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MALAYSIA BUDGET 2020 – Bracing through the Storm in an Equitable Manner

The tabled Budget 2020 themed "***Driving Growth and Equitable Outcomes towards Shared Prosperity***" is very much centred on the Government's ***Shared Prosperity Vision 2030 (SPV 2030)*** blueprint launched earlier to boost the country's economic development.

Worsening macroeconomic outlook with growing evidence implying that the escalating US-China trade war are aggravating global growth prospects. More nerve-wracking, a new trade confrontation between US and Europe is also an evolving concern moving forward. As such, Budget 2020 remains it expansionary policy with several measures to support domestic driven consumption growth while boosting public and private investment growth.

In tandem with SPV 2030 which is committed to attain sustainable growth with fair and equitable distribution across income groups, ethnicities and regions, with the primary aim of ensuring decent living standards for all Malaysians by 2030. The budget contained multiple proposals to raise employees' compensations and reform to boost domestic demand. It also focuses on the tourism industry which will benefit tourism-related business activities in conjunction with Visit Malaysia Year 2020 and this will ultimately benefiting the consumer and aviation sectors. Since SPV 2030's strategies and targets are mainly productivity-related, the budget also unveils incentives in addressing the low technology adoption as the Government is serious in making Malaysia as a compelling destination for high technology and high-valued added industries. Hence, this bodes well for technology and manufacturing sectors. The construction/ infrastructure activities are crucial forward and backward linkages to the economy. Hence, the restarting of construction/ infrastructure projects will continue to provide growth to this sector. Meanwhile, other measures announced for plantations and property were less impactful. In fact, it is a non-eventful budget for oil and gas sector since no material measures were announced.

All in, the announced budget is within our expectation, as we are not anticipating any major positive surprises for the corporates since the SPV 2030 blueprint was announced just a week before the official tabling of Budget 2020.

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Numbers at a Glance:

Federal Government Finance

(RM b)	2018A	2019P	2020F
Revenue	232.9	263.3	244.5
Operating Exp	231.0	262.3	241.0
Development Exp	55.3	52.8	55.2
Overall (Deficit)/ Surplus	(53.4)	(51.8)	(51.7)
Deficit/GDP (%)	(3.7)	(3.4)	(3.2)
GDP Growth (%)	4.7	4.7	4.8
- Agriculture	0.1	4.3	3.4
- Construction	4.2	1.7	3.7
- Manufacturing	5.0	4.0	4.1
- Mining	(2.6)	0.6	0.3
- Services	6.8	6.1	6.2

Sources: Economic Report 2019/2020, Ministry of Finance
P = Preliminary
F = Forecast

It seems the targeted 2019 budget deficit of -3.4% is attainable subsequent to an upward revision from -3.7% in 2018 with the federal government revenue is set to surge by 13.1% y-o-y to record high RM263.3b thanks mainly to the one-off Petronas special dividend and income tax collection. In fact, we notice that the collection from individual and corporate direct tax so far surpassing the projection made under Budget 2019, which was at RM35b and RM70.2b, respectively.

For 2020, the Government is foreseeing higher revenue collection from corporate income tax due to better corporate earnings prospects and continuous efforts to reduce leakages. It is also expecting higher collection from SST to be driven by 1) Visit Malaysia 2020 & APEC, with a targeted tourist arrival of 30m with RM100b in tourist receipt and 2) higher private consumption.

