

## MALAYSIA BUDGET 2024 – A Pragmatic Budget

The tabled Budget 2024 themed “*Reformasi Ekonomi, Memperkasakan Rakyat*” (the Budget) with 3 key focus areas 1) best governance for agile services, 2) economic restructuring for boosting growth and 3) enhancing the quality of life for the people.

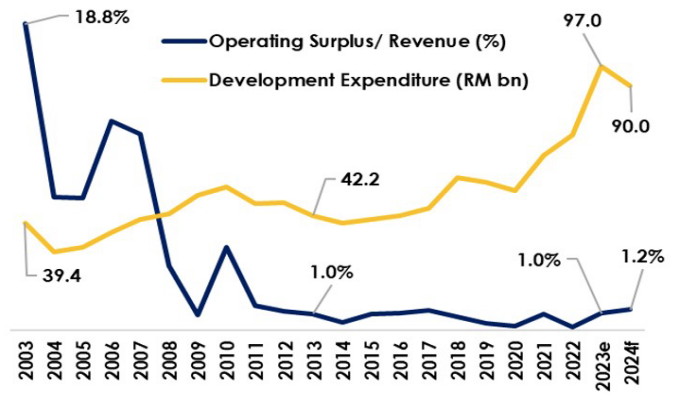
Budget 2024, devoid of major populist incentives, neither thrills the market nor disappoints. This is evident from the selective Sales & Service Tax (SST) increment from 6% to 8% and the introduction of a 5-10% luxury goods tax. Amid tight financial conditions, the emphasis on tax collection is a strategic move, aiming to fortify the fiscal stance while rejuvenating the economy and enhancing citizens' well-being.

A noteworthy initiative is the fuel subsidy rationalization, underscoring the government's dedication to sustainable growth. These bold, albeit non-populist, measures enhance the government credibility, signalling a steadfast commitment to its long-term economic plans.

### Malaysia Budget Dilemma - Increasing Debt Service Charges

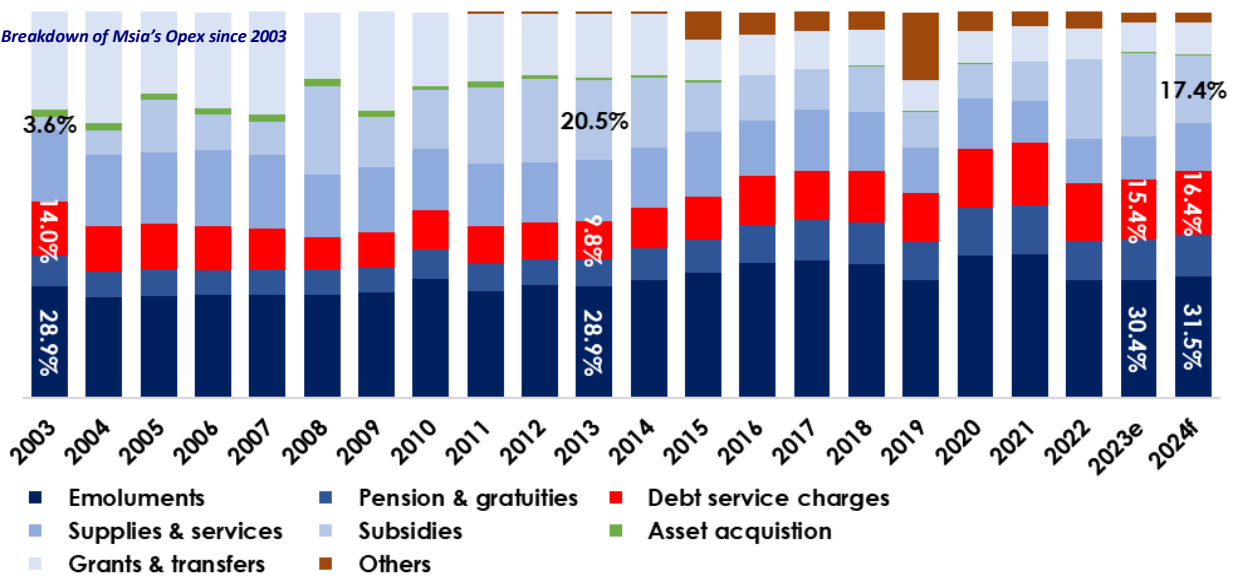
Since the 2008 financial crisis, Malaysia operating surplus has been a slim 0.2-1.5% (Fig 1), with the only exception being a 5.1% recovery in 2010. This means that the government is caught between a rock and a hard place, trying to commit necessary expenditures while trying hard not to fall into operating deficit. A significant concern is the surge in development expenditure, which skyrocketed by 75% in just four years (from RM51.4bn in 2020 to RM90.0bn in 2024). This sharp increase contrasts with the modest 30% growth from 2003 to 2020. To accommodate this spending, the government has been compelled to increase borrowings, leading to a concerning vicious cycle of debt. In turn, more revenue is spent on servicing debt, as indicated in Fig 2.

