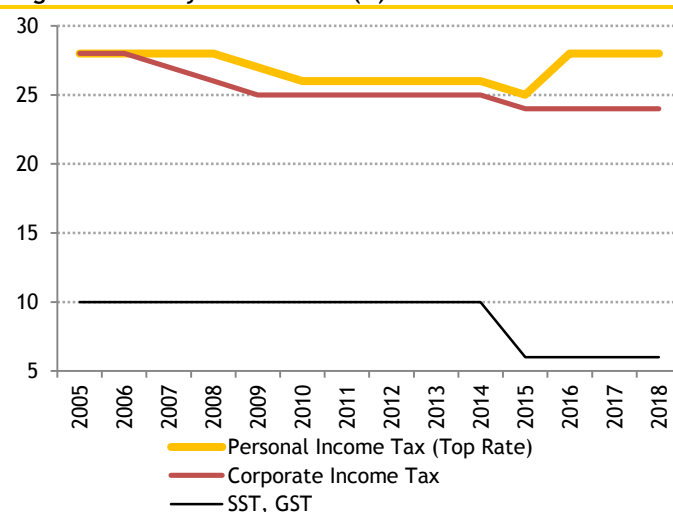
Another thing to ponder, on the basis of its manifesto, PH appears to view consumption-related taxes as “regressive” by being burdensome to the majority of people who are in the middle-income and lower-income categories. This implies a tax policy bias or preference for “progressive” income-and-wealth-based taxation, in turn suggesting status quo personal and corporate income tax rates, with the possibility of taxing wealth and the wealthy e.g. broader capital gains tax (i.e. beyond current real property gains tax or RPGT), as well as inheritance tax, which was rumoured to have been considered for Budget 2018 and was previously imposed under the Estate Duty Enactment 1941 which was repealed on 1 Nov 1991. In addition, we expect continuity in the policy of tax enhancement via enforcement and audit.

Figure 21 Global Average Tax Rates (%)



Source: KPMG

Figure 22: Malaysia Tax Rates (%)



Source: KPMG

Risks to budget deficit and sovereign credit rating. There is the attendant risk to the country's sovereign credit rating and/or rating outlook, which has been steady at mid-investment grade with a "stable" outlook since 2003-2004 (Fig 23-24). Such concerns in turn could feed into net foreign selling in the domestic bond market and pressure on MYR. **Therefore it is imperative that the new PH Government provides more information with regards to revenues and expenditures soonest possible.**

Figure 23: Key Changes in Malaysia's Sovereign Debt Rating and Rating Outlook (on Long-Term Foreign Currency Debt)

Moody's			Standard & Poor's			Fitch		
Date	Rating	Outlook	Date	Rating	Outlook	Date	Rating	Outlook
11-Jan-16	A2	Stable	15-May-08	A-	Stable	30-Jun-15	A-	Stable
20-Nov-13	A3	Positive	31-Jul-07	A-	Positive	30-Jul-13	A-	Negative
24-May-06	A3	Stable	08-Oct-03	A-	Stable	10-Nov-08	A-	Stable
16-Dec-04	A3	Stable	20-Aug-02	BBB+	Stable	20-Nov-06	A-	Positive
29-Sep-04	Baa1	Positive	04-Mar-02	BBB	Positive	08-Nov-04	A-	Stable
25-Sep-02	Baa1	Stable	04-Apr-01	BBB	Stable	07-Aug-02	BBB+	Stable
24-Jun-02	Baa2	Positive	01-Sep-00	BBB	Positive	07-Dec-99	BBB	Positive
17-Oct-00	Baa2	Stable	10-Nov-99	BBB	Stable	09-Sep-99	BBB-	Positive
12-Jul-00	Baa3	Positive	15-Sep-98	BBB-	Negative	26-Apr-99	BBB-	Neutral
03-Dec-98	Baa3	Stable	24-Jul-98	BBB+	Negative	09-Sep-98	BB	Negative
14-Sep-98	Baa3	Negative	17-Apr-98	A-	Stable	13-Aug-98	BBB-	Neutral
23-Jul-98	Baa2	Stable	23-Dec-97	A	Stable			
04-Jun-98	A2	Negative	29-Dec-94	A+	Stable			
21-Dec-97	A2	Stable	13-Sep-90	A-	Stable			
15-Mar-95	A1	Stable						
20-Jan-95	A2	Positive						
15-Mar-93	A2							
12-Mar-90	A3							

Source: Rating Agencies, Bloomberg

Figure 24: Key Changes in Malaysia's Sovereign Debt Rating (on Long-Term Local Currency Debt)

Moody's		Standard & Poor's		Fitch	
Date	Rating	Date	Rating	Date	Rating
04-Sep-98	A3	27-Jul-11	A	22-Jul-16	A-
		20-Aug-02	A+	09-Jun-09	A
		10-Nov-99	A	08-Nov-04	A+
		15-Sep-98	A-	07-Aug-02	A
		24-Jul-98	A+	07-Dec-99	A-
		17-Apr-98	AA-	09-Sep-98	BBB
		23-Dec-97	AA	13-Aug-98	A-
		28-Jun-93	AA+		

Source: Rating Agencies, Bloomberg

Raise minimum wage, reduce foreign workers

PH also included raising the minimum wage in its GE14 manifesto. The target is to raise the minimum wage to MYR1,500 a month from the current MYR920-MYR1,000 a month over the next five years. The PH GE14 manifesto also highlighted that it will equalize the minimum wage between Peninsular Malaysia and Sarawak, Sabah & Labuan within the first 100 days of coming to power. Please refer to pages 31-33 of this report and our report "*Minimum Wage: Due for a review this year*" issued on 7 May 2018 for more details.

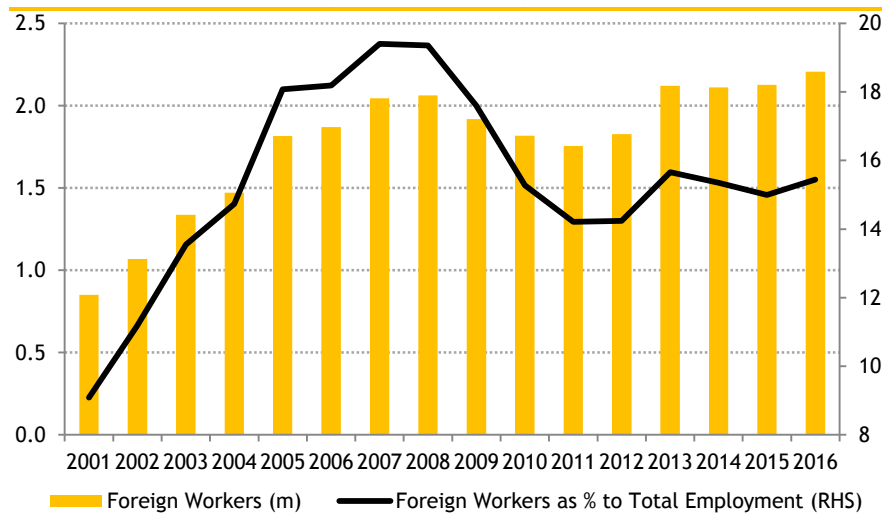
Figure 25: Minimum Wage (MYR per month)

Region	Previous (effective 1 Jan 2013)	Current (effective 1 July 2016)	Chg (MYR)	% chg
Peninsular Malaysia	900	1,000	100	11.1
Sarawak, Sabah, Labuan	800	920	120	15.0
<i>Difference</i>	<i>100</i>	<i>80</i>	<i>(20)</i>	<i>(20)</i>

Source: Media

PH GE14 manifesto also talks about reducing foreign workers in the economy. Based on the latest available official data published by the Ministry of Human Resource, as at 2016, there are 2.2m foreign workers in the economy, accounting for 15.4% of total numbers of workers. To note, the 11th Malaysia Plan (11MP, 2016-2020) set a target of 15% cap on foreign workers to total workforce ratio by 2020. PH manifesto mentioned about lowering the number of foreign workers from “6 million to 4 million” in its first term in office, with the figures likely referring to both legal and illegal foreign workers in the economy.

Figure 26: Foreign Workers (Official Statistics)



Source: Ministry of Home Affairs, Ministry of Human Resources, Dept of Statistics

Figure 27: Real GDP

% chg	% Share of GDP	ACTUAL		MAYBANK	OFFICIAL	
		2016	2017	2018E	2018E Revised	2018E Previous
Real GDP	100.0	4.2	5.9	5.3	5.5-6.0	5.0-5.5
Manufacturing	23.3	4.4	6.0	5.8	5.9	5.3
Services	55.2	5.6	6.2	5.9	6.1	5.8
Agriculture	8.3	(5.1)	7.2	3.8	3.6	2.4
Mining	8.5	2.2	1.1	1.3	1.8	0.9
Construction	4.6	7.4	6.7	7.0	7.3	7.5
Domestic Demand	92.2	4.3	6.5	6.4	5.7	5.5
Private Consumption	53.8	6.0	7.0	6.5	7.2	6.8
Public Consumption	13.0	0.9	5.4	5.8	0.6	1.3
Gross Fixed Capital Formation	25.4	2.7	6.2	6.6	5.2	5.0
Private Investment	17.4	4.3	9.3	9.0	9.1	8.9
Public Investment	8.0	(0.5)	0.1	1.5	(3.2)	(3.1)
Net External Demand	7.8	1.5	(1.1)	(2.2)	5.5	1.0
Exports of Goods & Services	72.9	1.1	9.6	4.9	8.8	2.3
Imports of Goods & Services	65.1	1.1	11.0	5.7	9.1	2.5

Sources: Dept. of Statistics, BNM Annual Report 2017, MoF Economic Report 2017/2018, MKE Economics Research

Figure 28: Other Key Economic Indicators

	2016	ACTUAL		MAYBANK	OFFICIAL	
		2017	2018 YTD	2018E	2018E Revised	2018E Previous
Gross Exports (% chg)	1.2	18.9	5.8 (Jan-Mar)	5.9	8.4	3.4
Gross Imports (% chg)	1.9	19.9	(0.8) (Jan-Mar)	5.8	8.6	3.5
Trade Balance (MYRb)	88.1	97.2	33.4 (Jan-Mar)	103.8	104.2	97.0
Current Account Balance (MYRb)	29.0	40.3	-	43.0	38.0	32.9
Current Account Balance (% of GDP)	2.4	3.0	-	3.0	2.6	2.3
Fiscal Balance (% of GDP)	(3.1)	(3.0)	-	(2.8)	(2.8)	(2.8)
Inflation Rate (CPI, %)	2.1	3.7	1.8 (Jan-Mar)	2.8	2.0-3.0	2.5-3.5
Overnight Policy Rate (% p.a., end-period)	3.00	3.00	3.25	3.25	-	-
Exchange Rate (MYR/USD, end-period)	4.49	4.05	3.95	3.65	-	-
Exchange Rate (MYR/USD, average)	4.14	4.30	3.92	3.82	3.90	4.35
Unemployment Rate (%)	3.5	3.4	3.3 (Jan-Mar)	3.3	3.2-3.5	3.3
Crude Oil (USD/bbl, Brent average)	44.1	54.4	67.0	65	60-70	52
Crude Pam Oil (MYR/tonne, average)	2,654	2,791	2,447	2,600	2,700	2,750

Sources: Bloomberg, Dept. of Statistics, BNM Annual Report 2017, MoF Economic Report 2017/2018, MKE Economics Research

Market implications of GE14 outcome

PH GE14 manifesto: Impact on selected sectors

Four sectors of focus. PH GE14 manifesto, in our view, will directly impact four sectors - consumer, construction, telecoms, and automotive. The impacts are detailed in pages 27-30, but in summary, they are: (i) POSITIVE for the consumer sector due to the continuation of BR1M, while the prospect of GST being replaced by a potentially smaller base SST could lift consumer sentiment, (ii) sentiment-NEGATIVE for the construction sector due to the review of major infrastructure projects awarded to foreign contractors such as the East Coast Rail Link (ECRL) and Gemas-Johor Bahru Double Track Rail, (iii) potentially earnings-NEGATIVE to the telecoms sector pending details on how the “half the charges, twice the speed” of broadband is to be implemented, and (iv) NEUTRAL for the automotive sector from the lowering of import duty on first car ownership of below 1,600 cc.

Minimum wage increase impact to be broad based. In addition, the gradual minimum wage increase, also under PH’s GE14 manifesto, and which is to be standardised between Peninsular Malaysia and East Malaysia, will have a “knock on” impact on the total salary structure (and not just those earning at the current minimum wage level). The minimum wage increase has a differing degree of impact on the companies/sectors (*see pages 31-33*), but we estimate the overall impact to be earnings-NEGATIVE. While some sectors are able to pass on the higher wage bill in full or in part (auto, glove producers, technology), there are others which are unable to pass on the higher costs due to the high degree of competitiveness in the industry (services), or the nature of their industry which does not allow a cost pass-through at all (up-stream oil palm plantation).

