12th Malaysia Plan Mid Term Review

Tweaking the Plan but Staying the Course

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EXECUTIVE SUMMARY

- **In the announced 12MP-MTR, the government of Malaysia via Ministry of Economy will maintain the focus of enlarging the domestic demand share in the economy.**
- **The tough road for compensation of employees (COE) as expansion rate of COE was slower at +4.6% per annum in post-pandemic period against +8.9% 12MP target rate. For the COE to reach 40% by the next two years, the labour income will have to expand by +14.3% per annum and GOS growth rate to be suppressed to low a +1.5% while Net Taxes to jump by +54.1%.**
- **On the fiscal front, the government indicated plans to spend at least RM90b per year in 2023-2025 to support the country's economic development. As such the ceiling has been raised by RM15b to a total of RM415b for the 5-year period. We view this as the government's intention to play an active role to directly support the economy and to ensure the country's GDP growth would be no less than 5%.**
- **The government is also developing Capital Gains Tax (CGT) as a new tax to be implemented next year. Possible re-introduction of GST is also considered as part of the measures to boost fiscal revenue.**
- **We opine the path for fiscal consolidation may take somewhat longer to push fiscal deficit lower to 3.5% of GDP i.e., beyond 2025.**
- **In our opinion, the 12MP Mid Term Review (12MP-MTR) has given more prominence to the construction sector given that the planned development expenditure has been increased.**
- **We believe that the emphasis on ESG may be a new economic catalyst for the country which will open new industries.**
- **The emphasis on the development of new sources of growth, particularly in HGHV industries, is of long-term strategic importance to the nation's well-being which could help to improve Malaysia's overall return profile which would naturally drive market valuation higher in the long term.**
- **However, in the short term, the announcement of 12MP MTR is not expected to spur significant buying (or selling) reaction in the equity market. We expect the immediate undertone shall continue to be dominated by market expectation of US Fed monetary action. Hence, we maintain our FBM KLCI end-2023 target at 1,540 points or PER23 of 15.3x.**

A. ECONOMIC COMMENTARY AND ANALYSIS

Heavier weight for private consumption and services sector. As mentioned in our preview 12MP-MTR report (Preview of 12th Malaysia Plan Midterm Review), the government of Malaysia via Ministry of Economy will maintain the focus of enlarging the domestic demand share in the economy. Private consumption share is expected to hit 61.8% by 2025, way higher than 60.2% recorded in 2022. By sector, services to GDP ratio have hit the initial 12MP's 2025 target. The revised target for the sector's share is 59.3% by 2025. Revival of tourism industry, digitalization efforts and improving labour market conditions are among key supportive factors for the services sector. Real GDP growth is forecasted to grow stronger than the initial forecast range, +5~6% vs. +4.5~5.5%. By component, private sector via consumption and investment are predicted to expand faster than initial forecast range. Similarly, the external trade sector is predicted to grow better than the initial target range despite current global slowdown concerns. We believe the government is optimistic on the ratifications of RCEP and CPTPP to alleviate the external sector in the long run. By sector, primary sectors grow at modest pace despite elevated commodity prices. Both GDP shares of agriculture and mining sectors are predicted to register lower at 6.1% and 6.0% by 2025.

Table 1: Malaysia's GDP by Expenditure & Sectoral Approach

	% of GDP				CAGR %			
	2019	2022	2025*	2025F	2020-2022	Original	2023-2025	2021-2025
Real GDP	-	-	-	-	5.9	**4.5-5.5**	**5.0-5.5**	**5.0-6.0**
Expenditure-Approach								
Private Expenditure	75.5	75.5	**76.8**	**77.6**	6.1	**5.4**	**6.1**	**6.1**
Consumption	58.7	60.2	**61.9**	**61.8**	6.4	**5.8**	**6.1**	**6.2**
Investment	16.8	15.3	**14.8**	**15.9**	4.9	**3.8**	**6.4**	**5.8**
Public Expenditure	18.4	17.6	**17.3**	**16.2**	3.1	**3.4**	**2.2**	**2.6**
Consumption	12.1	13.2	**12.6**	**12.0**	5.5	**3.7**	**1.7**	**3.2**
Investment	6.3	4.4	**4.7**	**4.2**	(3.3)	**2.6**	**3.9**	**1.0**
Net Exports	7.1	5.5	**6.0**	**5.2**	(2.5)	**3.1**	**3.4**	**1.0**
Real Exports	63.8	74.6	**64.1**	**68.3**	16.5	**5.8**	**2.2**	**7.7**
Real Imports	56.7	69.1	**58.1**	**63.1**	18.5	**6.1**	**2.1**	**8.3**
Sectoral-Approach								
Agriculture	7.1	6.6	**7.0**	**6.1**	(0.0)	**3.8**	**2.7**	**1.6**
Mining	7.2	6.4	**6.1**	**6.0**	1.8	**2.6**	**3.1**	**2.6**
Manufacturing	22.2	24.1	**23.7**	**23.9**	8.8	**5.7**	**4.9**	**6.4**
Construction	4.7	3.5	**3.8**	**3.7**	(0.2)	**4.2**	**6.7**	**3.9**
Services	57.6	58.3	**58.3**	**59.3**	6.5	**5.2**	**5.7**	**6.0**

Source: DOSM, Ministry of Economy (KE), MIDFR
*Original 12MP Target

Tough road for compensation of employees (COE). The expansion rate of COE was slower at +4.6% per annum in the post-pandemic period against +8.9% 12MP target rate. From peak of 37.4% in 2020, the labour income share dropped to 32.4% of GDP in 2022. However, the government kept its target at 40%, against our expectation of readjusting the target to a more achievable 35% by 2025. Based on our initial estimate, COE must increase by +10.8% per annum from 2022 to reach the 40% mark by 2030. This is assuming Gross Operating Surplus (GOS) and Net Taxes growing by the initial CAGR of 12MP target. To reach 45% by 2030, COE will have to surge by +13.7% per annum. For the COE to reach 40% by the next two years, the labour income will have to expand by +14.3% per annum and GOS growth rate to be suppressed to low a +1.5% while Net Taxes to jump by +54.1%. A higher skilled worker to employment ratio, progressive wage model and minimum wage policy are expected to be among the factors to provide the potential uplift the COE.

Table 2: Malaysia's GDP by Income Approach

	% of GDP				CAGR %			
	2019	2022	2025*	2025F	2020-2022	Original	2023-2025	2021-2025
Compensation of Employees (COE)	35.9	32.4	40.0	40.0	4.6	**8.9**	**14.3**	**10.3**
Gross Operating Surplus (GOS)	60.5	67.0	57.1	**58.1**	18.9	**6.3**	**1.5**	**8.1**
Net Taxes	3.7	0.6	2.9	**1.9**	(46.6)	**8.5**	**54.1**	**0.9**

Source: DOSM, Ministry of Economy (KE), MIDFR
*Original 12MP Target

Selangor the one-fourth economic contributor. The golden state of Malaysia, Selangor's contribution rate had increased to 25.5% in 2022. This surpassed the initial 12MP target rate of 23.6% by 2025. The midterm review of 12MP revised downward slightly to 25.1% by 2025. Strong economic expansion in Selangor while other states grow at relatively slower pace are the factors contributing to the GDP ratio surge. Based on the latest forecast on state economies, Kedah and Pahang are predicted to have a bigger jump in GDP share of 0.2% in the span of 3-years. Both states are set to expand faster than the original targets, +6.3% vs. +6.2% and +6.6% vs. +6.3% respectively. Looking ahead, we foresee certain states to gain faster speed in terms of growth and development, especially with the completion of key mega-infrastructure projects such as ECRL and Pan-Borneo Highway.

Table 3: Malaysia's GDP by State Approach

	% of GDP				CAGR %			
	2019	2022	2025*	2025F	2020-2022	Original	2023-2025	2021-2025
Malaysia	-	-	-	-	5.9	**4.5-5.5**	**5.0-5.5**	**5.0-6.0**
Johor	9.4	9.4	**9.6**	**9.5**	5.3	**5.1**	**5.5**	**5.4**
Kedah	3.3	3.4	**3.6**	**3.6**	5.2	**6.2**	**7.1**	**6.3**
Kelantan	1.8	1.8	**2.0**	**1.8**	3.3	**6.7**	**6.0**	**4.9**
Melaka	3.1	3.0	**3.0**	**3.0**	5.3	**4.8**	**5.5**	**5.4**
Negeri Sembilan	3.4	3.4	**3.4**	**3.3**	4.7	**5.0**	**4.8**	**4.8**
Pahang	4.1	4.1	**4.4**	**4.3**	5.8	**6.3**	**7.2**	**6.6**
Penang	6.6	7.4	**7.0**	**7.3**	10.0	**5.4**	**4.6**	**4.7**
Perak	5.3	5.3	**5.7**	**5.4**	3.9	**5.6**	**5.7**	**5.0**
Perlis	0.4	0.4	**0.4**	**0.4**	3.5	**5.8**	**6.7**	**5.4**
Selangor	24.2	25.5	**23.6**	**25.1**	8.5	**4.3**	**4.7**	**6.2**
Terengganu	2.5	2.5	**2.7**	**2.6**	4.8	**6.6**	**6.9**	**6**
Sabah	6.0	5.4	**6.2**	**5.5**	2.6	**6.5**	**5.5**	**4.4**
Sarawak	9.6	9.3	**9.6**	**9.3**	4.8	**5.3**	**5.3**	**5.1**
Kuala Lumpur	16.4	15.9	**15.5**	**15.7**	5.0	**4.2**	**4.7**	**4.8**
Labuan	0.5	0.5	**0.6**	**0.5**	2.2	**5.5**	**5.5**	**4.1**
Supra	3.2	2.8	**2.6**	**2.6**	2.5	**1.7**	**-**	**-**

