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Market Access

"Caring Budget but Exogenous Factor will Dictate the Market on Monday"

Table 1: 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

Introduction

Overall, it was a caring 2016 budget proposal as the government really stretches its muscle to reach to the hardest hit group namely the M40 and B40, amid rising cost of living and challenging economic outlook. Several winners emerged from the 2016 budget proposal including the previously mentioned group namely the M40 and B40, Sarawak: due to the construction and non-tolling of Pan-Borneo highway, middle income group given the massive tax reliefs and along with government servant and private sector alike due to the adjustment in minimum wage aside from increment and new minimum salary level civil servant. That said, the government postulates that 2016 GDP to average 4%-5% from 4.5%-5.5% in 2015, driven by private investment and consumption growth of 6.7% and 6.4% y-o-y, respectively.

On the supply side, it is posited that exports will grow by 0.9% and imports by 1.5%. Meanwhile, the construction sector will expand by 8.4%, services 5.4% and manufacturing 4.3% with overall fiscal deficit to knock down further to 3.1% from 3.2%, not a bad feat considering the huge reduction of government coffers due to soft oil prices (read: approximately RM30 billion reduction in revenue). In sum, based on the 5-key thrust, we can conclude that the government is adamant to reach out to the vulnerable groups as aforementioned and hence, confident that private consumption may grow within their long term average of 6%++. Before we narrate further the winners and loser, below are the 5-key thrust tabled by the prime minister which carries the title **"Caring for the Rakyat":**

Key thrust #1: Strengthening Economic Resilienc
Key thrust #2: Increasing Productivity, Innovation and Green Technology
Key thrust #3: Empowering Human Capital;
Key thrust #4: Advancing Bumiputera Agenda;
Key thrust #5: Easing the Cost of Living of the Rakyat.

Among the key info extracted from the budget includes:

- Federal government revenue collection in 2016 to grow marginally by 1.4% to RM225.7 billion, on higher collection of tax revenue
- Oil-related revenue to drop 14.1% in 2016 due to lower global crude oil prices (2015: 19.7%)

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- The Federal government expenditure to increase 1.7% to RM265.2 billion in 2016 (2015: RM260.7 billion)
- Of the RM265.2 billion Federal government expenditure, 81.1% allocated for operating expenditure while 18.9% for development expenditure
- Operating expenditure in 2016 to increase marginally by 0.9% following continuous efforts to rationalise and optimise government spending
- The development expenditure is expected to rise 5.4% next year of which RM30.3 billion would go to the economic sector
- Domestic demand is expected to register a growth of 5.5% this year driven by private sector spending
- Private investment to increase 6.7% in 2016 with the bulk of investment in the manufacturing and services sectors
- Private consumption is anticipated to expand 6.4% in 2016, benefitting from stable employment prospects and favourable wage growth
- Public investment to record a higher growth of 2.3% in 2016 from 1.6% expected this year supported by new projects under the Economic Transformation Programme and 11th Malaysia Plan and the ongoing projects under the 10th Malaysia Plan
- Services sector is projected to grow 5.4% in 2016 and increase its share to 54% of GDP from 53.8% this year with all sub-sectors continuing to expand
- Inflation to remain stable at 2% to 3% in 2016 (2015:2.0- 2.5%)
- Malaysia's current account to post a surplus in the range of 0.5% to 1.5% of GNI compared with a surplus of 1.5-2.5% expected this year
- Gross exports are expected to rebound 1.4% in 2016 from a 0.7% contraction this year, supported by higher public investment and capital spending in the manufacturing and services sectors.
- The Federal Government debt to remain within prudent limit, and is well capped at 55% to GDP, placing Malaysia among medium-indebted countries
- Trade surplus is expected to be higher at RM85.3 billion or 7.3% of gross domestic product (GDP) in 2015 (2014:RM82.5 billion; 7.5%)

The winners out of 2016 budget include:

1) **Construction sector**: emanating from several fresh new projects:
   - Investment of RM18 billion 2016 for the Refinery and Petrochemical Integrated Development Project (RAPID) Complex in Pengerang, Johor;
   - Construction of 4 highways namely Damansara - Shah Alam, Sungai Besi - Ulu Klang, Pulau Indah and Central Spine Road.
   - RM900 million to implement the Jalan Tun Razak Traffic Dispersal Project
   - LRT3 project from Bandar Utama, Damansara - Johan Setia, Klang spanning 36 km, with an estimated cost of RM10 billion,. Meanwhile, the Government will continue negotiations on the high-speed rail with the Singapore Government; and
   - Rapid Transit Bus (BRT) project at a cost of more than RM1.5 billion and BRT Kota Kinabalu at a cost of almost RM1 billion