Fig 1: Squeezed budget since 2009



Source: Ministry of Finance, PCM (Oct 23)

Fig 2: Breakdown of Msia's Opex since 2003



Source: Ministry of Finance, PCM (Oct 23)

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## Highlights:

Announcements				Comments
<b>Numbers at a Glance:</b>				
<b>Federal Government Finance</b>				
<b>(RM bn)</b>	<b>2022A</b>	<b>2023P</b>	<b>2024F</b>	
Revenue	294.4	303.2	307.6	
Operating Exp	(292.7)	(300.1)	(303.8)	
Development Exp	(71.6)	(97.0)	(90.0)	
COVID-19 Fund	(31.0)	-	-	
Overall (Deficit)/ Surplus	(99.5)	(93.2)	(85.4)	
GDP Growth (%)	8.7	c.4.0	4.0-5.0	
- Agriculture	0.1	0.6	1.2	
- Construction	5.0	6.3	6.8	
- Manufacturing	8.1	1.4	4.2	
- Mining	2.6	(0.8)	2.7	
- Services	10.9	5.5	5.6	
Sources: Economic Report 2023/2024, Ministry of Finance				
A = Actual				
P = Preliminary				
F = Forecast				
<b>Automotive</b>				
<ul style="list-style-type: none"> <li>The government remains steadfast in accelerating electric vehicle (EV) adoption in Malaysia, extending the individual tax relief of RM2,500 for EV charging facilities by another 4 years and RM300,000 tax deduction for EV rental by 2 years (both until YA 2027).</li> <li>TNB, Gentari and Tesla have also earmarked over RM170m in investments for 180 EV chargers to be installed in 2024.</li> <li>A new scheme to promote EV motorcycle use in Malaysia was also introduced, providing rebates of up to RM2,400 for EV motorcycle purchases.</li> <li>To combat diesel smuggling, subsidy rationalization for diesel fuel in stages had also been announced, with selected entities such as logistics companies to continue benefitting from government subsidies.</li> </ul>				<p>In 2024, Malaysia Federal Government projects a revenue rise to RM307.6bn (15.6% of GDP), predominantly from a 6.4% growth in tax revenues, reaching RM243.6bn. This growth stems from flourishing economic activities, enhanced company profits, and improved employment. Conversely, non-tax revenues are expected to dip to RM64bn, reflecting a shift from petroleum-centric revenues. The year's total expenditure is forecasted at RM393.8bn (19.9% of GDP), with operational and development expenditures at RM303.8bn and RM90bn, respectively. Savings from subsidy rationalizations will fortify social safety nets, while infrastructure projects get a boost. Anticipating increased revenues and trimmed expenses, the fiscal deficit aims for 4.3% of GDP, pushing the primary balance towards a 1.8% deficit.</p> <p>New commitment towards consumer-centric EV policies seemed sparse as the budget lacked tangible efforts to address the main issue for EV adoption in Malaysia. Moreover, as current Malaysia EV charger count is only at ~1,200 units, the installation of 180 EV chargers puts us nowhere near our 10,000 chargers target by 2025.</p> <p>Nonetheless, we feel the EV motorcycle rebate is a good step in the right direction and is more aggressive than our Indonesian neighbours at only ~RM2,000 rebate. The lack of any mention on petrol subsidy rationalisation may keep 2024 TIV buoyant as consumer spending power is maintained. Diesel, on the other hand, is mainly used in logistic and industrial purposes.</p> <p>The promotion of EV vehicles is supportive of our immediate automotive pick <b>BAUTO</b> as they introduce more &amp; more EVs into their portfolio whereas the EV motorcycle rebate may accelerate <b>HLIND</b> efforts to produce EV Yamaha bikes.</p>

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## Aviation

- Visit Malaysia Year has been rescheduled for 2026, aiming to attract 26.1m foreign tourists and generate an estimated RM97.6bn in domestic spending.
- The government is allocating RM350m to enhance tourism promotion and activities, with the objective of reclaiming Malaysia's position as a leading global tourist destination.
- The preservation of key areas, buildings, and heritage sites of tourist significance will be ongoing to ensure their attractiveness, safety, and cleanliness are maintained.