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	GDP growth is also expected to inch up by 0.1% to 4.8% in 2020, to be aided by 1) lift in domestic private consumption to be driven by wage growth, 2) improvement in investor sentiment on the back of resumption of strategic projects and 3) higher E&E exports. Businesses receiving GST tax refunds this year is expected to provide stimulus to private sector activities. *Overall, we are **neutral** on the budget, which continues with its focus on fiscal consolidation while supporting growth.*
Automotive • Fuel subsidies for individuals who own not more than two cars and two motorcycles are eligible to receive fuel Targeted Subsidy Programme (TSP) for one vehicle. The qualifying criteria are: i) A passenger car with 1,600cc car engine capacity and below; or ii) Any car above 1,600cc must be more than 10 years old; or iii) Whereas, a qualified motorcycle must be 150cc and below; or iv) Any motorcycle above 150cc must be more than 7 years old	*The petrol subsidy initiative to be implemented by GHL will help to support the demand for passenger cars with 1,600cc or below and motorcycles with 125c or below. This will benefit the auto industry as majority of the vehicles in Malaysia have model in 1,600cc or below. The biggest beneficiary for the petrol subsidy will be Perodua (**UMW** & **MBMR**), Honda (**Oriental Holding**) and Proton (**DRB**) as bulk of their sales are derived from vehicles of <1,600cc.* *Nevertheless we remain **neutral** on the automotive sector as we expect the sales volume for 2020 to stay soft with Malaysia Automotive Association (MAA) only expects an annual growth of 2% in the automotive TIV for 2020.*
Aviation • Visit Malaysia 2020 is the Government primary effort to brand Malaysia as a top destination for tourism, with a target of achieving 30m tourist arrivals. • A sum of RM1.1b will be allocated to Ministry of Tourism, Art and Culture for Visit Malaysia 2020 campaigns. • To roll out a host of tax incentives targeted at the arts and tourism sector such as: i) New investments in international theme park projects will be given income tax exemption of 100% of statutory income or Investment Tax Allowance of 100% to be set off against 70% for 5 years; ii) Increasing tax deductions given to companies sponsoring arts, cultural and heritage activities in Malaysia from RM700,000 to RM1,000,000 per year; iii) Accelerated Capital Allowance for expenditure incurred on the purchase of new locally assembled excursion bus to be fully claimed within 2 years; and iv) Excise duty exemption of 50% for locally assembled vehicles be given to tour operators for the purchase of qualified new tourism vehicles. • To upgrade the Sultan Azlan Shah Airport in Ipoh including an extension on its runway. Toward this, the Government will invite proposals on public private partnership basis to realise such investment.	*We have anticipated 2020 will be the year for aviation due to Visit Malaysia 2020 campaign. The Government initiative will encourage more investment into the tourism industry and improve the tourist sentiments. Hence, we are **positive** on next year tourism industry, which will benefit airline and travel-related companies such as **Airasia** and **Airasia X** as well as **Malaysia Airport Holding**. The arrival of more tourists will benefit the company that secured the eVISA contract (Ultra Kirana Sdn Bhd contract has expired/terminated) of which Datasonic is one of them.*

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Banking • SME Bank will introduce two new funds where the Government will provide an annual interest subsidy of 2% to reduce borrowing costs. • To establish Special Committee on Islamic Finance (JKKI) to further promote and develop the Islamic Finance ecosystem. • The Government will work with financial institution in introducing Rent To Own (RTO) financing scheme. • To extend Youth Housing Scheme administered by Bank Simpanan Nasional (BSN) from 1 January 2020 until 31 December 2021. • Finalising the licensing framework for digital banks and the final framework will be issued by the first half of 2020 and open for application. • Proposing a 2-phase restructuring plan for Development Financial Institutions (DFI) to form a new financial institution through the merger of Bank Pembangunan, Danajamin Nasional, SME Bank and EXIM Bank. • Tax deductions on the cost of issuance and additional deductions on sukuk issuance costs under the Wakalah principle. • One-off RM30 digital incentives to all Malaysians over 18 years of age with annual income of less than RM100,000.	*We see the Government is trying to grow Islamic finance and make financing easier and more accessible for first home buyer, low income group (those who want to buy a house) and SME.* *Residential mortgages contribute more than 30% of the banking system's loan book. It maintained a stable 7.1% y-o-y growth pace in Jul 2019. We believe the growth was partly contributed by the Home Ownership Campaign (HOC) that extended to Dec 2019. We certainly hope that the Youth Housing Scheme could help to boost the mortgage loans growth next year but the impact is muted for listed banks as it is managed by BSN.* *BNM revealed that more than 10 parties have expressed interest in setting up digital banks in Malaysia back in Jun 2019. The potential impact on banks could only be evaluated upon the unveiling of the framework as the parameters under which the digital banks will be allowed to operate are crucial. However, we expect that BNM will not allow digital banks to be value destructive to the banking system. (Note: watch out on Green Packet, one of the company applying for digital banking licence).* *The consolidation would help to improve the operating efficiency of the Development Financial Institutions (DFI). However, we do not expect the merger will have any material impact to listed banks as DFIs have been in the market competing with banks for decades.* *Tax deductions on the cost of issuance and additional deductions on sukuk issuance costs would be **slightly positive** for banks. Banks earn fee income from advisory and underwriting the Sukuk.* *Existing major e-wallet provider such as TouchNGo, Boost and GrabPay may benefit from the one-off digital incentives but we expect minimal impact to the banks. **CIMB** may benefit as they have included TouchNGo as part of their Forward23 plan.* *Overall, we remain n**eutral** on the sector. We like micro-financiers such as **Aeon Credit** and **ELK-Desa** for their double-digit loan growth and niche target market.*
Brewery • No hike in excise duty for beer.	*As expected, there is no excise duty hike on beer in view that next year is Visit Malaysia Year. This will benefit **Heineken Malaysia** and **Carlsberg Brewery Malaysia.** Additionally, the*