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2) **Private consumption;** arising from
   - Special assistance of RM500 to all civil servants and special token of RM250 to pensioners
   - Salary adjustment equivalent to one annual increment according to grade, benefitting 1.6 million civil servants with an allocation of RM1.1 billion;
   - Set a minimum starting salary in the civil service at RM1,200 a month, which will benefit 60,000 civil servants;
   - Set the minimum pension rate at RM950 a month for pensioners with at least 25 years of service, which will benefit almost 50,000 pensioners
   - BR1M: A new category will be introduced for all participants in the e-Kasih database, with monthly income below RM1,000, who will now receive BR1M of RM1,050;
   - BR1M: For households with monthly income of RM3,000 and below, BR1M will be increased from RM950 to RM1,000;
   - BR1M: For households with monthly income between RM3,001 and RM4,000, BR1M will be raised from RM750 to RM800;
   - BR1M: For single individuals aged 21 and above with monthly income not exceeding RM2,000, the assistance will be increased from RM350 to RM400
   - Tax relief: tax relief for each child below 18 years of age is increased from RM1,000 to RM2,000 from year of assessment 2016;
   - Tax relief: for individual taxpayer whose spouse has no income is increased from RM3,000 to RM4,000;
   - Tax relief: tax relief for children who provide for their parents is given total tax relief of RM1,500 for the mother and RM1,500 for the father - the relief is subject to the condition that each parent does not have income exceeding RM2,000 a month and must be 60 years and above.
   - Tax relief: Increase the tax relief from RM6,000 to RM8,000 for each child above the age of 18 years who is studying at local or foreign institutions of higher learning, from year of assessment 2016.
   - Tax relief: Increase the tax relief from RM6,000 to RM8,000 for disabled child above the age of 18 years who is studying at local or foreign institutions of higher learning, from year of assessment 2016.

3) **Telco sector;** arising from
   - Malaysian consumers will receive rebates equivalent to the amount of GST paid, which will be credited directly to their prepaid accounts. This measure will be effective from 1 January 2016 to 31 December 2016.

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The losers out of 2016 budget include:

1) High net worth individual:
   - Taxable income band for the highest tax rate be increased from 25% to 26% for those with an income between RM600,000 and RM1 million.
   - Those with an income above RM1 million, the tax rate will be increased from 25% to 28%.

Nonetheless, few sectors were spared the whip in the absence of new tough measures including property sector despite the request for DIBS (Developer Interest Bearing Scheme) to be allowed to continue for 1st time house buyer. Also, sin sector such as tobacco and liquor was not given the punitive adjustment in tax and hence, spared a debilitating measure for now.

In sum, we think that the Budget 2016 will be the catalyst that could arrest the slide in private consumption growth and hence, put the economy in a state of stability despite the challenging economic outlook amid rising cost of living. It was a generous budget and sincerely reaching to the needy group namely the B40 (salary: below RM4k per month) and M40 (salary range: RM4000 – RM8000 plus per month). It is giving a shot-in-the-arm for private consumption to march ahead steadily and continue to be the engine growth of the country in 2016. The dark horse in our view is the capability of GST collection to exceed the government's target of RM39 billion in 2016 and oil price which may, against all odds, move above the near term range of USD60 per barrel. If this were achieved, we believe that the government would channel back the money to cushion the rakyat and pump more to reduce the budget deficit.

Despite the fireworks that come from positivism arising from Budget 2016 tabling but we think that it is the exogenous factor that will drive the market on Monday, that is the surprising decision by People Bank of China (PBoC) to cut the interest rate and reserve requirement, of which the latter was its 6th cut for the year. This is an effort seen to combat deflation and arrest slowing economy, ahead of possible fresh new stimulus by central banks in EU and Japan and US impending interest rate adjustment. The new monetary measures by PBoC announced over the weekend include:

1) PBoC lowers benchmark lending rate to record-low 4.35% from 4.6% (25 basis points cut)
2) Deposit cap scrap - step toward liberalization
3) One-year deposit rate will fall to 1.5% from 1.75%
4) Reserve requirements for all banks were lowered by 50 basis points, with an extra 50 basis point reduction for some institutions.

Given that PBoC rarely dishes out monetary weaponry target in synchronization fashion, we opine that the global equity market will be jolted, albeit in surprise fashion which could give a new lease of life especially for the lagging and struggling bourses. On the flip side, however, we opine that China will only re-ignite or renewed the currency war which may be at the expense of the regional economies in its attempt to save its big wobbly ship. But first thing first, the surprise and unexpected cut in monetary rates by China will be accepted well by the global equity market and we expect this to be a fresh new catalyst that could reinforce risk taking in local and regional equity market on Monday. That said, our year-end FBMKLCI target remains unchanged at 1,660.