Equities and KLCI’s immediate reaction

Expect a negative knee-jerk reaction. There are uncertainties brought on by the GE14 outcome, especially over the near-term macro growth prospect and government finances which would have a “knock on” effect on corporate earnings delivery. We draw comfort that Tun Dr Mahathir, leaders of PH and their high-level supporters are extremely experienced leaders, having been senior members of the Cabinet and/or Chief Ministers. Having said that, as investors generally do not like uncertainties, we can expect some sell-offs in Malaysia equities after the market returns from its short break on Monday, 14 May.

Possible KLCI levels, from the fundamental perspective. The outcome of GE14 is unprecedented and unexpected. Foreign investors who have been net sellers of Malaysia equities in the first five trading days of May ahead of GE14 totalling an estimated MYR1.2b (Fig 41), could continue their net sell. The immediate risk is on the remaining MYR2.3b of foreign net buy in 2018 YTD (until 8 May) and MYR10.6b of foreign net buy in 2017 (Fig 42). Based on the KLCI’s close on 8 May at 1,846.5 pts, the KLCI’s valuation is at 16.5x 12M forward PER which is also +0.5SD its long-term mean PER (of 15.6x). We think that **up to a 1SD PER de-rating (to 14.8x PER)** is a possibility.

- At its long-term mean PER (of 15.6x), the KLCI’s immediate level would be **1,750**, which implies a 5% downside from pre-polling day’s (8 May) close.
- At -0.5SD (or 14.8x PER), this would bring the KLCI to the **1,660** level; this would imply a 10% downside from pre-polling day’s close. At the 1,660 level, this is also about the level when the KLCI closed for the year 2016 (at 1,642 pts), before foreign investors turned net buyers of Malaysia equities from 2017 and into the first four months of 2018. At end-2016, the MYR had weakened to 4.486 USDMYR, while at the close of 8 May 2018, the onshore USDMYR closed at 3.95. The USDMYR 1-month NDF spiked to an intraday high of 4.265 on 10 May, but the situation today is better with the USDMYR 1-month NDF at 3.99 as at mid-day, 11 May.

Possible KLCI levels, from the technical perspective. The major up-move from 2008's low at 801.27 pts saw the index undergoing an uninterrupted uptrend as it peaked at 1,896 in 2014 before heading into a two-year corrective mode towards the low within the 38.2% Fibonacci Level at 1,503. Despite staging a recovery thereafter, the benchmark index failed to sustain beyond its record high ahead GE14. In 2008, the KLCI staged a significant corrective move amid a surprise GE12 result where BN was unable to secure its 2/3 majority for the first time. Aided by weaker global sentiment, the KLCI tumbled over 40% before making a reversal within the 61.8% Fibonacci Retracement ratio. Base on this precedent move, we expect a knee-jerk reaction on 14 May, Monday after the historic GE14 results which places many uncertainty elements on the table.

Tracking a potential replication of the previous move with possible support, we have established three zones of support:

- First zone is within 1,650 to 1,709, amid a presence of a major 200-week EMA line.
- Second zone is within 1,478 to 1,503, the previous major low in 2015.
- Third zone (an established zone) is within 1,220 to 1,360, also the 61.8% Fibonacci Retracement ratio before the major up-move.

Unlike 2008, global equities remain on an upward trend thus potential downside risk from GE14 could be capped within the first two zones. A convincing rebound along either zones and backed by a higher trading volume could kick-start further recovery. For the near-term, the KLCI Index is likely to stay volatile. The long-term trend, however, remains on an upward trajectory. **Accumulate on weakness.**

Fig 29: FBMKLCI Technical Outlook



Catalysts for market stabilisation, risk factors. What could calm the market, in our view, are: (i) PH forming a Cabinet within the shortest possible time, and (ii) the new PH Government providing greater clarity on the implementation and long-term target/direction of its economic policies. Tun Dr Mahathir has said (at the time of our writing of this report) that he will convene a PH presidential council meeting tomorrow, 12 May, to discuss the new Cabinet line-up. In the meantime, Tun has named 10 core ministries. This is positive as it shows that the new Government acknowledges the urgency to get down to business from Day 1 (after the new Prime Minister has been sworn in).

Risk factors to Malaysian equities, in our view, are: (i) a delay in forming a Cabinet, (ii) downgrade to the country's sovereign credit rating and/or rating outlook, (iii) external developments which add onto the potential withdrawal of foreign funds from not just Malaysia, but the region.

Sectors and stocks most at risk. With addressing the rising cost of living being a pertinent issue in the PH GE14 manifesto, sectors most at risk of a broad based sell-down in Malaysia equities would be the: (i) "monopolies" in essential foods, pharmaceuticals, and other key sectors (such as water), (ii) IPPs (on concerns over potential reviews of PPAs), and (iii) tolled highways (with the PH GE14 manifesto to remove highway tolls in stages). Also, the construction sector should see knee-jerk reaction on concerns of some high-profile major infrastructure projects, especially those relating to the East Coast Rail Line (ECRL; although no Malaysian contractors have won any work packages) and even the KL-SG High Speed Rail (awarded to MCRB-Gamuda and YTL as Project Delivery Partners).

In terms of stocks, the following would have more downside bias: (i) those with high foreign shareholdings (Fig 23), (ii) those that are owned either directly or indirectly by BN component parties, specifically in the media sector, and (iii) those that have been politically aligned and/or linked to BN.

On the POSITIVE, it will also be an opportunity to accumulate. As we await for calm to be restored, the defensive sectors offer refuge:

- **REITs**, with unit prices down 7%-37% YTD (for those under our research coverage) and which now offer 4.5%-7.0% net yield (expectations would then be that BNM would not raise the OPR over the medium-term under the new political make-up, to support economic growth);
- **Tenaga** (TNB MK, HOLD, TP: MYR16.00), as medium-term regulatory risk has already dissipated after the terms for the 2nd regulatory period (RP2, 2018-2020) was decided in Dec 2017; the stock now offers 3.6% net yield; and
- "Gainers" from GST removal - the banks and insurers would be among the "beneficiaries". The abolition of GST is marginally positive for general insurance companies, which currently cannot claim input tax on car repairs.

Specifically on the banks, a few points to note. There are positive and negative implications of the GE14 outcome and PH GE14 manifesto on the banks:

- **Positives:** (i) the abolition of GST would be slightly earnings-positive for banks because the Fixed Input Tax Recovery (FITR) rate is generally less than 60% of the input tax incurred by most banks, and (ii) the near-term volatility in the MYR would contribute to higher forex income.
- **Negatives:** (i) the review of foreign, especially China-linked infrastructure projects may stymie bond market activity, while (ii) the potential spike in bond yields may result in near term marked-to-market losses.

For exposure to the banks, we still like **HLFG** (HLFG MK, BUY, TP: MYR20.80) as an alternative exposure to **HL Bank** (HLBK MK, HOLD, TP: MYR18.75) and **Alliance Bank** (ABMB MK, BUY, TP: MYR5.00) for a recovery in FY19 (Mar) earnings, from heavy investment in FY18.

Stocks to accumulate at lower levels.

- Some of the **big caps** that we continue to like, to accumulate at lower levels as their valuations are supported even at pre-GE14 polling share price levels (they are our **existing BUYs**) are **HLFG** (TP: MYR20.80), **GENT** (TP: MYR12.75), **IHH** (TP: MYR7.00), **IOI** (TP: MYR5.03), **Dialog** (TP: MYR3.50), **Gamuda** (TP: MYR5.80), **IJM Corp** (TP: MYR3.40).

Big-caps which are our **existing HOLDs** but to pick up at lower levels are **Tenaga** (TP: MYR16.00), **GENM** (TP: MYR5.35), **MAHB** (TP: MYR8.52), **AirAsia** (TP: MYR3.81), and **Top Glove** (TP: MYR9.85).

- In the small-mid cap space, the FBMSC is already down -14.7% in 2018 YTD (after gaining +15.9% in 2017) due to profit-taking (Fig 37). The anticipated market weakness would be a good opportunity to pick up on quality stocks at lower valuations. Within our research coverage, the following stocks which have lost ->15% in 2018 YTD and they are our **existing BUYs** are:

(i) Below MYR1.5b market cap (small-caps) - **PECCA** (-26% YTD; TP: MYR1.60), **RCE** (-16%; TP: MYR1.95), **GTB** (-33%; TP: MYR5.60), **MMSV** (-20%; TP: MYR2.02).

(ii) Above MYR1.5b, below MYR4.0b market cap (mid-caps) - **ALLZ** (-16%; TP: MYR16.30), **YTLREIT** (-12%; TP: MYR1.40), **VSI** (-22%; TP: MYR2.15).

Another small-mid cap which is in our **existing HOLD** list but to pick up at lower level is **Kossan** (-17%, TP: MYR9.00).

Charts that matter ...

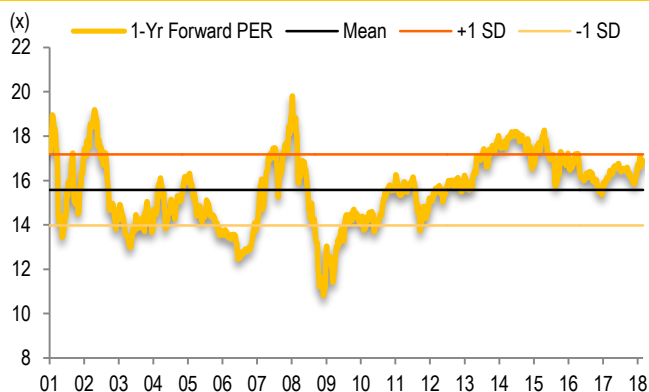
On valuations

Figure 30: Malaysia market earnings growth & valuations as at 8 May 2018

		2016A	2017A	2018E	2019E
KLCI @ 1,846.5	PE (x)	16.7	17.4	17.1	15.8
Earnings Growth (%) - current		(2.1%)	7.4%	3.1%	8.1%
Maybank KE's Research Universe	PE (x)	20.0	18.8	17.3	15.7
Earnings Growth (%) - current		(1.3%)	7.3%	8.2%	10.7%

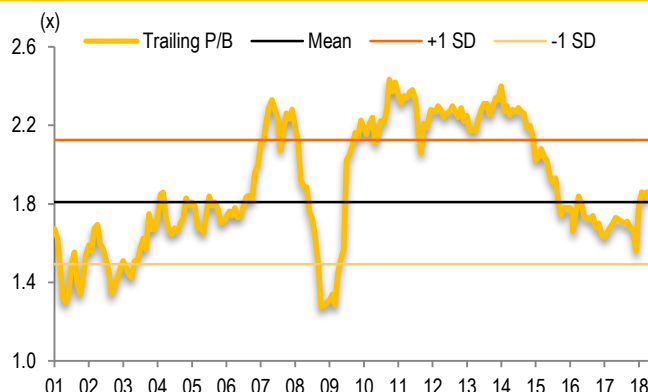
Source: Maybank KE

Fig 31: KLCI's 12M forward PER, at 16.5x (8 May) [mean = 15.6x, 1SD = 1.6x]



Source: Maybank KE, Bloomberg

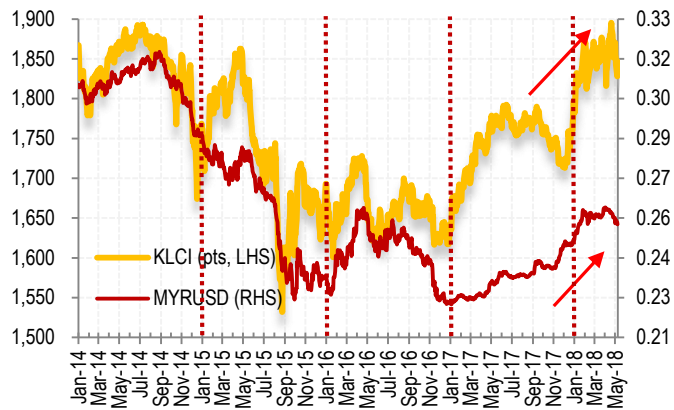
Fig 32: KLCI's trailing P/B: 1.81x (8 May) [mean = 1.81x, 1SD = 0.32x]



Source: Maybank KE, Bloomberg

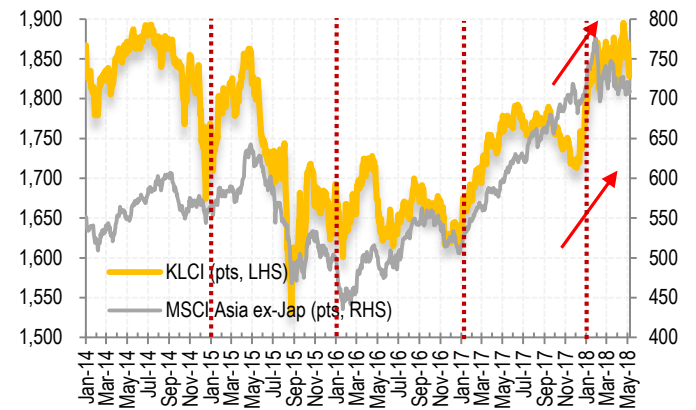
On index performance

Fig 33: KLCI vs. MYRUSD, 2014-2018 YTD (8 May)



