14 May 2018 | Strategy

Post GE14: The Rakyat Has Spoken

FBM KLCI: 1,846.51

What can we expect moving forward

(2018 Year-end Target: 1,900 points)

What was the outcome?

GE14 is just concluded. GE14 was the most awaited election for Malaysian especially with numerous issues as well as interesting figures involving in the scenes. The election was held in peaceful process as well as the power transition went smooth. The election started off with the dissolution of parliament on 7th April, followed by nomination day on 28th April and polling day on 9th May.

Malaysia experienced its 1st change in the federal government after 6 decades. After 61 years under the reign of Barisan Nasional (BN), the Malaysian government leadership changed to Tun Mahathir-led coalition, Pakatan Harapan (PH). Despite of the election being held on a Wednesday, the turnout ratio was 82.32% or equivalent to 12.3 million voters. PH had the highest numbers of seats, 122 surpassing the minimum requirement of 112. BN and Islamic Party (PAS) registered 79 and 18 seats respectively. By state, PH managed to retain Selangor and Penang while Kelantan remained under PAS. On top of that, PH had also received mandates to govern the states of Kedah, Perak, Negeri Sembilan, Melaka, Johor and Sabah, seeing new chief ministers or menteri besar appointed to lead these state government. PAS added Terengganu under its administration while Perlis, Pahang and Sarawak remain under BN.

History in the making. At the national level, Malaysia created a few histories through the appointment of the world's oldest head of state and also the first to become the Prime Minister under two different coalitions through the appointment of Tun Dr. Mahathir Mohamad as our 7th Prime Minister. Another history was also created with the appointment Datin Seri Dr. Wan Azizah Wan Ismail as the Deputy Prime Minister, the first Malaysian woman to hold that position.

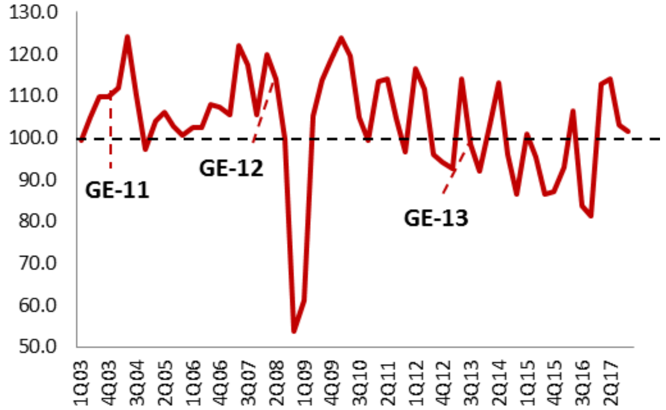
Named 3 Ministers so far to the cabinet. The Prime Minister has also named three ministers ; Tan Sri Muhyiddin Yassin as the Home Minister, Lim Guan Eng as the Finance Minister and Mohamad Sabu as the Defence Minister. Remaining 7 key ministers namely Economy, Education, Multimedia Science and Technology; Rural Development, Public Works, Transport and Foreign are expected to be name within three weeks. Supporting the cabinet would be the "council of elders" made up of former Finance Minister Tun Daim Zainuddin, former Bank Negara Governor Tan Sri Zeti Aziz, former Petronas CEO Tan Sri Hassan Marican, Hong Kong-based Malaysian tycoon Tan Sri Robert Kuok, and economics expert Professor Jomo Kwame Sundaram.

What can we expect moving forward?

GE14 was the first time ever election held when MIER's CSI below its threshold line of 100 points. Referring to historical data, since 1990 till 2013, the sentiment index of the quarter before election period was above 100 points. However, the index has been below 100-points level since the third quarter of 2014 partly due to the falling global crude oil prices, slowdown in macroeconomic activities as well as the introduction of some key fiscal policies such as GST. On a flip side, the index rebounded since the first quarter of 2016 but at slow and steady pace.

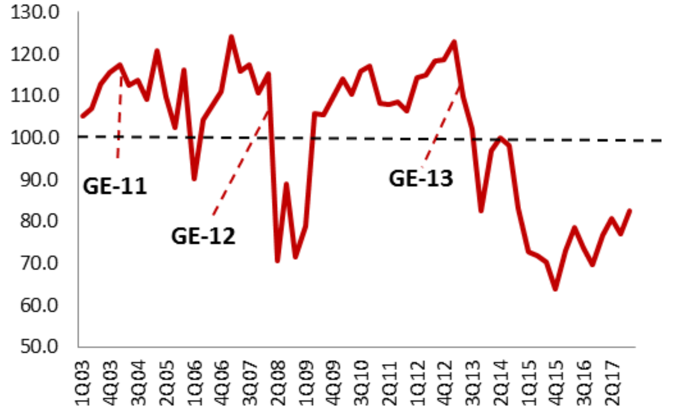
Economic performance is expected to remain resilience amid uncertainties surrounding the transition period. Smooth transition period and clarity on policy direction will help to sooth the business and investor concern. Nevertheless, we anticipate business confidence to remain optimistic boost by the expansionary fiscal measures announced during the election as well as recovery of commodity prices and elevated global demand.