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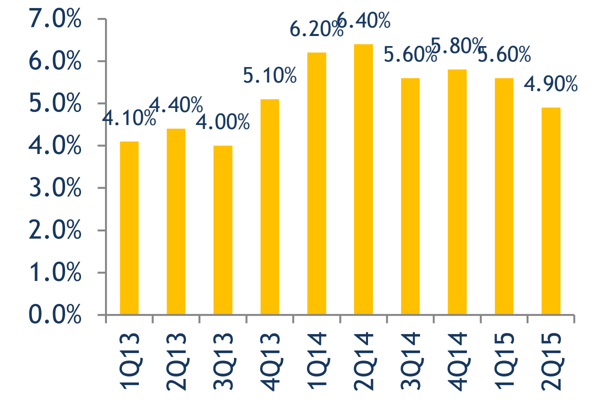
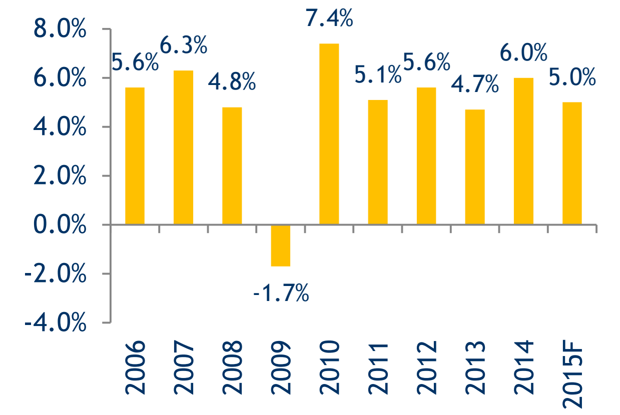
Malaysia Quarterly GDP Growth (1Q13-2Q15)

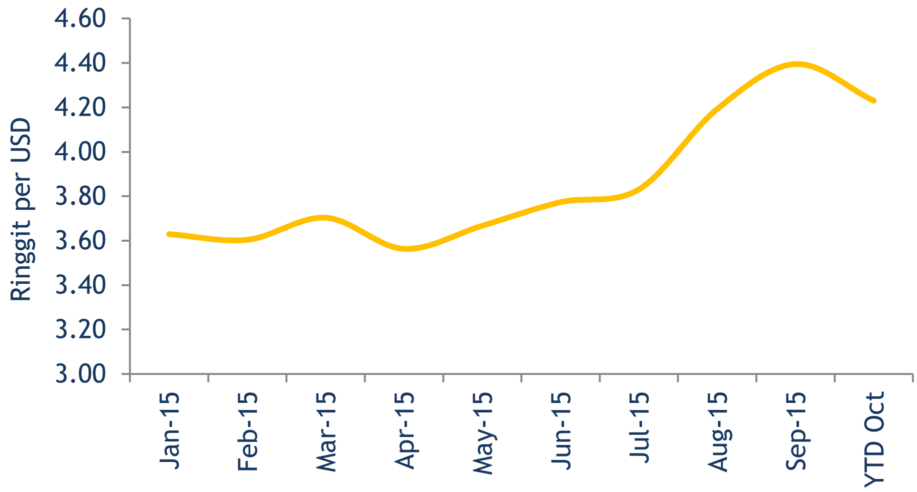


Malaysia Annual GDP Growth (2006-2015F)

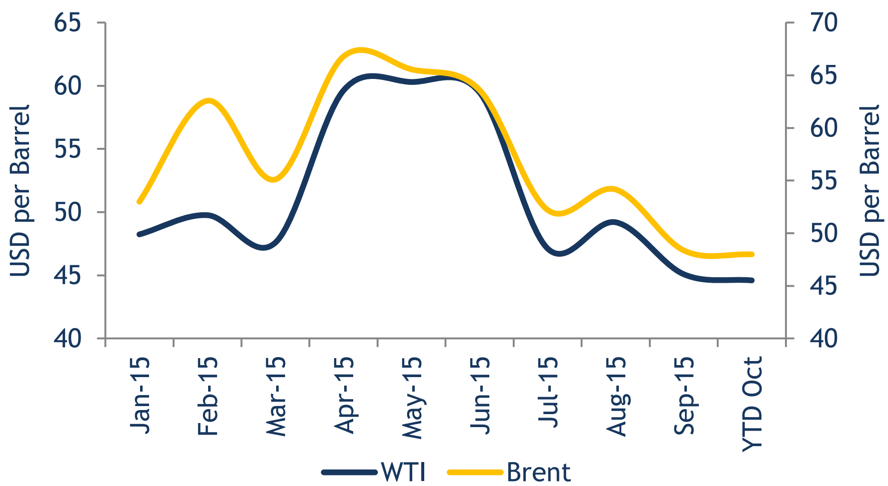


Source: Bloomberg, M&A Securities

Ringgit per Dollar Exchange Rate (January - October 2015)



Oil Price: WTI & Brent (January - October 2015)



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STOCK RECOMMENDATIONS

BUY	*Share price is expected to be ≥+10% over the next 12 months.*
TRADING BUY	*Share price is expected to be ≥+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 ≥-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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