THEMATIC REPORT

Authors:

MIDF Team
research@midf.com.my

Determining Winners and Losers of Targeted-Subsidy Measures

KEY HIGHLIGHTS

- **The CPI weightage of fuel has reduced from 8.5% in 2018 to 5.9% in 2024.**
- **The consumer market sentiment continues to soften despite the strengthening of the job market with steady employment growth and lower jobless rate at 3.3%.**
- **Excluding 2021, this year's BNM/MOF inflation forecast range +2.0~3.5% has been the widest. In our opinion, the only factor causing the widest range in 2024 CPI forecast is the targeted-fuel subsidy mechanism.**
- **We foresee four probable scenarios for the targeted-fuel subsidy measures, of which only three we deem to be possible; (i) RON95 status quo, (ii) RON95 increase by 5 cents each month starting in Jun-24, (iii) RON95 increase by one-off 35 cents in Jun-24 and (iv) RON95 set at market price in Jun-24.**
- **Limited and gradual impacts from diesel subsidy removal. Thanks to MySubsidi Diesel System via Fleet Card for land transport and Skid Tank for water transport sector plus it is only applicable in Peninsular Malaysia.**
- **Currently, Petronas Dagangan (BUY, TP: RM24.91) has a system ready for the implementation of diesel subsidy rationalization with an expected minimal impact on its sales volume.**
- **The adjustment of the SST rate and its coverage, along with the targeted diesel subsidy measure, is expected to have minimal impact on logistics players such as Swift Haulage (NEUTRAL, TP: RM0.50) & Tasco (BUY, TP: RM1.30).**
- **Absence of chicken subsidies received offset by lower feed costs and immediate margin reflection – Neutral Impact. Leong Hup (BUY, TP: RM0.70) & QL Resources (BUY, TP: RM6.50).**
- **Consumer companies are exposed to the normalization of diesel prices. Frasers and Neave (BUY, TP: RM33.50).**
- **The expansion targeted-subsidy measures will not be limited to fuel ceiling prices only but also could vary to many other staples, particularly coarse grain sugar (CGS) and fine granulated sugar (FGS). MSM (BUY, TP: RM4.48).**
- **Tenaga (NEUTRAL, TP: RM11.00) remains largely earnings neutral to ICPT movements, as outlined under the IBR framework.**
- **Water tariff hike well priced in. Ranhill (NEUTRAL, TP: RM1.07).**

ECONOMIC COMMENTARY AND ANALYSIS

More spending on food, especially outside food. It is pivotal to comprehend the consumer preferences of a country, prior to analyzing inflation trends. For the case of Malaysia, latest CPI weightage showed that spending on food & non-alcoholic beverages improved slightly by +0.3ppt in post-pandemic era. Malaysia's consumers tend to spend more on outside food as reflected in the share of food away from home. Non-food was still strong at 70.2%. The pandemic-led crisis indirectly caused changes, among others, remote working and health awareness as consumers spend more on (i) health, (ii) information & communication and (iii) furnishings, household equipment & maintenance. To assess the magnitude of readjustment of utility tariffs, it is important to highlight the weightage of water supply and electricity are relatively low at 0.9% and 2.7% respectively. On potential fuel-targeted subsidy, the impact is predicted to be smaller as the CPI weightage of fuel reduced from 8.5% in 2018 to 5.9% in 2024.

Table 1: CPI Weightage (%)

	2010	2016	2018	2024
Food and Non-Alcoholic Beverages	30.3	30.2	29.5	29.8
Food	28.9	29.0	28.4	29.0
Food at Home	18.9	17.9	16.9	15.6
Food Away from Home	10.0	11.1	11.5	13.4
Non-alcoholic Beverages	1.4	1.2	1.1	0.8
Non-Food	69.7	69.8	70.5	70.2
Alcoholic Beverages & Tobacco	2.2	2.9	2.4	1.9
Clothing and Footwear	3.4	3.3	3.2	2.7
Furnishings, Household Equipment & Maintenance	4.1	3.8	4.1	4.3
Health	1.3	1.7	1.9	2.7
Information and Communication	5.7	5.2	4.8	6.6
Recreation, Sport, and Culture	4.6	4.9	4.8	3.0
Education	1.4	1.1	1.3	1.3
Restaurants & Accommodation Services	3.2	2.9	2.9	3.4
Miscellaneous Goods & Services	6.3	6.5	6.7	9.8
Housing, Water, Electricity, Gas & Other Fuels	22.6	23.8	23.8	23.2
Actual Rental for Housing	17.2	18.1	18.1	17.7
Maintenance & Repair of Dwelling	0.7	1.2	1.3	1.2
Material for Maintenance & Repair Dwelling	0.4	0.5	0.4	0.4
Service Maintenance & Repair Dwelling	0.3	0.7	0.9	0.8
Water Supply & Miscellaneous Services	1.3	1.3	1.2	1.2
Water Supply	1.1	1.0	0.9	0.9
Sewage Collection	0.0	0.1	0.1	0.2
Other Service Relating Dwelling	0.2	0.2	0.2	0.1
Electricity, Gas & Other Fuels	3.3	3.2	3.2	3.1
Electricity	2.9	2.7	2.7	2.7
Gas	0.5	0.5	0.5	0.4
Transport	14.9	13.7	14.6	11.3
Fuels & Lubricating Equipment	8.8	7.8	8.5	5.9
Non-Fuel	6.2	5.9	6.1	5.4

Source: DOSM, MIDFR

Lesser exposure to crude materials. As Malaysia's exports heavily manufacturing-oriented, PPI weightage tilt more towards intermediate materials, supplies, and components. E&E, refined petroleum, chemicals, and metals products are among key Malaysia's factory output. The PPI weightage also indicates lesser dependent on crude materials especially foodstuffs & feedstuffs and non-food materials. Weightage of crude fuel lower from 11.4% in 2017 to 9.2% in 2023. Similarly, the contribution rate of processed fuel & lubricants has been reduced to 11.9%.

Table 2: PPI Weightage (%)

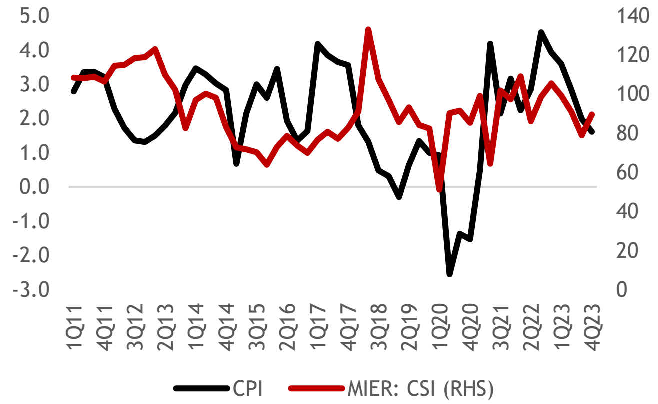
	2017	2023
Crude Materials for Further Processing	20.3	16.4
Foodstuffs and Feedstuffs	4.1	3.2
Non-food Materials	16.2	13.2
Non-food Materials Except Fuel	4.8	4.0
Crude Fuel	11.4	9.2
Intermediate Materials Supplies and Components (IM)	53.6	56.1
Materials and Components for Manufacturing	27.9	29.6
Materials for Food Manufacturing	7.9	4.5
Materials for Other Manufacturing	20.0	25.1
Materials and Components for Construction	5.3	2.9
Processed Fuels and Lubricants	13.2	11.9

	2017	2023
Containers	0.5	0.6
Supplies	6.7	11.2
Manufacturing Industries	5.9	6.8
Non-Manufacturing Industries (NI)	0.8	4.4
Feeds	0.0	0.6
Other Supplies	0.8	3.8
Finished Goods	26.1	27.5
Finished Consumer Goods	8.4	11.5
Finished Consumer Foods (FF)	2.6	3.5
Crude	0.2	0.3
Processed	2.3	3.2
Finished Consumer Goods Excluding Foods (FE)	5.9	8.0
Durable	1.7	1.9
Semi-Durable	1.7	1.6
Non-Durable	2.4	4.6
Capital Equipment	17.7	16.0
Manufacturing Industries	7.9	6.0
Non-Manufacturing Industries	9.9	9.9