Chart 1: MIER's Business Condition Index (Points)



Source: CEIC, MIDFR

Chart 2: MIER's Consumer Sentiment Index (Points)



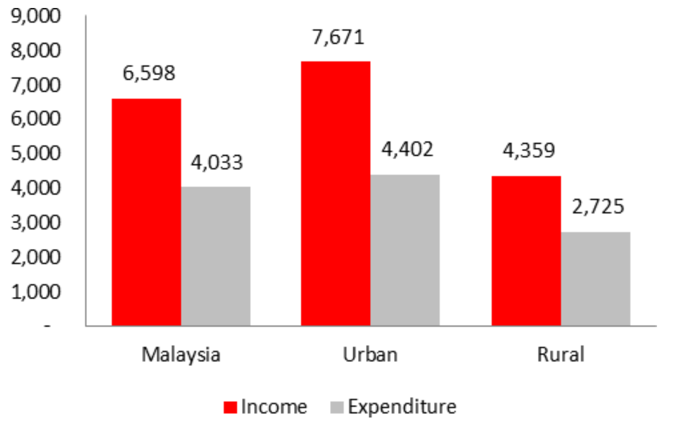
Source: CEIC, MIDFR

Highly-perceived rising cost of living. The latest Household Income & Expenditure Survey for 2016 saw expenditure-to-income ratio rose from 50.6% in 2010 to 58% in 2016. In a simple word, for every RM1 of income, 58 cents are spent for routine expenditures. The upsurge in expenditure among others partly due to the implementation of GST, subsidy rationalisation plan and increase of minimum wage from RM900 to RM1,000. The negative implications of raising minimum wage indirectly put pressure on businesses and translated into higher price for consumers.

Accommodative policies for consumers. The rolled back of key polices such as GST abolishment, managed fuel price and targeted subsidy are seen as sentiment booster for the consumers. The proposed policy stance will help to lift consumers' disposable income and indirectly spur domestic consumption. At this juncture, the directional (upward) implication on consumers is given but the impact on government's fiscal position is unclear due to lack of details of implementation.

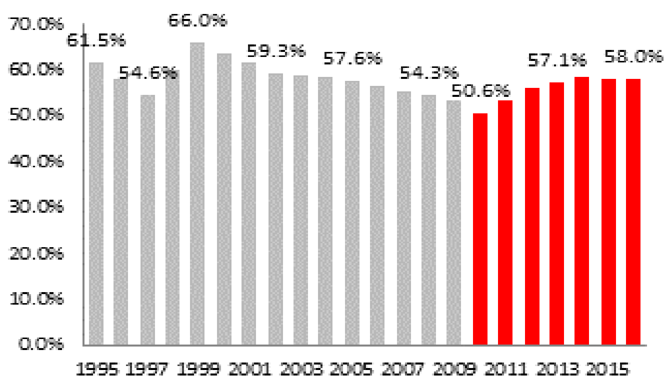
Domestic demand remains the backbone of the economy. Private consumption constitutes about 53.5% of the Malaysia's economic activity, in line with the RMK-11 target of 53.8%. The domestic spending continues to strive steadily despite of introduction of GST in 2015 and other subsidy rationalization programs. Among others, contain inflationary pressure, stable job market and healthy wage growth are key fundamental factors supporting the domestic spending. Moving forward, we view private consumption to remain expanding at solid pace, above the RMK's target of 6.4%. As for 2018, we project private consumption to rise by 6.5%. On the other hand, despite of a slight tone down of Household Debt-to-GDP ratio from 88.3% in 2016 to 84.3% in 2017, further reductions of the debt is in need to ensure debt risk in Malaysia on safe side.

Chart 3: Median Household Income & Expenditure Per Month (RM)



Source: CEIC, MIDFR

Chart 4: Expenditure-to-Income Ratio of the Latest Household Income Survey (%)

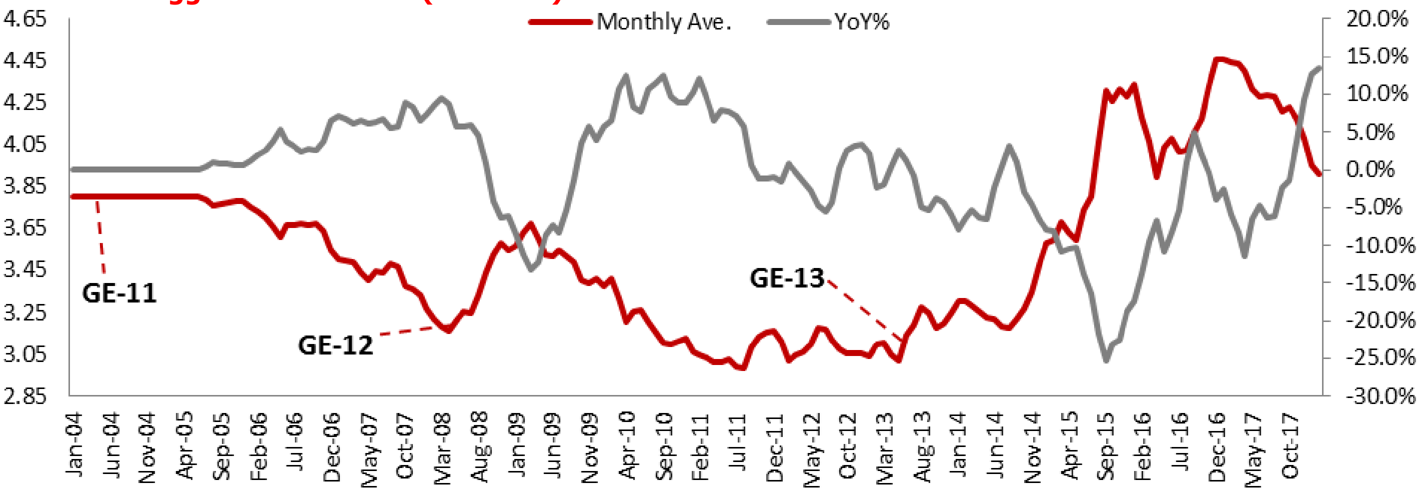


Source: CEIC, MIDFR

Guidance from experience advisers would ensure smooth running of the new government machineries. We take comfort that the "council of elders' has in between them experts in both fiscal and monetary policies in former finance minister Tun Daim Zainudin and former BNM Governor, Tan Sri Zeti Aziz, who will be able to provide sound advice and guidance to the freshly minted Finance Minister. In addition, former Petronas CEO Tan Sri Hassan Marican's and Hong Kong-based Malaysian tycoon Tan Sri Robert Kuok's vast experiences in the commodities business namely oil & gas and plantations respectively, would be beneficial as Malaysia has high dependencies in commodities trading as its source of income. Furthermore, Professor Jomo's expertise in developmental economics would be greatly needed as Malaysia continues to break out of the developing nation mould into the much coveted developed nation status.

Ringgit is expected to be under pressure in the near term pending clarity on the government's economic policies. The dip knee-jerk reaction had by the currency post-elections to as high as RM4.03 for 1 USD were due to concern about the economic policies especially those related to election promises. GST and toll abolishment will be negative to government revenue and counter measures to fill the gap will influence Ringgit performance in the near term. However, sound economic fundamentals, elevated and stable commodities prices and strong external demand will support MYR in the medium term. Hence, we maintain our MYR forecast of 4.00 on average and 3.95 at year-end.

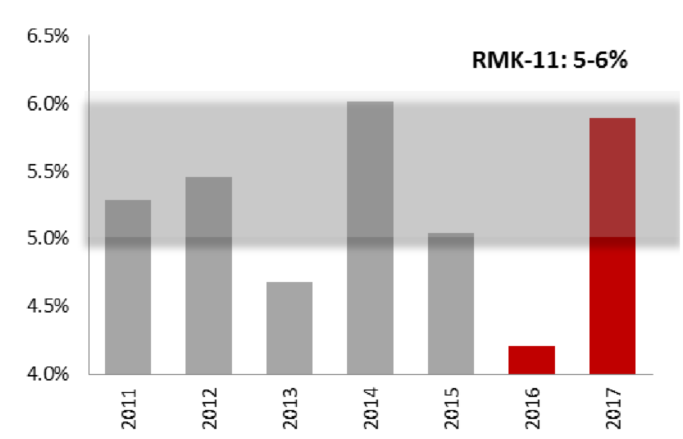
Chart 5: Ringgit Performances (USDMYR)



Source: CEIC, MIDFR

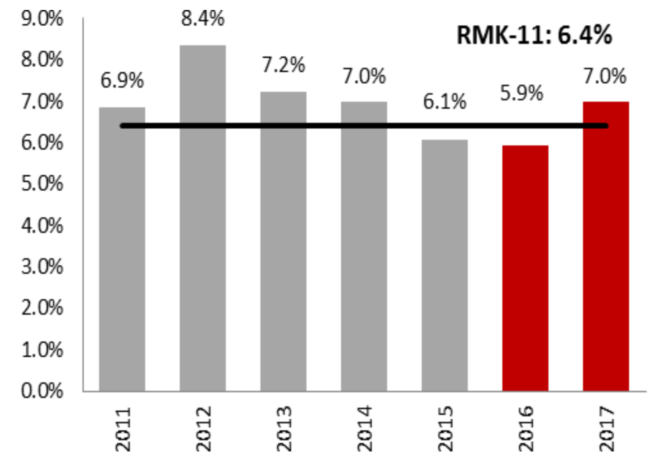
Beyond election, the government & economy. New government has task to ensure Malaysia remains on its medium and long-term targets as highlighted by the Eleventh Malaysia Plan (RMK-11, 2016-2020). Under the 5-year plan, Malaysia's economy is set to expand in the range between 5-6% annually. So far, the average growth rate of 2016 and 2017 is 5.1%. Looking ahead, we expect the economic growth to stay in the range especially with the recovery of commodity prices, strengthening global trade activities, stable labour market and healthy wage growth. In spite of this, volatility of commodity prices, geopolitical risks, threat of trade war and monetary policy normalisation in major economies remain as downside risks in the medium term for the Malaysian economy. Smooth and orderly transition as well as clarity on policy direction will ensure Malaysia to remain on track.