Source: DOSM, Ministry of Economy (KE), MIDFR
*Original 12MP Target

Skilled to employment ratio reinstated at 35% by 2025. In line with the higher target of COE to GDP ratio, the government is banking on skilled employment to expand faster than the original target, +6.3% vs. +5.2% per annum. The forecast figures indicate the government expects a turnaround in managers' employment and steady growth in professionals and technicians & associate professionals. Semi-skilled employment is expected to decline by -0.2% per annum, which is the total opposite to current performances. The government expect further contractions in plant and machine operators & assemblers and service & sales workers, with better digitalization efforts and adoption of capital-intensive approaches expected to contribute to the downward shift in the semi-skilled employment. Moving forward, Malaysia's labour market is gradually transforming towards capital-intensive approach as guided by NIMP 2030. NIMP 2030 is set to drive employment up by +2.3% on a cumulative average between 2022-2030, providing a total of 3.3m jobs or 20% increase in employment by 2030. The additional employment will primarily be in high-skilled jobs, pushing median pay to rise on a cumulative average of +9.6% between 2021-2030 to reach RM4,510 in 2030 or +128.0% increase from 2021. Among the initiatives, the Ministry of Economy (KE) and the Ministry of Human Resources (MOHR) are currently exploring to introduce a progressive wage system (PWS) to increase the number of skilled workers and accelerate wage growth.

Table 4: Malaysia's Employment Structure

	% of GDP				CAGR %		
	2019	2022	2025*	2025F	2020-2022	Original	2021-2025
Employment	-	-	-	-	1.4	1.4	**1.9**
Skilled	27.5	29.6	35.0	**35.0**	3.9	5.2	**6.3**
Managers	4.6	4.6	6.5	**7.3**	(6.1)	6.3	**8.2**
Professionals	12.5	12.9	15.0	**13.3**	3.3	4.5	**3.1**
Technicians and Associate Professionals	10.4	12.1	13.6	**14.4**	9.5	5.4	**8.8**
Semi-Skilled	60.1	58.4	54.0	**54.0**	0.2	(0.4)	**(0.2)**
Clerical Support Workers	8.4	10.0	8.1	**9.0**	11.2	(0.2)	**3.5**
Service and Sales Workers	22.6	24.4	21.0	**20.0**	1.8	(0.8)	**(2.0)**
Skilled Agricultural Workers	6.2	4.7	6.1	**6.0**	(11.1)	1.6	**1.4**
Craft and Related Trade Workers	10.5	9.0	8.2	**10.0**	(3.2)	(0.8)	**2.2**
Plant and Machine Operators and Assemblers	12.4	10.3	10.5	**9.0**	(3.2)	(0.3)	**(2.7)**
Low Skilled	12.4	12.0	11.0	**11.0**	1.8	(0.8)	**0.3**
Elementary Occupations	12.4	12.0	11.0	**11.0**	1.8	(0.8)	**0.3**

Source: DOSM, Ministry of Economy (KE), MIDFR
*Original 12MP Target

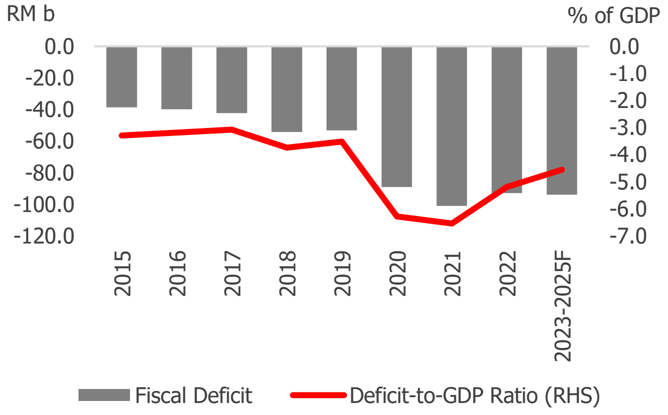
Increased commitment for fiscal spending to RM415b. On the fiscal front, the government indicated plans to spend at least RM90b per year in 2023-2025 to support the country's economic development. The ceiling for government expenditures under the 12MP has been raised by RM15b to a total of RM415b for the 5-year period. We view this as the government's intention to play an active role to directly support the economy and to ensure the country's GDP growth would be no less than 5%. The government also aims to ensure 60% of the development expenditures (DE) will be allocated for basic DE, as part of the improvement in the fiscal and budget management.

Better fiscal space as part of strengthening overall economic sustainability. With the commitment to improvement fiscal position and longer-term sustainability, the government will look at ways to broaden its fiscal revenue base and relook at the overall spending and fiscal incentives. Among efforts to improve tax collection, the government is promoting voluntary tax declaration and considering the introduction of e-invoicing. The government is also developing Capital Gains Tax (CGT) as a new tax to be implemented next year. Possible re-introduction of GST is also considered as part of the measures to boost fiscal revenue. In terms of spending rationalization, the government mentioned subsidy retargeting with the new Targeted Subsidies system. The implementation of targeted Subsidies, however, will be subject to the readiness of integrated household database under PADU (or *Pangkalan Data Utama*). This is in line with our expectations that the shift to targeted subsidy will only be done as early as next year, pending the development of a reliable mechanism.

Push for better fiscal management. The government indicated that the fiscal management will be governed by the Public Finance and Responsible Fiscal Act, which will be tabled next month. Apart from close monitoring of government-financed projects, the government aims to improve its fiscal management by looking at the effectiveness of public spending, review guidelines for public-private partnership (PPP) as well as a relook to all tax incentives and exemptions. The Debt Management Committee will also be reactivated to closely monitor the government's debts and liabilities.

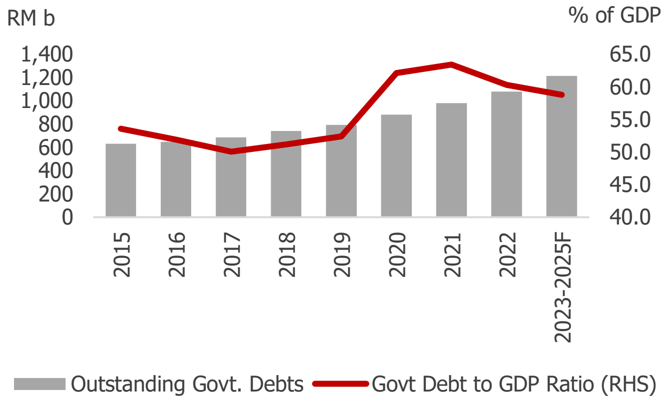
Our estimate consolidation may take longer. We opine the path for fiscal consolidation may take somewhat longer to push fiscal deficit lower to 3.5% of GDP i.e., beyond 2025. As we mentioned previously (in our preview report), we estimated the deficit-to-GDP ratio may hover around 4.0% to 4.5% by 2025. Although the discontinuation of Special Covid-19 Fund should help to reduce government spending, a sustained large fiscal development spending of around RM90b annually for the remaining 12MP period would not translate into a quicker fiscal consolidation. For the government to reach the lower 3% target, this will either require a larger boost to fiscal revenue or reduction in operating expenditures to see a quicker reduction in the size of fiscal deficits.

Chart 1: Fiscal Deficits (in RM b)



Source: Macrobond, MIDFR

Chart 2: Federal Government Debts (in RM b)



Source: Macrobond, MIDFR

B. SECTORAL REVIEW

1. Construction Sector (Maintain POSITIVE)

Analyst: Royce Tan Seng Hooi

Initiatives	Remarks
Increasing supply of quality affordable housing	• The government will continue playing the central role of promoting development of quality and affordable homes, which will be in strategic locations under initiatives such as Residensi Wilayah, Program Perumahan Rakyat and Perumahan Inklusif Madani. This is expected to drive the growth for the residential building subsector. • There is a target to build 500,000 units of affordable homes under the 12MP. As of 2022, 108,373 units have been built, or 21.7% of the five-year target.
Improving access to healthcare services and related developments	• A total of 1,200 dilapidated clinics nationwide will be upgraded from 2023 to 2025 to ensure quality of service. • The first phase of the upgrading works for Hospital Sultanah Aminah to be expedited with an estimated cost of RM500m to solve a long-standing congestion issue. • 12 hemodialysis centres will be built in all FELDA settlements and at the Yayasan FELDA premises in Kelana Jaya
Producing higher-skilled talents and improving sector productivity through Industrialised Building System (IBM) and Building Information Modelling (BIM)	• Akademi Binaan Malaysia to be transformed into an international TVET institution offering high demand trainings such as BIM, advanced IBS and use of drone technology. Training programmes on construction technology and innovation will be expanded to include roads, highways, rails and slopes. • Current pool of construction workers to be upskilled via training module that will be developed in collaboration with vocational training institutions and industry associations. • Companies investing in BIM, IBS-related machinery and equipment, construction technology and innovation will be given priority for financial incentives.
Further enhancing road infrastructure, involving construction of new alignments and upgrading of existing roads to improve connectivity, especially in East Malaysia	• Construction of new phases of Sabah Pan Borneo Highway, Sarawak-Sabah Link Road and the Trans Borneo Highway. (Construction progress of Pan Borneo stands at 92% in Sarawak and 74% for Phase 1A in Sabah). • Upgrading of the Senai-Desaru Expressway and the North-South Expressway in Johor. All these are expected to cost RM27b. • Part of the 12MP in terms of intensifying development in Sabah and Sarawak involves the construction and upgrading of rural paved roads, 700km each in both states. As of 2022, only 110.5km and 65.3km were achieved in Sabah and Sarawak respectively and more jobs can be expected as the government focusses on improving connectivity. • Other upgrading projects involve the East-West Highway from Gerik in Perak to Jeli in Kelantan and the road from Tanah Rata to Kea Farm in Cameron Highlands. • New road construction projects for rural infrastructure, among others are from Kapung Geddes to Felda Palong (Negeri Sembilan), Kuala Linggi to Ayer Molek (Melaka), Kampung Kuala Sungai Udang to Pantai Murni