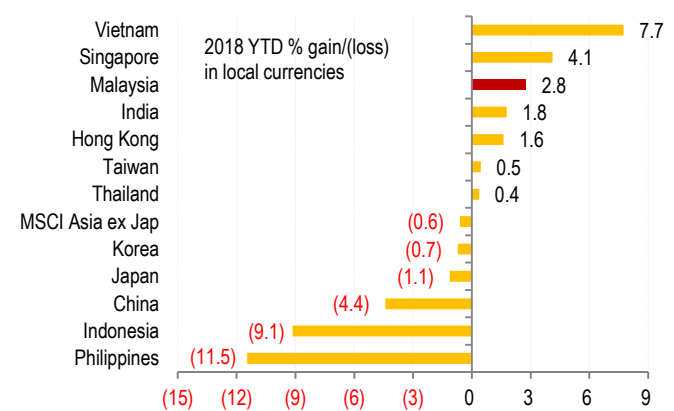
Source: Bloomberg, Maybank KE (chart)

Fig 34: KLCI vs. MSCI, 2014-2018 YTD (8 May)



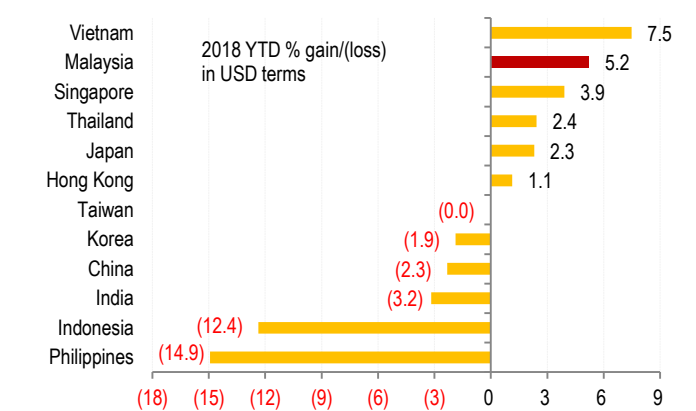
Source: Bloomberg, Maybank KE (chart)

Fig 35: KLCI vs. region, 2018 YTD (8 May) in local currencies



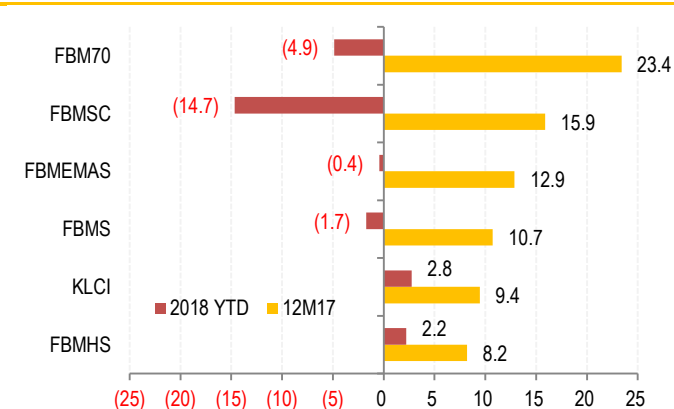
Source: Bloomberg, Maybank KE (chart)

Fig 36: KLCI vs. region, 2018 YTD (8 May) in USD terms



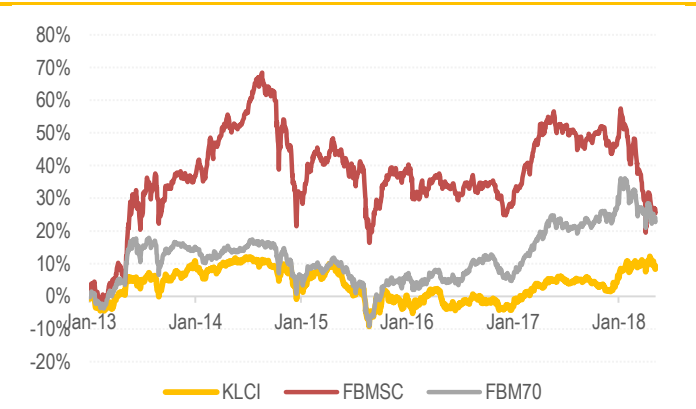
Source: Bloomberg, Maybank KE (chart)

Fig 37: MY indexes performance, 2017, 2018 YTD (8 May)



Source: Bloomberg, Maybank KE (chart)

Fig 38: KLCI vs. FBM70 vs. FBMSC



Source: Bloomberg, Maybank KE (chart)

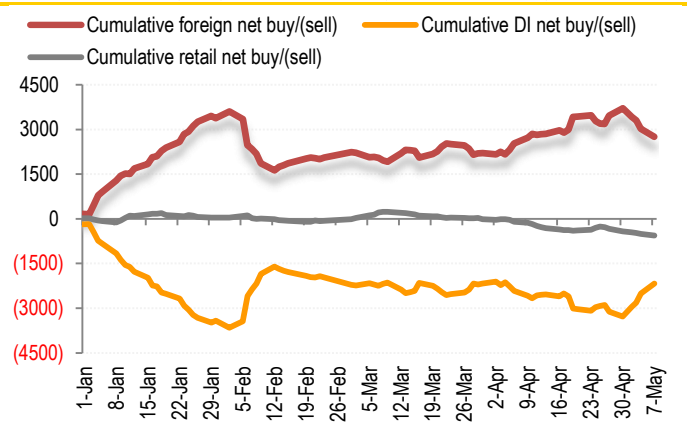
Fig 39: KLCI's performance during general elections

GE Year	Dissolution date	Polling Date	Dissolution - 3Months	Dissolution - 1Month	Dissolution - 1Day	Dissolution + 1Day	Dissolution to Polling Day	Polling + 1Month	Polling + 3Months	Dissolution to Polling + 1Month	Dissolution to Polling + 3Months
2013	3-Apr	5-May	(0.4%)	3.0%	0.0%	0.2%	0.6%	4.7%	5.3%	5.3%	5.9%
2008	13-Feb	8-Mar	2.8%	(5.6%)	0.4%	0.9%	(8.9%)	(5.4%)	(3.7%)	(13.9%)	(12.3%)
2004	4-Mar	21-Mar	12.1%	9.3%	0.6%	0.4%	2.5%	(4.5%)	(8.7%)	(2.1%)	(6.4%)
1999	11-Nov	29-Nov	(0.6%)	(2.8%)	(0.5%)	(0.5%)	2.9%	7.9%	31.7%	11.0%	35.5%
1995	6-Apr	25-Apr	2.4%	3.3%	(2.0%)	(1.2%)	(0.4%)	6.6%	7.6%	6.2%	7.2%
1990	5-Oct	21-Oct	(20.8%)	(14.1%)	0.6%	0.0%	1.4%	(0.2%)	0.7%	1.2%	2.2%
1986	19-Jul	3-Aug	17.7%	(4.0%)	0.0%	0.0%	(0.8%)	15.9%	29.8%	15.0%	28.8%
1982	29-Mar	22-Apr	(20.2%)	(5.3%)	(0.8%)	0.9%	5.1%	1.0%	(16.0%)	6.1%	(11.8%)

Source: Bloomberg (data), Maybank KE (compilation)

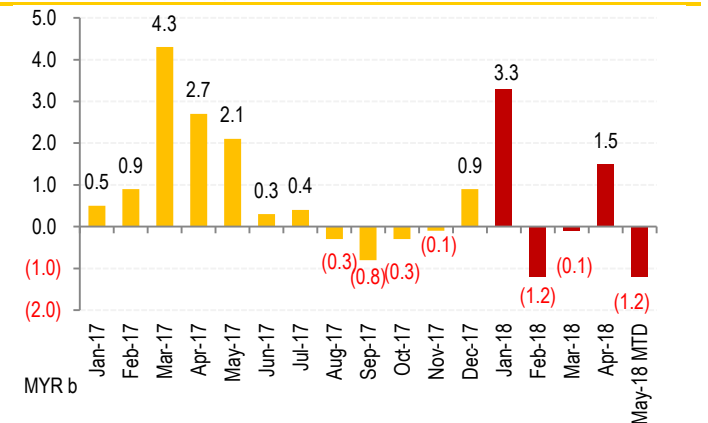
■ On foreign fund flows in equities & foreign holdings

Fig 40: Cumulative foreign vs. domestic institutions vs. retail net buy/(sell) in 2018 YTD (7 May; MYR m)



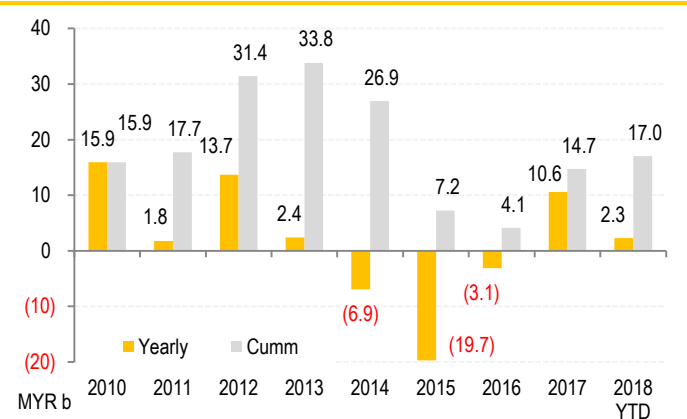
Source: Bursa Malaysia, Maybank KE (chart)

Fig 41: Malaysia equities: Monthly foreign net buy/(sell) in 2017 & 2018 YTD (7 May; MYR b)



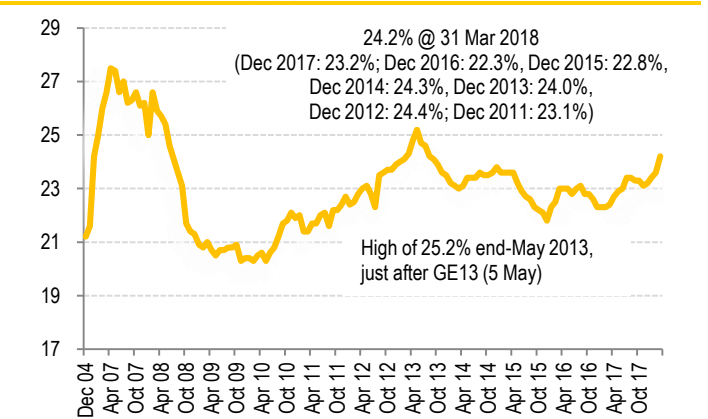
Source: Bursa Malaysia, Maybank KE (chart)

Fig 42: Malaysia equities: Yearly and cumulative foreign net buy/(sell) since early-2010 (MYR b)



Source: Bursa Malaysia, Maybank KE (chart)

Fig 43: Malaysia equities: Market foreign shareholding (by market capitalisation) (%)



Source: Bursa Malaysia, Maybank KE (chart)

Fig 44: Foreign shareholding of selected stocks under coverage (%)