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	Government will continue its effort to reduce leakages from smuggling activities with allocations to purchase 20 additional cargo scanners. We reckon that these enforcement efforts will reduce the availability of illicit alcohol products, which is ***positive*** *for brewers.*
Construction **Peninsular Malaysia** • To proceed with Bandar Malaysia Project which now includes a People's Park, additional 5,000 units of affordable homes and increased participation from Bumiputera contractors. • To commence feasibility studies on Serendah-Port Klang Rail Bypass for cargo shipments and Klang Logistics Corridor, highway connecting Northport and Westport for commercial vehicles, with both projects estimated to cost RM8.3b. • To allocate RM1.1b for 5 corridor developments. • To allocate RM1.6b for construction of new hospitals as well as upgrading and expansion of existing hospitals. • To proceed with Rapid Transit System (RTS) between Johor Bahru and Singapore. **East Malaysia** • Sabah and Sarawak will receive the largest portion of development expenditure amounting to RM5.2b and RM4.4b respectively, as compared to RM5b and RM4.3b last year. • Committed to complete Pan-Borneo Highway project. Managed to save RM1.2b from on-going cost rationalisation and reduce the project cost to RM29b. • To construct 165km Trans-Borneo Highway connecting Sabah and Sarawak to Eastern Kalimantan. 40km of Jalan Kalabakan-Serudong, construction of customs complex and government housing quarters costing RM600m in total is an integral component of Trans-Borneo Highway. • RM587m will be allocated for rural water projects, out of which RM470m for Sabah and Sarawak. • RM1b will be allocated to improve road connectivity throughout Malaysia of which Sabah and Sarawak will be allotted RM326m and RM224m respectively. **Others:** • Proposes to increase minimum wage rate only in major cities to RM1,200 per month from RM1,100 effective 2020. • Minimum reduction of average toll charges by 18% across all PLUS highways. • Approved proposed offer to acquire 4 Klang Valley highways – KESAS, LDP, SPRINT and SMART.	*Although large scale jobs including MRT3, HSR and PTMP were not mentioned, we are* ***positive*** *on construction sector as the Government provided some clarity on certain projects such as Bandar Malaysia, Rapid Transit System and Pan Borneo Highway.* *We believe* ***Ekovest*** *could potentially benefit from Bandar Malaysia (GDV RM140b). Companies with substructure expertise such as* ***Econpile*** *and* ***Sunway Construction*** *and companies with Industrialised Building System (IBS) may be the potential beneficiaries as IBS is widely used in the mass construction of affordable housing. Following the revival of Bandar Malaysia, we believe HSR may follow suit as technical advisory consultant and commercial advisory consultant were appointed to conduct feasibility studies earlier this year.* *Contractors such as* ***Gadang***, ***TRC*** *and* ***IJM*** *may benefit from the allocation of RM1.6b for construction of new hospitals as well as upgrading and expansion of existing hospitals.* ***Kimlun*** *may benefit by supplying segmental box girders for RTS while railways contractors such as* ***IJM*** *and* ***Sunway Construction*** *may benefit from the civil packages.* *Local players such as* ***CMS, HSL*** *and* ***KKB*** *are set to benefit from RM4.4b development expenditure in Sarawak. Players from West Malaysia that working on Pan Borneo Sabah and Sarawak projects such as* ***GBAQRS*** *and* ***WCT*** *are expected to benefit as well.* ***WCT*** *is able to undertake projects from Sabah without partnering with local party due to its subsidiary's Bumiputera status. The new Trans-Borneo Highway is expected to bode well for the above-mentioned companies.* *The increase in minimum wages from RM1,100 to RM1,200 is expected to have a minimal impact on construction sector as majority of the construction workers earn above the minimum level.* *The Cabinet has approved the proposed offer to acquire 4 Klang Valley highways and we believe* ***Gamuda*** *and* ***Litrak*** *are set to benefit from this decision as the offer value* ***Litrak*** *at RM5.20 a*

