

“Game Changer; Structural Adjustments in Full Speed”

Market Access

Table 1: 11MP Specific Target

No	Target
1.	High income nation by 2020
2.	Average GDP growth of 5%-6%
3.	Private investment growth of 9.4% (average)
4.	Services and manufacturing to contribute more than 75% of GDP
5.	Current account surplus to GDP about 2.6% by 2020
6.	Average private consumption growth 6.4%
7.	Average growth export 4.6%
8.	Average public consumption growth 3.7%
9.	Gross export growth at 4.6%
10.	Gross import growth at 4.8%
11.	Services sector average growth 6.9%
12.	Manufacturing sector average growth 5.1%
13.	Agriculture sector average growth 3.5%
14.	Construction sector average growth 10.3%
15.	Fiscal debt-to-GDP <45%
16.	Balance budget by 2020
17.	GNI per capita of >USD15k by 2020

Table 2: Malaysia GDP Performance

	Average GDP Growth		
	9MP (A)	10MP (A)	11MP (F)
Real GDP	4.5%	5.3%	5-6%

Source: BNM

Our view: 11th Malaysia Plan

In sum, we view the average real GDP growth projection of 5%-6% during the period over 11th Malaysia Plan (11MP) as not over-stretched. This is based on the view that during the 10MP where we experienced 2 critical headwinds namely the Global Credit Crisis and Eurozone Sovereign Debt Crisis, we successfully swam through and hammered average GDP growth of 5.3%. Fundamental wise, anchoring on private investment to turbo charge the economy would not be a pipe dream, strategically thanks to (ETP).

Projecting private investment average growth of 9.4% during 11MP period is also playing safe as we think that private investment can produce higher growth rate if the 2014 private investment growth of 11% is anything to go by. In short, barring rough external environment and aided by fiscal reforms, we are of the view that Malaysia, in any case, will be able to join the elite club of high income nation by 2020. At USD15,600 GNI per capita projection by the finishing line in 2020, Malaysia would need to work harder to climb the elite club ladder thereafter. Crucially, as always, we think execution is imperative, no matter how good and convincing the macro plan is.

11MP will be anchored and driven by six strategic thrusts and 6 game changers. These include:

	11MP Broad Strategy	Salient Tactical Plan
Strategic Thrusts	Enhancing inclusiveness towards an equitable society	<ul style="list-style-type: none"> Targeting the B40* group and other vulnerable groups to join the middle income growth Better access to quality education and training, efficient infrastructure and social amenities, better employment and entrepreneurial opportunities, as well as wealth ownership.
	Improving well-being for all	<ul style="list-style-type: none"> Good standard of living and quality of life Addressing socio economic, physical, psychological needs Equal access to health care, affordable housing and safer neighborhood
	Accelerating human capital development for an advanced nation	<ul style="list-style-type: none"> Efficient and effective labour market that can attract investment Structural reforms towards knowledge intensive activities
	Pursuing green growth for sustainability and resilience	<ul style="list-style-type: none"> Malaysia's green growth strategy will lead to better quality of growth, strengthened food, water and energy security, lower environmental risks and ecological scarcities, and ultimately better wellbeing and quality of life.
	Strengthening infrastructure to support economic expansion	<ul style="list-style-type: none"> Infrastructure development ensures that the rakyat have access to essential amenities and services such as transport, communications, electricity and clean water.
	Re-engineering economic growth for greater prosperity	<ul style="list-style-type: none"> A strong and broad-based economy that produces high-value goods and services and generating high-paying jobs associated with an advanced nation. The economy to place solid foundation to withstand external shocks and generate undisrupted the people.
Game Changer	Unlocking the potential of productivity	<ul style="list-style-type: none"> Productivity will shift, from primarily Government-driven initiatives at the national level to targeted actions across the public sector, industry players, and individual enterprises, with champions identified to role model change and ensure buy-in across stakeholders.
	Uplifting B40 households towards a middle class society	<ul style="list-style-type: none"> By improving income levels, wealth creation, education and skill levels
	Enabling industry led technical and vocational education and training (VET)	<ul style="list-style-type: none"> Harmonizing and streamlining the current system to reduce fragmentation across private and public stakeholders Encourage industry-led interventions and programmes
	Embarking on green growth	<ul style="list-style-type: none"> Fundamental shift away from a 'grow first, clean up later' development model towards, low-carbon, resource-efficient, and socially inclusive development
	Translating innovation to wealth	<ul style="list-style-type: none"> Strengthening relational capital by improving collaboration among all stakeholders. Innovation will be targeted at both the enterprise and societal level, instead of previous efforts which focused primarily on national-level initiatives.
	Investing in competitive cities	<ul style="list-style-type: none"> City Competitiveness Master Plans will be developed for four major cities as a start, based on key principles that increase liveability and stimulate economic growth.