Initiatives	Remarks
	(Kedah), a shortcut from Bukit Sagu to Bukit Kuin (Pahang) and Phase Two of a rural connectivity road in Perak. • Under existing initiatives, 1,625km of roads in rural areas remain to be constructed and upgraded.
Transportation infrastructure developments comprising airports, rail and ports to increase accessibility and connectivity in improving mobility of people and goods	• Penang International Airport expansion to cater for the increase in passenger movements and improve air connectivity. • Upgrading of the Sultan Abdul Aziz Shah Airport under the Subang Airport Regeneration Plan (SARP), which will include infrastructure for aerospace and business aviation as well as terminal expansion. The SARP is expected to contribute RM216.6b to the economy and create more than 8,000 high-income jobs. • Upgrading and development of airports and Short Take-Off and Landing (STOL)ports to be prioritized based on safety, security and convenience of passengers. This will involve mainly STOLports in Sabah and Sarawak, such as the Bario STOLport which will have its runway expanded for aircraft to take-off and land with maximum passenger load. • Development of the Penang LRT. We opine that the project may not take off or be awarded by the end of 2023 as previously expected by the government due to an adjustment in alignment, which will now include an undersea line to connect the island and the mainland. The ongoing feasibility study by MRT Corp may take at least three to six months, on top of the reevaluation of the cost by the Federal Government which had earlier agreed to fund RM10b for the first phase of the project, where the initial alignment was from the upcoming Silicon Island to Komtar. With the proposed extension of the line to Tanjung Bungah and an undersea alignment to Seberang Perai, expect the cost to double at least. • Development of a new port in Carey Island to strengthen Port Klang as a regional transshipment hub
Border-town developments	• Developments in towns bordering Thailand and Kalimantan will be expedited in terms of provision of basic infrastructure, enhancement of security facilities and development of border towns to optimise cross-border economic activities. These developments will be based on the Kajian Sempadan Antarabangsa Malaysia-Thailand, Kajian Pembangunan Ekonomi di Sempadan Sabah and the existing development master plan of Sarawak. We believe these developments are vital, especially for Sabah and Sarawak which stand to benefit from the potential economic spillover when Indonesia shifts its capital to Kalimantan.
Defence and national security-related developments	• The country's border surveillance capabilities will be strengthened through the upgrading of the maritime operation control centre and the construction of a new operation base for the Malaysia Maritime Enforcement Agency. • New military camps will also be built to beef up security at the borders and a naval base will be developed in Bintulu, Sarawak which will support joint operations domestically and regionally. • Selected entry points in northern Peninsular Malaysia, Sabah and Sarawak will receive the upgrading and development of new Immigration Custom Quarantine and Security complexes for more effective border enforcement.

Initiatives	Remarks
	• Plans are also in store for a new jetty and observation tower for surveillance in Perlis.
Public investment expected to grow by +3.9% per annum or an average of RM83b annually.	• From 2021 to 2022, public investment declined -3.3% per annum with an average public investment of RM70b per year, mainly from infrastructure projects such as the East Coast Rail Link (ECRL), the Gemas-Johor Bahru Double Track electrification and the Pan Borneo Highway in Sabah and Sarawak. • Moving forward, the government envisions to carry out projects that would expand the productive capacity of the economy, such as the opening of the new high-tech industrial estates in Kimanis and Kota Belud, Chuping Valley Industrial Area in Perlis, expansion of the Samajaya High-Tech Park in Sarawak, the Tok Bali Industrial Park in Kelantan and the construction of the Central Spine Road. • These projects, including those mentioned above, coupled with the rising trend for warehouses, data centres and semiconductor plants, should be able to keep the construction sector players busy over the next few years and we can expect the upcoming rollout of large rail projects such as the MRT3, Penang LRT and the proposed revival of the KL-Singapore High Speed Rail (HSR) to provide a boost to order books. The government's stance on cancelling approved projects that have yet to commence can also be viewed positively as this allows funds to be channeled to more critical or urgent projects. We maintain our **POSITIVE** view on the construction sector and our top **BUY** calls are **Gamuda (TP: RM5.04)**, **IJM Corp (TP: RM2.11)** and **Sunway Construction (TP: RM2.09)**.

2. Consumer Sector (Maintain POSITIVE)

Analyst: Genevieve Ng Pei Fen

Initiatives	Remarks
Inisiatif Pendapatan Rakyat (IRP) programme • To eradicate extreme poverty and reduce inequality. • To tackle issues such as high food prices, disruptions in food supply chains, unemployment, and limited marketing opportunities.	• The government introduced three initiatives under the IRP, including Inisiatif Usahawan Makanan ("INSAN"), Inisiatif Usahawan Tani ("INTAN"), and Inisiatif Operator Perkhidmatan ("IKHSAN"). • INTAN initiative focuses on strategically producing chili and grain corn. This is expected to reduce reliance on imported chili and corn, thereby providing greater control and stability in the continuous supply of these products. The key beneficiaries will be poultry companies such as **QL Resources (BUY, TP: RM6.50)** and **Leong Hup International (NEUTRAL, TP: RM0.50).** Note that corn is a key raw material for animal feed. • Other programs are expected to increase consumer disposable income and boost consumer spending power. This will create sustained demand for staple foods for daily consumption, benefiting all consumer staples under our coverage.
Improving Labour Market - Implementing a progressive wage policy	• The government plans to introduce a progressive wage model to expedite wage growth, aiming to achieve a decent standard of living and augment disposable income. • From the demand perspective, this will increase consumer disposable

Initiatives	Remarks
	income, boosting consumer spending on both F&B products and poultry items for daily needs. As such, we anticipate that all the consumer staples companies under our coverage will reap the benefits of the progressive wage policy. **Aeon Co. (BUY, TP: RM1.40)** is also a major beneficiary, serving as a platform for consumers to shop for everyday essentials. Meanwhile, **Padini (BUY, TP: RM4.60)** is well-positioned to benefit from the rise in disposable income, thanks to its affordable product range, which is likely to attract more spending as incomes increase. • From a cost perspective, the progressive wage hike will lead to an upsurge in labor costs, putting pressure on the profit margins of both consumer staple and discretionary companies within our coverage. However, we believe that the impact should be manageable, considering the expected gradual progression of the wage increase. As such, consumer companies should be able to efficiently manage cost effectiveness and transition towards automation and mechanization.
Reforming Labour Market - Implementing multi-tier levy	• The government plans to implement a multi-tier levy mechanism to restrict the proportion of foreign workers to 15% of the total workforce. This effort intends to reduce dependency on foreign labor while promoting automation, mechanization, as well as the upskilling and reskilling of local workers. • We anticipate that the impact on **Nestle Malaysia (NEUTRAL, TP: RM139.50)** will be manageable, given that the company's entire manufacturing staff comprises Malaysians. Similarly, **F&N (BUY, TP: RM33.50)** has only 5.8% of its total workforce that is not local as of FY2022. • On the other hand, the implementation of the multi-tier levy system is likely to encourage companies with a higher percentage of foreign workers to transition towards increased automation and mechanization.
Strengthening agrifood towards food security - Enhancing domestic production • Increase the self-sufficiency ratio ("SSR") of fruits to 106.5% by 2025 (from 100.2% in 2020). • Raise the SSR of vegetables to 95.1% by 2025 (from90.9% in 2020). • Increase contribution of aquaculture to total fisheries production 30% by 2025 (from 20% in 2020). • Increase the SSR of milk to 100% by 2025 (from 64% in 2020).	• To achieve the 100% SSR for milk, the government plans to intensify research efforts in genetic enhancement and breeding techniques, enhance feed formulations, strengthen dairy facilities, and consolidate small-scale ruminant farms. • We believe the government's efforts to increase the SSR of milk will benefit **F&N (Buy, TP: RM33.50)** through its initiative to venture into integrated dairy farm projects, aiming to reduce reliance on imported milk and potentially supply other players. • To bolster the contribution of aquaculture, the government will prioritize the adoption of modern equipment, including electronic feeding systems, sensors, and monitoring systems. These technologies will expedite decision-making, minimize input wastage, and mitigate disease outbreaks. • As such, we opine that **QL Resources (BUY, TP: RM6.75)** stands as the primary beneficiary, to expand its aquaculture segment within the Marine Products Manufacturing division ("MPM"), which will ultimately lead to increased revenue.
Creating a robust and diversified halal industry • Enhancing Collaboration Among	• Industry players are encouraged to explore and enter new markets for halal products and services. The government has established targets for the Halal Industry, aiming to achieve an 8.1% contribution to GDP and

Initiatives	Remarks
Stakeholders • Elevating Malaysia's Global Market Position	reach an export value of RM59b by 2025. • Overall, we expect that the government's initiative to enhance Malaysia's position in the Halal industry will be advantageous for all consumer staple companies under our coverage. Note that all the products of these companies are Halal certified, enabling them to meet the growing global demand for Halal products more effectively. • Besides, **F&N (Buy, TP: RM33.50),** with its recent acquisition of Sri Nona Group and Cocoaland to expand its Halal food segment, is also well-positioned to reap the benefits of these initiatives. Similarly, **Nestle Malaysia (NEUTRAL, TP: RM139.50)**, being the largest Halal producer among other Nestle companies across the world, is also anticipated to gain from this government initiative.