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	share. ***Gamuda*** *will be able to utilise the proceeds to finance upcoming projects such as Penang Transport Master Plan (PTMP).*
Consumer **RM5b Bantuan Sara Hidup (BSH) cash handout scheme to be continued and expanded to cover**: • 1.1m single individuals aged above 40 years old who are earning less than RM2,000 per month • All disabled persons aged 18 years old and above, with an income less than RM2,000 per month These recipients will be entitled to receive BSH payment of RM300, and qualify automatically as a recipient of the free MySalam Takaful scheme **Others:** • Special payment of RM500 for civil servants Grade 56 and below. • Special payment of RM250 for government retirees, extended to non-pensionable veterans. • Minimum 18% reduction of average toll charges across all PLUS highways. • One-time RM30 digital stimulus to qualified Malaysians aged 18 and above with annual income less than RM100,000. • RM50 per month increase in Cost of Living Allowance (COLA) for civil servants support group beginning 2020. • Minimum wage to increase from RM1,200 per month only in major cities effective 2020.	*These measures are* ***positive*** *for the* ***consumer*** *sector and should boost private consumption. Note that total allocation for total subsidies and social assistance will increase by a significant 8.5% to RM24.2b. Additionally, the cost savings (up to RM1.3b in 2020) from reduction in toll charges may result in higher spending by consumers.* *We expect spending on F&B products to increase and will benefit companies that have sizeable market share and diverse product range such as* ***Nestle*** *and* ***F&N****.* *Overall, we are* ***positive*** *on the sector.*
Gaming • To curb illegal gambling, the Government will propose a higher minimum mandatory penalty of RM100,000 for illegal gamblers, along with a minimum mandatory jail sentence of 6 months • For illegal operators, a higher minimum mandatory penalty of RM1m and a 12 month minimum mandatory jail sentence will be imposed • Commencing 2020, the total number of special draws for Number Forecast Operator (NFO) will be reduced from 11 to 8 times a year.	*As anticipated, there is no increase in casino taxes after last year unexpected increase in gaming tax from 25% to 35%. We are* ***positive*** *on the Government's initiative to a more stringent enforcement to curb illegal gambling activities.* ***Genting Malaysia*** *will be the direct beneficiary to this enforcement.* *The reduction of special draw from 11 to 8 times per year is expected to have a minimal impact to NFOs industry as the margin for special draws are lower than normal draws because of the additional 10% tax imposed. However, we believe the enforcement to curb illegal NFO activities will benefit to the NFOs industry as the illegal NFO market is at least two times bigger than the legal NFO market and a harsh penalty on illegal gambling will boost the sales for legal NFO industry. Hence, we are* ***positive*** *on* ***Sport Toto and Magnum****.*
Healthcare • Allocation of RM25m to the Malaysian Healthcare Tourism Council (MHTC) to strengthen the position of Malaysia as the preferred destination for heath tourism in ASEAN for	***KPJ Healthcare*** *and* ***IHH*** *are bound to be direct beneficiaries from medical tourism, to be backed by the highly competitive charges and*