	Dec-11	Dec-12	Dec-13	Dec-14	Dec-15	Dec-16	Mar-17	Jun-17	Sept-17	Dec-17	YTD chg
Malayan Banking	13.5	19.6	21.4	22.5	17.4	15.7	19.7	20.8	21.0	20.7	5.0
CIMB Group	38.1	40.4	33.8	32.7	27.0	25.8	29.0	31.0#	24.0	27.5	1.7
Public Bank	26.1	31.2	30.7	31.0	31.3	35.9	36.0	37.2	37.6	38.1	2.2
Axiata Group	28.0	28.0	23.0	21.0	15.2	10.3	10.3	10.4	10.4	10.0	(0.3)
Sime Darby	17.3	19.5	17.4	13.9	13.7	12.6	14.8	15.3	15.1	18.8	6.2
Petronas Chemicals	9.0	9.0	12.0	8.5	9.0	8.0	10.0	10.0	10.0	11.0	3.0
Maxis *	7.3	7.5	7.5	6.7	6.2	5.7	6.1	7.6	6.4	6.4	0.7
Tenaga Nasional	10.8	15.0	27.8	25.8	23.1	27.7	25.3	24.8	24.3	24.1	(3.6)
Petronas Gas	3.0	3.0	3.0	7.5	8.5	8.8	8.2	8.5#	8.5#	8.5	(0.3)
Genting Berhad	42.0	45.0	45.0	46.0	39.0	44.0	45.0#	45.0	46.0	45.0	1.0
Digi.com	12.9	12.6	12.5	15.6	10.1	9.9	10.0	9.6	9.3	9.1	(0.8)
IOI Corporation	17.0	17.6	18.0	17.4	16.0	15.0	15.0	16.0	14.0	11.0	(4.0)
Hong Leong Bank	7.7	8.1	8.1	9.5	8.1	9.1	9.4	11.2	11.9	12.1	3.0
SapuraKencana	NA	22.0	32.0	28.0	25.0	22.0	22.0	22.0	19.0	20.0	(2.0)
KL Kepong	18.5	15.0	12.7	12.4	11.5	13.5	13.9	15.0	15.5	16.3	2.8
Genting Malaysia	37.0	38.0	39.0	39.0	39.0	40.0	40.0#	40.0	40.0	40.0	0.0
RHB Bank	11.6	8.9	8.3	9.5	9.8	9.9	9.8	9.9#	9.8#	9.8	(0.1)
AMMB Holdings *	26.2	29.0	32.0	32.0	26.0	25.0	26.0	27.0	25.0	24.0	(1.0)
MISC Bhd	3.9	5.5	5.9	7.8	10.8	8.0	8.3	8.6	8.7	9.0	1.0
Telekom Malaysia	19.9	16.2	13.0	16.7	11.7	12.8	12.3	12.2	11.9	11.3	(1.5)
British American Tobacco	26.8	28.4	28.0	33.2	33.6	36.3	35.9	36.9#	37.5	37.0	0.7
YTL Corporation	23.0	27.0	28.0	29.0	28.0	28.0	27.0	27.0	25.0	25.0	(3.0)
UMW Holdings	13.5	25.8	16.9	18.8	12.6	10.9	11.2	11.1	11.3#	11.1	0.2
UEM Sunrise	14.6	17.3	14.9	13.1	9.1	8.4	8.7	9.0	9.0	7.9	(0.5)
Bumi Armada	NA	18.0	12.3	13.2	12.7	11.0	11.6	10.9	11.4	12.4	1.4
Gamuda	33.0	37.0	40.0	29.0	22.0	22.0	28.0	31.0	33.0#	31.0	9.0
YTL Power Int'l	9.0	8.0	9.0	12.0	12.0	12.0	11.0	11.0	11.0	12.0	0.0
S P Setia	17.6	1.7	8.8	8.1	7.6	4.9	4.9	4.9	5.5	9.7	4.8
AirAsia	51.0	48.3	50.2	60.8	47.6	43.4	42.8#	43.9	44.5	44.4	1.0
IJM Corp	41.3	36.6	40.5	40.4	29.7	28.2	28.7	28.6	28.0	27.0	(1.2)
MAHB	9.5	11.3	15.0	18.9	19.0	19.0	22.1	33.0	34.7	39.3	20.3
Dialog Group	NA	16.0	16.0	16.0	15.0	16.0	20.0	20.0	20.0	20.0	4.0
Genting Plant	9.8	9.0	8.0	7.2	7.0	8.0	8.4	8.0	8.0	8.7	0.7
Sunway Berhad	21.8	20.5	14.2	8.1	7.6	7.8	8.3	9.1	10.3	9.5	1.7
MMHE	5.4	4.6	2.0	1.9	2.2	2.4	2.5	2.5	2.8	2.9	0.5
Mah Sing	20.9	24.8	23.7	19.2	14.8	15.7	15.8	16.6	16.6	17.0	1.3
WCT	14.0	10.0	13.0	10.7	12.8	12.2	11.0	10.2#	8.8#	8.6#	(3.6)
Glomac	NA	NA	8.4	6.3	5.2	5.2	5.1#	5.5	6.8	6.9	1.7
Oldtown *	NA	NA	35.7	35.4	28.0	26.8	27.8	25.3#	24.1#	NA	(2.7)
Market	23.1	24.4	24.0	24.3	22.3	22.3	22.4	23.0	23.3	23.2	0.9

* Maxis: Excludes Saudi Telecom's 16.2% effective stake

* AMMB: Excludes ANZ's 23.8%

* OldTown: 4% at Feb 2012, 37% at Feb 2013

AirAsia, Glomac, PetChem: As at 30 Apr 2017

GENM, GENT: As at 25 May 2017

PetGas: As at 31 May 2017

OldTown: As at 13 Jul 2017, 1 Nov 2017

CIMB, RHB, BAT, WCT: As at 31 Jul 2017

RHB, UMWH, GAM, WCT: As at 31 Oct 2017

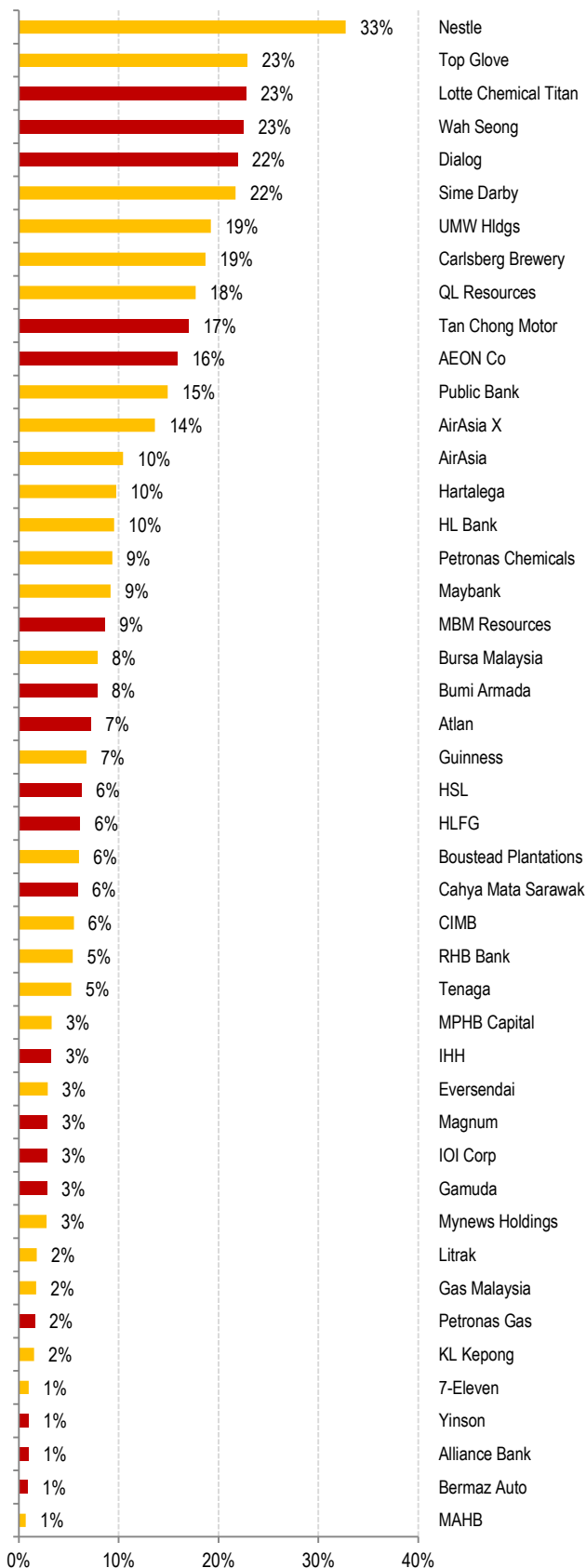
WCT: As at 31 Jan 2018

Note: Highlighted/shaded are stocks which have foreign shareholding close to, or above 20% (based on latest data available)

Sources: Companies, compiled by Maybank KE

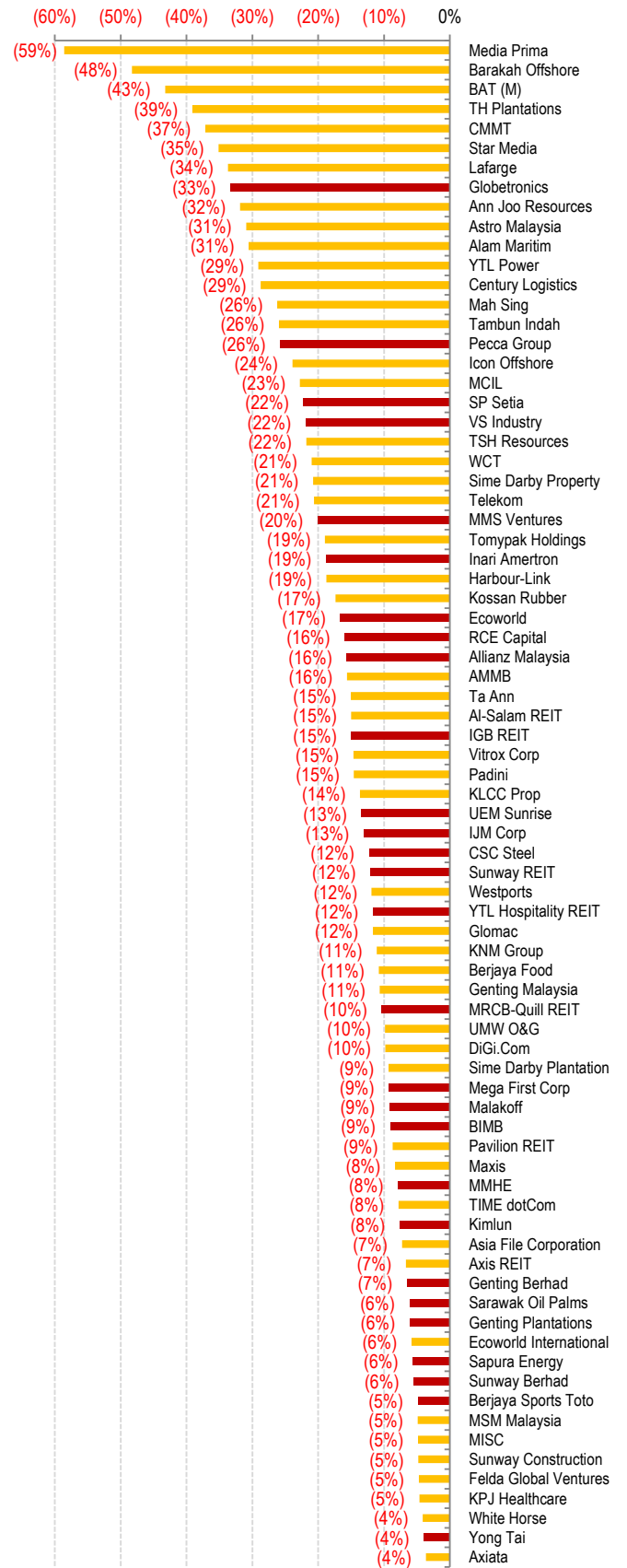
On stocks gainers/losers in 2018 YTD

Fig 45 (a): Stock gains, 2018 YTD (as at 8 May)



Note: Our BUY calls are shaded in red

Fig 45 (b): Stock losses, 2018 YTD (as at 8 May)



Source: Maybank KE

▪ On dividend stocks

Fig 46: Dividend stocks (Maybank KE's coverage: Stocks with more than 4% net yield)

Stocks	Rec	Shr px at 8-May-18	Market Cap (MYR m)	TP (RM)	2018 Net Yld (%)	Upside to TP (%)	Potential total returns (%)
Star	Hold	1.07	789.5	1.25	11.2	16.8	28.0
BAT (M)	Hold	22.70	6,481.5	35.00	8.2	54.2	62.4
Berjaya Sports Toto	Buy	2.13	2,869.1	2.65	7.5	24.4	31.9
Magnum	Buy	1.79	2,547.1	2.25	7.3	25.7	33.0
Malakoff Corporation	Buy	0.89	4,394.7	1.15	7.2	29.2	36.4
Ann Joo Resources	Hold	2.63	1,408.1	3.85	7.2	46.4	53.6
MRCB-Quill REIT	Buy	1.12	1,200.4	1.35	7.0	20.5	27.5
YTL REIT	Buy	1.13	1,926.0	1.40	6.7	23.9	30.6
Tambun Indah Land	Hold	0.76	327.1	0.91	6.6	20.5	27.2
CSC Steel	Buy	1.35	498.6	1.86	6.6	37.8	44.4
MCIL	Sell	0.31	514.6	0.33	6.4	8.2	14.6
Al-Salam REIT	Hold	0.85	493.0	1.00	6.2	17.6	23.9
CMMT	Hold	1.15	2,346.7	1.15	6.2	-	6.2
Astro Malaysia Holdings	Hold	1.83	9,541.4	2.10	6.0	14.8	20.7
IGB REIT	Buy	1.53	5,392.6	1.85	5.8	20.9	26.7
Axis REIT	Hold	1.40	1,725.3	1.50	5.8	7.1	12.9
Maybank	NR	10.70	116,904.9	NR	NR	NR	NR
Pavilion REIT	Hold	1.47	4,460.7	1.55	5.6	5.4	11.1
YTL Power	Hold	0.92	7,255.3	1.25	5.5	36.6	42.1
Asia File Corporation	Hold	2.68	522.0	3.13	5.4	16.8	22.2
Sunway REIT	Buy	1.67	4,918.3	1.85	5.4	10.8	16.2
Pecca Group	Buy	1.15	211.9	1.60	5.2	39.1	44.3
RCE Capital	Buy	1.26	429.7	1.95	5.1	54.8	59.8
Boustead Plantations	Hold	1.25	2,800.0	1.29	5.0	3.2	8.2
Mah Sing	Hold	1.07	2,597.6	1.31	4.9	22.4	27.3
AMMB Holdings	Hold	3.72	11,212.8	4.60	4.8	23.7	28.4
Bermaz Auto	Buy	2.22	2,573.6	3.25	4.7	46.4	51.1
Heineken Malaysia	Hold	20.18	6,096.3	20.20	4.6	0.1	4.7
Gas Malaysia	Hold	2.94	3,775.0	3.00	4.6	2.0	6.6
KLCC Prop	Hold	7.46	13,467.8	8.00	4.5	7.2	11.8
Carlsberg	Hold	18.16	5,586.4	17.10	4.4	(5.8)	(1.4)
Litrak	Hold	5.65	2,982.8	6.10	4.4	8.0	12.4
MISC	Hold	7.06	31,514.4	7.60	4.2	7.6	11.9
DiGi.Com	Hold	4.60	35,765.0	4.80	4.2	4.3	8.5
Alliance Bank Malaysia	Buy	4.12	6,378.2	5.00	4.1	21.4	25.5
CIMB	Hold	6.90	64,624.0	7.70	4.1	11.6	15.7
Telekom	Hold	5.00	18,789.7	6.00	4.0	20.0	24.0
BIMB Holdings	Buy	4.00	6,774.3	5.00	4.0	25.0	29.0

Source: Maybank KE

Sectors directly impacted by PH GE14 manifesto

CONSUMER: Uplift in sentiment

Impact: Sentiment-positive

Manifesto:

- Existing BR1M recipients will continue to receive the cash aid.
- GST to be abolished in 100 days; resumption of sales and services taxes.
- 1 million top-notch job opportunities.