3. Glove Sector (Maintain NEGATIVE)

Analyst: Genevieve Ng Pei Fen

Initiatives	Remarks
Reforming Labour Market • Implementing multi-tier levy	• The government plans to implement a multi-tiered levy mechanism to ensure that foreign labours are not more than 15% of the total workforce. This aims to promote automation and mechanization as well as to upskill and reskill local workers and reduce the dependence on foreign workers. • Overall, we are cautious that this will have a significant impact on the glove sector, given the labor-intensive nature of the industry and its reliance on foreign labor. Hence, maintain **NEGATIVE** on glove sector.
Improving Labour Market - Implementing a progressive wage policy	• The government plans to introduce a progressive wage model to expedite wage growth, with the aim of attaining a decent living standard and enhancing disposable income. • We are cautious that the progressive wage hike will increase labor costs and reduce margins for the glove sector, given the labor-intensive nature of the industry. While the wage hike is progressive, the ongoing oversupply situation in the industry has made it challenging for glove manufacturers to pass on the increased costs through price hikes. Consequently, this will further compress the margins. Therefore, we maintain a **NEGATIVE** outlook on the glove sector.

4. Healthcare Sector (Maintain POSITIVE)

Analyst: MIDF Research Team

Initiatives	Remarks
Public-Private Partnership (PPP) • improving medical facilitation • promoting private healthcare services	• The main goal of PPPs in the healthcare sector is to ease access to healthcare services, particularly in rural areas, as well as increase the quality of health services. • Nevertheless, challenges for such collaboration may still remain, including but not limited to: (i) managing conflict of interest, (ii) guaranteeing

<table>
<tr><th>Initiatives</th><th>Remarks</th></tr>
<tr><td></td><td>accountability, and (iii) establishing efficient governance mechanisms.
We believe a successful adoption of PPPs in healthcare services can be ensured by proper plans, open communication, and transparent contractual structures, to enhance competitiveness among all healthcare service providers and accelerate improvements within the subsector.</td></tr>
<tr><td>Halal Pharmaceuticals</td><td>By CY25, the halal pharmaceutical industry is expected to be worth USD175b. The sizeable Muslim population globally had driven the demand for halal pharmaceutical items, with an expected 5-Y CAGR of +13%.
Having created the first halal certification for pharmaceuticals in the world, Malaysia is a pioneer in the certified halal business. We believe putting emphasis in this niche market could potentially attract global traders and boost halal exports of high-valued medicines.
We also believe that halal medicine manufacturing is important for drugs that are used in general surgery, oncology and rare diseases, in line with the growing need for non-communicable diseases (NCD) care.</td></tr>
<tr><td>Private Healthcare System
encouraged to utilise the MyHDW system
establish strategic partnerships in developing and commercialising premium wellness packages
pioneer, utilize and improve advanced technology in niche areas of health (e.g. genomics, predictive analysis, precision medicine)
promote medical tourism</td><td>Private healthcare providers are often well-equipped for the diagnostics and treatment of chronic and rare diseases. Additionally, the system allows more flexibility in the exchange of medical personnel between hospitals and clinics, as well as in the referrals to use certain medical devices, facilities and controlled medications.
Private healthcare providers also present the opportunity to cut waiting time for non-life-threatening surgeries, while also being able to utilize their assets for a nationwide emergency. The private sector can provide integrated, interoperable and comprehensive data for its services.
However, higher costs in insurance and healthcare worker shortage may pose challenges for private healthcare to be fully utilized for the rakyat, especially those in need of special services.
We opine that with an emphasis on the full utilization of the private sector by the government, private hospitals and facilities would be able assist in specific services across the country, while also providing access to quality healthcare services.</td></tr>
<tr><td>Healthcare Technology Adoption and Digitalisation
foster innovative digital solutions
deepen the FinTech ecosystem
uphold the safety and security of transactions and activities
implement Electronic Medical Record in public hospitals and clinics to ensure seamless sharing of medical records
establish an action plan for the Malaysian Health Data Warehouse data migration to MyGOVCloud to enable data sharing across</td><td>The use of healthcare technologies has been on the rise, with the usage of basic technology such as the electronic health record (EHR) system expanding to 96% of hospitals and 78% of doctors globally, peaking during the Covid-19 pandemic years.
Such technological development is accelerating the digitalization of healthcare. By CY25, it is anticipated that the global market for digital healthcare would reach USD650b (CY22:USD169b).
Malaysia has been aiming to increase the adoption of technology for healthcare delivery since the telemedicine flagship project in 1997. The use of mobile phones and smartphones has been contributing to social development and economic growth, subsequently the need to adopt digital transformation for healthcare services.
To establish an orderly and functional digital interface for both healthcare workers and patients, implementation of big data technologies remains a</td></tr>
</table>

Initiatives	Remarks
government agencies • upgrade the MyCHAMPION registration system for better organisation of content and activities of health volunteers in providing awareness on NCDs	huge focus for the success of this governmental initiative. • We believe with the creation of an action plan and the improvement of the basic registration systems, digital healthcare data cloud, A.I. integration among hospitals and clinics, as well as training and upskilling healthcare workers – permanent and contractual – in digital awareness, this initiative would be easily implied, in line and in time with the expectations of an increase in demand for healthcare services for comorbid diseases and rare diseases.
Healthcare Financing and Protection • address medical claims inflation for a more sustainable insurance and takaful for medical and health • further promote PeKa B40 initiative • optimize the potential of waqf and cooperatives for B40, including provision of health clinics, dialysis centres and ambulance services • encourage M40 to subscribe health insurance • enhance awareness programme on benefits of the insurance protection • review existing income tax reliefs on health and life insurance • enable people with limited financial capability to obtain services from private healthcare providers, through the MADANI Medical Scheme subsequently reduce congestion in public healthcare facilities	• Malaysia's healthcare insurance environment has seen significant improvements, notably in the efficiency of a universal healthcare coverage and access to poorer and low-income communities. • There are a variety of governmental and private healthcare insurance and funding choices. Under the public healthcare system, healthcare protection is heavily subsidised by the government, making it accessible to most citizens. • Nevertheless, challenges for a comprehensive and feasible healthcare financing remain, based on the: (i) growing aging population, (ii) increasing rate of NCDs among young adults and adults, (iii) rising healthcare costs notably on medical equipment maintenance and specific treatments, and (iv) shifting patient expectations and sentiments in healthcare financing. These challenges had the potential to make insurance unaffordable for the B40 group, and to an extent, the M40. • Despite the policy and expenditure challenges, we opine that, with the initiatives undertaken by the government, access to healthcare services and sentiments on extensive medical cost can be further improved. We also believe such programmes in raising awareness on health insurance and providing equitable access to one are necessary steps to improve the wellbeing of the people. • Optimising waqf and potential cooperatives for B40, especially for dialysis centres, in addition to insurance and other governmental initiatives are crucial. While the number of dialysis centres in Malaysia had been increasing in the private sector, utilization rate had been on the low with only 9% of end-stage renal disease (ESRD) patients in Malaysia opting for the treatment, due to the cost of expensive one dialysis session, which ranged from RM1,000 to RM5,000. • Additionally, we believe reviewing the existing healthcare insurance policies, financing options and income tax relief could help support the development of an innovative financing system for the sector, which will benefit patients through: (i) a more diverse options, (ii) better customised services, and (ii) lower treatment cost.
Aging Care • integrate care services in health clinics and hospitals • enforce the Private Aged Healthcare Facilities and Services Act 2018 • intensify geriatric development	• Malaysia is moving to an aging nation, with a projection of nearly +20% by 2050. This translates to higher demand for healthcare services and support, with NCDs – including but not limited to, diabetes, cardiovascular disease, cancer and respiratory diseases – to be a major concern among the aging population. • Specialised care, palliative care and end-of-life care are also expected to rise in tandem with the increase in demand for NCDs treatments.