*Although the postponement of Visit Malaysia Year from 2025 to 2026 was disappointing, the government's initiative to introduce Visa-On-Arrival and Multiple Entry Visas for Chinese and Indian tourists is expected to provide a significant boost to tourist arrivals.*

*Additionally, the target number of arrivals has been raised to 26.1m from the previous 23.5m, with an estimated expenditure of RM97.6bn, up from RM76.8bn.*

Announcements	Comments
<h3>Banking</h3> <ul style="list-style-type: none"> <li>• To expand the SST scope into brokerage and underwriting services.</li> <li>• To implement Capital Gains Tax for disposal of non-listed company shares based on a 10% rate on net profit from Mar-24. However, exemptions can be considered for activities such as IPOs, internal restructuring and venture capitals, subject to certain conditions.</li> <li>• Income tax exemption on Islamic Securities Selling and Buying (ISSB) for Shariah-based Securities Borrowing and Lending (SBL).</li> <li>• Financial Institutions to allocate funds up to RM200bn to encourage industries to transition towards a low-carbon economy under the NETR.</li> <li>• Restructuring of development financial institutions through the merger of Bank Pembangunan Malaysia, SME Bank and Exim Bank.</li> </ul>	<p><i>This represents a favourable development since increased tourist numbers translate into higher revenue potential for <b>MAHB</b>. Furthermore, airlines like <b>AAX</b> are poised to reap substantial benefits from this positive trend.</i></p> <p><i>We believe the impact from all these proposals on banks' earnings would be minimal due to the small contribution from corporate advisory businesses to their overall revenue.</i></p> <p><i>In addition, the merger of Bank Pembangunan, EXIM Bank and SME Bank is unlikely to be a threat or competition to the mainstream banks. Hence, we are <b>Neutral</b> for the proposals on the banking sector.</i></p>

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## **Brewery and Tobacco**

- No excise duty hike for brewers as expected.
- Impose excise duty on chewing tobacco products at a rate of 5% and RM27/kg.
- Government to increase control on smuggling on cigarettes and liquor products such as limiting transshipment to certain ports and limiting export centre to only one imigresen complex.

We are **positive** that no excise duty hike for brewers notwithstanding the government's need to improve its fiscal position. The ongoing commitments from the government to clamp down on illicit trades also bode well for brewer and tobacco industries.

We recommend **BUY** for **Carlsberg** as we view that investors are overreacting to the potential excise duty hike ahead of the Budget 2024 announcement. Additionally, we also expect Carlsberg dividend payout to normalise to pre-pandemic level of 100% as early as by end-FY23. While the excise duty on chewing tobacco does not affect BAT since it's not within their product range, our pessimistic outlook on **BAT** persists due to the government's continued endeavors to decrease nation tobacco consumption.

## **Construction**

- To allocate RM90bn for development expenditure (DE).
- To allocate RM11.8bn for 33 flood mitigation projects. with RM5.1bn to be awarded in 2023 from Oct-23 onwards while remaining RM6.1bn to be awarded starting early 2024.
- The revival of 5 LRT3 that previously shelved 5 stations will be resurrected at a cost of RM4.7bn.
- To assign RM7.4bn for Pan Borneo Sabah Phase (PBH) 1B with a total of 19 packages and will be awarded by Nov-23.
- Sarawak-Sabah Link Road (SSLR) Phase 2 will start at end-2023 with cost of RM7.4bn.
- To allocate RM10bn for LRT from Penang to Prai to be implemented on a Public-Private Partnership (PPP)

The higher effective DE of RM90bn of (+7.9% YoY) after stripping off USD3bn 1MDB bond payment from 2023 DE is expected to boost construction activity in 2024. The transport sector continues to receive the largest share of DE at 21.3% or +8.9% YoY, on the back of progress in construction of mega projects.