Source: DOSM, MIDFR

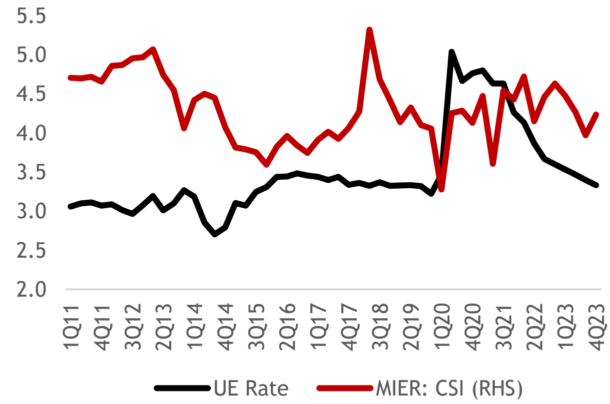
Strong fundamentals but consumers are still cautious. The consumer market continues to soften despite the strengthening of the job market with steady employment growth and lower jobless rate at 3.3%. In addition, inflationary pressure remains low, below +2.0%yoy since Jul-23. In our opinion, Malaysia's consumers are still pessimistic amid potential increase in inflation pressure. MIER's Consumer Sentiment Index stayed below its demarcation line of 100 points throughout 2023, reflecting pessimistic mood. E-Commerce transactions are also showing declining trends. According to Grips Intelligence, average daily e-commerce transaction value in Malaysia dropped by -59.9%yoy to USD65.2K in 3MCY24*. As comparison, the average transactions value was USD104.5K in 2019 and USD112.6K in 2023. By volume, average daily e-commerce transaction volume dropped by -53.4%yoy to 393 units in 3MCY24* (2019: 520 units, 2023: 569 units). In our view, the imposition of a new 10.0% sales tax on the import of low-value goods (LVG) starting on Jan-24 may have been a possible factor to the weakening online sales and pessimistic consumer sentiment. A higher SST rate on selected items, upside adjustment of utility tariffs and targeted-subsidy measures may put further downward pressures on consumer sentiment and spending in the near term.

Chart 1: Consumer Sentiment Index (Points) vs. CPI (YoY%)



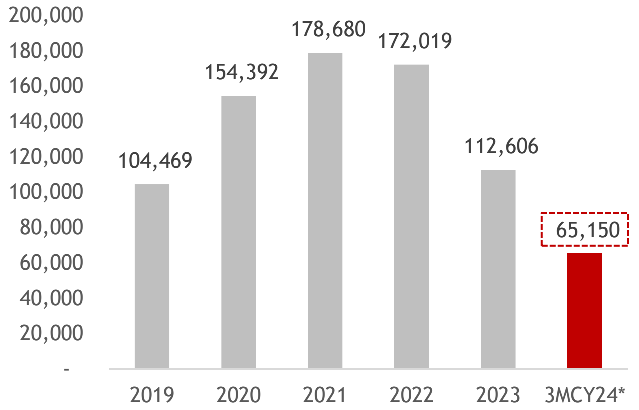
Source: MACROBOND, MIDFR

Chart 2: Consumer Sentiment Index (Points) vs. Unemployment Rate (%)



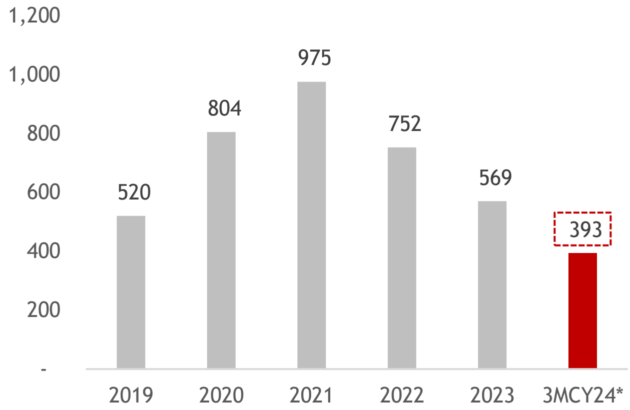
Source: MACROBOND, MIDFR

Chart 3: Average Daily E-Commerce Transactions Value (USD)



Source: GRIPS INTELLIGENCE INC, MIDFR
**As of 8th Mar-24*

Chart 4: Average Daily E-Commerce Transactions Volume (Unit)

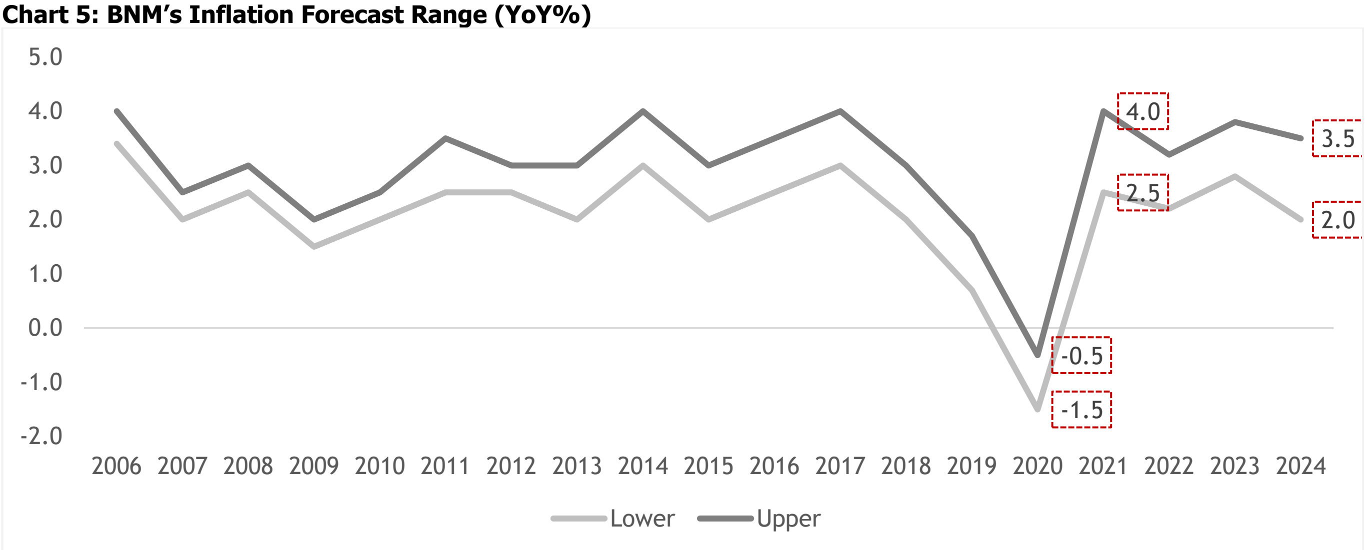


Source: GRIPS INTELLIGENCE INC., MIDFR
**As of 8th Mar-24*

Excluding 2021, this year's BNM/MOF inflation forecast range has been the widest. Based on previous BNM's annual reports and economic & monetary review reports, its CPI forecast range (the range between highest and lowest forecast) have been between 0.5~1.0ppt. From 2011 until 2020, the forecast range was always 1.0ppt except 2012 (0.5ppt). Referring to Economic & Monetary Review 2020, the central bank highlighted downside risks to inflation outlook were among others, further rounds of containment measures, vaccination rate speed and disruptions of global supply chain. In 2021, it was full of uncertainties domestically as the country was still grappling with the pandemic, hence it was understandable for the wide range of CPI forecast. As for 2024, BNM forecasted +2.0~3.5% while MOF's +2.1~3.6% for CPI. BNM pointed out that cost pressures is expected to be contained, thanks to easing global supply conditions and moderate commodity prices. In addition, the effects of currency depreciation would be manageable and tax changes as well as adjustments of utility tariffs are expected to have a marginal impact on Malaysia's headline inflation. Therefore, we postulate that the only factor causing the widest range in 2024 CPI forecast is the targeted-fuel subsidy mechanism. The new fuel price mechanism is yet to be announced but we speculate that it could be implemented from Jun-24 onwards.