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oncology, cardiology and fertility treatment. • Licensed travel agents under the Ministry of Tourism, Arts and Culture are allowed to submit group application for up to 100 people per transaction through the eNTRI and eVISA system. • To allow for pre-retirement withdrawals for the Private Retirement Schemes (PRS) for the purposes of healthcare	*hospitalisation cost (vs. those in developed countries) and a generally English-speaking population. Besides that, the pre-retirement withdrawal for PRS for healthcare purpose is expected to increase access and demand for private healthcare. Overall, we are **positive** on the sector due to an aging population, rising affluence and increasing life expectancy.*
• Allowing EPF withdrawal for fertility treatment such as in-vitro fertilisation procedure. Additionally, the income tax relief of up to RM6,000 given on expenses incurred for medical treatment of serious illness will be expanded to include expenses incurred on fertility treatment.	*This fertility incentive is **positive** for **TMC Life**, which has a forte in the fertility business. The group is still embarking capital-intensive expansion plans such as Thomson Hospital Kota Damansara and Thomson Iskandar Medical Hub, which tend to require longer gestation period, though significant additional capacity is expected to come on stream by 2020.*
Insurance • Starting 1 January 2020, coverage of MySalam will be extended to: *i. Cover 45 illnesses from the existing 36, including polio and terminal illness;* *ii. Those aged up to 65 years old, compared to the current 55 years old, benefitting an additional 1.5m individuals;* *iii. Those with gross annual income up to RM100,000. They will receive critical illness pay out of RM4,000 and RM50 daily hospitalisation income replacement for up to 14 days when diagnosed and warded at Government hospitals. This will benefit an additional up to 5m Malaysians.* • *To expand Skim Peduli Kesihatan (PeKA) B40 coverage to those aged 40 and above.* • *The Public Sector Home Finance Board (LPPSA) will offer free personal accident insurance (up to RM100,000 coverage) for two years to new Government housing loan borrowers.*	*It is encouraging to see the Government trying to extend insurance coverage for the B40 as the insurance penetration rate of that segment remains low at around 30%. To recall, Great Eastern Takaful Bhd provided seed funding of RM2b for MySalam scheme. We believe the insurance penetration rate will increase but life insurance is still highly dependent on income level of policyholders. Hence, initiatives and support from the government play a crucial role in this sector.* *We are **neutral** on insurance sector. We like **Allianz** for its resilient general insurance segment and its fast growing life insurance segment.*
Logistics • The Government is undertaking an in-depth feasibility study on the development of Pulau Carey. This is to make Port Klang as a regional maritime centre and cargo logistics hub combining manufacturing, distribution, cargo consolidation, bunkering and ship repairs. • RM50m will be allocated for the repair and maintenance of roads leading to Port Klang. The Ministry of Transport will commence feasibility studies on the Serendah-Port Klang Rail Bypass for cargo shipments and the Klang Logistics Corridor, a dedicated privatised highway connecting Northport and Westport for commercial vehicles, with both projects estimated to cost RM8.3b.	*The development of Pulau Carey terminal might impact **Westport** negatively as there will be more competitions in the long term. However, we are **slightly positive** on the Government allocation to repair and maintain roads leading to Port Klang, the development of Serendah-Port Klang Rail Bypass for cargo shipment and the Klang Logistics Corridor. Overall, we remain **neutral** stance on **Westport**.*
• The Government will support last-mile connectivity in rural and urban areas by subsidising bus operators with an allocation of RM146m in 2020.	*The direct beneficiary for this initiative will be bus operators such as **Perak Transit,** which is the only listed bus operator. Note that Perak Transit main business is operate bus terminal.*