*bottom 40% of income distribution

*source: PMO

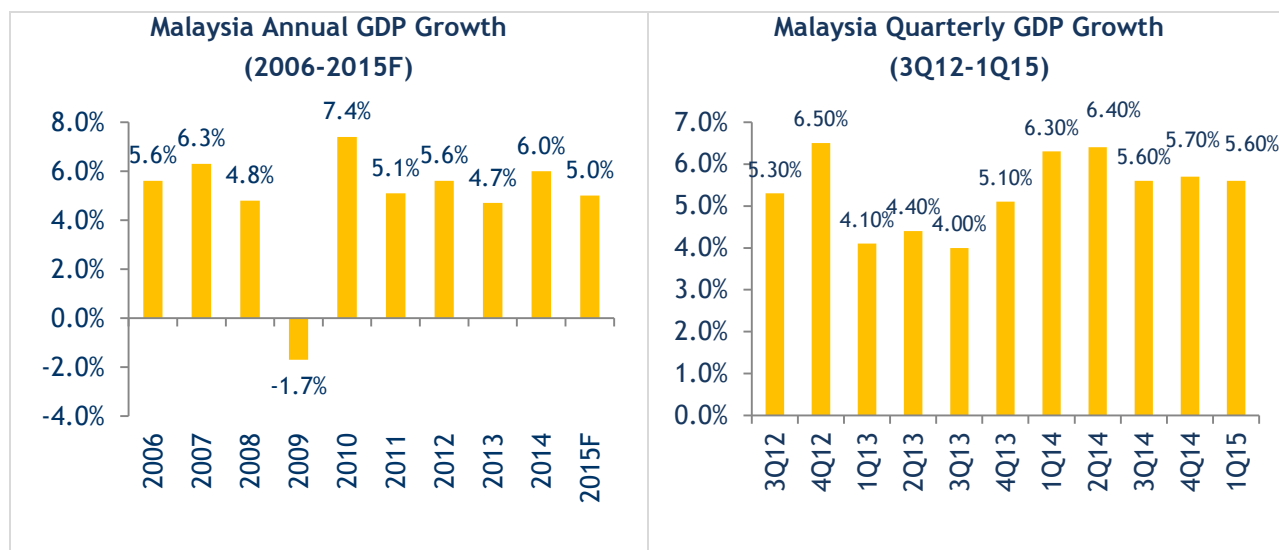
Key info related to equity market:

- ✓ Government will continue to focus on specific, high impact project like KVMRT 2, Pan Borneo Highway, Pengerang Integrated Complex (PIC), High Speed Broadband Phase 2
- ✓ Construction sector to expand by 10.3% in 11MP targeting residential sub-sector development, PR1MA, Rumah Idaman Rakyat, Rumah Mesra Rakyat, Tun Razak Exchange, KL118, Tower, Refinery and Petrochemicals Integrated Development (RAPID), and the Pan-Borneo Highway.
- ✓ The mining sector is expected to rebound with a 1.3% growth rate per annum during the plan period. The production of crude oil and condensates is expected to be at a sustainable level of 612,000 barrels per day, while the production of LNG will increase to 29.3 mtpa with the operation of Train 9 in PETRONAS LNG Complex in Bintulu, Sarawak beginning 2016.
- ✓ Paved road to be constructed 3,000km, additional 90k houses to be supplied clean and treated water, additional 36,800 houses to be given electricity connection.
- ✓ 95% populated area covered by broadband infrastructure
- ✓ Euro 4M, EURO 5, standards for clean fuel, B15 (15% bio diesel blending) by 2020
- ✓ 300,000 bpd additional refining capacity by 2019
- ✓ New highway (note: continuation from 10MP and ETP): 1) Pan Borneo Highway, 2) Central Spine Road 3) Kota Bharu-Kuala Krai Highway, 4) Lebuhraya Pantai Timur

Conclusion

Overall, this blueprint consist a lot of micro tactical strategy that is imperative due to the pressing structural adjustments required. On the big ticket item, there was no surprise as some of the items have been communicated in the media before, including the average GDP growth target and also the GNI per capita target. On the construction side, the revelation of a few construction projects namely KVMRT2, Pan Borneo and etc is merely a continuation of either the 10MP or ETP. Given the fiscal constraint, we are not surprise that there will not be fresh construction project to be rolled out until 2020. It is not a bad thing either as the construction players will still be very busy given that the government will lift off about RM120 billion of railway related projects until 2020. The construction boys are already neck down busy to the brim until 2020.