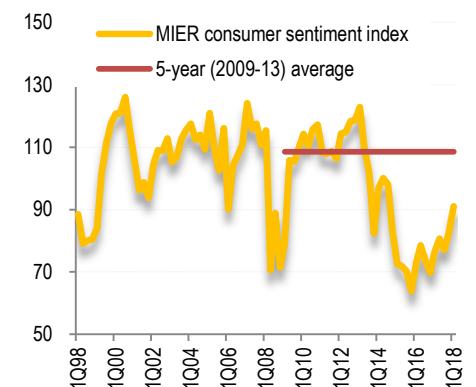
Impact/benefits:

Continuation of BR1M is positive. We expect the sustain uplift in consumer spending will continue to be channeled into spending for smaller ticket items like food items and clothing. Continuing beneficiaries under our research coverage include NESZ (NESZ MK, SELL, TP: MYR105.20), AEON (AEON MK, BUY, TP: MYR2.30), SEM (SEM MK, HOLD, TP: MYR1.44), MYNEWS (MNHB MK, HOLD, TP: MYR1.44) and PAD (PAD MK, HOLD, TP: MYR5.15).

- Given NESZ's sizeable market share of 15.5% (based on total domestic F&B in FY17) and its mass market offerings, we believe it will remain a beneficiary.
- Retailers such as AEON (broad-based retailer), SEM, MYNEWS (convenience retailers) would gain from sustained consumer demand and/or pricing power. As of end-4Q17, AEON, SEM and MYNEWS have 34 / 2,225 / 366 stores, respectively.
- PAD could also benefit from the sustained consumption/spending, premised on its diversified and affordable range of products which appeal to the mass market, and wide exposure and branding to customers via outlets which are located in most major Malaysian malls. PAD has 43 Padini Concept Stores and 47 Brands Outlet stores as of end-FY17. According to *Euromonitor*, PAD remains the market leader in the domestic apparel and footwear segment with 3.8% value share in 2017 (3.4% in 2016).

PH's manifesto to abolish GST would also lift sentiment. The current 6% GST was implemented on 1 Apr 2015 and it has since been tied to partly contribute to the rising cost of living (the MYR's weakness is another factor, in our view). MIER's CSI has fallen to below the threshold level of confidence since 3Q 2014, three quarters ahead of the GST implementation, and it has stayed at below the 100 level for 15 quarters (till 1Q 2018). Positively, the index bottomed in 4Q 2015 and it has since established an uptrend (see chart on the right).

Fig 47: Consumer Sentiment Index



Source: MIER, Maybank KE (chart)

CONSTRUCTION: Set-back in two major projects

Impact: Sentiment-negative

Manifesto:

- Abolish toll charges gradually.
- Comprehensive review of all mega contracts awarded to foreigners.
- Development expenditure to focus on development of five poorest states, namely Sabah, Sarawak, Kelantan, Terengganu and Perlis.
- Build 1m unit of affordable homes across two-terms.

Impact/benefits:

Manifesto to gradually abolish toll charges. Based on the Bond Price Agency Malaysia's (BPAM) figures as of 23 Apr 2018, there is a total of MYR55.3b of outstanding bonds from various toll concessionaires within Malaysia. Thus at the most minimal, we believe the government would have to compensate by repaying all outstanding debt and shareholders' equity which could amount to e.MYR79b assuming a general 70:30 debt-to-equity ratio.

Fig 48: PLCs in Malaysia with highway concessions

Company	Highways	Effective Stake (%)
IJM Corp	Besraya Highway	100.0
	Kajang-Seremban Highway (LEKAS)	50.0
	West Coast Expressway (WCE)	40.9
Taliworks	Cheras-Kajang Highway	51.0
	New North Klang Straits Bypass	50.3
Ahmad Zaki	East Klang Valley Expressway (EKVE)	100
Gamuda	Shah Alam Expressway (KESAS)	70
	Smart Tunnel	50
	Western KL Traffic Dispersial System (SPRINT)*	51.9
	Damansara-Puchong Highway (LDP)*	43.7
Ekovest	Duta-Ulu Kelang Expressway (DUKE) Phase 1	60
	Duta-Ulu Kelang Expressway (DUKE) Phase 2	60
	Duta-Ulu Kelang Expressway (DUKE) Phase 3	100
Littrak	Damansara-Puchong Highway (LDP)	100
	Western KL Traffic Dispersial System (SPRINT)	50
MRCB	Eastern Dispersal Link (EDL)	100

Source: Company data, Maybank Kim Eng

*Effective stake include Gamuda's 43.7% stake in Littrak

Risk from manifesto to review mega projects awarded to foreigners. With the main EPCC contracts from major infra projects such as the East Coast Rail Link (ECRL) and Gemas-JB Double Track Rail awarded to foreign (Chinese) contractors, the immediate risk to the sector would be the potential delay or cancellation of these projects based on a major review of these projects. Any delay in contract awards would affect orderbook replenishment opportunities for the contractors, limiting the prospect of earnings growth.

However, the review of mega projects could turn out to be a "blessing" should these projects proceed and the main EPCC contracts shift back to Malaysian contractors. Those with proven track record and experience in spearheading large infrastructure works could stand to benefit.

TELECOMS: Charges halved, speed double

Impact: Could be earnings-negative

Manifesto:

- Broadband charges to be halved, speed to double.

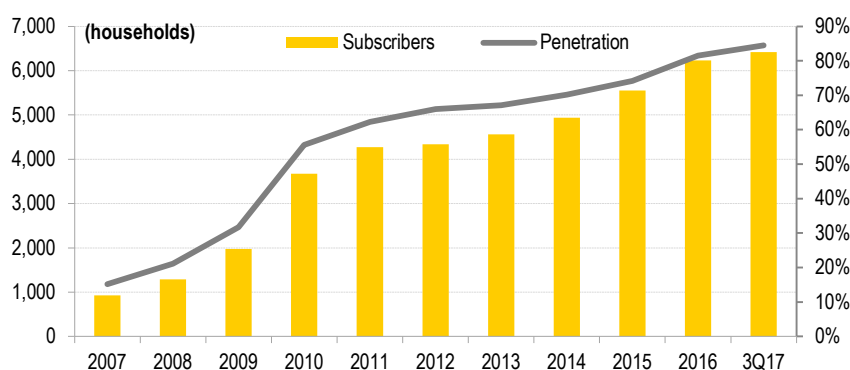
Impact/benefits:

Déjà vu? Just like Budget 2017, broadband prices are again slated to be halved, and speeds doubled. With this being a general proclamation, details are lacking. The scope (whether it covers all broadband products) is not defined, and it is unclear whether 'charges' refer to absolute or unit (per Mbps) prices. The halving of absolute monthly prices would have a significant impact on ARPUs, which would in turn have a material impact on telcos' profitability.

While not explicitly defined, we believe the market would likely view this as being mainly applicable for fixed broadband. **Telekom Malaysia (T MK, HOLD, TP: MYR6.00)** with its dominance in fixed broadband and its part government-subsidised fibre network, would likely be viewed as the main loser in our view. We estimate Telekom Malaysia derive c.MYR4b of revenue (c.32% of TM's revenue) from its retail fixed-broadband business in 2018. We see **Time dotCom (TDC MK, HOLD, TP: MYR8.50)** as being less impacted as it is relatively less exposed to the retail segment, and it offers higher speeds at each price point relative to competitors.

Broadband again? It is interesting that broadband prices and speeds continue to be targeted by politicians. Fixed broadband penetration rates have been steadily trending up over the years, which would suggest no major affordability issues. Mobile internet adoption has also risen strongly in recent years as 4G rollout gather pace and prices of data plans drop.

Fig 49: Broadband penetration



Source: MCMC

AUTO: Lower import tax of first car ownership

Impact: Neutral

Manifesto:

- Lower the excise tax of the first car ownership, for imported cars below 1,600cc, only for first-time buyers whose household income is less than MYR8k monthly.

Impact/benefits:

Unlikely a significant impact based on existing car sales. The A, B and C segments of passenger vehicles in Malaysia make up ~65% of total TIV, based on our estimates, of which most are below 1,600cc; these three segments are mainly dominated by the national and Japanese marques.

For importation of completely-built-up CBU cars into Malaysia, importers are charged with (i) import duty, (ii) excise duty, and (iii) goods and services tax (GST), with the biggest component being the excise duty which ranges from 60%-105%. Nonetheless, the potential lowering of excise duty is unlikely to have a significant positive impact on car sales due to the limited models which would see reduction in prices following the implementation of this measure; sample of CBU models imported into Malaysia are Mazda 2, Ford *Fiesta*, selected variants of Volkswagen *Beetle* and *Golf* among others.

Figure 50: Duties and taxes imposed on motor vehicles brought into Malaysia

Engine capacity (cc)	Import duty				Local taxes	
	CBU		CKD		CBU & CKD	
	MFN	ATIGA	MFN	ATIGA	Excise duties	GST
Passenger vehicles:						
Below 1,800	30%	0%	10%	0%	75%	6%
1,800 - 1,999	30%	0%	10%	0%	80%	6%
2,000 - 2,499	30%	0%	10%	0%	90%	6%
Above 2,500	30%	0%	10%	0%	105%	6%
Other motor cars:						
Below 1,500	30%	0%	Nil	0%	60%	6%
1,500 - 1,799	30%	0%	Nil	0%	65%	6%
1,800 - 1,999	30%	0%	10%	0%	75%	6%
2,000 - 2,499	30%	0%	10%	0%	90%	6%
Above 2,500	30%	0%	10%	0%	105%	6%
Commercial vehicles:						
All	30%	0%	Nil	0%	Nil	6%

Source: Malaysia Automotive Association

Note: *Most favoured nations (MFN), ASEAN Trade in Goods Agreement (ATIGA)

Risk at Proton-Geely venture? We await further developments as the real issue with PH, we think, could be on the number of players in the supply chain, rather than the JV itself. Zhejiang Geely Holding Group bought a 49.9% stake in PROTON Holdings, under DRB-Hicom (DRB MK, Not Rated) for MYR460m in Sep 2017.

MINIMUM WAGE: Graduated rise

Differing degree of impact; overall earnings-negative

Manifesto:

- Minimum wage to increase to MYR1,500 per month during the first term of office, and it will be standardised in both Peninsular Malaysia and East Malaysia.
- Review to be conducted every two years where both the employers and government would share the cost of the wage increment.

Impact/benefits:

Different degree of impact. Our channel checks with companies under our research coverage reveal that the immediate earnings impact (from the minimum wage increase) varies, but we estimate the overall impact to be negative. While some sectors are able to pass on the higher wage bill in full or in part (auto, glove producers, technology), there are others which are unable to pass on the higher costs either due to the high degree of competitiveness in their industry (services), or the nature of their industry which does not allow cost pass-through (up-stream oil palm plantation). Among them, we believe the up-stream oil palm plantation will be the most affected as the industry is also labour intensive while the adoption of mechanisation especially in harvesting has its limitation.

Scenario analysis. The targeted monthly minimum wage of MYR1,500 over the next five years implies a CAGR of 8.4% in Peninsular Malaysia (from the present MYR1,000) and 10.3% in East Malaysia (from the present MYR920). Nonetheless, it is reasonable to expect across-the-board “knock on” effect, on not just those currently earning at/around the present minimum wage of MYR920-MYR1,000 per month and below the next-five-years target level of MYR1,500 per month. Our analysis on the impact on sectors/companies mainly focus on the current MYR920-MYR1,000 per month level; it assumes (i) employers are to take on all the cost increases on their own (with no sharing of the higher costs with the Government), and (ii) no pass through of the additional wage cost. Do note however that PH manifesto did say that the government would share the cost of higher wages - we await further developments.

(See table overleaf for details; more details in our Special Feature, “Minimum Wage: Due for a review this year” published on 7 May 2018).