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Plantation • B20 biodiesel for the transport sector to be implemented by the end of 2020. • RM550m palm oil replanting loan fund for smallholders collateral-free at an interest rate of 2% per annum, with tenure of 12 years including a 4 year moratorium on repayment. • RM27m to support Malaysian Palm Oil Board's (MPOB) efforts to market palm oil internationally and counter anti-palm oil campaigns. • RM200m for Bantuan Musim Tengkujuh to eligible rubber smallholders under RISDA and Lembaga Industri Getah Sabah (LIGS). • RM100m for Rubber Production Incentive in 2020 to enhance the income of smallholders faced with low rubber prices.	*The B20 biodiesel mandate for the transport sector is **positive** news for the sector as it is expected to increase demand for CPO by 0.5m tonnes per annum. However, we foresee minimal impact on listed plantation players as the current CPO price is still low due to excess production.*
Property Development • Rent To Own (RTO) financing scheme for the purchase of first home up to RM500,000. Financing up to RM10b to be provided by financial institutions with the support from government via a 30% or RM3b guarantee. • Threshold price of foreign home ownership in urban areas to be reduced to RM600,000 from RM1m. • Enhancement of Real Property Gain Tax (RPGT) treatment from the base year of 1 January 2000 to 1 January 2013. **Others:** • Extended the Home Ownership Campaign deadline by 6 months to 31 Dec 2019. • Extension of Youth Housing Scheme administered by BSN from 1 Jan 2019 to 31 Dec 2012. The scheme offers a 10% loan guarantee through Cagamas to enable borrowers of full financing and RM200 monthly instalment assistance for the first 2 years limited to 10,000 home units.	*The RTO scheme is expected to boost home ownership for first-time homebuyers. Stamp duty for the transfer of ownership will be waived for this scheme. However, we do not expect a significant boost to the property market as total unsold inventories continue to increase despite various incentives offered by the Government. We expect the property market to remain soft due mainly to affordability issues and record-high unsold inventories.* *The lower minimum threshold for foreign property purchase is intended to reduce the supply overhang of high-rise condominiums, which amounted to RM8.3b in 2Q19. We believe this measure will benefit developers with high exposure to high-rise buildings such as **Mah Sing**.* *The change in the base year for the calculation of RPGT will result in lower RPGT imposed on sellers. Nevertheless, we expect negligible impact on the property market.* *Overall, we remain **neutral** on the sector.*
Power and Utilities • To migrate the current power purchase system towards a wholesale market in the future. Renewable energy suppliers will also be able to compete directly in the retail market. • To extend Green Investment Tax Allowance (GITA) and Green Income Tax Exemption (GITE) incentives to 2023. A 70% income tax exemption of up to 10 years will be given to companies undertaking solar leasing activities.	*The transition towards a wholesale market system was revealed under the Malaysian Electricity Supply Industry 2.0 (MESI 2.0). Key initiatives under MESI 2.0 include allow generators to source their own fuel, move from Power Purchase Agreement (PPA) regime to capacity and energy market and enable Third Party Access (TPA) for transmission and distribution (T&D). This would definitely create a more competitive generation market.* *Malaysia intends to achieve its target of 20% electricity generation from renewable energy by*