Initiatives	Remarks
programmes and services • enhance training for caregivers and social service workers • develop blueprint on aging society as preparation for Malaysia to be an aged nation • explore and develop existing public facilities in rural areas as a centre to conduct activities	Nonetheless, we are also expecting demand for wellness programmes for the elderly to increase in popularity as well. Hence, we believe the initiatives for more comprehensive facilities, access and care for the elderly would support the population, especially in rural areas.
Dentistry • expand school dental to school teachers, staffs and families, in line with the Universal Health Coverage for Oral Health WHO (WHA74.5) • assist 250 schools to fulfil the criteria of *Program Pemasyarakatan Perkhidmatan Klinik Pergigian Sekolah*	• Malaysia had been implementing oral healthcare in public schools to raise awareness on oral health. As such, the prevalence of caries has been decreasing for the past 20 years among schoolchildren, with a projection of -49% by 2030. As of current, the caries-free prevalence (95%) is still below target (73%). • Oral healthcare in schools is crucial because it helps identify and address oral health issues at an early stage, allowing for timely intervention and prevention, while also educates and empowers schoolchildren with the knowledge and skills necessary to maintain good oral hygiene practices. • We believe with the expansion initiative of the oral health awareness beyond schoolchildren is in line with Malaysia's aspiration for a supported and healthy nation.
Sabah & Sarawak Healthcare • develop Makmal Kesihatan Awam in Kuching, Sarawak • establish a regional blood centre in Sabah to enhance transfusion services for the state, Labuan and northern Sarawak	• By 2030, Malaysia had set its goal to achieve 100% access to safe surgical and anaesthesia services for both Sabah and Sarawak. This is in line with not only the increased aging population in Sarawak, which is expected to be an aging state by 2028 with an increased rate of 0.6%pa, but also in line with the high demand for healthcare access for the state's poor and remote population. • However, challenges remain in terms of: (i) shortage of qualified medical professionals, (ii) rough terrain and remote locations, (iii) issues of access and transportation, and (iv) a widely dispersed population. • In tandem with the Ministry of Health's continuous efforts to train and upskill medical professionals to meet these issues, we believe the initiatives to establish proper facilities for these states to capture niched and high-demand treatments will assist in increasing healthcare service accessibility and guarantee the populace of Sabah and Sarawak's wellbeing.
Medical devices and research laboratories • upgrade healthcare facilities with integrated information systems and advanced medical equipment. • strengthen cardiology services, including provision of invasive cardiac laboratories in public hospitals	• Malaysia's medical equipment market is extremely diversified and estimated to be worth approximately USD800m. • However, regulation compliance must adhere to strict safety and efficacy standards, which likely translates into higher: (i) procurement costs, (ii) maintenance and replacement expenditures, (iii) competition with Western medical device imports, and (iv) demand for integrated infrastructure and skilled laborers. • As such, the regulations must be streamlined, and local firms must be given encouragement and support. Hence, we believe the leasing option would encourage better development of medical devices and services,

Initiatives	Remarks
• ensure availability of best medical equipment through leasing option	notably for surgery and treatments of NCDs. • Rapid advancement of technology and the need to integrate healthcare facilities, in addition to the shortage of semiconductors, may increase the cost of medical equipment in the near term. Nevertheless, we opine the initiatives taken by the government, including the leasing option could assist public healthcare system to ensure the availability of services, while also strengthening PPP in the sector.
Mental and Reproductive Healthcare • expand reproductive health services through reproductive health and social education programmes • establish national mental health institute to address mental health issues nationwide	• Malaysia's reproductive health awareness had been facing issues for years. As of recent, 1 in 10 adolescents are aware of reproductive healthcare services, and out of that, only 7% had visited clinics for reproductive care, due to the discomfort of addressing and discussing sexual health with healthcare providers. • Similarly, Malaysia's mental healthcare suffers difficulties, as 9% of all disability-adjusted life years (DALYs) are caused by mental illness, which is a primary source of disability and health loss. The general public's awareness on mental illness had also been on the low, despite 1 in 3 people in Malaysia suffers from a mental disorder, due to non-diagnosis. • These two divisions in healthcare are riddled with challenges in terms of labour shortage, uneven distribution of services, and restricted availability of mental health specialists. The services are being improved, nevertheless, and awareness is being increased. • Adolescents' poor health outcomes are a result of these issues. Utilisation is affected by elements like provider hurdles, perceived needs, access to health care, and social-cultural influences. To increase adolescent healthcare use in Malaysia, it is crucial to raise awareness, remove obstacles, and improve access to SRH services. • We believe with the initiatives to expand healthcare services in both reproductive and mental health are critical in the rise of mental illness since the onset of the Covid-19 pandemic and increased illegitimate births among teenagers and young adults. Providing access and a safe space to increase the awareness of these issues and addressing the importance of prevention is crucial in improving the wellbeing of the population.

5. Oil and Gas Sector (Maintain POSITIVE)

Analyst: MIDF Research Team

Initiatives	Remarks
Oil and Gas Services and Equipment (OGSE) • National OGSE sustainability roadmap will be formulated to promote sustainability practices and develop simplified reporting standards	• The oil and gas sector had seen a tremendous improvement since the end of the worldwide Covid-19 lockdown. Average oil price had seen an increase of +15% since CY21, with average YTD price at USD82pb. Brent oil price is estimated to reach an average of USD84pb by the end year. • As such, we believe OGSE companies – particularly in the upstream division – will continue to benefit from the ramping up of exploration projects and recovery of upstream operations post-pandemic. With the launch of the National OGSE Industry Blueprint 2021-2030, local OGSE companies will continue to be supported in terms of competitiveness,

Initiatives	Remarks
	efficiency and technological capability. • Nevertheless, Malaysia is now heading to a direction in compliance with ESG principles for its initiatives in hard-to-abate sectors. As such, a sustainability roadmap for the OGSE subindustry is crucial to improve the consistency and transparency of sustainable reporting in the oil and gas industry. We believe this will allow for a wider adoption of sustainability practices beyond the sector's cluster and consequently assist the nation by increasing potential investments in the sector. • By outlining specific recommendations, such as climate-related risk identification, training hubs, subsidies for training, grants or loans for decarbonization initiatives, and simplified reporting standards for SMEs, the roadmap has the potential to encourage companies to adopt sustainable practices and streamline their reporting processes.
Natural Gas • collaboration by PETRONAS with industry players in enhancing adoption of advanced technologies in the upstream sector to unlock mature gas resources • boost competitiveness of domestic gas market to encourage trading activities • leverage opportunities to be a regional gas market hub • optimize natural gas resources through Sabah Gas Masterplan and Sarawak Gas Roadmap • streamline gas industry planning • optimise the utilisation of natural gas resources nationwide	• Malaysia is one of the largest oil and gas producers in the Asia-Pacific region with an average daily production of over 2mboe, of which two third is natural gas. Nearly 70% of its estimated proven reserves are natural gas, amounting to approximately 10.5bboe. • Despite the large amount of untapped natural gas reserves, the potentiality of Malaysia to own more natural gas in its exploration fields remain high. As such we believe adopting advanced technologies, such as enhanced oil recovery (EOR) and high pressure-high temperature (HPHT), for deepwater and marginal field explorations can assist in tapping into more unclaimed reserves in offshore Malaysia. • In consideration of offshore Sarawak and Sabah having large gas fields, with PETRONAS recently discovered 6 gas fields in the region, the strategies placed forth under the Sabah Gas Masterplan and the Sarawak Gas Roadmap are crucial in elevating and streamlining the natural gas management in the region. • Sabah is focused on the monetisation of gas resources to enhance investment in petrochemical derivatives and to support gas demand growth from industrial and commercial sectors. Meanwhile, Sarawak is looking into enhancing the growth of its petrochemical industry and exploring new gas fields in collaboration with PETRONAS and PETROS. • With Sabah and Sarawak's all-inclusive guide in optimising the value and utilization of gas resources, natural gas can continue to be promoted as a cleaner alternative fuel to reduce carbon emissions, in tandem with Malaysia's goal to reduce carbon emissions by 2030. Additionally, the established petroleum and petrochemical hub in Pengerang Integrated Complex is expected to leverage on the increased exploration and trading of natural gas.
Digital Transformation • emphasise on future-proof digital transformation to achieve cost competitiveness along the value chain • digitalising field operations to improve supply chain and ensure	• The oil and gas sector continues to adapt and adopt digital transformation for its operations within the upstream, midstream and downstream divisions. Oil and gas players have leveraged big data and predictive analysis, cloud computing, A.I. and blockchain to streamline operations, improve efficiency and reduce costs. • Digital transformation also plays a crucial role in building resilient and sustainable supply chains, especially in the construction of facilities and