As always, Malaysia can always plan and hopes to hammer GDP growth of 5%-6% until 2020. But the catch is, external environment can be quite rough and unforgiving for an open economy like Malaysia. Should external conditions turns down south, Malaysia's economy can be dragged down but thankfully, the export growth target until 2020 under the 11MP is quite low or rather achievable. Given that, we think there should be upside risk to the export target of 2.1% especially when advanced economies are expected to settle their domestic problems soon. All in, Malaysia can be calmed and sailed through quite easily to reach the coveted 'high income nation' target by 2020. The fact that the government has put fiscal debt target to less than 45% is also heartening as we think the fiscal space available can be used to combat global recession (if any). But for now, we see no reason to change our 2015 GDP projection of 5%.



Source: MOS, M&A Securities

Malaysia Economic Statistics - By Economic Activity (11MP Target)

Growth	10MP (Estimation)	11MP (Target)
Private Sector	8.3%	7.2%
- Consumption	7.1%	6.4%
- Investment	12.6%	9.4%
Public Sector	4.8%	3.3%
- Consumption	5.5%	3.7%
- Investment	4.0%	2.7%
Export	2.1%	2.1%
Import	3.8%	2.3%
Real GDP	5.3%	5%-6%

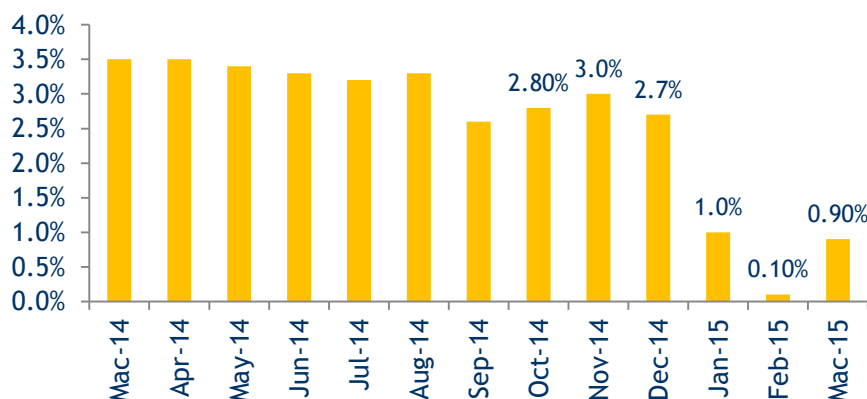
Source: PMO, M&A Securities

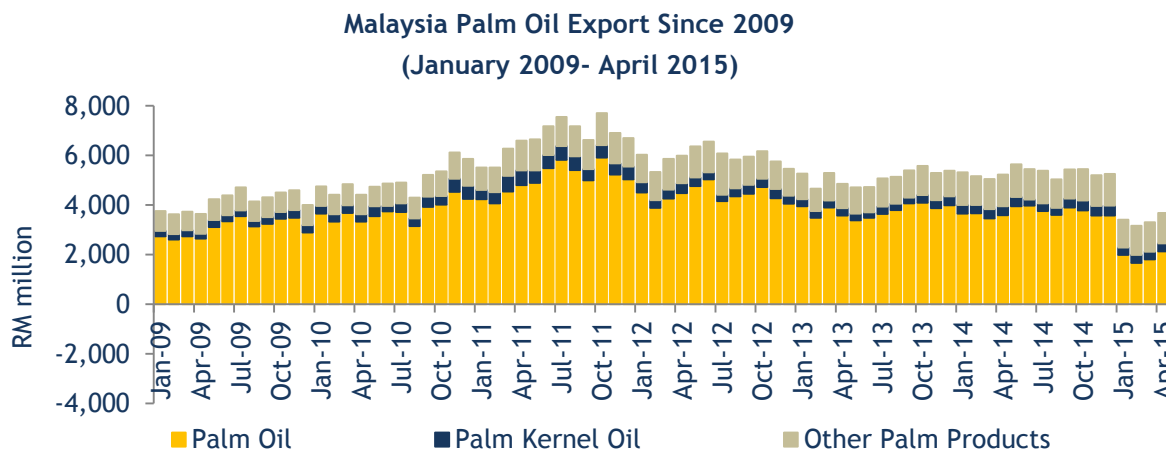
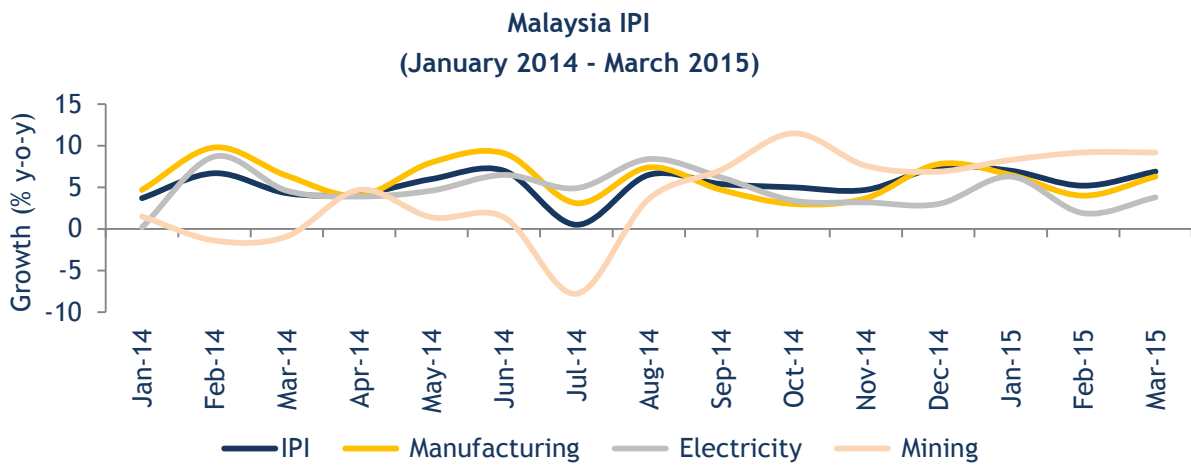
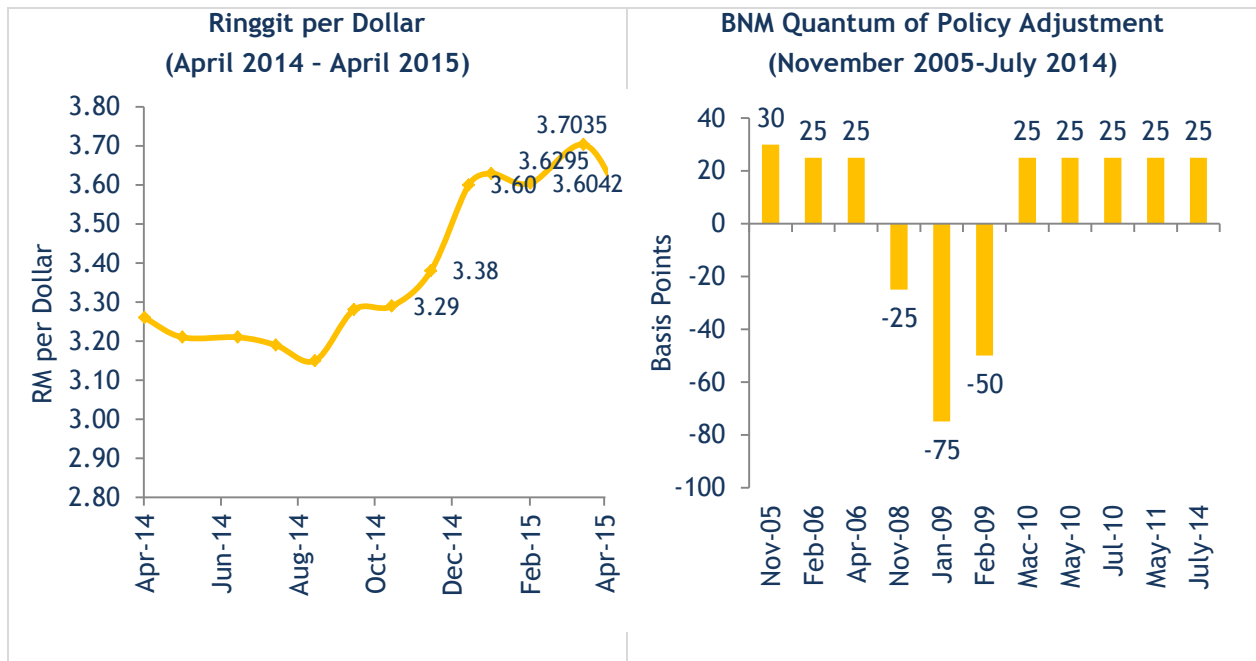
Malaysia Economic Forecast (2012-2015F)

	2012	2013	2014F	2015F
BNM	5.6%	4.7%	6.0%	4.5%-5.5%
MoF				4.5%-5.5%
MIER				5.0%-5.5%
M&A Securities				5.0%

Source: Various, M&A Securities

Malaysia: Inflation Trend (March 2014 - March 2015)





M&A Securities

STOCK RECOMMENDATIONS

BUY	Share price is expected to be $\geq +10\%$ over the next 12 months.
TRADING BUY	Share price is expected to be $\geq +10\%$ within 3-months due to positive newsflow.
HOLD	Share price is expected to be between -10% and $+10\%$ over the next 12 months.
SELL	Share price is expected to be $\geq -10\%$ over the next 12 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT	The sector is expected to outperform the FBM KLCI over the next 12 months.
NEUTRAL	The sector is expected to perform in line with the FBM KLCI over the next 12 months.
UNDERWEIGHT	The sector is expected to underperform the FBM KLCI over the next 12 months.

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