We can see the limelight on East Malaysia with the continuous increase in DE to RM12.4bn (+2.5% YoY). With the continuation of PBH Phase RM1bn will also benefit those West Malaysian players such as **Gamuda**, **HSS**, **WCT** and **IJM** that have submitted their tenders on it. Notably, **HSS** as the incumbent PMC in PBH

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Announcements	Comments
<p>model.</p> <ul style="list-style-type: none"> <li>To earmark RM931m to expand North-South Expressway (PLUS) to six lanes from four lanes along Sedenak-Simpang Renggam stretch.</li> <li>With the allocation of RM1.1bn for water projects new water treatment plant in Machang, Kelantan</li> <li>Allocating a total of RM4.4bn to upgrade and build new schools.</li> <li>To assign a total of RM8.2bn to state governments for the maintenance of state roads and bridges.</li> <li>To earmark RM30m to 115 Jurutera Daerah for the urgent repairs of federal roads in each district and RM100m for the maintenance and instalment of LED- type street lights.</li> </ul>	<p><i>Phase 1A, it is in a strong position to secure Phase 2.</i></p> <p><i>With the retender of flood mitigation projects <b>HSS, YTL, GAMUDA</b> and <b>MRCB</b> are set to benefit with their relevant expertise and expressed interest, stand as potential contenders for these projects.</i></p> <p><i>As LRT3's turnkey contractor, we believed MRCB would benefit from the reinstatement of the 5 provisional stations, and <b>SCGB</b> and <b>WCT</b> would likely be appointed to carry out the additional work. In the case of Penang LRT, potential changes in the PPP model and financing are uncertain, but we believe <b>GAMUDA</b> is in the driver seat, as it's appointed as the Project Delivery Partner (PDP).</i></p> <p><i>The absence of MRT3 in the budget speech means more delay on design and funding requirements.</i></p>
<p><b>Consumer</b></p> <ul style="list-style-type: none"> <li>Cash assistance through Sumbangan Tunai Rahmah (STR) with a total allocation increase from RM8bn to RM10bn, benefiting 10m recipients. <ul style="list-style-type: none"> <li>STR maximum rate raises from RM3,100 to RM3,700.</li> <li>STR minimum rate for youth raises from RM350 to RM500</li> </ul> </li> <li>To extend Sumbangan Asas Rahmah benefit from 200k to 700k recipients who will receive RM100/month for 12 months.</li> <li>Incentive payment of RM2,000 for each civil servant Grade 56 and below including contract appointments and RM1,000 to all main public sector employees including police, firemen, armed forces and uniformed bodies</li> <li>To raise the Sales and Service Tax (SST) from 6% to 8%, but this hike will not be applicable to food &amp; beverages and telecommunications.</li> <li>To implement a luxury goods tax at a rate of 5% to 10% on specific high-value items such as jewellery and wristwatches, based on the value of the product.</li> <li>Propose to remove the subsidies and ceiling prices that are imposed on poultry and eggs.</li> <li>Increase excise duty on "sugar sweetened beverages" from RM0.40/litre to RM0.50/litre.</li> </ul>	<p><i>The extension of the STR program aligns with our expectations and is likely to bolster consumer spending within the B40 group in the near to medium term. There is an anticipated decrease in discretionary spending (together with fuel subsidy cut) among the M40 group, potentially affecting companies such as <b>Aeon, Bonia, BjFood, InNature, Senheng, Lee SK, and Padini.</b></i></p> <p><i>Additionally, the proposed hike in sugar tax will have minimum impact the margin of ready-to-drink manufacturers like <b>Nestle, F&amp;N, and Power Root.</b></i></p> <p><i>On the positive side, we are <b>upbeat</b> on the removal of price control on chickens and eggs as this measure has been dampening the profitability of all poultry farmers' such as <b>MFlour, LeongHup, QL and Teoseng</b> since the past 1 year.</i></p>

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## Healthcare

- Allocation of RM41.2bn to the Ministry of Health.
- To earmark RM5.5bn to obtain supplies of medicines, consumables, reagents and vaccines.
- To combat overcrowding in the public hospitals, MoH has allocated RM200m to facilitate the continued decanting of patients to alternative healthcare facilities, including military, university, and private hospitals.
- A budget of RM766m has been earmarked for the procurement of medical equipment within MoH hospitals.