Initiatives	Remarks
lower cost of production • leverage on advanced technology to effectively develop marginal and deepwater gas fields, and decarbonise upstream gas production	equipment, while responding swiftly to changes in the oil and gas markets to reduce cost, improve competitiveness and mitigate risks. • Challenges remain in the form of complex oil and gas technology that require trained and upskilled operators, as well as regulatory compliance and risks in digital technology. Nevertheless, we concur that the initiatives taken by the government in digital transformation for the oil and gas sector will improve the efficiency and increase the scalability of projects, while maintaining competitiveness of local companies in comparison with other regional operators. • We also believe digital transformation is important to ensure the effectiveness of further exploration activities, especially in the lightly tapped potential of deepwater fields in Malaysian offshore blocks, and further improve the recently established CCUS projects, pioneered by the Kasawari and Lang Lebah fields.
Sustainable Fuel Resource • develop hydrogen plant for local and export markets in Sarawak to support the aspiration of achieving net-zero greenhouse gas emissions by 2050	• Malaysia is actively pursuing hydrogen's potential, notably in Sarawak through projects like H2ornbill and H2biscus in collaboration with Japanese and South Korean partners. These projects align seamlessly with Sarawak's Hydrogen Economy Roadmap, aiming to elevate Sarawak into a developed state by 2030. As such, Sarawak is established as the main forerunner to the development of a hydrogen plant. • The forthcoming Hydrogen Economy Transition Roadmap (HETR) is also expected to further bolster Malaysia's hydrogen ambitions. • However, challenges persist, particularly in: (i) storage of hydrogen fuel, (ii) production hurdles in limited equipment availability, (iii) shortage of hydrogen production experts, and (iv) substantial capital needed for green hydrogen production. • Despite these challenges, we believe with a firm focus on technological advancements to enhance electrolyser efficiency, as well as a comprehensive regulatory framework, Malaysia has the competitive edge to be the main regional hydrogen hub in the bid to champion energy transition.
Carbon Capture, Utilisation and Storage (CCUS) • provide new investment opportunities in CCUS-related activities • reduce emissions in the oil and gas production • provide opportunities to continue monetising depleted fields and enhance new investment in OGSE activities • develop regulatory framework in governing CCUS	• The adoption of CCUS technology is crucial to achieve the sectors and the nation's goal of net-zero emissions, especially for industries that are difficult to decarbonize through conventional means. • By capturing and using CO2 emissions, Malaysia has the potential to: (i) reduce its carbon footprint, (ii) stimulate the growth of new green industries, (iii) promoting sustainable economic development and, (iv) improving resilience to climate change effects. • The 2023 budget has introduced tax incentives to encourage companies to engage in on-site carbon capture activities and use CCUS services. This approach not only acknowledges CCUS as a driver of economic growth but also recognizes its importance in reaching the net-zero greenhouse gas emissions target. This is also aligned with the recent launch of the National Energy Transition Roadmap. • By 2030, Malaysia is expected to set up 3 CCUS hubs with a sorage capacity of up to 15MMtpa, and by 2050, another additional 3 Carbon

Initiatives	Remarks
	Capture hubs with a storage capacity of up to 40-80Mtpa. • However, the adoption of CCUS across different industries relies heavily on an established regulatory framework. To initiate a proper integration of CCUS into the local economic network, adaptation of similar laws is crucial as the first step to provide CCUS beyond just the oil and gas sector. At this point, the framework will have to cover the coordination of the deployment of CCUS at a state level, with offshore Sarawak and Sabah as its focal region. • We believe CCUS can be feasible through CO2 utilisation in petrochemical products and hydrogen storage, given the right technology development. Additionally, CCUS in Malaysia is expected to be adopted through a cluster/hub where multiple emitters will invest in and use shared CCUS infrastructure, with the aim to lower the overall expenses in its implementation while generating profit. • Additionally, CCUS industry is expected to grow at a 5-Y CAGR of +15% to USD5 billion, while investment value is expected to rise to USD150b for each CCUS project by 2050. Malaysia's CCUS is also expected to create up to 200,000 job opportunities per year. The proposed flagship projects under NETR are initially projected to attract more than RM25m of investment in the near future. • Despite the conservative start in investment in comparison to the cost of CCUS implementation, with the promise of CO2 utilisation and cluster hub investment in planning, we opine that the initiatives taken by the government to increase involvement in CCUS is important not only to adhere to the demands of ESG, but also to ensure the longevity of the oil and gas sector beyond energy transition.

6. Plantation Sector (Maintain NEUTRAL)

Analyst: MIDF Research Team

Initiatives	Remarks
High Growth High Value (HGHV) Agriculture and Agro-Based Industry	• We applaud the initiative to encourage investment and increase productivity of the agrofood subsector by utilizing smart farming technologies, increasing high value crops, and optimizing food production areas as this is highly necessary to safeguard our food security ecosystem. Not that, the contribution from agriculture expected to remain sluggish around +2.5/annum (2023-25) despite holding chunk of 3.1% of the national GDP in 2022.
1) Strengthening modernisation in the agriculture sector through private investment to accelerate adoption of smart farming technology	• We expect the single platform (comprehensive information of financing) that will be used would gradually resolve the issues revolving the assistance needed as mechanization in farming activities would need a lot capital expenses upfront.
2) Promoting low carbon agriculture practises	• To recap, in Budget 2022, the Government of Malaysia (GoM) announced the implementation of a voluntary carbon market (VCM) as one of the key initiatives to address the climate change agenda. In other words, the

Initiatives	Remarks
	government through Bursa has been promoting Carbon Exchange (BCX) platform, to encourage plantation players to capitalize in carbon project opportunities in the biogas sector, specifically from POME. We opine these efforts will further promote investment in the biomass industry and accelerate the transition to a more sustainable and low carbon economy on top of allowing carbon credit to be traded.
3) Expanding implementation of the Program Inisiatif Usahawan Tani (INTAN) programme under IPR as a strategy to strengthen food supply chain and increase income	• We believe this will provide a continuous support in the form of foods network coverage and boost local farmers' participation in IPR apart from reducing price manipulation by middleman, who responsible for the increase in in the prices of goods. This strategy will help farmers to promote good agricultural practice to stay competitive in selling its goods and provide a stable margin to their businesses.

7. Property Sector (Maintain NEUTRAL)

Analyst: Jessica Low Jze Tieng

Initiatives	Remarks
Strategy D1: Improving access to quality and affordable housing • **Accelerating the transition from ownership to shelter.** The focus will be shifted from development of housing for sale to rental. This transition is to support the Big Bold Housing for the Rakyat. The roles and functions of Syarikat Perumahan Negara Berhad (SPNB) and Perbadanan PR1MA Malaysia (PR1MA) will be aligned to support the shift. • **Increasing supply of affordable housing.** The regulation to limit the purchase of only one affordable house per eligible citizen will be enforced. In this regard, the housing database will be developed to enable more accurate cross-qualification screening of ownership information with relevant agencies. Besides, land inventory information that integrates all information on waqf land will be established to identify suitable land for more affordable housing. Meanwhile, 10-year moratorium period on resale of houses will be expanded to include all public housing. • **Increasing access to housing finance.** Expansion of RTO (Rent-To-Own) programme will be implemented to diversify housing financing options. First time homebuyers will be equipped with the necessary financial	• The acceleration of transition from ownership to shelter for affordable housing is neutral to listed property developers as most of the developers are focusing on private property projects. • The initiatives to improve financing facilities for first time homebuyers are slight positive to companies with high exposure to affordable housing projects such as **Mah Sing Group (BUY, TP: RM0.90), Matrix Concepts (BUY, TP: RM1.81) and Glomac (BUY, TP: RM0.47)**. The initiatives are expected to improve conversion rate from booking to sales as buyers have more facilities for home financing. • Measures to manage housing construction cost are expected to be positive for developers as developers have been facing issue of rising construction cost and compliance cost.

Initiatives	Remarks
knowledge through an online financial education module. Besides, a study will be conducted on the establishment of an affordable housing fund to provide alternative housing financing. • **Managing housing construction cost.** A guideline to assess and standardize the charges for land premium and compliance costs will be developed to expedite the approval of development order for affordable housing development. Besides, incentive packages for developers who obtain a score of more than 70% in the Quality Assessment System for Building Construction Works will be explored.	
Strategy D2: Enhancing governance • **Strengthening rules and regulations for homebuyers and tenants.** The Housing Development (Control and Licensing) Act 1966 [Act 118] will be amended to include the development of residence on commercial land such as service apartments and SOHO to protect homebuyers. Meanwhile, a new rental tenancy act will be introduced to promote rental as an alternative to home ownership. • **Improving Strata Housing Management.** The Strata Management Act 2013 [Act 757] will be amended to further strengthen the function of Joint Management Body (JMB) and Management Corporation (MC).	• The measures are expected to improve vibrancy of high-rise property market due to better management of high-rise building. Besides, the new rental tenancy act is expected to increase interest of investors on properties due to better protection to owners and tenants.
Strategy D3: Providing inclusive affordable housing • **Exploring the potential of retirement village.** Study on demand and supply for retirement villages in major cities will be carried out to provide policy recommendations, including regulatory framework to facilitate the development of retirement villages. • **Creating cohesive community.** Planning guideline to foster a more balanced and inclusive environment will be developed to ensure that individuals with different income levels can live in the same neighborhoods.	• The potential development of retirement villages and regulatory framework to facilitate the development of retirement villages are expected to increase popularity and acceptance of retirement village among Rakyat. Developers that have exposure to aged care living namely **UOA Development (NEUTRAL, TP: RM1.65) and Sunway Berhad (NEUTRAL, TP: RM1.71)** are expected to benefit from the development due to its experience and expertise in aged care living. Note that UOA Development's Komune Living and Wellness and Sunway Berhad's Sunway Sanctuary are collaborating with Malaysia Healthcare Travel Council (MHTC) to promote Malaysia as a destination for active retirement living.