Higher minimum wage: Impact on selected sectors

Sector	Impact
Automotive	<p>Car assembly/manufacturing plants are mostly located in Peninsular Malaysia. Among the auto players within our coverage, we estimate that Toyota/Perodua/Nissan/Pecca employ about 3,000/6,000/2,000/250 workers in their respective production/assembly plants.</p> <p>Sensitivity analysis. On the assumption that half of these production workers are currently paid the prevailing minimum wage of MYR1,000 p.m., every MYR100 rise in the monthly minimum wage would translate to an estimated additional cost of up to MYR1.8m/3.6m/1.2m/0.2m p.a. for Toyota/Perodua/Nissan/Pecca. This is about <2% of the respective listed groups' earnings.</p>
Consumer	<p>7-Eleven (SEM MK, HOLD, TP: MYR1.44) has a staff force of 13-14k at its stores (staff count per store of 6.5), and Mynews (MNHB MK, HOLD, TP: MYR1.44) has 1.4-1.5k (staff count per store of 3.8). We estimate that most employees are currently taking home more than MYR1,200 p.m. (including incentives and allowances).</p> <p>Sensitivity analysis. On the assumption that the higher minimum wage will push up the entire staff costs due to the "knock on" effect, we estimate that every MYR100 rise in the monthly wage would negatively impact 7-Eleven's earnings by 21% and Mynews by 5% (using FY18E earnings as reference).</p> <p>However, with this being an industry wide cost inflation issue, we expect 7-Eleven, Mynews and their peers to eventually pass on the higher costs through higher merchandise and product prices.</p>
Construction	<p>The larger cap construction companies under our coverage are unlikely to be significantly affected as the average wage for employees is ~MYR2,000 p.m. (including allowances and overtime).</p> <p>As for the smaller cap construction companies under our coverage, we believe the impact varies. For them, we gather that e.40%-50% of their existing workforce are paid the current minimum wage. Thus, an increase of the minimum wage to MYR1,500 per month could see full year net earnings decreasing by e.3%-5%.</p> <p>That said, as the rise in the minimum wage will be gradual over five years, we expect this rising cost to be priced in into future contract/tender values, and thus, passed on.</p>
Building materials	<p>For cement, the impact to Lafarge (LMC MK, HOLD, TP: MYR5.10) will be minimal as maintenance works, which requires labour from those within the minimal wage category, are outsourced to third parties.</p> <p>There is also minimal earnings impact to Ann Joo (AJR, HOLD, TP: MYR3.85) as labour costs represent less than 10% of its total operating costs.</p>
Property development	<p>Minimal direct impact for developers as most of their employees are already paid above MYR1,000 p.m..</p> <p>However, the indirect impact will mostly likely come from the contractors used for their property projects. Higher labour cost will be passed on in terms of higher contract values. Our discussions with some contractors revealed that most of them are already paying above MYR1,000 p.m. for unskilled and >MYR1,500 p.m. for skilled labour. We expect margin compression to continue as developers may not be able to pass on the additional costs to buyers if a weak property market prolongs.</p>
Glove	<p>Glove producers' factories are mostly situated in Peninsular Malaysia. Labour accounts for 10-12% of the glove makers' total costs while workers whom are paid the current minimum wage accounts for 20%-30% of the glove makers' workforce.</p> <p>Sensitivity analysis. We estimate every MYR100 increase in the monthly minimum wage will reduce the glove producers' bottomlines by 0.5%-2% in 2018-19, considering just higher wage bill for 20-30% of their workforce. However, the higher minimum wage may push up the entire staff costs due to the "knock on" effect on workers whom are paid above the current monthly minimum wage of MYR1,000.</p> <p>However, given that Malaysia accounts for c.63% of global rubber glove supply and also in view of the present balanced demand-supply environment, we believe the glove producers can raise the glove ASPs to pass on the minimum wage hike. In addition, we expect automation to continue, to offset rising wage bill.</p>

Higher minimum wage: Impact on selected sectors

Sector	Impact
Plantation	<p>Raising the minimum wage level to MYR1,500 p.m. for Peninsular (+50%) and East Malaysia (+63%) will be negative for the plantation players as the industry is highly labour intensive and employs mostly foreign workers who are paid near or slightly above the current minimum wage.</p> <p>We classify plantation workers into two broad categories, the harvesters and general workers. Harvesters are considered skilled workers and command better take home pay than general workers. Harvesters are generally paid in excess of the MYR1,500 p.m. threshold (inclusive of incentives and allowances). During the peak crop months, harvesters' take home pay can be in excess of MYR2,000 p.m.. On the other hand, general workers typically takes home about MYR1,100-1,300 p.m. (inclusive of incentives and allowances).</p> <p>While on paper the MYR1,500 p.m. minimum wage will only impact the general workers, in reality the compensation of harvesters will also have to be raised. Hence, in arriving at our earning impact analysis, we have assumed a similar wage increase for all plantation workers.</p> <p>Sensitivity analysis. By our estimate, every MYR100 p.m. increase in minimum wage will reduce bottomlines for companies under our coverage by 1-9% (using FY18E earnings as reference). Companies which operate solely in Malaysia and those with relatively higher cost of production (such as Boustead Plantations [BPLANT MK, HOLD, TP: MYR1.29] and TH Plantations [THP MK, HOLD, TP: MYR1.22]) will be most impacted by the proposed minimum wage hike, while the least impacted will be TSH Resources [TSH MK, HOLD, TP: MYR1.42], KL Kepong [KLK MK, HOLD, TP: MYR26.40], IOI Corp [IOI MK, BUY, TP: MYR5.03] and Genting Plantations [GENP MK, BUY, TP: MYR12.10].</p> <p>Nonetheless, as the proposed minimum wage increase would be staggered over a period of 5 years, this will allow companies to improve workers productivity. It will also force companies to invest in more mechanisation so as to reduce the reliance of workers per hectare.</p>
Technology	<p>Among the three segments of technology stocks under our coverage i.e. automation equipment, outsourced test and assembly (OSAT), electronics manufacturing services (EMS), a minimum wage hike would impact the EMS segment the most due to its high reliance on foreign workers.</p> <ul style="list-style-type: none"> ▪ In the last minimum wage hike, the EMS players were able to pass on the higher cost to their customers. However, in the recent hike of foreign workers levy, EMS players were not able to pass on the higher cost to their customers, raising concerns that any further increase of labour costs may have to be absorbed by the EMS players. We understand that VS Industry (VSI MK, BUY, TP: MYR2.15) and SKP Resources (SKP MK, Not Rated) employ ~8k and ~4k operators respectively (only VSI is under our coverage in the EMS space). ▪ As for the automation equipment players, i.e. ViTrox (VITRO MK, HOLD, TP: MYR5.00) and MMS Ventures (MMSV MK, BUY, TP: MYR2.02), most fabrication works are outsourced to third parties, while most of their staff force are highly skilled technical workers focusing on high-value added processes such as R&D, design & prototyping, and final testing & quality control. ▪ Meanwhile, for the OSAT players within our coverage i.e. Inari Amertron (INARI MK, BUY, TP: MYR2.65) and Globetronics (GTB MK, BUY, TP: MYR5.60), their reliance on manual labour have reduced significantly due to adoption of automation in the last 5 years, while the remaining operators are compensated with performance bonus which can be adjusted to compensate for a higher minimum wage. <p>Sensitivity analysis. For VSI, every MYR100 rise in the monthly wage could translate into an estimated additional cost of up to MYR10m p.a., shaving an average 4% off VSI's annual forward earnings (FY18-20E).</p> <p>We see no/insignificant impact of a minimum wage hike to the automation equipment and OSAT players within our coverage.</p>
Media	<p>Raising the minimum wage to MYR1,500 p.m. will have minimal impact to the media companies under our coverage. Total labour costs in the media sector generally comprise of journalists' salaries, which are above MYR1,500 p.m..</p>

Source: Maybank KE

Analysts: Ivan Yap - Automotive & Technology; Liew Wei Han - Consumer; Adrian Wong - Construction, Jade Tam - Building Materials & Media, Wong Wei Sum - Property, Lee Yen Ling - Glove; Ong Chee Ting - Plantation

APPENDIX - Pakatan Harapan's GE14 Manifesto

Reduce people's burden

1. Abolish toll charges gradually
2. Citizens who are entitled for BRIM will continue to receive the cash aid, system to be improved for funds to be managed and distributed fairly
3. B40 and M40 groups to receive aid accordingly
4. Stabilise oil price, offer oil subsidy to the needy category
5. Caring plan currently implemented in Selangor to be implemented across the country to provide B40 families medical subsidy of MYR500 per year
6. Reduce broadband fees by half, double WIFI speed
7. Minimum wage is increased to MYR1,500 during the first term of office, minimum wage is standardised in both Peninsula Malaya and East Malaysia. Review is conducted every two years where employers and government would share the cost of salary increment
8. MYR100 of monthly travel pass for unlimited use on all kinds of public transport
9. Stabilise prices of essential goods, control factors which lead to increase in prices of goods
10. Ensure healthy competition among suppliers, fair prices of medical products
11. Ensure sufficient supply of goods during festive seasons to prevent sudden surge in price
12. Lower the import tax of first car below 1,600 cc for people to buy first car at lower price but family with household income below MYR8,000 to only buy one car to prevent abuse

Tax

1. Goods and Services Tax abolished in 100 days, resumption of Sales and Service Tax
2. Lower import tax for first car below 1,600 cc
3. Employers who help staff pay Higher Education Loan Fund without salary deduction are offered tax reduction
4. Developers are offered tax reduction for building affordable homes and industrialised construction system.

Housing

1. After launching the rent-to-own scheme across the country, seek consensus with commercial banks to launch similar scheme in private property development projects and sub-sale market
2. Set a deadline for all housing projects and offer subsistence to small and medium developers
3. Consolidate 1Malaysia home projects across the country to ensure no cronies gain from the project
4. Increase quota for affordable home
5. Set up national affordable home council
6. Build 1 million affordable homes across the country in two terms

Reviving the economy

1. Create 1 million of top-notch job opportunities, offer free technical training to the unemployed
2. Reduce 6 million foreign labour to 4 million during first term of office, resolve problem of local workers unable to have pay rise due to high number of foreign workers
3. Resume the potential of Ringgit within three years, appoint Bank Negara to draft strategies to avoid over-dependency on import of milk, poultry, vegetables which lead to price increases due to depreciation of Ringgit
4. Review all mega contracts the Barisan Nasional government awarded to foreigners to ensure no corruption and malpractices, continue to attract foreign funds from China and other Asian countries into Malaysia
5. Continue to develop SMEs which contribute 65% of employment in the country, supply subsidy package for SMEs to drive the transformation of Industrial 4.0
6. Ensure outcome of investment made by China funds can be shared by all people especially local bumiputras and SMEs of all races
7. Revive new economy, share economy and research sector, enhance protection of intellectual property so as to promote more corporations venturing into innovative industry
8. Support corporations which need innovative technologies, ensure investment policy can attract latest technologies.

Civil servants

1. Ensure neither political party nor politics to intervene civil servants at work
2. Civil servants are promoted according to performance and experience
3. Civil servants are encouraged to be more creative and think out of the box

FELDA

1. End malpractices in Felda
2. Restructure management framework in Felda
3. Defend settlers and help them to reduce debt
4. Upgrade and modernise settlers area
5. Quality education for settlers' children

Youth

1. Relax repayment scheme for Higher Education Loan Fund (PTPTN). Those who earn below RM4,000 a month can defer payment of loan
2. Wedding allowance for couple below 35 years of age in first marriage
3. Broadband charges reduced by half, speed doubled
4. Mobility of youth is listed as one of the agendas in ASEAN Economic Community
5. Ensure sufficient employment with compatible remuneration
6. Free education opportunities
7. Emphasis on sports and leisure - balance in work and life

Education

1. PTPTN loan recipients can defer payment if their monthly salary is less than MYR4,000, abolish blacklist on defaulters
2. Increase scholarship and study loan especially for university students who come from B40 and M40
3. Ensure government-link companies to increase scholarships for B40 and M40 groups
4. Abolish Universities and University Colleges Act 1971, ensure quality of academics, freedom of speech, freedom of association and autonomy in higher institutions of learning. Students to receive allocation from school and manage student union on their own
5. Offer university staff who intend to pursue further studies with scholarships
6. Offer assistantship, enhance application of technology in schools to reduce teachers' burden

Chinese education development

1. Recognise UEC for Chinese independent school students to enter public institutions of higher learning
2. Applicant requires a minimum of credit in SPM Malay paper
3. Institutionalise allocation to Chinese primary schools and Chinese independent schools