*The higher allocation of RM41.2bn (+13% YoY vs. 5-year CAGR 6% in CY18-23F) to MoH, primarily for the development of various healthcare facilities and procurement of medicines and consumables, is expected increase demand for medicine which is a positive catalyst for **Umedic**, **Scomnet** and **Dpharma**.*

Announcements	Comments
<p>This allocation is intended for the replacement of equipment that has reached the point of Beyond Economic Repair (BER) and to fulfil the specific requirements for various new disciplines.</p> <ul style="list-style-type: none"> <li>• An allocation of RM150m to maintain information technology system under MoH. This includes the provision of Clinic Management System Subscription (CCMS) in 100 health clinics.</li> </ul>	<p><i>The government's strategy to shift patients from public hospitals to other healthcare facilities is set to benefit <b>KPJ</b>, <b>IHH</b>, and <b>SUNWAY</b> by generating additional revenue streams and boosting bed occupancy rates for these hospital operators.</i></p> <p><i><b>AHEALTH</b>, which has a private sector exposure of &gt;90%, is anticipated to benefit from a potential increase in private sector demand for generic drugs.</i></p> <p><i>We maintain our <b>Neutral</b> stance on the Healthcare Sector, with top recommendations including <b>Umedic</b>, <b>Scomnet</b>, <b>Dpharma</b> and <b>Sunway</b>.</i></p>
<h2>Industrial &amp; Technology</h2> <ul style="list-style-type: none"> <li>• To build a high-tech industrial area in Kerian, North Perak to expand the ecosystem for the E&amp;E cluster in the northern region.</li> <li>• To provide a tiered reinvestment tax incentive via tax allowance of 70-100% to stimulate companies to invest in high growth and high value areas.</li> <li>• RM900m loan fund under Bank Negara Malaysia to encourage small and medium enterprises to enhance business productivity through automation and digitisation.</li> <li>• To expedite National Digital Identity development as a reliable endorsement platform to further improve the efficiency of public services,</li> <li>• A total of RM100m is provided for digitalisation grants of up to RM5,000 for the benefit of more than 20,000 MSMEs. This grant can be used to upgrade sales, inventory and digital accounting systems.</li> <li>• To enforce e-invoicing mandatory to taxpayers with annual sales exceeding RM100m from Aug'24.</li> </ul>	<p><i>Given the China+1 strategy driven by heightened US-China trade diversion, the development of a new high-tech industrial zone is poised to draw foreign manufacturers towards expanding their presence in Malaysia. We anticipate that their potential entry will bring about favourable ripple effects on local (E&amp;E) industry players, encompassing those engaged in OSAT (<b>Inari</b>, <b>MPI</b>, <b>Unisem</b>, etc.), ATE (<b>Greatech</b>, <b>Penta</b>, <b>Vitrox</b>, <b>UWC</b>, etc.), and EMS (<b>NatGate</b>, <b>ATech</b>, <b>VS</b>, <b>SKP</b>, etc.).</i></p> <p><i>We believe <b>Dsonic</b> will be the beneficiary from the national digital identity development given its extensive experience in national identity projects for more than 20 years.</i></p>

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## Transportation & Logistics

- To enhance Port Klang's significance, the government intends to proceed with the development of the Carey Island port as outlined in a Request for Proposal (RFP).

*The government's intention to move forward with the Carey Island port project has cast some uncertainty over the future business outlook for the expansion of **Westports 2**. This uncertainty could potentially affect investor sentiment negatively.*

*Due to the spillover impact of PETRONAS high capital expenditure, we believe that the delayed Safina 2 contracts, anticipated to be awarded by the end of 2023, will have a positive effect on vessel builders like **SYGROUP** and **Muhibbah**.*

## Oil and Gas

- Petronas has earmarked a RM32 billion dividend for 2024.
- Targeted subsidies will be phased in next year.
- Pengerang Integrated Petroleum Complex (PIPC) is highlighted as a key hub for the chemical and petrochemical sector.
- The Finance Ministry, Inland Revenue Board (IRB), and

*Petronas' RM300bn five-year capex, a 43% YoY increase is a boon to local oil and gas industry. We think OSV players like **Perdana** and **Sealink** stand to benefit from this development.*

*PIPC as a chemical hub was mentioned for the 2<sup>nd</sup> time after the 12MP mid-term review. Even*

## Announcements

Petronas are in the process of studying tax incentives for carbon capture and storage (CCS) and hydrogen sulphide projects, with plans to finalize them by year-end.

## Comments

*though no details have been given thus far, it is positive for Pengerang developments. **Dialog**, as a proxy to PIPC, is slated to be a major beneficiary.*

*Overall, we are positive on the Oil & Gas service providers, ie. **Dayang**, **Perdana** and **Velesto** as they enjoy higher hire rates amid tight market.*

## Plantation

- To provide a RM100m Palm Replanting Programme Incentive (to 7,000 small private oil palm farmers).
- To allocate RM70m to increase the level of sustainability of the oil palm industry as well as intensifying anti-palm oil campaign on the international stage.
- To expand the scope of tax incentives on automation.
- The government will provide RM2.4bn to FELDA, FELCRA and RISDA to continue to boost the agri-commodity activities and improve the socioeconomics of smallholders.
- Multi-tiered foreign worker levy is planned for implementation in 2024.

*We believe that increasing the foreign worker levy would raise plantation companies' operating costs, but that this could be partially offset by more automation.*

*While the measures are beneficial to the oil palm plantation sector productivity and competitiveness, their impact is likely to be minimal (particularly for the listed players). We maintain our **Neutral** position on the plantation industry. With **IOICorp**, **HapSeng**, and **GENP** as top picks.*

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## Property

- The government has agreed to relax conditions for Malaysia My Second Home (MM2H) applications to increase the arrival of foreign tourists and investors to Malaysia.
- Flat stamp duty rate of 4% for purchase of properties by noncitizens and foreign-owned companies, except for individuals with permanent resident status in Malaysia. Previously, the tiered rate of 1-4% was charged for foreign buyers of properties.
- The Government proposed to double up the housing credit guarantee scheme to RM10bn through Syarikat Jaminan Perumahan Berhad (SJKP) to aid low-income borrowers to obtain home financing.
- Proposal to develop Industrial Zone in Kerian, north Perak.

*The easing of MM2H qualification requirements will likely rejuvenate interest among foreigners to invest in Malaysia real estate. Especially in Kuala Lumpur, Johor and Penang, which have traditionally been highly sought after by foreigners seeking to reside in Malaysia and with the lower stamp duty rate compared to Singapore's 60% rate for foreign purchase of properties.*

*The Home Credit Guarantee Scheme will be increased to RM10bn from RM5bn will help low-income buyers and encourage home ownership, especially in B40 and M40. This should boost home demand, especially in affordable housing, benefiting **Lagenda** and **Matrix**.*

*Budget 2024 will likely have little impact on the property sector. We maintain our **Neutral** stance on the Property Sector, with top recommendations including **IOIPG**, **E&O**, **KITACON** and **Lagenda**.*

## Telecommunication

- As of Sep'23, DNB has reached 70.2% population coverage for 5G and in line to reach 80% by end of 2023 and is available on all telcos.
- The government pledges to boost efforts with telcos to provide 5G access to more and more users and businesses.
- RM60m earmarked for development of Cyber Security framework and local 5G technology expertise in order to stay vigilant against the threat of cyber attacks.
- RM250m to replace and widen Wi-Fi access in all public universities.

*We are happy with DNB 5G progress and await the outcome of the dual wholesale network (DWN) model post-80% coverage achievement, in particular which MNO will take the helm of the 2<sup>nd</sup> network and the final equity stake composition in DNB.*

*We remain positive on **TM** as a strong fixed broadband player and an obvious choice among internet service providers (ISP) for public entities and other development that will sprout from this year's budget.*



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Announcements	Comments
<p><b>Power &amp; Utilities</b></p> <ul style="list-style-type: none"> <li>To establish a NETR, with a seed funding of RM2bn. Also, the financial institutions will prepare RM200bn of funding to support Malaysia's transition to a low carbon economy.</li> <li>The government will strengthen and implement the CGPP to reach 70% renewable energy (RE) installed capacity by 2050. The government will also consider other third-party access (TPA) models to encourage RE generation capacity investment.</li> <li>To extend the Net Energy Metering (NEM) program until 31st December 2024.</li> <li>To reduce investment costs, the government is creating a rooftop solar buyback programme. Additionally, the government is urging corporations to offer a "zero cost model" for residential rooftop solar installation.</li> <li>Putrajaya will be Malaysia low-carbon model. With TNB and Gentari, the government will install rooftop solar panels on government buildings.</li> </ul>	<p><i>The ongoing electricity tariff re-structuring exercise included surcharges of +3.7-20.0sen/kWh for targeted non-domestic users and +10.0sen/kWh for top 1% domestic users (consuming 1,500kWh/month or spending RM708). We are positive with the restructuring efforts while maintaining the ICPT mechanism, easing investor concerns about Tenaga regulatory risks.</i></p> <p><i>Budget 2024's RE generation measures is good for the renewable energy industry. We eagerly await the government's RE exchange plan and import/export policies.</i></p> <p><i>We reiterate our <b>Overweight</b> call for the utilities sector, with <b>TNB, YTLP, PEKAT, and MNHDG</b> as our top pick. These budget measures are positive for the sector, but investors are still waiting for the government cross-border trading and grid expansion/upgrade initiatives.</i></p>