8. Technology Sector (Maintain NEUTRAL)

Analyst: Foo Chuan Loong, Martin

Big Bold / Main strategies or initiatives	Remarks
Digital and Technology based high growth high value (HGHV) industry ➢ Accelerating digital transformation	• One of the focus areas involves expediting the implementation of National Digital Identity. According to newswire, this is initiative was first mooted in 2021 by the immigration department of Malaysia which has set 2024 as the commencement date. In this regard, we understand that **Datasonic Group Bhd (Datasonic) (NEUTRAL, TP:RM50)** has carried out a proof of concept (POC), though there has yet been any progress. With the reiteration in the RMK12, we view that Datasonic would be one of the main contenders. • On another note, the Government could also implement a national digital ID framework based on blockchain technology to help improve digital identity government service to simple single sign-on and kept preserving privacy by providing personal information to service only when users grant permission for each service. In addition, the system is secure because the data is distributed to each node, making it hard for the attackers to attack or edit information. In this regard, **MY EG Services Bhd (Myeg) (BUY, TP:RM0.97)** could be at the forefront as it rides on its public blockchain infrastructure.
High value E&E HGHV industry ➢ Strengthening front end manufacturing ecosystem to accelerate industry transition towards higher value chain ➢ Emphasising on high value - added activities in integrated circuit (IC) design, engineering design and wafer fabrication ➢ Enhancing quality investment that prioritise advanced technology	• Local companies have demonstrated their capabilities, specifically the semiconductor back-end process. Thus, it is only logical to go up the value chain and start to focus on the front-end process as enshrined in the recently launch New Industrial Master Plan 2030 (NIMP 20230). This would help to increase the country's involvement in the world's semiconductor trade for which it accounts for at least seven percent. Successful effort on this would have a positive spillover effect on the local semiconductor sector. This would in terms of better business activities as well as improving the overall technological capabilities of these companies. Such an example would be **Oppstar Bhd (Non Rated)**, a company which provide IC design services which is listed earlier this year, is one of the mission-based projects (MBP) champion representative.

9. Transportation Sector (Maintain NEUTRAL)

Analyst: MIDF Research Team

Initiatives	Remarks
Aviation	
Chapter 3 - Focus Area A: Strengthening Sectoral and Strategic Industries	
Strategy A4: Accelerating Aerospace Industry Growth i. Developing framework for aerospace clusters.	• A framework is under development as a reference for planning and developing integrated aerospace clusters, focusing on five core areas: (i) MRO, (ii) aerospace manufacturing, (iii) engineering & design capabilities, (iv) research & technology, and (v) human capital. Engaging relevant stakeholders ensures that the framework is well-informed and widely

Initiatives	Remarks
ii. Enhancing training for future ready talent. iii. Facilitating maintenance, repair, and overhaul (MRO).	accepted. Overall, this helps the aerospace sector achieve sustainable growth, fostering innovation and competitiveness. • The aerospace industry's talent gap will be tackled through training enhancement programs using a centre of excellence (COE). This includes introducing new modules, improving existing programs, and ongoing trainer development. Additionally, an apprenticeship program within the COE will be established, involving an industry-led skills mapping project. These measures strengthen the aerospace sector by improving the quality and relevance of its workforce, making it more competitive and adaptable to technological advancements. • Administrative procedures for customs duty exemption on eligible MRO parts and components will be streamlined. This includes simplifying procedures and standardising tax treatment at entry points for the list of eligible spare parts and components. This could benefit **Capital A Berhad's (NEUTRAL, TP: RM0.90)** subsidiary, Asia Digital Engineering (ADE), as it would allow them to import essential parts and components more affordably, increasing its competitiveness when offering services to third-party airlines.
Strategy A6: Boosting the Recovery of Tourism Industry i. Driving digitalisation. ii. Improving regulatory framework. iii. Promoting sustainable tourism.	• The first initiative aims to encourage the adoption of digital technology within the tourism industry, while the second initiative involves updating the Tourism Industry Act 1992, enhancing collaboration to regulate short-term rentals and online travel agencies, and reviewing the Malaysia Tourism Excellence (MaTEx) certification for the purpose of enhancing quality and consumer protection. These measures primarily target tourism operators, and therefore, we believe they will have a negligible impact on the airline and airport operator under our coverage. • Efforts will continue to encourage the adoption of carrying capacity and limits of acceptable change in ecotourism sites. The government plans to review fee structures to reflect actual conservation costs, promote nature-based tourism, develop new tourist products and position Malaysia as a premier nature-based tourism destination. Increased tourism activities in ecotourism sites could have a positive, albeit immaterial, impact on the passenger traffic of **Malaysia Airports Holdings Berhad (NEUTRAL, TP: RM7.45)**.
Port & Logistics	
Chapter 4 - Focus Area E: Building Resilient Transport and Logistics Infrastructure	
Strategy E2: Strengthening Transport Governance i. Improving maritime competitiveness. ii. Advancing implementation of green transportation.	• A comprehensive national port blueprint, including a third-party policy and implementation plan, will be developed to drive blue economy growth. Furthermore, there was a mention of the port capacity expansion to be undertaken by **Westports Holdings Berhad (BUY, TP: RM3.90)** (Westports 2), which is expected to accommodate ultra-large container ships and reinforce Port Klang's role as a regional transshipment hub. The Westports 2 expansion will double Westports' cargo handling capacity to about 28.0m TEUs by 2040 through the construction of additional container terminals (CT10-19). It is worth noting that the plan has been presented to the Cabinet in Aug-23, but currently negotiations are progressing only for CT10-17. The management has indicated that these negotiations are advancing, with plans to sign the concession agreement by end-4QCY23.

Initiatives	Remarks
	This initiative is expected to contribute RM55.3b to the economy and create more than 6,000 job opportunities within the logistics industry. • As part of the sustainability drive for the transportation sector, several initiatives have been outlined. Efforts to implement green transportation include expediting the Green Transport Index, establishing a coordinating committee, and enhancing human capital development. These measures aim to work towards achieving net-zero greenhouse gas emissions by 2050. Additionally, initiatives within the public transport plan will focus on improving air traffic management to minimise fuel consumption, emissions, and noise pollution in aviation.
Strategy E3: Enhancing Connectivity and Transport Infrastructure i. Upgrading airport infrastructure	• Airport infrastructure upgrades will boost accessibility and mobility for people and goods. Penang International Airport (PIA) expansion caters to rising passenger traffic and improves air connectivity. Additionally, Sultan Abdul Aziz Shah Airport in Subang will see enhancements through the Subang Airport Regeneration Plan (SARP), which encompasses aerospace and business aviation infrastructure, along with terminal expansion. This plan is projected to inject RM216.6b into the economy and create more than 8,000 high-income jobs. In this regard, we are anticipating the finalisation of the new operating agreement (OA 2023) between MAHB and the government as well as the release of MAVCOM's third consultation paper in 2H23. These developments should offer greater clarity on how MAHB can derive a rate of return on its capital expenditure investments.
Strategy E5: Increasing Competitiveness of Logistics and Trade Facilitation i. Establishing a single platform for port community ii. Encouraging green initiatives	• A single platform will be created to connect federal ports, offering swift and transparent access for industry players. This central database will streamline information flow, serving as a one-stop portal for maritime regulations and port services. Additionally, it will support evidence-based planning to enhance logistics services' competitiveness. In summary, the unified platform enhances efficiency, transparency, and competitiveness for port players, ultimately improving their operational effectiveness. • Efforts will focus on establishing an internationally recognised green logistics certification system, which will incentivise logistics service providers to adopt eco-friendly supply chain practices. The government will also provide support for green supply chain initiatives, including green design, purchasing, reverse logistics as well as route and load optimisation. Furthermore, the exploration of new incentives to promote the adoption of green technology by logistics service providers is a positive step towards sustainability.

10. Utilities Sector (Maintain POSITIVE)

Analyst: Hafriz Hezry

Initiatives	Remarks
Accelerating Adoption of Renewable Energy (RE)	• The National Energy Transition Roadmap (NETR) specifies medium to long-term targets of 41%/52%/64%/70% RE capacity mix by 2035/2040/2045/2050. As highlighted in our recent sector thematics (*Powering the Energy Transition*, & *RE Catalysts under NETR Phase 2*), the majority of this RE growth is expected to be driven by solar, which