Chart 6: GDP Performance (YoY%)



Source: CEIC, MIDFR

Chart 7: Private Consumption Performance (YoY%)

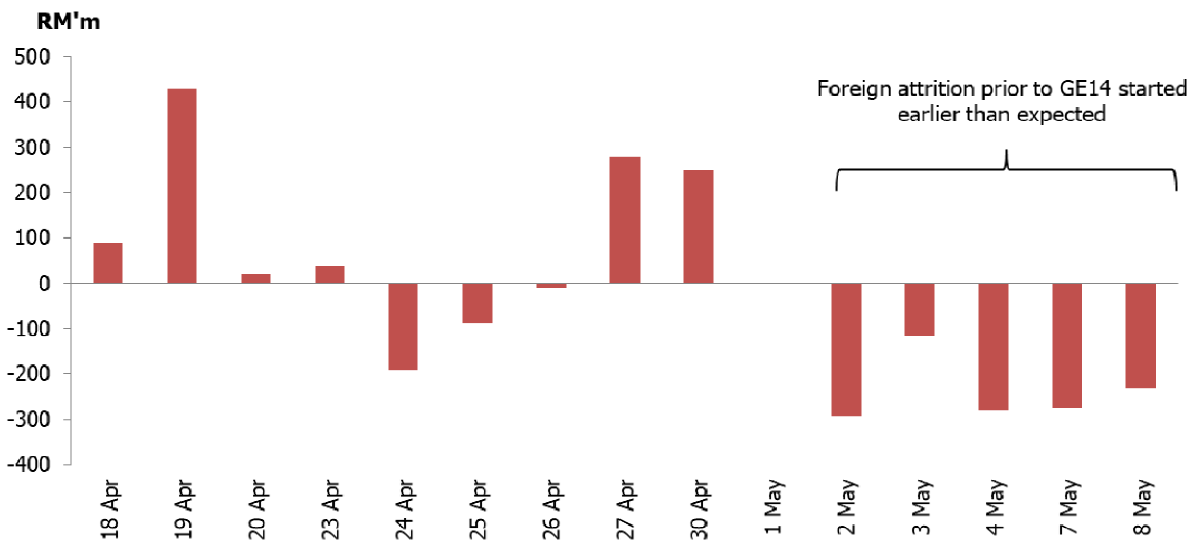


Source: CEIC, MIDFR

How would the market react?

Fund outflow began before GE14. Foreign attrition began five trading days before polling day with four days, with foreign investors net selling seen at greater than –RM200m. Besides pre-election fevers hitting the market, other external developments influenced investor sentiment that time such as the sheer progress of U.S-China trade talks and the Fed's acknowledgement of the US inflation nearing its target. Interestingly, foreign attrition on the day before GE14 shrank by RM42.4m from the day before to –RM231.2m net, the second lowest during the five day selling streak. The local bourse on that day was up 1% at 1,847 points amidst buying activities by local institutional funds which have lent support to the market. As of 9 May 2018, the cumulative year-to-date inflow stands at RM2.52b net compared to RM14.3b accumulated before GE13 during the period from 1 Jan – 3 May 2013.

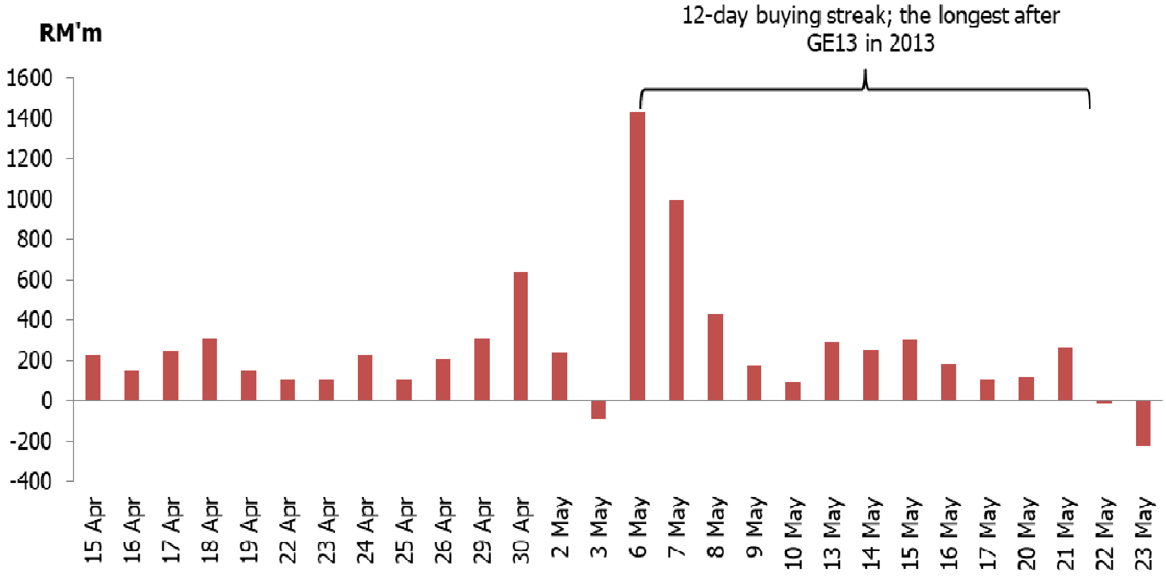
Chart 8: Daily foreign flow three weeks prior to GE14



Source: Bursa Preliminary Statistics, MIDFR

In comparison to GE13, foreign attrition only occurred for the first time in 33 trading days on the Friday, the last trading day prior to GE13, seeing a net outflow of –RM91.7m net. GE13 took place on Sunday, 5 May 2013. Global investors then returned strongly to Bursa on the Monday after GE13, acquiring RM1.43b worth of local equities following the victory of the former federal ruling government. However, the buying binge only lasted for 12 trading days before normalisation of foreign flows began until year end. The longest buying streak thereafter for 2013 only occurred on seven trading days. 2013 posted an overall foreign net inflow of RM3.03b, lower than the RM14.6b mopped up a year earlier.