Preserving positive real wage growth. Even though the inflation rate is forecasted to be higher due to targeted-subsidy measures, real wage growth is expected to remain in positive territory. Real wage growth during 2010-2019 was +3.4%pa (CPI: +2.2%pa). Including pandemic years (2010-2022), real wage growth was still positive of +2.1%pa (CPI: +2.0%pa). In fact, post-pandemic real wage grew at an even higher pace at +5.5%pa (CPI: +2.9%pa). Even should the inflation rate hit +4.0% for whatever reason, we expect real wage to continue growing as nominal wage growth typically range between +5.0~6.0%pa. Apart from that, stable job market continues to support fundamentals of Malaysia's consumer demand.

Chart 5: BNM's Inflation Forecast Range (YoY%)



Source: BNM, MIDFR

8.0% SST on electricity usage over 600kWh starting in Mar-24. The government projected 85.0% of households in Peninsular Malaysia to not have been impacted by the increase in SST from 6.0% to 8.0%. The increase was in effect starting on 1 March 2024 and only impacting households with electricity usage over 600kWh or bills of over RM220 per month. Apart from the SST hike, electricity subsidy is retargeted in Peninsular Malaysia through the Imbalance Cost Pass-Through (ICPT) charges. Effective from 1 January 2024 to 30 June 2024, the previous RM0.02/kWh rebate for 601kWh-1,500kWh domestic usage is no longer applicable. The RM0.10/kWh surcharge on electricity consumption of more than 1,500kWh shall be maintained. Domestic consumption of 600kWh and below will continue to receive RM0.02/kWh rebate. The government has projected savings of RM266.2m in subsidies via the new subsidy structure. According to MOF & TNB, both SST hike and subsidy retargeting are expected to only impact 15.0% of users in Peninsular Malaysia.

Table 3: Changes in TNB Bill Charges

Domestic Consumer Electricity Consumption	ICPT Charges (per kWh)		SST	
	Effective Jan-24 to Jun-24	Previous	Effective Mar-23	Previous
Electricity Consumption of up to 600 kWh	RM0.02 Rebate	RM0.02 Rebate	No SST	No SST
Electricity Consumption between 601-1,500kWh	RM0.02 Rebate	No Surcharge	8.0%	6.0%
Electricity Consumption of above 1,500kWh	RM0.10 Surcharge	RM0.10 Surcharge	8.0%	6.0%

Source: TNB

Water rates rise by +35.5% following Feb-24 tariff revision. Revision of water tariff for Peninsular Malaysia and Labuan in Feb-24 saw an increase by +35.5% for the price of the first 20m^3 of water used by domestic users. The recent tariff revision saw Penang registering the largest jump of +181.8% following its 1st hike in water tariff in 31-year. The water supply inflation rate in Feb-24 soared by +28.8%yoy and +26.1%mom on a non-seasonally adjusted basis. Some state governments have made commitments to mitigate the impact of rising tariff rates, especially for lower income groups. Penang announced a RM10 rebate for B40 households of more than 8 people and household income of lower than RM2,250. Meanwhile, Selangor's state government will absorb the additional cost from the rise in water tariff for the recipients of *Skim Air Darul Ehsan* (Sade), which has been receiving free 20m^3 of water every month. Despite the increase, the National Water Services Commission (SPAN) also stated the new water tariff is still under actual cost of providing water supply service of RM1.75/m^3.

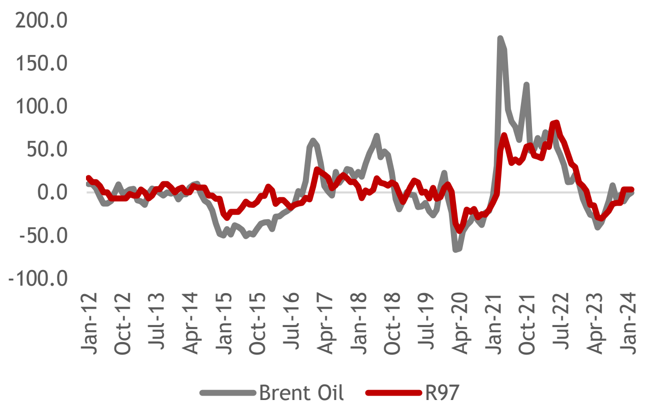
Table 4: Water Tariff by States

State	Minimum Charge (RM)		1st 20m^3 (RM)		
	Current	Previous	Current	Previous	% Change
Johor	10.50	7.00	1.050	0.800	31.3
Selangor/KL/Putrajaya	6.50	6.00	0.650	0.570	14.0
Labuan	9.20	7.00	0.920	0.700	31.4
Negeri Sembilan	7.10	5.00	0.710	0.550	29.1
Melaka	8.70	7.00	0.870	0.700	24.3
Terengganu	5.80	4.00	0.580	0.420	38.1
Perak	7.50	3.00	0.750	0.500	50.0
Perlis	7.20	4.00	0.720	0.475	51.6
Kelantan	6.80	4.50	0.680	0.450	51.1
Pulau Pinang	6.20	2.50	0.620	0.220	181.8
Kedah	7.50	6.00	0.750	0.500	50.0
Pahang	7.80	3.00	0.780	0.412	89.3
Sarawak	4.40	4.40	0.540	0.540	0.0%
Sabah	3.00	3.00	0.450	0.450	0.0%

Source: SPAN and respective state water regulatory bodies.

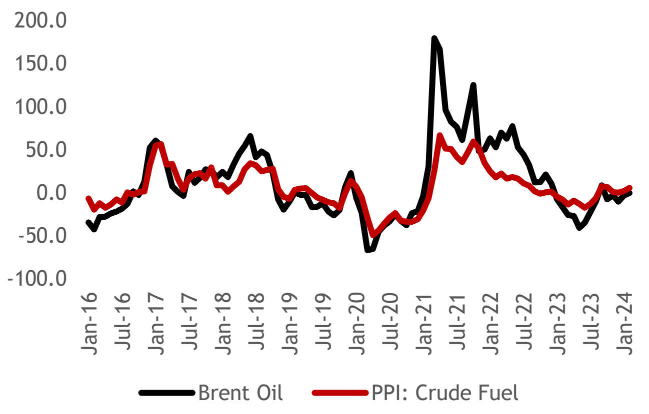
Post-2010, RON95 price hit maximum of RM2.38 per liter in 2017. Price movements of Brent crude oil has a close relationship with Malaysia's retail fuel prices as well as the CPI and PPI fuel-indices. These indices are important to gauge the potential impacts of any targeted-fuel subsidy measures. During 2017 and early 2018, the government implemented a managed-float fuel price mechanism which the prices were set on a weekly basis. The RON95 hit the highest point at RM2.38 per litre in Nov-17 and in fact the highest after 2010. It is our opinion that the government may consider the post-2010 historical fuel price trends in determining the best mechanism in 2HCY24.

Chart 6: Brent Crude Oil vs. RON97 (YoY%)



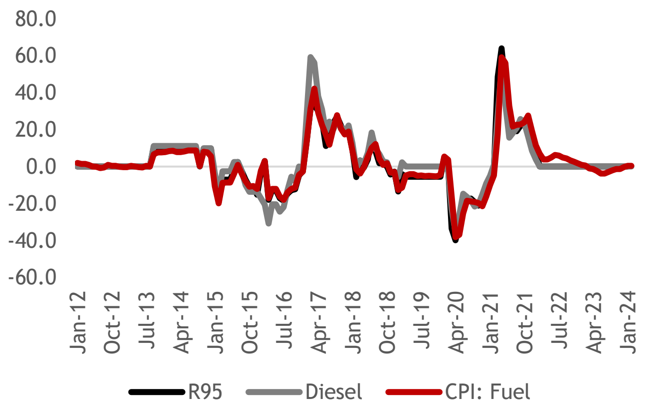
Source: BLOOMBERG, MIDFR

Chart 7: Brent Crude Oil vs. PPI; Crude Fuel (YoY%)