Source: Compiled by Maybank KE Research

Maybank KE Equity Research Stock Universe

Ticker	Company	FYE	Price 8 May MYR	Market Cap MYR m	TP MYR	Rec	Core Net Profit			EPS			CAGR 17-19 (%)	PER CY17A (x)	PER CY18E (x)	PER CY19E (x)	ROE CY18E (%)	Div Yld CY18E (%)	PBV CY18E (x)	Px chg YTD (%)	
							CY17A	CY18E	CY19E	CY17A	CY18E	CY19E									
Auto																					
BAUTO MK	Bermaz Auto	*	4	2.22	2,574	3.25	Buy	130	205	261	11.1	17.5	22.4	41.7	19.9	12.7	9.9	36.4	4.7	4.9	0.9
TCM MK	Tan Chong	*	12	1.65	1,077	2.15	Buy	(77)	23	68	(11.8)	3.4	10.5	n.a.	n.a.	48.5	15.7	0.8	0.6	0.4	17.0
PECCA MK	Pecca Group	*	6	1.15	212	1.60	Buy	15	18	21	8.2	9.6	11.1	16.3	14.0	12.0	10.4	10.2	5.2	1.2	(25.8)
SIME MK	Sime Darby	*	6	2.69	18,294	2.25	Sell	859	801	829	12.6	11.8	12.2	(1.6)	21.3	22.9	22.0	6.2	2.8	1.4	21.7
Banks																					
MAY MK	Maybank		12	10.70	116,905	NR	NR	7,341	7,719	8,155	69.7	71.6	75.6	4.1	15.4	14.9	14.2	10.3	5.8	1.5	9.2
AMM MK	AMMB Holdings		3	3.72	11,213	4.60	Hold	1,238	1,340	1,427	41.1	44.5	47.3	7.3	9.1	8.4	7.9	7.5	4.8	0.6	(15.6)
BIMB MK	BIMB Holdings	*	12	4.00	6,774	5.00	Buy	584	604	628	35.7	35.6	37.1	1.9	11.2	11.2	10.8	12.5	4.0	1.4	(9.1)
ABMB MK	Alliance Bank		3	4.12	6,378	5.00	Buy	515	546	578	33.7	35.7	37.8	5.9	12.2	11.5	10.9	9.8	4.1	1.1	1.0
CIMB MK	CIMB		12	6.90	64,624	7.70	Hold	4,355	4,918	5,452	48.3	53.3	59.1	10.6	14.3	12.9	11.7	9.7	4.1	1.3	5.5
HLBK MK	Hong Leong Bk		6	18.62	38,089	18.75	Hold	2,360	2,645	2,803	114.2	126.7	134.3	8.5	16.3	14.7	13.9	10.6	2.9	1.6	9.5
HLFG MK	HL Financial		6	18.98	21,737	20.80	Buy	1,714	1,870	1,974	149.8	163.5	172.6	7.3	12.7	11.6	11.0	10.9	2.5	1.3	6.2
PBK MK	Public Bank		12	23.88	92,212	22.70	Hold	5,470	5,746	6,034	142.0	149.0	156.0	4.8	16.8	16.0	15.3	14.2	2.8	2.3	14.9
RHBBANK MK	RHB Bank		12	5.27	21,133	5.90	Hold	1,950	2,188	2,359	50.6	54.6	58.8	7.8	10.4	9.7	9.0	8.9	3.2	0.9	5.4
Building Materials																					
AJR MK	Ann Joo	*	12	2.63	1,408	3.85	Hold	200	219	223	35.7	39.1	39.8	5.6	7.4	6.7	6.6	16.3	7.2	1.0	(31.9)
LMC MK	Lafarge	*	12	4.11	3,492	5.10	Hold	(230)	(84)	101	(25.3)	(9.9)	11.9	n.a.	n.a.	n.a.	34.5	(3.0)	0.0	1.3	(33.7)
Construction / Infra																					
EVSD MK	Eversendai		12	0.89	695	1.14	Hold	72	80	85	9.3	10.3	10.9	8.3	9.6	8.6	8.2	7.8	0.9	0.7	2.9
GAM MK	Gamuda	*	7	5.10	12,559	5.80	Buy	755	855	878	31.1	35.2	36.1	7.8	16.4	14.5	14.1	10.4	2.4	1.5	2.8
HSL MK	HSL	*	12	1.52	835	2.00	Buy	47	74	97	8.5	13.5	17.6	43.9	17.9	11.3	8.6	9.3	1.6	1.0	6.3
IJM MK	IJM Corp	*	3	2.65	9,613	3.40	Buy	496	598	674	13.7	16.5	18.6	16.6	19.3	16.0	14.2	5.9	2.6	0.9	(13.1)
LTK MK	Litrak	*	3	5.65	2,983	6.10	Hold	225	238	284	42.9	45.3	54.1	12.3	13.2	12.5	10.4	26.6	4.4	3.3	1.8
CMS MK	CMS	*	12	4.13	4,437	4.90	Buy	263	297	322	24.5	27.7	30.0	10.7	16.9	14.9	13.8	11.7	2.7	1.8	5.9
SCGB MK	Sunway Con	*	12	2.39	3,088	2.63	Hold	138	212	220	10.7	16.4	17.1	26.4	22.3	14.6	14.0	30.7	2.4	4.4	(4.8)
KICB MK	Kimlun Corp	*	12	2.05	657	2.69	Buy	80	82	86	26.2	26.9	28.2	3.7	7.8	7.6	7.3	12.3	3.6	0.9	(7.7)
Consumer																					
AEON MK	AEON Co	*	12	2.04	2,864	2.30	Buy	106	116	124	7.6	8.2	8.9	8.2	26.8	24.9	22.9	5.7	2.0	1.4	15.9
ROTH MK	BAT (M)		12	22.70	6,482	35.00	Hold	522	540	570	183.0	189.2	199.5	4.4	12.4	12.0	11.4	137.4	8.2	16.4	(43.3)
CAB MK	Carlsberg		12	18.16	5,586	17.10	Hold	236	246	261	77.2	80.3	85.3	5.1	23.5	22.6	21.3	88.2	4.4	20.0	18.7
HEIM MK	Heineken Msia		12	20.18	6,096	20.20	Hold	270	287	294	89.4	95.1	97.3	4.3	22.6	21.2	20.7	76.4	4.6	16.3	6.8
PAD MK	Padini Holdings	*	6	4.51	2,967	5.15	Hold	167	183	190	25.4	27.8	28.9	6.8	17.8	16.2	15.6	25.1	2.2	4.1	(14.6)
NESZ MK	Nestle	*	12	137.00	32,127	105.20	Sell	635	684	729	270.8	291.5	311.1	7.2	50.6	47.0	44.0	106.6	2.1	50.2	32.8
QLG MK	QL Resources	*	3	5.12	8,307	4.00	Sell	202	228	251	12.5	14.1	15.5	11.4	41.0	36.4	33.1	11.7	1.1	4.2	17.7
SEM MK	7 - Eleven		12	1.53	1,727	1.44	Hold	50	56	65	4.1	4.6	5.3	13.7	37.3	33.3	28.9	54.8	1.5	19.1	1.0
MNHB MK	Mynews Holdings		10	1.48	1,010	1.44	Hold	25	31	36	4.0	4.6	5.2	14.3	37.1	32.5	28.4	11.5	0.9	1.9	2.8
ALN MK	Atlan Holdings		2	4.60	1,167	6.60	Buy	42	44	46	16.6	17.5	18.1	4.4	27.7	26.3	25.4	12.6	3.9	3.6	7.2
BFD MK	Berjaya Food		4	1.65	621	1.80	Hold	19	23	29	4.9	6.1	7.6	24.1	33.4	27.2	21.7	5.9	2.0	1.5	(10.8)

* Shariah compliant, based on Securities Commission's latest Shariah compliant list effective 24 Nov 2017; Source: Maybank KE

... continued

Ticker	Company	FYE	Price 8 May MYR	Market Cap MYR m	TP MYR	Rec	Core Net Profit			EPS			CAGR 17-19 (%)	PER CY17A (x)	PER CY18E (x)	PER CY19E (x)	ROE CY18E (%)	Div Yld CY18E (%)	PBV CY18E (x)	Px chg YTD (%)	
							CY17A	CY18E	CY19E	CY17A	CY18E	CY19E									
Gaming																					
BST MK	BToto	4	2.13	2,869	2.65	Buy	268	269	273	19.9	20.0	20.3	1.0	10.7	10.7	10.5	31.2	7.5	3.0	(4.9)	
MAG MK	Magnum	12	1.79	2,547	2.25	Buy	207	225	233	14.5	15.8	16.3	6.0	12.3	11.3	11.0	8.9	7.3	1.0	2.9	
GENT MK	Genting Bhd	12	8.60	32,952	12.75	Buy	2,129	2,506	3,051	55.4	56.2	68.5	11.2	15.5	15.3	12.6	7.0	2.1	0.9	(6.5)	
GENM MK	Genting Msia	12	5.03	28,463	5.35	Hold	1,410	1,858	2,486	24.8	32.6	43.7	32.7	20.3	15.4	11.5	9.1	2.3	1.4	(10.7)	
Glove																					
HART MK	Hartalega Hldgs	*	3	5.86	19,411	4.55	Sell	402	473	517	12.1	14.2	15.5	13.2	48.5	41.4	37.9	22.7	1.2	9.3	9.7
KRI MK	Kossan Rubber	*	12	6.70	4,284	9.00	Hold	184	209	239	28.8	32.7	37.4	14.0	23.3	20.5	17.9	16.3	2.0	3.4	(17.4)
TOPG MK	Top Glove	*	8	9.82	12,543	9.85	Hold	369	466	525	29.4	36.8	41.2	18.4	33.4	26.7	23.9	20.1	1.9	5.4	22.9
Healthcare																					
IHH MK	IHH	*	12	6.05	49,850	7.00	Buy	595	913	1,127	7.2	11.1	13.6	37.4	84.0	54.5	44.5	4.0	0.5	2.3	3.2
KPJ MK	KPJ Healthcare	*	12	0.93	3,898	1.08	Hold	162	163	170	3.7	3.8	4.0	4.0	25.0	24.3	23.1	9.0	2.1	2.2	(4.6)
Media																					
ASTRO MK	Astro Malaysia		1	1.83	9,541	2.10	Hold	677	595	741	11.4	14.1	15.0	15.1	16.1	12.9	12.2	88.1	6.0	9.3	(30.9)
MCIL MK	MCIL	*	3	0.31	515	0.33	Sell	54	47	55	3.2	2.8	3.3	1.2	9.6	11.1	9.4	5.9	6.4	0.6	(22.8)
MPR MK	Media Prima		12	0.32	349	0.54	Sell	(153)	(16)	10	(13.8)	(1.4)	0.9	n.a.	n.a.	n.a.	35.0	(2.1)	0.0	0.5	(58.6)
STAR MK	Star	*	12	1.07	790	1.25	Hold	61	48	53	8.2	6.5	7.1	(6.9)	13.0	16.5	15.1	5.8	11.2	0.8	(35.2)
Non-Banking Financials																					
BURSA MK	Bursa Malaysia		12	7.28	5,870	7.25	Hold	223	234	239	27.7	29.0	29.7	3.5	26.3	25.1	24.5	27.0	3.7	6.8	7.9
MPHB MK	MPHB Capital		12	1.26	901	1.34	Hold	38	43	43	5.3	5.9	6.0	6.4	23.8	21.4	21.0	2.5	0.0	0.5	3.3
ALLZ MK	Allianz Malaysia		12	11.38	2,001	16.30	Buy	313	317	347	84.7	91.3	100.0	8.7	13.4	12.5	11.4	10.7	1.0	1.1	(15.7)
RCE MK	RCE Capital		3	1.26	430	1.95	Buy	84	91	98	23.2	23.9	25.8	5.5	5.4	5.3	4.9	15.8	5.1	0.8	(16.0)
Oil & Gas																					
AMRB MK	Alam Maritim	*	12	0.13	116	0.06	Sell	(100)	(25)	(19)	(10.8)	(2.7)	(2.0)	n.a.	n.a.	n.a.	n.a.	(4.4)	0.0	0.2	(30.6)
DLG MK	Dialog	*	6	3.06	17,253	3.50	Buy	381	449	502	7.1	8.4	9.3	14.4	43.1	36.6	32.9	12.7	1.2	4.7	21.9
ICON MK	Icon Offshore	*	12	0.18	206	0.22	Hold	(23)	(3)	12	(1.9)	(0.2)	1.0	n.a.	n.a.	n.a.	17.5	(0.5)	0.0	0.4	(23.9)
WSC MK	Wah Seong	*	12	1.36	1,051	1.86	Buy	94	115	116	12.2	14.8	15.0	10.9	11.1	9.2	9.1	11.3	0.0	1.0	22.5
MMHE MK	MMHE	*	12	0.76	1,216	1.00	Buy	(61)	(61)	3	(3.8)	(3.8)	0.2	n.a.	n.a.	n.a.	n.m.	(2.5)	0.0	0.5	(7.9)
BAB MK	Bumi Armada		12	0.83	4,840	1.02	Buy	219	479	481	3.7	8.2	8.2	48.9	22.3	10.1	10.1	8.0	0.0	0.8	7.8
YNS MK	Yinson	*	1	4.09	4,446	4.60	Buy	331	298	280	30.5	27.3	25.6	(8.4)	13.4	15.0	16.0	10.6	2.4	1.3	1.0
BARAKAH MK	Barakah	*	12	0.15	124	0.09	Sell	(162)	(143)	3	(18.8)	(16.5)	0.3	n.a.	n.a.	n.a.	50.0	(235.5)	0.0	1.9	(48.3)
KNMG MK	KNMG	*	12	0.20	469	0.25	Hold	(9)	45	78	(0.4)	1.9	3.3	n.a.	n.a.	10.5	6.1	1.9	0.0	0.2	(11.1)
SAPE MK	Sapura Energy	*	1	0.67	4,015	1.20	Buy	(312)	(285)	234	(5.2)	(4.8)	3.9	n.a.	n.a.	n.a.	17.1	(3.1)	1.5	0.3	(5.6)
UMWOG MK	UMW O&G	*	12	0.28	2,259	0.33	Hold	(140)	12	22	(1.7)	0.2	0.3	n.a.	n.a.	137.5	91.7	0.5	0.0	0.3	(9.8)
Petrochemical																					
PCHEM MK	Petronas Chem	*	12	8.42	67,360	8.65	Hold	4,192	4,244	4,709	52.4	53.0	58.9	6.0	16.1	15.9	14.3	14.1	3.2	2.2	9.4
TTNP MK	Lotte Chemical	*	12	5.77	13,115	7.10	Buy	1,092	1,305	1,519	55.0	57.4	66.8	10.2	10.5	10.1	8.6	10.7	3.3	1.0	22.8