Chart 9: Daily foreign flow three weeks before and after GE13



Source: Bursa Preliminary Statistics, MIDFR

Post GE14: Expect some attrition in the short term. With new government being formed under Pakatan Harapan, we expect some level of foreign attrition in the short term as political uncertainty, until at least the full appointments of cabinet members. However, this could be mitigated by Tun Mahathir's assurance on the maintaining a great relationship with foreign trading partners and investors, along with his solid track record of being Malaysia's Prime Minister for 22 years. Meanwhile in the long term, foreign investors' perception towards Malaysia will improve as Pakatan Harapan proceeds to work on its promises. From there, we could expect waning political uncertainty to attract investors back to Malaysian shores. Overall for 2018, the foreign net inflows is expected to be lower than last year's RM10.3b inflow in lieu of not only the "uncertainties" related to the elections, but also on the headwinds caused by geopolitical events such as the US pulling out of the Iran nuclear accord, crisis in Venezuela, Syrian War, and also more interest rate hikes by the Federal Reserve in the US and also the Bank of England.

Mixed sectoral impact. The Pakatan Harapan manifesto affects the sectors in different ways. The move to review mega projects is short term negative for the construction sector. But we think that existing projects that are underway will be run as normal although we don't rule out the possibility of the review of the costs involved. Meanwhile, the measures to improve the people's well-being including removal of GST and tolls, and lowering of car prices are expected to improve consumer sentiment and domestic demand which bodes well for the consumers and automotive sectors. The lowering of petrol pump price, on the other hand, will have a neutral impact on petrol companies lowering of petrol pump price, petrol companies will be compensated with an 'adjustment' should pump price (which are determined by the government) be lower than that of global market price and vice versa. In addition, we expect both upstream and downstream oil and gas activities levels to remain active and no delays in upstream offshore commencement of projects.

Boost from affording housing and Skim Peduli Sihat initiatives. The emphasis on affordable housing would be will be positive for the banking sector to steer loans growth trajectory through the increase in home loans and also for the property sector as well, although the impact on the companies on the listed space is unknown at the moment. Meanwhile, the introduction of a RM500 financing under the Skim Peduli Sihat, for those who fall under the B40 income bracket to seek basic medical treatments at registered private clinics, would benefit the healthcare sector especially the General Practitioners (GP) and private healthcare service providers.

Weaning of foreign workers is a short term pain. The intent to reduce Malaysia's dependency on foreign workers will have a short term impact on the manufacturing based companies such as the gloves. On average, foreign labour makes up about 70-80% of the total workforce employed by the gloves manufacturing companies in Malaysia. However, increasing utilization of automation in the sector is a much welcome initiative to mitigate this issue.

FBMKLCI heading into unchartered waters. The US-listed iShares MSCI Malaysia ETF dropped -5.2% (i.e. end Friday against Tuesday close) pursuant to the unexpected GE14 results. As the MSCI Malaysia ETF key equity holdings are similar to the FBM KLCI key constituents, we reckon the local equity benchmark may gap down by up to similar magnitude at market open on Monday, i.e. towards 1,750 points level from 1,846.51 points close on the eve of election date. The negative knee-jerk reaction can be attributable to perceived political as well as economic risks associated with the maiden change in federal government since the nation's independence.

Maintain 2018 FBMKLCI target at 1,900 for now. In regard to the political risk, despite earlier worries, key events that taken place during the past several days have thus far demonstrated the maturity of Malaysia's society and institutions in accommodating a peaceful transition at the federal level. It is also of help that our freshly sworn in 92-year old seventh PM is an old hand (no pun intended) at managing the government (and its disparate coalition members) as he was once the fourth PM for more than two decades. Having said the above, we maintain our FBM KLCI year-end 2018 target of 1,900 points for now, without ruling out the possible revision to our target when further clarity over the full cabinet appointments and future policy direction.