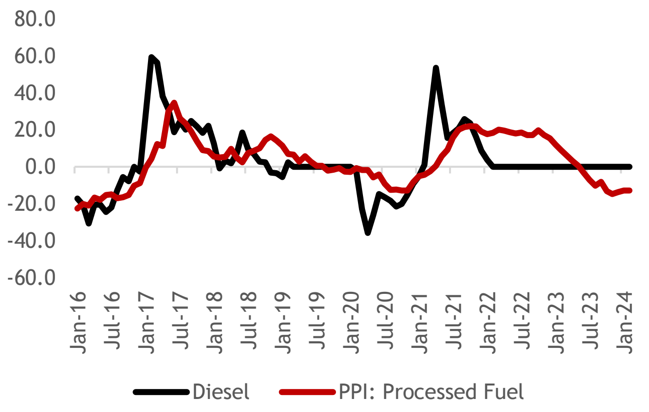
Source: BLOOMBERG, DOSM, MIDFR

Chart 8: Local Fuel Prices vs. CPI; Fuel (YoY%)



Source: BLOOMBERG, DOSM, MIDFR

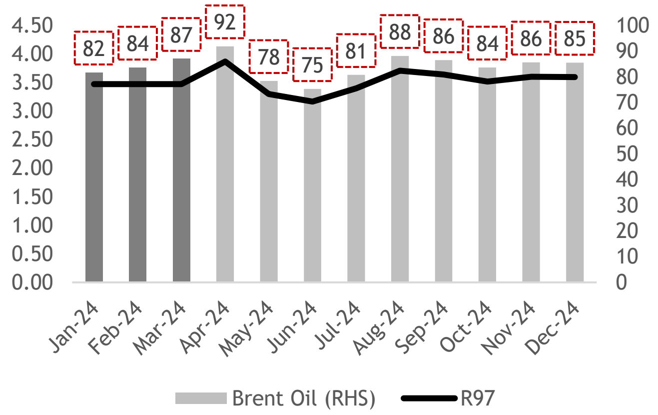
Chart 9: Local Diesel vs. PPI; Processed Fuel (YoY%)



Source: BLOOMBERG, DOSM, MIDFR

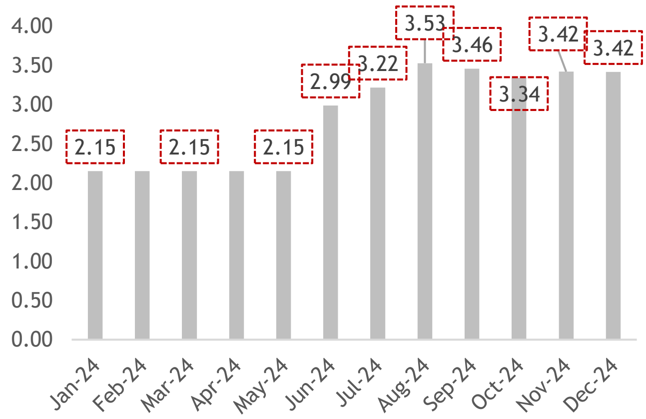
We envisaged three possible scenarios that may pan out. Prior to formulating the scenarios, we are assuming that food inflation rate to trend lower for this year. Price growth of food & beverages is predicted to increase by +3.7% (2023: +4.8%, 2MCY24: +1.9%). Food at Home is assumed to rise by +2.0% (2023: +3.5%. 2MCY24: +0.8%) while Food Away from Home to increase by +3.0% (2023: +6.7%, 2MCY24: +3.3%). We also assumed that the adjustment of utility tariffs will lead to a surge in the inflation rate of water supply, by +25.0% (2023: +0.9%, 2MCY24: +15.4%), while electricity cost to rise by +5.1%, within the Energy Commission's forecast range of +4.2~6.0%. We foresee four probable scenarios for the targeted-fuel subsidy measures, of which only three we deem to be possible; (i) RON95 to remain status quo at RM2.05, extra time is needed to prepare consumers and solidify targeted-subsidy mechanism, (ii) RON95 to be raised by 5 sen each month starting in Jun-24 until the price reaches RM2.40 per liter, slightly higher than the post-2010 maximum point RM2.38, and (iii) RON95 adjusted to RM2.40 in Jun-24, with an one-off increase. We believe that the last scenario of; (iv) RON95 set at market price in Jun-24 is a possibility but we deem it to be highly unlikely for now.

Chart 10: Brent Oil (USDpbd) & RON97 (RM per liter) Forecast Prices



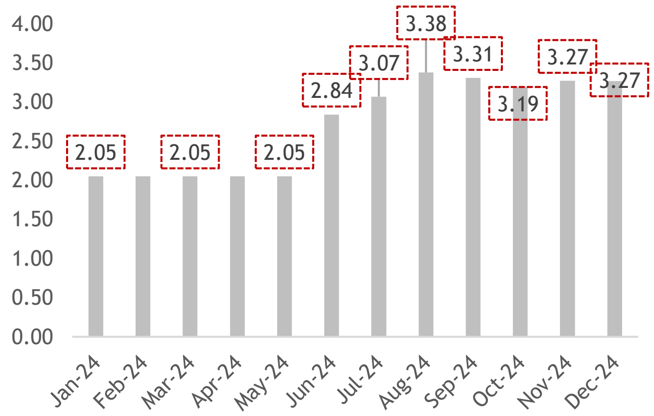
Source: BLOOMBERG, MIDFR

Chart 11: Diesel at Market Price after Jun-24 (RM per liter)



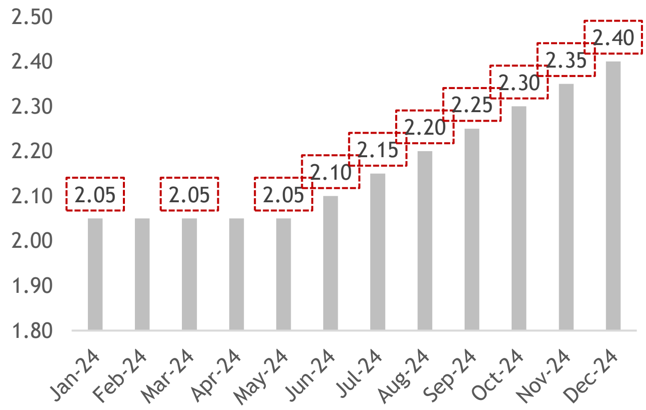
Source: BLOOMBERG, MIDFR

Chart 12: RON95 at Market Price after Jun-24 (RM per liter)



Source: BLOOMBERG, MIDFR

Chart 13: RON95 with Managed Float Price after Jun-24 (YoY%)



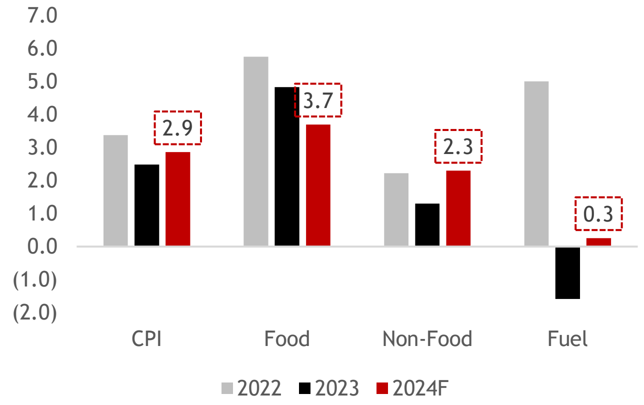
Source: BLOOMBERG, MIDFR

First scenario; RON95 remains status quo. The retail fuel price is set to stay at RM2.05 per liter as the domestic market may need additional time to prepare and improve the targeted-subsidy mechanism. Under this scenario, we estimate that the overall price to grow by +2.9% for 2024. We expect that the headline inflation rate to trend higher but only reaches maximum point of +3.5% in Nov-24 and Dec-24. The main upside factor is the food inflation rate.