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Ticker	Company	FYE	Price 8 May MYR	Market Cap MYR m	TP MYR	Rec	Core Net Profit			EPS			CAGR 17-19 (%)	PER CY17A (x)	PER CY18E (x)	PER CY19E (x)	ROE CY18E (%)	Div Yld CY18E (%)	PBV CY18E (x)	Px chg YTD (%)	
							CY17A	CY18E	CY19E	CY17A	CY18E	CY19E									
<u>Plantation</u>																					
GENP MK	Genting Plant	*	12	9.86	7,926	12.10	Buy	335	375	426	41.7	46.6	53.0	12.7	23.6	21.2	18.6	8.2	1.9	1.7	(6.1)
IOI MK	IOI Corp	*	6	4.67	28,517	5.03	Buy	1,057	1,158	1,241	16.8	18.4	19.8	8.4	27.8	25.4	23.6	13.7	2.2	3.5	2.9
KLK MK	KL Kepong	*	9	25.38	27,029	26.40	Hold	1,068	1,109	1,215	100.3	104.1	114.1	6.6	25.3	24.4	22.3	9.1	2.5	2.2	1.5
SDPL MK	Sime Plantation	*	6	5.44	36,997	5.63	Hold	1,202	1,289	1,311	17.7	19.0	19.3	4.4	30.7	28.6	28.2	8.8	1.7	2.5	(9.3)
BPLANT MK	Boustead Plant	*	12	1.25	2,800	1.29	Hold	135	123	129	8.4	7.7	8.1	(1.8)	14.9	16.2	15.4	4.8	5.0	0.8	6.0
SOP MK	SOP	*	12	3.66	2,089	6.00	Buy	239	245	279	41.9	42.9	48.9	8.0	8.7	8.5	7.5	10.7	2.3	0.9	(6.2)
TSH MK	TSH Resources	*	12	1.29	1,781	1.42	Hold	101	104	119	7.4	7.5	8.6	7.8	17.4	17.2	15.0	9.2	1.4	1.1	(21.8)
THP MK	TH Plantations	*	12	0.70	619	1.22	Hold	37	50	56	4.2	5.7	6.3	22.5	16.7	12.3	11.1	3.4	2.4	0.4	(39.1)
TAH MK	Ta Ann	*	12	3.11	1,383	3.70	Hold	119	127	151	26.8	28.4	33.9	12.5	11.6	11.0	9.2	8.8	3.7	1.0	(15.0)
<u>Property Dev</u>																					
MSGB MK	Mah Sing	*	12	1.07	2,598	1.31	Hold	295	318	317	12.2	13.1	13.1	3.6	8.8	8.2	8.2	10.5	4.9	0.9	(26.2)
SPSB MK	SP Setia	*	12	3.11	12,097	3.79	Buy	890	601	1,074	22.3	13.9	24.8	5.5	13.9	22.4	12.5	4.6	2.4	1.1	(22.3)
UEMS MK	UEM Sunrise	*	12	0.90	4,084	1.25	Buy	278	222	278	5.4	4.3	5.4	-	16.7	20.9	16.7	3.1	1.1	0.6	(13.5)
SWB MK	Sunway Berhad	*	12	1.54	7,504	2.02	Buy	566	601	649	11.8	12.5	13.5	7.0	13.1	12.3	11.4	7.3	3.6	0.9	(5.5)
ECW MK	Ecoworld	*	10	1.15	3,386	1.57	Buy	123	196	359	4.2	6.7	12.1	69.6	27.3	17.3	9.5	4.4	0.2	0.6	(16.7)
ECWI MK	Ecoworld Intl	*	10	0.97	2,328	1.10	Hold	(44)	209	410	(3.6)	8.7	17.1	n.a.	n.a.	11.2	5.7	7.6	0.7	0.8	(5.8)
GLMC MK	Glomac	*	4	0.49	389	0.57	Hold	19	24	34	2.6	3.3	4.7	35.3	19.1	14.7	10.4	2.2	1.4	0.3	(11.7)
TILB MK	Tambun Indah	*	12	0.76	327	0.91	Hold	83	54	55	19.2	12.5	12.7	(18.7)	3.9	6.0	5.9	8.9	6.6	0.5	(26.0)
SDPR MK	Sime Darby Prop	*	6	1.41	9,589	1.57	Hold	725	771	720	10.7	11.4	10.6	(0.2)	13.2	12.4	13.3	7.8	3.2	1.0	(20.8)
<u>REIT</u>																					
AXRB MK	Axis REIT	*	12	1.40	1,725	1.50	Hold	91	111	125	8.1	9.0	10.3	12.8	17.3	15.6	13.6	6.9	5.8	1.1	(6.7)
SALAM MK	Al-Salam REIT	*	12	0.85	493	1.00	Hold	36	36	37	6.1	6.2	6.3	1.6	13.9	13.7	13.5	5.8	6.2	0.8	(15.0)
KLCCSS MK	KLCC Prop	*	12	7.46	13,468	8.00	Hold	720	733	755	39.9	40.6	41.8	2.4	18.7	18.4	17.8	5.4	4.5	1.0	(13.7)
MQREIT MK	MRCB-Quill REIT		12	1.12	1,200	1.35	Buy	88	92	94	8.2	8.5	8.6	2.4	13.7	13.2	13.0	6.6	7.0	0.9	(10.4)
CMMT MK	CMMT		12	1.15	2,347	1.15	Hold	158	153	154	7.8	7.5	7.5	(1.9)	14.7	15.3	15.3	5.7	6.2	0.9	(37.2)
SREIT MK	Sunway REIT		6	1.67	4,918	1.85	Buy	281	296	308	9.6	10.0	10.4	4.1	17.5	16.7	16.1	7.1	5.4	1.2	(12.1)
IGBREIT MK	IGB REIT		12	1.53	5,393	1.85	Buy	303	308	319	8.7	8.7	9.0	1.7	17.6	17.6	17.0	8.2	5.8	1.4	(15.0)
PREIT MK	Pavilion REIT		12	1.47	4,461	1.55	Hold	232	262	270	7.7	8.6	8.9	7.5	19.1	17.1	16.5	6.6	5.6	1.1	(8.7)
YTLREIT MK	YTL REIT		6	1.13	1,926	1.40	Buy	126	141	153	7.9	8.3	9.0	6.8	14.4	13.7	12.6	5.7	6.7	0.8	(11.7)
<u>Technology</u>																					
INARI MK	Inari Amertron	*	6	1.84	5,732	2.65	Buy	265	356	399	8.2	10.7	12.0	21.1	22.5	17.2	15.3	34.4	0.4	5.9	(18.8)
VITRO MK	ViTroX Corp	*	12	5.30	2,492	5.00	Hold	82	92	124	17.4	19.4	26.3	22.9	30.5	27.3	20.2	23.0	0.9	6.3	(14.7)
GTB MK	Globetronics	*	12	4.40	1,257	5.60	Buy	50	69	88	17.3	24.0	30.5	32.8	25.4	18.3	14.4	22.9	3.8	4.1	(33.3)
VSI MK	V.S. Industries	*	7	1.88	2,496	2.15	Buy	178	209	266	9.0	10.6	13.4	22.3	20.9	17.8	14.0	17.4	2.8	3.1	(21.9)
MMSV MK	MMS Ventures	*	12	1.39	222	2.02	Buy	21	18	24	13.1	11.1	15.0	7.0	10.6	12.5	9.3	25.4	2.9	3.2	(20.1)

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Ticker	Company	FYE	Price 8 May MYR	Market Cap MYR m	TP MYR	Rec	Core Net Profit			EPS CY17A	EPS CY18E	EPS CY19E	CAGR 17-19 (%)	PER CY17A	PER CY18E	PER CY19E	ROE CY18E (%)	Div Yld CY18E (%)	PBV CY18E (x)	Px chg YTD (%)	
							CY17A	CY18E	CY19E												
<u>Telecommunication</u>																					
DIGI MK	DiGi.Com		12	4.60	35,765	4.80	Hold	1,477	1,495	1,556	19.0	19.2	20.0	2.6	24.2	24.0	23.0	288.3	4.2	65.7	(9.8)
T MK	Telekom	*	12	5.00	18,790	6.00	Hold	863	828	860	23.0	22.0	22.9	(0.2)	21.7	22.7	21.8	10.4	4.0	2.4	(20.6)
AXIATA MK	Axiata	*	12	5.29	47,873	5.50	Hold	1,205	1,397	1,696	13.4	15.4	18.7	18.1	39.5	34.4	28.3	5.6	2.5	1.9	(3.6)
MAXIS MK	Maxis	*	12	5.51	43,070	5.90	Hold	2,103	1,967	1,989	27.5	25.7	26.0	(2.8)	20.0	21.4	21.2	26.3	3.6	5.7	(8.3)
TDC MK	Time dotCom	*	12	8.39	4,878	8.50	Hold	175	201	234	30.2	34.6	40.3	15.5	27.8	24.2	20.8	10.1	1.0	2.4	(7.8)
<u>Transport</u>																					
AAGB MK	AirAsia		12	3.70	12,365	3.81	Hold	1,416	1,271	1,331	42.4	38.0	39.8	(3.1)	8.7	9.7	9.3	17.3	2.4	1.7	10.4
AAX MK	AirAsia X	*	12	0.38	1,556	0.39	Hold	86	134	200	2.1	3.2	4.8	51.2	17.9	11.7	7.8	11.8	0.0	1.4	13.6
MAHB MK	MAHB		12	8.85	14,684	8.52	Hold	154	436	508	9.3	26.3	30.6	81.4	95.2	33.7	28.9	4.7	1.0	1.6	0.7
WPRTS MK	Westports	*	12	3.26	11,117	3.70	Hold	676	544	621	19.8	16.0	18.2	(4.1)	16.5	20.4	17.9	22.6	3.7	4.6	(11.9)
HALG MK	Harbour-Link	*	6	0.65	260	0.76	Hold	30	34	38	7.4	8.6	9.4	12.7	8.8	7.6	6.9	8.9	2.9	0.7	(18.8)
MISC MK	MISC	*	12	7.06	31,514	7.60	Hold	2,028	2,099	2,176	45.4	47.0	48.8	3.7	15.6	15.0	14.5	5.9	4.2	0.9	(4.9)
CLH MK	Century Logistics	*	12	0.72	284	0.79	Hold	15	16	16	3.9	4.0	4.2	3.8	18.5	18.0	17.1	4.7	1.4	0.8	(28.7)
<u>Utility</u>																					
TNB MK	Tenaga	*	12	16.06	91,192	16.00	Hold	6,990	6,571	6,692	123.5	115.8	117.9	(2.3)	13.0	13.9	13.6	10.9	3.6	1.5	5.2
PTG MK	Petronas Gas	*	12	17.76	35,142	19.50	Buy	1,778	1,867	1,927	89.8	94.3	97.4	4.1	19.8	18.8	18.2	14.3	3.7	2.7	1.6
GMB MK	Gas Msia	*	12	2.94	3,775	3.00	Hold	195	173	184	15.2	13.5	14.3	(3.0)	19.3	21.8	20.6	16.5	4.6	3.6	1.7
MLK MK	Malakoff Corp	*	12	0.89	4,395	1.15	Buy	310	319	358	6.2	6.4	7.2	7.8	14.4	13.9	12.4	4.8	7.2	0.7	(9.2)
YTLP MK	YTL Power		6	0.92	7,255	1.25	Hold	608	569	633	7.8	7.3	8.2	2.2	11.7	12.5	11.2	4.2	5.5	0.5	(29.1)
<u>Diversified</u>																					
CSCS MK	CSC Steel	*	12	1.35	499	1.86	Buy	60	66	74	16.2	17.7	20.1	11.4	8.3	7.6	6.7	7.7	6.6	0.6	(12.3)
TOMY MK	Tomypak Hldgs	*	12	0.79	331	0.81	Hold	9	12	20	2.1	2.8	4.9	52.8	37.6	28.2	16.1	5.9	1.4	1.7	(19.0)
AF MK	Asia File Corp	*	3	2.68	522	3.13	Hold	60	54	56	31.2	28.2	29.2	(3.3)	8.6	9.5	9.2	8.9	5.4	0.9	(7.3)
MFCB MK	Mega First	*	12	3.33	1,300	4.15	Buy	132	120	93	34.3	31.3	24.1	(16.2)	9.7	10.6	13.8	9.0	0.6	1.0	(9.3)
YTB MK	Yong Tai		6	1.46	703	1.75	Buy	27	80	138	4.3	10.9	18.8	108.8	34.0	13.4	7.8	12.5	0.0	1.1	(3.9)
WHIT MK	White Horse	*	12	1.86	426	1.84	Hold	12	11	20	5.1	4.8	8.9	32.1	36.5	38.8	20.9	1.5	3.8	0.6	(4.1)

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