Appendix 1: Sectoral Impacts

Sector	Impact	Developments to look out for
Automotive	Positive	The Pakatan Harapan Government has indicated plans to reduce excise duty for 1st car buyers. This is for purchase of imported cars <1.6 litre engine capacity and limited to one car for every family with household income <RM8K. This is positive for the non-nationals with model representation in the <1.6 litre engine category (most key non-national marques have exposure to the B-segment which entails this category of engine capacity). National makes might see some competitive pressure. However, this depends on the magnitude of excise duty reduction; excise duty rates currently stand between 60%-75% for models in the aforementioned engine category and is estimated to account for 25%-40% of total cost for non-national makes. On the demand side, the abolishment of GST in general may boost consumer sentiment and relieve the pressure from cost of living, driving the propensity to spend on discretionary consumer items. Bermaz Auto (BUY, TP: RM2.70) remains our top pick, followed by UMW (BUY, TP:7.11), Tan Chong (BUY, TP: RM2.05) and MBM (BUY, TP: RM3.10).
Aviation	Neutral	Our long-term view on the sectors still pointing towards a progressive momentum, supported by the industry's and business' strong fundamental. Despite the unforeseen regime change in Malaysia, we are comforted that the process has been smooth throughout. This should be a positive signal for a stable economic and political environment moving forward, leaving the tourism sector to benefit. Following this, we are maintaining our POSITIVE stance on the sector with BUY calls on AirAsia (BUY, TP: RM4.80), AAX (BUY, TP: RM0.46) and MAHB (BUY, TP: RM9.80).
Banking	Positive	We do not foresee any undue direct impact from the recent change in the Government of Malaysia to the banking sector, given its role as a vital contributor to the country's economic growth. It will be greatly influence with the policies of the new Government, which we believe will translate to economic growth. Key deliverables of the new Government, which includes promoting affordable housing, will be positive for the sector to steer loans growth trajectory. We do not foresee any pressure on short terms earnings of banks under our coverage. Nevertheless, investor sentiment might have an effect to banking stock's valuation, but provides opportunities to accumulate banks with strong fundamentals and asset quality. We opine that Public Bank (BUY, TP: RM27.30) and Maybank (BUY, TP: RM11.20) should be the most attractive. On the other hand, there is a possibility that investor sentiment will be negative for banks that may be perceived to have ties to the previous Government, which we opine to be CIMB (BUY, TP: RM7.80) and AMMB (TRADING BUY, TP: RM4.30).

Sector	Impact	Developments to look out for
Construction	Neutral	The GE-14 welcomes a different narrative to the construction sector whereby risks of major projects facing revision beckons. Hence, welcoming potential routs of volatility to the sector and the construction companies. As a result, large caps construction companies will see a directionless period with regards to projects such as MRT3 (Circle Line), High Speed Railway (HSR) and major ports such as Kuala Linggi, Melaka Gateway and North Port expansion (Pulau Carey) being reassessed for their feasibility. Secondly, the mid-caps involving in niche segment of marine engineering, sub-structure (piling) and water-related will be shielded by their niche capabilities. Meanwhile, small-cap construction companies will face fewer challenges due to nimbleness via smaller projects' risk and commands a stronger margin. We reckon that there will be 'paradigm shifts' of method of direct negotiation of projects to open tender projects which will disable certain companies from enjoying an upper-hand in the process due to familiarity with the processes. As result we might see the potential flight of; i) RM105.0bn (ECRL – RM55.0bn and HSR – RM60.0bn) and ii) RM40.0bn from possible MRT3 shelving alone. This does not yet take into account of whether Pan Borneo Sabah will face delay. From our perspective, the current progress of East Coast Railway Link (ECRL) is at 14.0% and some land acquisitions has been made as well as some basic civil works completed in Pahang and Terengganu. Thus, there might be a possibility of limiting the project from Gombak-Kuantan as Phase 1 and deferring the Terengganu and Kelantan segments in order to avoid the project from being a 'white elephant'. Share price expected to fall. In so far, we have not imputed any project amount from ECRL and HSR into the companies of our coverage therefore our earnings assumption remains intact. We take cognizant that moving forward share prices of construction companies might be slashed due to the perception that mega projects foddering the sector might be reduced in quantum and quantity pending further announcements. There are values amongst the construction players. We like IJM (BUY, TP: RM4.00) for Diversified business model ring-fencing the revenue stream from over-relying on the construction segment. Out other top picks are Muhibbah (BUY, TP: RM3.60) with its concession asset in Cambodia provides comfort to the PBT and its marine engineering presence in Qatar, and Gabungan AQRS (BUY, TP : RM2.30) which has seen Improvement in its bottom line through reduced gearing and operating expenses and potential in Kota SAS development with ECRL as a catalyst.

Sector	Impact	Developments to look out for
Consumer	Neutral	MIER's consumer sentiment index rose firmly to 91.0 points for the 1QFY18 from 82.6 in the previous quarter, this is the highest since 3Q14. With the expectation of GST abolishment and higher minimum wages, we expect that consumer sentiment will still be on its upward trajectory to pass the 100 optimistic threshold level. At company level, we expect that no significant changes in bottom line performance in short to medium term. While the consumer sentiment will improve and encourage spending, and hence improve topline performance of consumer companies, the additional administration expenses involves in GST abolishment as well higher staff costs will increase overall operating expenses. Year to date, the Bursa consumer index (KLCSU) has outperformed KLCI with a return of 5.35% against 2.71% respectively. This is very much attributed to the optimistic view of inventors to big cap consumer staples companies at the time of uncertainties. For instance, Nestle and F&N (weightage of 21.5% and 8.6% respectively in KLCSU) both recorded YTD return of 31.3% and 30.9% respectively with PE ratio at 49.1 and 44.4 respectively while dividend yield has dropped below 2%. At the current trading prices, the stocks are overvalued in comparison to the industry PE ratio of 30.8.
Gloves	Neutral	Pakatan Harapan's GE 14 manifesto includes, among others, the increase of minimum wage to RM1,500 from the current RM1,000 and the reduction in foreign labours by 2.0m in stages. In general, these two policies are negative for the gloves sector as the sector is highly dependent on foreign labours. On average, foreign labour makes up about 70-80% of the total workforce employed by the gloves manufacturing companies in Malaysia and a shortage of foreign labours could potentially hurt the gloves industry's earnings. In terms of costs, labour makes up about 11-12% of total costs of gloves production and according to our estimates, the RM500 increase in minimum wage will reduce the earnings of gloves manufacturers by about RM1.5-RM3.5m (or about 2-4%) depending on the company. However, we understand that the Government has also proposed to bear half of the hike i.e. RM250. Therefore, the earnings impact could be lesser than anticipated. We opine that the increase in production will be fully-transferred to the customers via the increase in average selling prices (ASPs) to mitigate impact on earnings. We are maintaining our NEUTRAL stance on the sector at this juncture.