Second scenario; RON95 will be raised by 5 sen each month starting in Jun-24. In our opinion, another possibility is that a gradual approach is taken, whereby the retail fuel price is raised by 5 sen each month starting on Jun-24. The first kick-off price would be RM2.10 and gradually increases until RM2.40 by Dec-24. Under this scenario, we estimate the headline inflation rate to average at +3.2% as fuel price growth at +6.0% for 2024. The headline inflation rate surpasses +3.0% in Jun-24 and reaches peak of +4.4% by Dec-24. Meanwhile, we estimate that the fuel inflation rate to hit double-digit rate in Sep-24 onwards. We believe this is the ideal scenario if the fuel-targeted subsidy measures are implemented in 2HCY24. We see this scenario as a possibility since the inflation rate under this scenario is within the BNM/MOF target range.

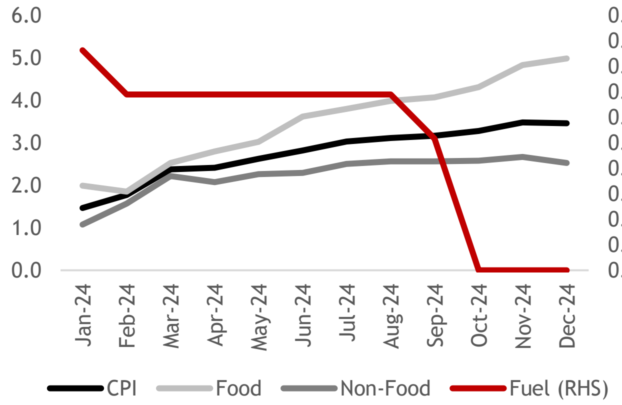
Third scenario; RON95 will be raised by one-off 35 cents in Jun-24. In our view, this scenario entails that starting in Jun-24, it is possible that RON95 price is raised by one-off 35 sen, from RM2.05 to RM2.40. The new fuel price will be fixed until the end of the year. Under this scenario, we estimate the headline inflation rate to average at +3.4% and fuel inflation rate at +10.2% for 2024. Headline inflation rate is projected to jump from +2.6% in May-24 to +3.7% in Jun-24 and trending above +4.0% in Aug-24 onwards. We also deem this scenario as possible since the inflation rate is within the BNM/MOF target range, yet the monthly price growth pace is faster than the second scenario.

Chart 14: CPI Forecast if RON95 Status Quo



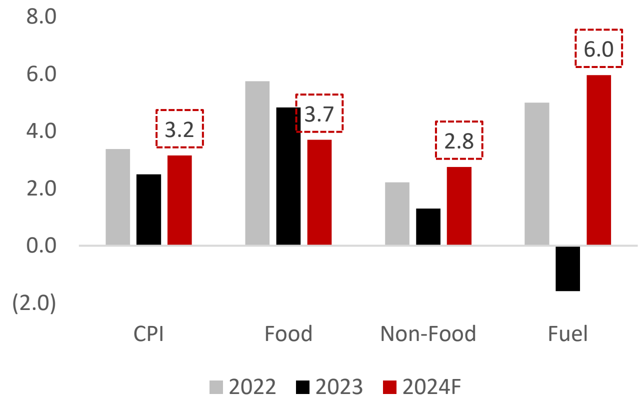
Source: DOSM, MIDFR

Chart 15: CPI Forecast if RON95 Status Quo



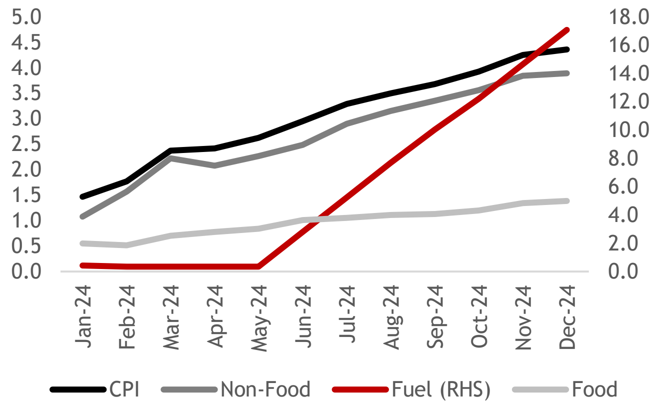
Source: DOSM, MIDFR

Chart 16: CPI Forecast if RON95 increase 5 cents by each month starting in Jun-24



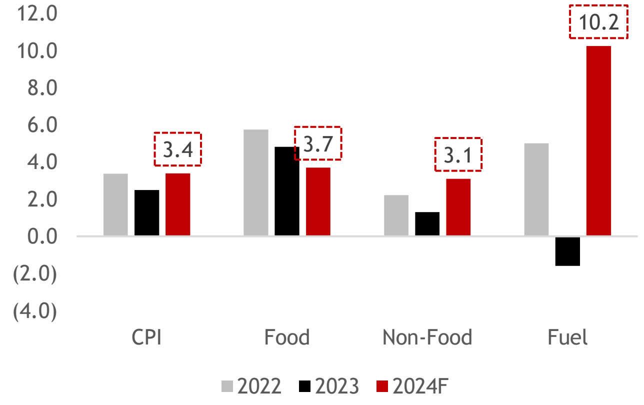
Source: DOSM, MIDFR

Chart 17: CPI Forecast if RON95 increase 5 cents by each month starting in Jun-24



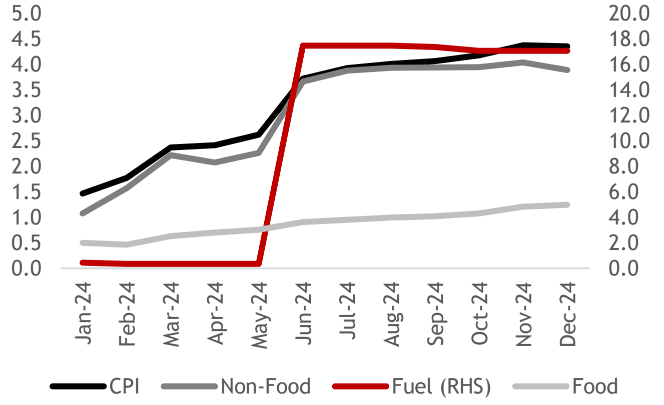
Source: DOSM, MIDFR

Chart 18: CPI Forecast if one-off increase 35 cents on RON95 starting in Jun-24



Source: DOSM, MIDFR

Chart 19: CPI Forecast if one-off increase 35 cents on RON95 starting in Jun-24



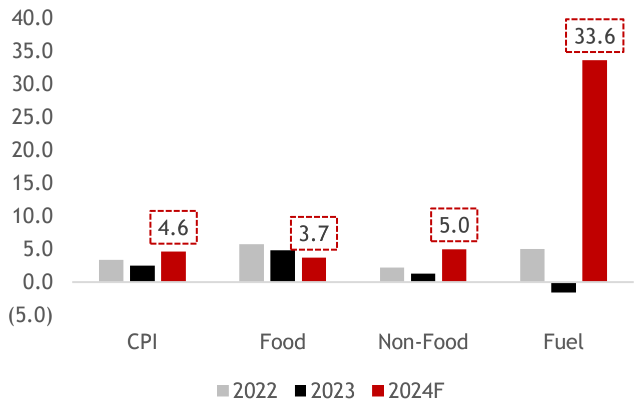
Source: DOSM, MIDFR

Fourth scenario; RON95 set at market price starting in Jun-24. As mentioned earlier, the fourth scenario is very unlikely. By letting RON95 at market price in Jun-24, the effects are headline inflation rate to average at +4.6%. 2HCY24 inflation rate is projected to range from +4.9~6.7%. We believe that this scenario is not possible since the inflation rate is beyond the BNM/MOF target range.

Limited and gradual impacts from diesel subsidy removal. Even though diesel price is expected to be at market price, some segments of the economy will still benefit from the subsidized diesel price. Currently, the government is conducting a pilot project on MySubsidi Diesel System via Fleet Card for land transport and Skid Tank for water transport sector. The aim is to expand subsidized diesel quota to eligible companies as announced in the Budget 2024. In addition, the removal of diesel subsidy is only applicable in Peninsular Malaysia. Sabah and Sarawak will still enjoy the RM2.15 per liter for diesel price in 2024.