Initiatives	Remarks
	accounts for a dominant 93% share of Malaysia's technical RE resource. RE capacity addition is projected to more than quadruple from an estimated ~0.5GW/annum currently to an average 2.2GW/annum up until 2050 to achieve NETR's 68GW RE capacity target by 2050. • In the near-term up until 2025, RE capacity growth is expected to be driven by completion of 500MW LSS4 projects, deployment of 563MW CGPP projects *(see thematic titled: Catalyst from CGPP Awards for further details)* and deployment of NETR's key flagship projects, which includes: (1) A 1GW hybrid solar plant by UEM Group-Itramas Corporation, (2) 500MW solar park & 2.5GW hybrid hydro floating solar by Tenaga, (3) 4.5MW residential rooftop solar project by Sime Darby Properties *(see thematic titled Snippets from NETR Phase 1).* • Cross-border RE trading is another area which we had persistently highlighted in our previous sector thematics as we believe this will provide a viable avenue for domestic players to commercialize new RE technologies such as solar+BESS (battery energy storage systems) and hybrid hydro-floating solar given potentially higher tariffs from the export markets - a low hanging fruit is Singapore which entails green tariffs of SGD0.32-0.45/kwh (RM1.07-1.50/kwh), a significant premium compared to domestic electricity tariffs of RM0.57/kwh (inclusive of the highest band ICPT surcharge). • As outlined under NETR, an electricity exchange is currently being developed to facilitate the cross-border RE trading. Ultimately, the initiative aims to position Malaysia at the centre of ASEAN's clean energy trade, leveraging on the ASEAN power grid initiative and Malaysia's strategic geographical location at the centre of the region. • Natural gas is expected to remain an important transition energy – as outlined under NETR, coal would have been fully phased out by 2050 based on PPA expiry with gas capacity taking over as baseload accounting for 29% of Malaysia's capacity mix by then. • The measures to expand domestic RE capacity and enabling RE exports are expected to provide significant expansion opportunity for RE asset owners such as **Tenaga (BUY, TP: RM11.00)**, **Ranhill Utilities (BUY, TP: RM0.80)** and **YTL Power (BUY, TP: RM2.45)**. Tenaga in particular, is also expected to benefit from significant grid investments to accommodate a higher share of VRE. RE EPCC players such as **Samaiden (BUY, TP: RM1.54)**, **Sunview (BUY, TP: RM1.48)** and **Pekat (BUY, TP: RM0.57)** also stand to benefit from expansion in EPCC job prospects riding on the aggressive RE capacity targets under NETR.
Enhancing Deployment of RE (for East Malaysia)	• One of the flagship initiatives outlined under NETR was on Sabah energy security, which entails an integrated measure to secure Sabah's long-term energy supply, including development of large scale solar (LSS) and small hydropower plants, formulation of policy and regulatory framework on biowaste and feasibility for geothermal. Sabah suffers from power undercapacity (leading to frequent supply interruption) despite it accounting for 35% of Malaysia's technical RE resource, hence we believe the move to unlock Sabah's RE potential is a step in the right direction. The 12MP outlines a significant reduction in Sabah's SAIDI (system

Initiatives	Remarks
	average interruption duration index) to 150 minutes/customer/year by 2025 from 393 minutes/customer/year in 2022. We believe **Ranhill Utilities (BUY, TP: RM0.80)** could be one of key potential beneficiaries of the build-up in Sabah's power capacity, especially for Sabah gas power plant capacity, LSS and geothermal given its long track record operating in the Sabah power sector and having been involved in both LSS in Peninsular and geothermal exploration in Tawau, Sabah.
Ensuring Energy Efficiency (EE)	• A notable component of NETR's EE initiative is the establishment of the Energy Service Company (ESCO) platform, which is an integrated platform for Government building retrofits connecting private ESCOs with Government projects. An estimated 60%-70% of existing Government buildings are identified as energy inefficient (BEI>200), which is expected to be part of the retrofitting program. The EE initiative will be complemented by mandatory audits for energy-intensive commercial and industrial sectors and a mandatory national standard will be established for new residential and commercial buildings, as well as retrofit for existing buildings to meet minimum BEI levels. Broadly, the Government is targeting energy savings of 22% compared to BAU (residential: 20%, industrial & commercial: 23%) by 2050, with a shorter-term target of 8% energy savings by 2025 under the 12MP.
Enhancing Water Security	• One of the key pain points for water operators has been delays in water tariff reviews, leading to the inability to recover incremental capital cost and opex inflation. The commitment under the 12MP to periodically review water tariffs to financially strengthen the capability of water operators is timely in ensuring an efficient and importantly, sustainable water supply industry. **Ranhill Utilities (BUY, TP: RM0.80)** as one of the listed water operators other than *PBA Holdings (Non-Rated)*, is expected to benefit from a more rigorous adherence to the water tariff framework. We also believe Ranhill will benefit from the 12MP's drive to reduce national NRW levels to 31% by 2025 (from 37% currently) given its track record in the NRW management sub-sector. As a testament, Johor boasts one of the lowest NRW levels in the country at 25.9%, marginally behind Penang at 24.7%. In comparison, all other states other than Penang, Johor, Perak, Selangor and Melaka, currently entail NRW levels above the 31% target, suggesting significant opportunity for NRW reduction jobs.

C. STRATEGY

Key Sectoral Impacts

Construction seems to be given prominence this time around. In our opinion, the 12MP Mid Term Review (12MP-MTR) have given more prominence to the construction sector given that the planned development expenditure has been increased by RM15b and the government is expected to spend circa RM90b per year on development expenditure for the remainder of the 12MP period. This could entail more infrastructure works and we can expect the upcoming rollout of large rail projects such as the MRT3, Penang LRT and the proposed revival of the KL-Singapore High Speed Rail (HSR) to provide a boost to order books of construction companies. Therefore, we view the construction companies as the clear beneficiary of the 12MP-MTR. Our top **BUY** calls for the sector are **Gamuda (TP: RM5.04)**, **IJM Corp (TP: RM2.11)** and **Sunway Construction (TP: RM2.09)**.

Recognizing sustainability and ESG. We are pleased (and as we expected) that sustainability continues to be given an emphasis in the 12MP-MTR. Sustainability has been a key concern not just from an investor point of view but the rakyat as well. Emphasizing ESG and developing (and launching) plans to address this issue will ensure a more sustainable development. We believe that it may be a new economic catalyst for the country which will open new industries. The recently launched NETR is a good start. Hence, we expect players in the RE space to benefit from this, either RE asset owners such as **Tenaga (BUY, TP: RM11.00)**, **Ranhill Utilities (BUY, TP: RM0.80)** and **YTL Power (BUY, TP: RM2.45)** or RE EPCC players such as **Samaiden (BUY, TP: RM1.54)**, **Sunview (BUY, TP: RM1.48)** and **Pekat (BUY, TP: RM0.57)**.

Oil and gas will likely see changes. Malaysia is now heading to a direction in compliance with ESG principles in the oil and gas sector. As such, a sustainability roadmap for the OGSE subindustry is crucial to improve the consistency and transparency of sustainable reporting in the oil and gas industry. We believe this will allow for a wider adoption of sustainability practices beyond the sector's cluster and consequently assist the nation by increasing potential investments in the sector. However, we also believe that this will offer new opportunities and open new sub-industries. Malaysia is actively pursuing hydrogen's potential, while the adoption of CCUS technology is crucial to achieve the sectors and the nation's goal of net-zero emissions, especially for industries that are difficult to decarbonize through conventional means.

Technology is still a key enabler. We believe that technology (whether it is hardware or software) continues to be placed at the forefront as the foundation and support to the various initiatives. In our view, not only will technology be adopted for all the sectors' concerns, but it is also seen as having an indirect impact such as increasing productivity, employee compensation to GDP and competitiveness amongst others. Technology will also be the key enabler to ensure that other sectors will be able to move up the value chain.

Implementation will always be key. We recognize that the 12MP-MTR is a high-level strategic plan for the remainder of the 12MP period. The key to going forward as always will be the implementation of these various initiatives and how the annual budget translates to achieving the stated aim of the 12MP.

Market Outlook

Private sector-driven, productivity-backed growth target. During the remaining period of the 12MP, the Malaysian economy is expected to grow between 5.0% and 5.5% per annum driven by domestic demand, particularly contributed by private sector expenditure. Towards this end, efforts will also be intensified to improve labour productivity, which is estimated to grow at 3.8% per annum.

Emphasis on raising economic competitiveness via HGHV industries. In the above regard, measures will be undertaken to strengthen the nation's economic competitiveness and productivity. Notably, focus will be given to encourage more quality investment in technology-based industries to spur sectoral growth and create high-paying jobs. Moreover, priority will be given to accelerate the development of new sources of growth, particularly in high growth high value (HGHV) industries.

Development of HGHV industries could engender a positive impact on equity valuation. The emphasis on the development of new sources of growth, particularly in HGHV industries, is of long-term strategic importance to the nation's well-being. Tying it to the financial market, this mission could help to improve Malaysia's overall return profile which would naturally drive market valuation higher in the long term. In gist, the positive impact on equity market may manifest albeit over an extended period.

One concern is the Capital Gains Tax. It was announced that the government is also developing CGT as a new tax to be implemented next year. Scant details were given on the structure of this new tax. However, we believe that the CGT relates to the CGT that was announced in Budget 2023 in Feb-23 where the proposed CGT is on the disposal of non-listed shares. As we mentioned then, we believe it may attract more listings in the local equity bourse. Moreover, the Budget 2023 announced that the Securities Commission would facilitate more secondary market for private market instruments to improve liquidity and enable better price discovery. If this is to be the case, we reckon it may act as catalysts that would help to reinvigorate the local capital market.

Maintain FBM KLCI year-end 2023 target at 1,540 points. However, in the short term, the announcement of 12MP MTR is not expected to spur significant buying (or selling) reaction in the equity market. We expect the immediate undertone shall continue to be dominated by market expectation of US Fed monetary action. Hence, we maintain our **FBM KLCI end-2023 target at 1,540 points** or PER23 of 15.3x.

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MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS	
STOCK RECOMMENDATIONS	
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.
ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell	
☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology