

# PHILLIP MUTUAL BERHAD

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## Anwar to Lead a Unity Government

**A Historical Moment for Malaysia** - Malaysians woke up with a hung parliament with no single party or coalition achieved a simple majority to form a government. Early polls were suggesting a hung parliament with PH (Pakatan Harapan) receiving the most seats

(82) while PN (Perikatan Nasional) was gathered to gain somewhat more seats (73) than BN (30). The outcome was largely accurate for PH but the 'Malay Tsunami' has swung many of BN's strongholds to PN which is beyond expectation. The Islamic party (PAS) which saw its post GE15 seats swell from 17 to 49 seats was a breakthrough to the progressive belt in the central and northern regions of the West Coast of Peninsular Malaysia.

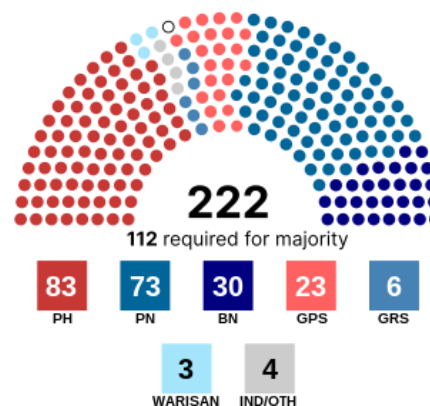
**No Coalition Government** - The possibility of a coalition became more unpredictable as each party has grudges with each other. Meanwhile, BN was caught in the crossfire as it insisted to be the opposition, not supporting PH or PN. The draft of this report has to be amended several times till the afternoon of 24 Nov.

**Agong Suggests Unity Government** - Initially disagreed to support PH or PN, BN turned its stance to support any non-PN led government, making PH the only viable coalition to form a unity government which is the advice of the Agong since there is no obvious majority coalition. Finally, Dato' Seri Anwar Ibrahim is pronounced as the 10<sup>th</sup> PM (Prime Minister). Anwar had the experience as a finance minister in 1991 - 1998. He was also named "*Finance Minister of the Year*" by the Asiamoney in 1996.

**The Uncertainty Then** - During the early trading hours on 21 Nov, Bursa Malaysia was lower with major 'sin' counters opened sharply lower as early news indicated that PN will form a government alongside BN, GPS (Gabungan Parti Sarawak) and GRS (Gabungan Rakyat Sabah). BN's chairman refuted the claim afterwards by stating the coalition was not in talk with GPS to form a government with PN, leaving the stock market with great political uncertainties. The scenario twisted when the 26 out of 30 BN's MPs arrived at Seri Pacific Hotel to meet PH's leaders. Stock market rebounded from the low and 'sin' stocks recouped some losses. As the deadline to provide a PM candidate approached, Istana Negara issued a palace statement to inform a 24hrs extension of PM candidate submission. On 22 Nov, the 10<sup>th</sup> PM remained unappointed, causing the stocks to experience volatile trading days as the lingering political instability persisted. The sentiment improved substantially when BN is most likely to participate in a unity government with PH. The FBMKLCI gapped up 0.5% and moved higher to gain over 2% during the first half trading hours on 24 Nov.

**Impact to Selected Stocks** - The dust has finally settled with Anwar as the 10<sup>th</sup> PM. A unity government means other parties such as PH, PN, BN, GPS, GRS etc will be invited to form the Cabinet. While we are pleased that another pro-business government will be ruling Malaysia for the next five years, we noted that the increased of PN on the ground with more MPs (Member of Parliament) to voice their views. Our views on the political-linked stocks that might have significant impacts are as tabulated in **Exhibit 2**.

Exhibit 1: Seats Won by Coalition/ Party



Source: Wikipedia

Cont....

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Exhibit 2: Stocks Affected by Change of Government