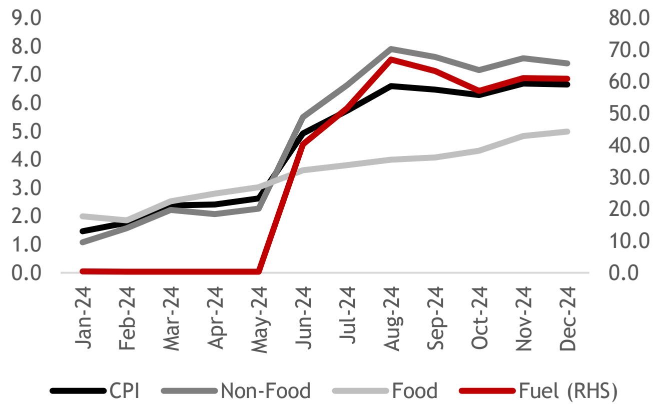
PPI to return at market price starting Jun-24. PPI is expected to turn positive this year by +6.0% following higher input inflation stemming from processes fuel & lubricants, +23.5%. Starting in Jun-24, the price of diesel is predicted to set at market price of RM3.02 per liter of which will see fuel PPI to jump by +30.5%yoy and possibly reaching +58.7% by Dec-24. On the flip side, overall PPI to stay in contractionary of -7.2% if diesel price remains status quo throughout Malaysia in 2024.

Chart 20: CPI Forecast if RON95 at Market Price



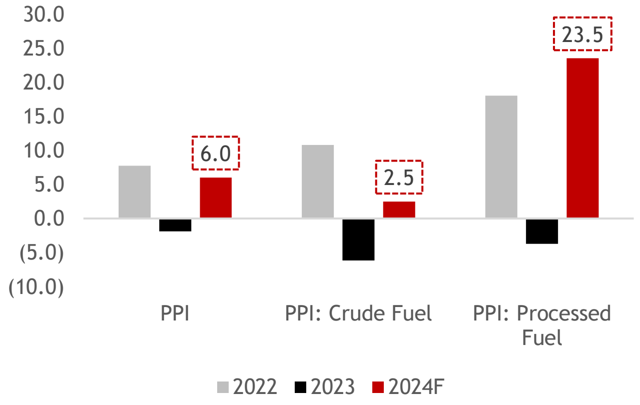
Source: DOSM, MIDFR

Chart 21: CPI Forecast at Market Price



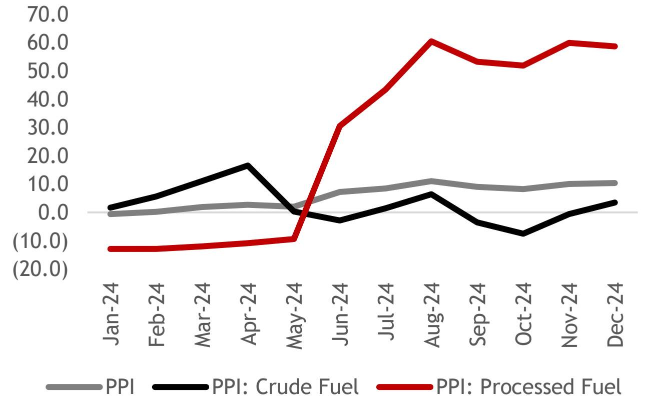
Source: DOSM, MIDFR

Chart 22: PPI Forecast if Diesel at Market Price starting in Jun-24



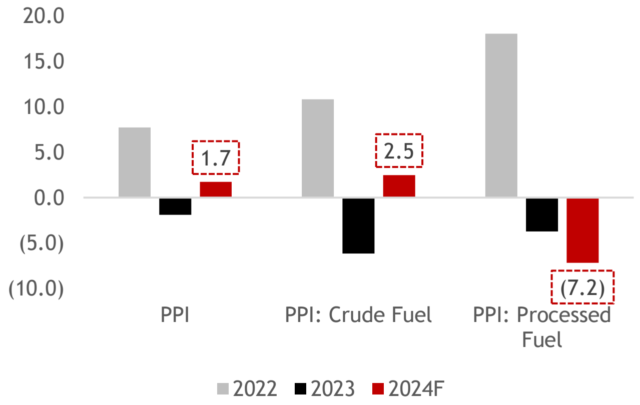
Source: DOSM, MIDFR

Chart 23: PPI Forecast if Diesel at Market Price starting in Jun-24



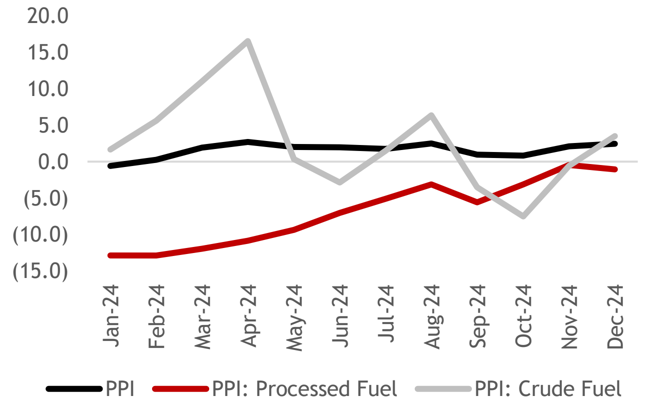
Source: DOSM, MIDFR

Chart 24: PPI Forecast if Diesel Status Quo



Source: DOSM, MIDFR

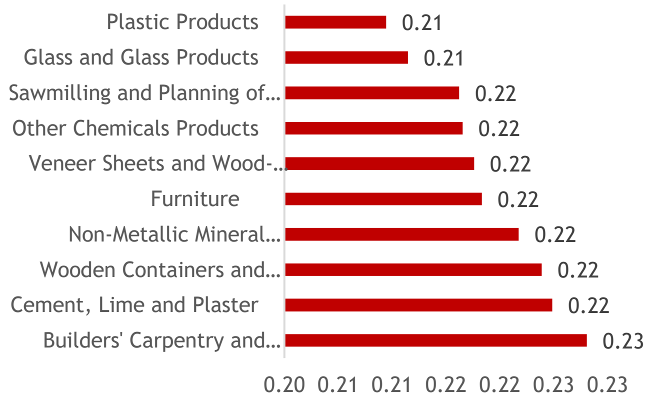
Chart 25: PPI Forecast if Diesel Status Quo



Source: DOSM, MIDFR

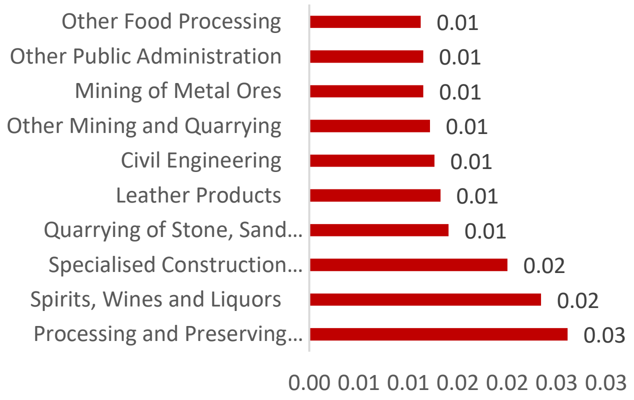
+1% increase in retail fuel will result +15.9% rise in overall input inflation. Using our in-house economic model, changes of retail fuel price have bigger impacts on overall input inflation as compared to electricity, water supply and land transport. For every +1.0% increase in retail fuel price, this will generate +15.9% rise in overall input inflation. Similar magnitude simulated on electricity will generate +4.1% on input inflation, land transport leads to +0.9% and water supply by +0.5%.