Sector	Impact	Developments to look out for
Healthcare	Positive	Under the Pakatan Harapan's GE 14 manifesto, the Pakatan Harapan coalition mentioned that there will be a RM500 financing under the Skim Peduli Sihat. The amount is allocated for those who fall under the B40 income bracket for the purpose of funding basic medical treatments at registered private clinics. The beneficiary will be the General Practitioners (GP) and private healthcare service provider such as KPJ Healthcare Bhd (KPJ , BUY, TP: RM1.12) where the cost of treatments is deemed to be more affordable for this particular group of income earner. We are maintaining our POSITIVE stance on the healthcare sector at this juncture pending further announcements from the newly elected Government on any changes in the healthcare policies. IHH Healthcare Bhd (IHH, BUY, TP: RM6.91) remains as our Top Pick for the sector. We continue to like IHH for its: (i) geographically-diversified source of revenue; (ii) sound expansion plans and; (iii) robust balance sheet.
Insurance	Positive	We see no clear outline in PH's manifesto (including the GST abolishment) that could materially impact the industry. Partly, this is due to the premium structure of life insurance itself, which is not GST chargeable. However, we noted that the cancellation could provide some relief on the premium paid on non-life policies, which are subject to the aforementioned tax charges. Overall, we opine impact should be minimal considering that GST only constitutes a small percentage of the total premium paid by policy holders. Overall, our view on the sector still remains POSITIVE with BUY calls on STMB (RM4.44) and Tune Protect (RM1.26).
Media	Neutral	Astro (BUY, TP:RM2.83) has benefited from its monopoly in Malaysia's direct-to-home (DTH) satellite pay-tv for more than 20 years. This exclusivity has ended in February 2017. At as August 2017, according to newswire, Ansa broadcast (previously known as U Television) is expected to enter the pay-tv broadcast business. On another note, we do not discount the possibility that the implementation of digital terrestrial TV broadcast system by MYTV Broadcasting Sdn Bhd could see further setback. To recall, based on the latest news, the analogue switch off (ASO) is expected to take place towards the end of 2018. This would provide more time for Astro to prepare itself.

Sector	Impact	Developments to look out for
Oil & Gas	Neutral	With the sector still contributes approximately 11-14% to the government revenue, we expect the projects and policies spearheaded by PETRONAS will remain. Currently, our average national oil production hovers at around 650-700kbpd - this requires continuous capex to sustain. Upstream service providers: Expect offshore activity levels to continue and no delays in upstream offshore commencement of projects, premised on (i) PETRONAS' commitment to constantly review costs and to keep operating levels efficient and; (ii) the crucial need to sustain crude oil production as the majority of the Malaysia offshore assets are aged. As such, we are maintaining our bullish stance on key PETRONAS service provider Dayang Enterprise Berhad (BUY; TP:RM1.06). Downstream facilities: No significant changes or disruptions seen for Petronas' downstream projects, in particular the RAPID and surrounding projects as the projects are nearing completion - ready to be operational in 2019 as some have already began operations such as the Pengerang Regasification Terminal. We remain optimistic on Petronas Chemicals Group (BUY; TP:RM8.72) and Petronas Gas Berhad (BUY; P:RM20.00). Consumer retail fuel: In the new government's manifesto, it is stated that fuel prices will be revised and targeted subsidies will be implemented. We do not foresee any major implications on Petronas Dagangan (BUY; TP:RM28.00) as there is currently a system where petrol companies will be compensated with an 'adjustment' should pump price (which are determined by the government) be lower than that of global market price and vice versa. The risk from this mechanism is the timing difference of when the pump price changes and when the adjustments are received by the petrol companies. In addition, the manifesto also indicated that some form of public transportation subsidy will be given. This move will encourage increased use in public transportation thus reducing demand for retail fuel. However, we reiterate that Petronas Dagangan has been able to successfully manage its inventory levels and costs management the past two years in light of decreasing sales volume.
Plantations	Neutral	There was a concern on the movement of ringgit when it went above RM4.00 per 1 USD, since this would affect the price of Crude Palm Oi. We opine that the likelihood is minimal with the Ringgit currently trading at RM3.97. The election result is Neutral to plantation sector as CPO price is determined by global demand and supply. On the cost side, we believe that any cost pressure due to implementation of minimum wage is likely to be neutralised by better CPO price due to better inventory management. We expect Malaysia inventory to be better managed under the new government through higher biodiesel usage and increased replanting effort. Top picks are KLK (BUY, TP: RM28.50) and GENP (BUY, TP : RM12.00).

Sector	Impact	Developments to look out for
Power	Neutral	Uncertainties surround Tenaga (NEUTRAL, TP: RM16.30/share) particularly on a tariff hike status. ICPT (Imbalance Cost Pass Through) had already turned into a surcharge position since 2H17 given rising fuel cost, but this was temporarily absorbed for consumers by utilizing opex savings from RP1 (Regulatory Period 1). The RM900m savings used to offset the higher fuel cost would have been run down in 1H18 before a review of ICPT is due end-June 2018. It remains to be seen if the new Government is willing to bite the bullet to raise electricity tariffs within such a short period of taking office. YTL Corp (Under Review) is likely to be negatively impacted by the new Government's review of construction projects, which includes the recently won High Speed Rail project and the Gemas-JB double tracking project. This raises uncertainties on YTL's ability to hit its targeted order book of RM12b by year end. YTL Power (BUY, TP: RM1.48/share) has least exposure to domestic business; majority of earnings are derived from Power Seraya (Singapore) and Wessex Water (UK). Key domestic businesses are the short-term 3-year PPA extension for Paka, the mobile broadband business which is loss making and the 1Bestarinet project which has already been majority completed. Share price has dropped substantially by 20%-30% in the past 5 months. Dividend yield of 5% is attractive at current share price levels.
Property	Positive	One of the key items in new government manifesto is to build more affordable housing, which is positive for the sector. However, we are unable to substantiate the impact on the companies under our coverage. Meanwhile house price is determined by underlying demand and supply of houses in Malaysia. We expect demand for houses to be affected by outcome of election.
REITS	Neutral	The election result is Neutral to the REITs sector as asset managers have secured and locked in rental agreements with their tenants while most of them have secured their financing arrangement with the financial institutions. Consumer sentiment may improve after the conclusion of the 14th general election while consumers also prepare for the upcoming Hari Raya celebration in about one month's time. The replacement of GST with other tax regime might be a longer term positive that may boost consumer spending and improving the feasibility of doing business for SMEs. We maintain our overweight stance for REITs. Our top pick is Sunway REIT (BUY, TP: RM1.90) due to its positive earnings outlook.

Sector	Impact	Developments to look out for
Technology	Neutral	The weakness in Ringgit would bode well for semiconductor companies as majority of the revenue is denominated in USD while only a portion of the cost is US Dollar-denominated. This would lead to expectation of better earnings particularly in the short term. The increase in minimum wage would lead to higher staff cost for semiconductor companies. However, we expect the impact to be limited due to increasing effort to adopt automation and modernisation of production facilities. Meanwhile for the companies that are dependent on government contracts, we opine that so long as the services rendered at the highest level of quality coupled with competitive costs, they will stand a good chance of getting new contracts or renewals.
Telco	Neutral	The possible move to Reduce the cost of broadband by half and to double the internet speed and ensure high-speed internet access to all towns and villages, will likely suppress Telekom Malaysia Bhd's (TM, BUY, TP: RM7.72) broadband ARPU. Nonetheless, the downward pressure on broadband ARPU could be partially alleviated via a combination of quad-play proposition and continuous growth in the number of broadband subscribers as the broadband packages become more affordable.

Sector	Impact	Developments to look out for
Transportation	Neutral	Tun Mahathir promised a detailed review of major foreign projects in Malaysia; one of them being the East Coast Railway Link. Assuming two scenarios; (i) a renegotiation of terms of contract that may cause a delay in the delivery of ECRL or (ii) a total cancellation of the ECRL, we reckon both scenarios will have a neutral impact on port operators under our coverage such as Westports (BUY; TP: RM3.85) and MMC Corp (BUY; TP:RM2.51). The reason being is that the intermodal logistics involved from Kuantan Port to Port Klang entails higher complexity or bottlenecks compared to road and direct shipping. Capacity wise, the railway could only accommodate around 100 TEUs of containers per service compared 20,000 TEUs that can be carried by mega vessels. Therefore, direct shipping via Singapore and the Straits of Malacca may still be a practical form of transporting goods despite taking an approximate extra 30 hours compared to Kuantan Port and ECRL as the capacity via ship heavily offsets the capacity via railway which is 200 times lesser. For the logistics sector, the phase 2 development of Digital Free Trade Zone in Sepang involves the joint venture between Cainiao, logistics arm of Alibaba and MAHB. Given the exposure to China's Alibaba, we do not discount the possibility of DFTZ phase 2 to be reviewed by the new government. If any revisions were to be made in the DFTZ, it may be done in the favour of local businesses. Meanwhile, other logistic players under our coverage such as Tasco Berhad (BUY; TP:RM2.62) has a regional distribution centre for global semiconductor player, Renesas in KLIA's freight forwarding complex which has improved Tasco's PBT margins Any positive developments of DFTZ would be a bonus for Tasco Berhad. Overall, we reiterate a NEUTRAL stance on the transportation sector due the pending development of certain ongoing and potential projects.

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BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to *rise* by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to *fall* by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.
SECTOR RECOMMENDATIONS	
POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.