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	*2025. GITA and GITE would benefit the power players that involved in renewable energy such as **Tenaga** and **Cypark**.*
Pharmaceutical • A total of RM30.6b as compared with RM28.7m, an increase of 6.6%, will be allocated to the Ministry of Healthcare • A total of RM227m will be provided to upgrade medical equipment while RM95m for renovation of medical infrastructure and facilities. • An initial allocation of RM60m will be provided to kick-start the pneumococcal vaccination for children.	*As expected, **Duopharma** and **Pharmaniaga** (being the sole concession holder to supply and distribute pneumococcal vacation) are the two largest beneficiaries of government contracts, deriving 50% and 21% as a proportion of their revenue, respectively. Overall, we are **optimistic** for the sector as the increase in budget allocation and demand for healthcare will eventually benefit pharmaceutical sector through the increase in demand for medical drugs.*
Rubber Gloves • To increase the minimum wage rate only in major cities to RM1,200 per month effective 2020. • Accelerated Capital Allowance and automation equipment capital allowance for manufacturing sector on the first RM2m and RM4m incurred on qualifying capital expenditure is extended to the year of assessment 2023.	*As expected, there will be an increase in minimum wage but we think the increase of 9.1% will have minimal impact on the rubber glove industry since most players are paying their worker more than RM1,200 per month. Besides that, the imposition is applicable to workers that are located in major cities though the classification of ""major cities" in Malaysia remains vague for now.* *Nonetheless, the increase in labour costs has been relatively steep since the introduction of the minimum wage in 2014 and rubber glove manufacturers have introduced automation to reduce labour dependency. More importantly, glove manufacturers have the ability to pass on higher labour costs via cost pass-through mechanism of almost two months' time lag.* *Overall, we are **mildly positive** on the sector for now on the back of stablising ASP, lower raw material prices and increase in demand in the near term as US implemented a 15% tariff on China's rubber medical gloves since Sep 2019.*
Technology • To provide tax incentives to further promote high-value added activities in the Electrical and Electronics (E&E) industry to transition into 5G digital economy and Industry 4.0. • Income tax exemption up to 10 years to E&E companies investing in selected knowledge-based services. • Special Investment Tax Allowance to encourage companies in E&E sector that have exhausted the Reinvestment Allowance to further reinvest in Malaysia. • Accelerated Capital Allowance and automation equipment capital allowance for manufacturing sector on the first RM2m and RM4m incurred on qualifying capital expenditure is extended to the year of assessment 2023. • To allocate RM550m to provide Smart Automation matching grants to 1,000 manufacturing and 1,000	*As anticipated, the tax incentive is set to benefit the semiconductor industry as it encourages companies to invest into 5G supply chain development and industry 4.0 as well as better compete globally. In fact, most semiconductor players were facing higher effective tax rates partly due to exhaustion of the reinvestment allowance.* *Additionally, OSAT players such as **MPI, Unisem, Inari** and **Globetronics** have been embarking on-going expansion plans with the enhanced efficiency to be driven by smart manufacturing which will potentially further improve their earnings. As such, the tax*

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services companies to automate their business processes. This grant will be given on a matching basis up to RM2m per company.	*incentives will have **positive** impact for the sector.* *Meanwhile, the continuous popularisation of industrial 4.0 or automation in the manufacturing sector will bound to benefit automated test and inspection equipment makers such as **Vitrox** and **Pentamaster**.*
Telecommunication • The National Fiberisation & Connectivity Plan (NFCP) over the next 5 years will provide comprehensive coverage of high speed and quality digital connectivity nationwide including rural areas involving a total investment of RM21.6b. • To improve connectivity in remote areas of Malaysia, especially in Sabah and Sarawak. MCMC will allocate RM250m to leverage on various technologies, including via satellite broadband connectivity. • RM210m will be allocated to accelerate the deployment of new digital infrastructure for public buildings particularly schools and also high impact areas such as industrial parks. Priority will be given to locations within states that are able to facilitate and expedite the implementation of the NFCP.	*The implementation of NFCP which is set to provide comprehensive coverage of high speed and quality digital connectivity over the next 5 years will benefit infrastructure service providers such as **Binasat, Redtone** and **OCK**.* *We believe the additional fund allocated by the Government will spur the industry positively and increase the industry activities. Overall, we are **positive** on the industry.*
Tobacco • No hike in excise duty for tobacco.	*The tax reprieve is good news for **British American Tobacco (BAT)**. However, the future outlook of the company remains bleak for the time being. This is mainly due to the increasing popularity of vape (an alternative product) and the high illicit tobacco market share of more than 60%. The market share for vape has increased to about 10% from 1-2% in 2015, according to some industry players. The market share of illicit tobacco has fallen slightly recently but was offset by higher sales of cigarettes with fake stamps. Overall, we have maintain our **bearish** view on BAT unless the government can effective curb the illicit tobacco market.*

For Phillip Capital Management Sdn Bhd

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