Chart 26: Input Inflation Impacts by Top 10 Sector per +1.0% Increase in Retail Fuel



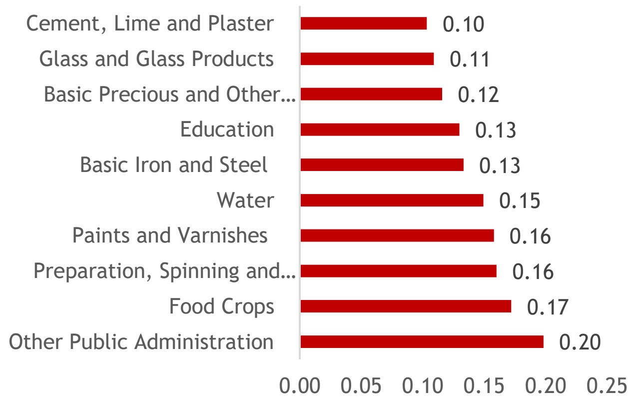
Source: DOSM, MIDFR

Chart 27: Input Inflation Impacts by Top 10 Sector per +1.0% Increase in Land Transport



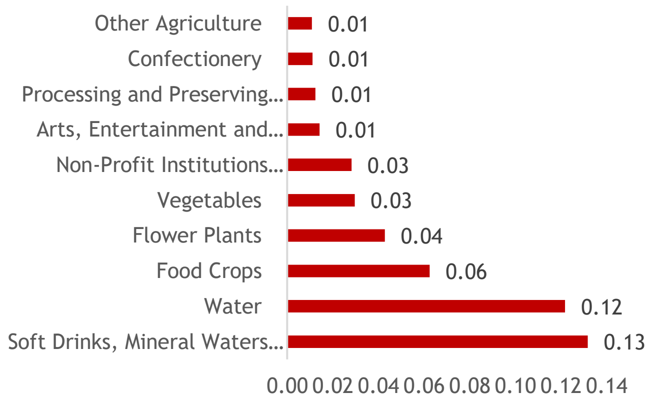
Source: DOSM, MIDFR

Chart 28: Input Inflation Impacts by Top 10 Sector per +1.0% Increase in Electricity



Source: DOSM, MIDFR

Chart 29: Input Inflation Impacts by Top 10 Sector per +1.0% Increase in Water Supply



Source: DOSM, MIDFR

To better understand household situation. The collection of data via PADU will help the government to improve its understanding of Malaysia's household well-being, even though the priority is to identify the eligible recipients of government assistance programs as part of the initiative to move away from blanket support. The PADU database will be used to create a new source of reference for the household balance sheet (based on the declared income and expenses). The eligibility criteria can also be refined considering other information such as the size of the household and the existing financial commitment and burden e.g. mortgages, personal loans, education loans and monthly expenses for children's education. The tabulation of households based on localities and jobs will also provide a better understanding of the stress level according to income level as well as areas (with differing costs of living and basic amenities). PADU will also help the government to identify areas or jobs which have been underserved but require urgent attention.

Cross-checking existing information at various government agencies. PADU data will also help the government to check the integrity and the government's ability to capture household information. Cross-checking the data will not only help to improve the data reliability and integrity, but the government can also better target the right group of people and areas for specific assistance programs. By ensuring help is given to the right recipients, wastage in government allocations will also be addressed. While PADU does not specifically collect information on household asset ownership, we do not expect any fresh information on the state and position of the household's net worth, especially for the M40 and B40, in contrast to the macro-level information (i.e. household financial assets and debts) published by Bank Negara in the Financial Stability Report.

PADU can be improved further… Despite some quarters raising concerns about information security, we believe there is room for improvement in terms of the depth and scope of data collection. In terms of expenses, more data can be collected such as the estimated spending on fuel and transport services. Although the home-office distance may determine the fuel cost for travelling, the actual spending may vary depending on the mode of travel, frequency, and the nature of jobs. In terms of income, we opine the combined rental income from houses and cars can be segregated. The segregation will be useful to learn whether the assets are generating positive or negative rental returns. While this information may not be relevant for the eligibility of the targeted subsidy scheme, this will also reflect one of the stress points for the rakyat. Apart from the income and expenses, there was a missed opportunity to collect data on household savings. The crude estimate from the declared income and expenses can be overstated as the expenses are not granular and understated. At the same time, understanding saving habits can be taken into consideration to differentiate those who are really in need, particularly with a bigger number of dependents and from lower income groups.

…to have a more comprehensive estimate of household financial information. We believe a fresh collection of household financial data is a move in the right direction. Now, the household balance sheet information is not easily available; Bank Negara Malaysia, for example, only reported the macro-level assessment of the household total assets and financial burdens. We envision that the creation of household balance sheet can be grown and expanded akin to the B.101.h report published by the US Federal Reserve as part of the Z.1 report on Financial Accounts in the US. The report includes information on the American household balance sheet, covering data such as income, liabilities and even household net worth. The Z.1 report is also aligned with the H.8 report on the Assets and Liabilities of Commercial Banks in the US. On this note, a more holistic assessment of the state of household financial position can be matched with the household sector data reported by the banking institutions.

Table 5: Household Balance in the US Federal Reserve's B.101.H Report

Household Assets
Total Assets
A) Non-Financial Assets • Owner-occupied real estate including vacant land and mobile home. • Consumer durable goods
B) Financial Assets • Checkable deposits & currency • Other deposits including time & saving deposits. • Money market fund shares • Debt securities • US govt. securities and municipal securities • Corporate and foreign bonds • Loans • Cash accounts at brokers & dealers. • Mortgages • Corporate equities & mutual fund shares • Life insurance reserves • Pension entitlement • Proprietors' equity in noncorporate business
C) Miscellaneous Assets
Household Liabilities
Total Liabilities • Loans • Home mortgages • Consumer credit • Depository institution loans n.e.c. • Other loans & advances
Household Net Worth

Source: Federal Reserve, MIDFR

From the updated database to implementing targeted support. At this juncture, we believe it may take some time to analyze the data and it is possible that the list of eligible recipients for the targeted subsidy scheme require a relook. We opine that the scheme will only be rolled out (including the possible adjustment of domestic fuel prices) in 2HCY24. We expect the relative burden (i.e. based on household size) will be considered, potentially a more refined income classification (e.g. B10 or B20), and differing cost of living according to localities to be part of the additional criteria to be qualified for targeted fuel subsidies.

Exploring other measures to reduce fiscal burden. We think other additional features can also be explored and added that will limit the eligibility for federal assistance either by time or quantity. For example, individuals who have received government support for the past 5 consecutive years shall no longer be eligible for future support from the 6th year onward. This may force individuals to improve its situation or look for support from other sources such the non-governmental organizations (NGOs), charity groups or local communities. Given the specific timeframe, it may reduce over-reliance on the government. Promoting greater roles of NGOs can also help to reduce the government's fiscal burden. Corporations' allocations for CSR and charity are typically channeled through the NGOs. This can help to address various issues from support for single mothers, individuals with physical disabilities, aged people, and even those with mental illness.

Continued focus to support the rakyat in need. Although the subsidy rationalization is intended to improve the government's fiscal position, we believe the government will remain cautious in its approach to adjusting the subsidy allocation as well as raising the domestic fuel prices. Ultimately, the government will continue to ensure more support is provided to the rakyat who are in need. The rationalization of the subsidy spending is not intended to reduce support for the rakyat but to move away from blanket support which previously were also enjoyed by the high-income groups. According to the government's plan as outlined in Budget 2024, the savings from the implementation of targeted subsidies will allow the government to increase the total allocation for Sumbangan Tunai Rahmah from RM8b to RM10b. This increased allocation translates into a higher maximum rate from RM3,100 to RM3,700. The higher STR allocation will also help to boost consumer spending this year, given the higher propensity to consume among the lower-income groups.

EQUITY

OIL & GAS... Maintain POSITIVE

Analyst: MIDF Research team

Efficiency at the pump. Targeted subsidies for vehicle fuel had been in the talks since 2014, and we acknowledged that the incentives would affect the refinery and retailer subsectors in the downstream oil and gas in a couple of ways. In general, the advantages of targeted fuel subsidies include: (i) levelling fuel demand, subsequently normalising production, and utilisation in refineries; (ii) improving efficiency for retailers; and (iii) demonstrating corporate social responsibility for the B40 group.

Possibly need to invest in systems. However, the move is also not without its set of challenges, which includes: (i) margin pressures unto refineries if lower consumer prices that cannot be fully offset by cost reductions or efficiency gains; (ii) competition among fuel retailers, potentially leading to shifts in market share; and (iii) operational adjustments to control cost and consumer price, while ensuring the right consumers benefit from the subsidised fuel. Currently, **Petronas Dagangan (BUY, TP: RM24.91)** has a system ready for the implementation of diesel subsidy rationalisation with an expected minimal impact on its sales volume. The group had also indicated that the floatation of petrol prices would have a similarly minimal impact, as indicated in 2019 prices, although the pump prices would be higher for non-subsidised targets. Overall, we opine that adaptation will potentially strengthen the competitive positions of refineries and retailers alike.