No	Stock	Mkt Cap (RM bn)	YTD Px Chg	PX Chg (21-23/11)	Trading PE (x)	Div Yield	Comments
<b>A) Sin Stocks</b>							
1	BAT	3.09	-26.8%	5.7%	11.3	8.7%	BAT's prospect is partly affected by Tobacco Product and Smoking Bill 2022 which bans the use, possession and sale of cigarettes and vape products to those born after 2007. We believe the smuggling of tobacco is a more serious issue.
2	Carlsberg	6.73	15.5%	-5.2%	21.1	4.0%	Liquor producer may be facing more hostile operating environment due to growing pressure from PAS. Impact on Carlsberg is diluted as they also operate in Spore and Sri Lanka. A PH-led govt. spells less trouble for the stocks.
3	Heineken	7.04	18.7%	-5.7%	17.7	4.5%	A PH-led govt. is expected to be neutral for liquor producer despite growing pressure from PAS.
4	Magnum	1.85	-21.6%	-13.4%	55.1	2.3%	Recall that Kedah has banned all gaming shops' operations by not renewing their business licences. This is following similar ban in Kelantan and Terengganu. A unity govt. should ease this concern.
5	Sports Toto	2.17	-6.9%	-8.0%	9.1	4.1%	
6	Genting Bhd	16.2	-4.1%	-6.0%	-22.3	4.1%	The impact on casino restriction is more on Genting Malaysia than Genting Bhd as the latter is more diversified. Resort World casino is located principally in Pahang which could be under PH/BN regime.
7	Genting Malaysia	14.3	-5.9%	-7.0%	-59.3	5.7%	
8	RGB	0.23	29.2%	-3.2%	-20.7	N/A	As RGB is a supplier of gaming products in Asia and only derives ~16% of revenue from Malaysia.
<b>B) Selected Political-linked Stocks</b>							
1	Media Prima	0.48	8.4%	-4.4%	8.5	3.4%	Volatility is sentiment-driven. Impact of a new govt. is expected to be neutral for the stock.
2	KUB	0.29	-13.6%	-1.9%	16.2	2.8%	Umno is no longer a KUB substantial shareholder after trimming its remaining 9% stake on Nov 11. The stock is now under Johari, ex-Deputy Finance Minister who runs this LPG gas-supply business.

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3	CI Holdings	0.47	1.8%	0.0%	6.2	4.2%	Johari is the largest shareholder of CI Holdings, with a 33% stake. Impact of a new govt. is minimal.
4	Advance Synergy	0.44	13.6%	40.0%	-62.3	0.9%	Sentiment on the stock is driven by the potential appointment of Anwar as PM. We view this as a speculative play.
5	Thriven	0.08	3.6%	6.9%	-3.8	N/A	High volatility in the share price is moved by its link with Muhyiddin. It is not a fundamentally sound company. Avoid
6	Eden	0.09	17.2%	11.8%	55.3	N/A	Wild swing is sentiment-driven. We see the formation of a unity government don't benefit the stock.
7	MUI Ind	0.32	28.6%	11.1%	-7.0	N/A	Movement is sentiment-driven by its link to Anwar. But this is old story as MUI is now under the second generation.
8	MUI Prop	0.14	11.8%	0.0%	8.6	2.7%	Movement is sentiment-driven by its link to Anwar. Another old story. As a property stock, the interest on property stock is not strong. Avoid
<b>C) Selected Stocks Relying on Government Contracts</b>							
1	Awantec	0.30	-45.0%	-2.6%	66.0	N/A	It has already secured the approval to supply Google software to govt. The only possible delay could be the RM732m compensation for the terminated of SKIN project currently still under court hearing.
2	Datasonic	1.33	13.4%	1.1%	49.5	1.6%	It continued to secure contract extension in 2019 despite change in govt following GE14, which demonstrated its competence in providing services to the govt.
3	Gamuda	9.77	25.2%	3.9%	13.7	3.1%	It has clinched RM15bn worth of construction orders, putting it on track to achieve its target of a cumulative RM25bn order book for the two financial years to Jul-23. Anwar-led govt. is positive for its Penang reclamation project. 38 sen special dividend ex on 13 Dec.
4	MYEG	5.91	-24.8%	-1.2%	18.8	1.5%	It continued to process more job matching service for foreign workers as soon as the new govt. had unfrozen the intake of foreign workers since July 2019. This shows that MYEG is able to collaborate with any govt. We understand that there have been no visible attempts by other companies to offer similar e-govt. services and also lack of other alternatives so far.

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5	HeiTech Padu	0.07	-41.7%	-2.0%	-4.7	N/A	It has bagged multiple govt. and govt.-linked companies' contracts in the past would be seen not having issues in any change of govt.
6	UEM Edgenta	0.86	-34.6%	-1.9%	17.3	2.9%	Unlikely to have any significant impacts in view of its solid track records in providing excellent services to govt.

Source: Bloomberg, PCM, 23 Nov, 2022

## Recommendation

While the formation of a new government is a lift off of uncertainty as the MPs can now discuss on the re-tableting of Budget 2023, an unstable unity government is worrisome for the Malaysia economic outlook. We expect volatility to remain due to the ministerial appointments that might surprise the market. Nevertheless, we advise investors to stay on course with the long-term investment goal to achieve a reasonable return. In times of uncertainty, it is very common for the stock market to swing wildly; however, this short-term jittery has proved to be mishaps in the long-term secular growth trend of the economy

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