TRANSPORTATION.. Maintain POSITIVE

Analyst: MIDF Research team

Logistics

Broader logistics tax exemption. Under Budget 2024, the government announced its plan to extend the SST coverage to include logistics services (beyond forwarding agents, couriers, air transport, and warehousing) effective 1st Mar-24, with a 6.0% rate. Subsequently, exemptions were being considered for certain sub-sectors if their inclusion was deemed to directly affect the public interest. The government has provided an exemption for various logistics services, including those involving the direct export of goods, transshipments, transit activities, door-to-door logistics services, and e-commerce-related food and beverage delivery services. After conducting engagement sessions with stakeholders, the scope of service tax exemptions has been further refined as follows:

i. An exemption for providers of business-to-business (B2B) logistics services when procuring within their scope of services. For example, a freight service provider will not only be exempt from taxation on freight services but also other services, such as shipping, warehousing, port, and cold chain facilities.

ii. Amendments are being made to the Service Tax Regulations 2018 for Logistics Services, with item 1(a) and item 1(b) being merged. This broadens exemptions for B2B activities, allowing logistics service providers to avoid paying service tax for acquiring delivery or transportation services, which were previously listed separately.

iii. An exemption applies to all services falling under Group J: Logistics Services when provided within or between Special Areas/Designated Areas.

iv. An exemption for goods transported by sea between Peninsular Malaysia and Sabah/Sarawak/Labuan, and within Sabah, Sarawak, and Labuan.

The refinements made up to this point reduce the occurrence of double taxation or cascading effects resulting from implementing taxes across multiple levels of the supply chain. This is particularly relevant for integrated logistics service providers offering end-to-end services to their customers, as exemplified by those within our coverage. However, any potential rise in service tax is expected to be transferred to customers during rate negotiations, resulting in a neutral overall impact on logistics players.

Potentially higher repair and maintenance costs. Vehicle repairs and maintenance are not included in the exempted categories under the higher tax regime (increasing from 6.0% to 8.0%). Therefore, vehicle servicing expenses may rise, particularly for logistics firms managing larger fleets. As an illustration, **Swift Haulage (NEUTRAL, TP: RM0.50)**, the country's largest hauler with a 9.0% market share and a fleet of over 1,500 prime movers, devotes about 12.0% of its total cost of sales and services to maintenance and repair expenses. Nevertheless, like other inflationary pressures, we expect that any possible escalation in repair and maintenance costs will be factored into rate negotiations with customers. There has been no official confirmation on this matter, and we anticipate further clarification from the MoF.

Contractual fuel adjustment. The government is phasing in targeted diesel subsidies to curb leakages and smuggling but assures that sectors such as logistics companies will be unaffected. A pilot project known as the Subsidized Diesel Control System 2.0 (SKDS 2.0), is currently underway among selected land transport companies. There are two stages of application: first to the Ministry of Domestic Trade and Consumer Affairs for authorization (taking 1-2 days), and then to the chosen oil company for issuance of the fleet card (a process taking 2-4 weeks). Diesel expenses typically make up about 20.0% to 25.0% of its cost of sales and services, varying with fleet size. In the event of non-exemption, logistics players are shielded from diesel price fluctuations due to the inclusion of a fuel clause in their contracts with customers. This clause adjusts transportation rates according to weekly diesel prices.

Maintain POSITIVE. In summary, the adjustment of the SST rate and its coverage, along with the targeted diesel subsidy measure, is expected to have minimal impact on logistics players. This is because it is tailored to exempt essential logistics services, thereby preventing substantial cost hikes for domestic goods. Even if not exempted, logistics players are likely to pass on any additional costs to customers, albeit with a slight delay as transportation rates are usually agreed upon months in advance. **Tasco (BUY, TP: RM1.30)** stands out as our top pick in the logistics sector due to the following: (i) the anticipated recovery in shipment volume on the back of trade recovery, ii) it stands to gain from considerable claimable tax credits and (iii) its two new warehouses will boost revenue with better rates compared to its rented facilities.

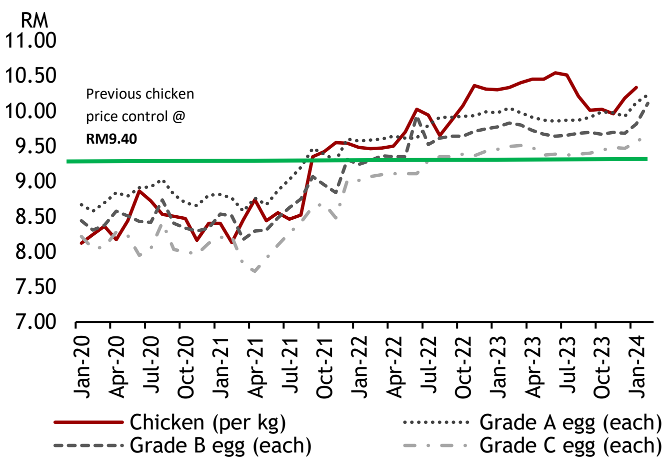
CONSUMER.. Maintain NEUTRAL

Analyst: Genevieve Ng Pei Fen

Subsidy rationalization impact on consumer sector. The rationalization of subsidies in Malaysia began in stages with implementation includes the removal of subsidies for chicken effective Nov'23, followed by the retargeting of electricity subsidies effective 1 January 2024, and upcoming rationalization of diesel and RON95 prices. These measures are expected to have varying impacts across consumer companies under our coverage, particularly regarding the heightened inflationary pressure on consumer wallets, which may influence preferences among price-sensitive consumers.

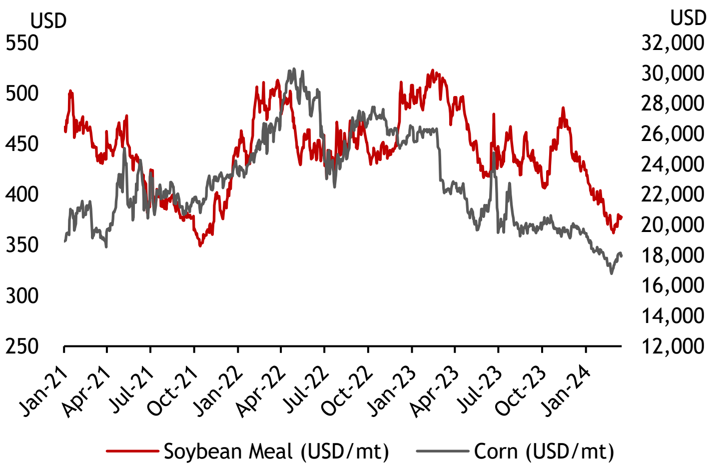
Absence of chicken subsidies received offset by lower feed costs and immediate margin reflection – Neutral Impact. Post the removal of the government subsidy of RM0.80/kg for chicken and the price control of RM9.40 for chicken effective 1 November 2023, the average chicken retail price in Malaysia stands at RM10.18-RM10.33 range. However, based on our channel check, the price of live birds is below the price control level post discontinuation. The lower price is mainly due to the better chicken supply in Malaysia, contributed by import from Thailand. On the flip side, the lower feed cost on the back of declining global corn and soybean meal prices offset the lower live bird price to maintain a sustainable profit margin for efficient poultry players like **Leong Hup (BUY, TP: RM0.70)** and **QL Resources (BUY, TP: RM6.50).** The lifted price control also allows poultry players to adjust prices based on market supply and demand and enables immediate margin reflection, rather than lagging in subsidy reception. This offsets the potential decrease in other income resulting from the absence of chicken subsidies received. Meanwhile, the government subsidy for eggs in Malaysia remains ongoing.

Chart 30: Malaysia's Average Retail Price Trend for Chicken and Eggs



Sources: DOSM, MIDFR

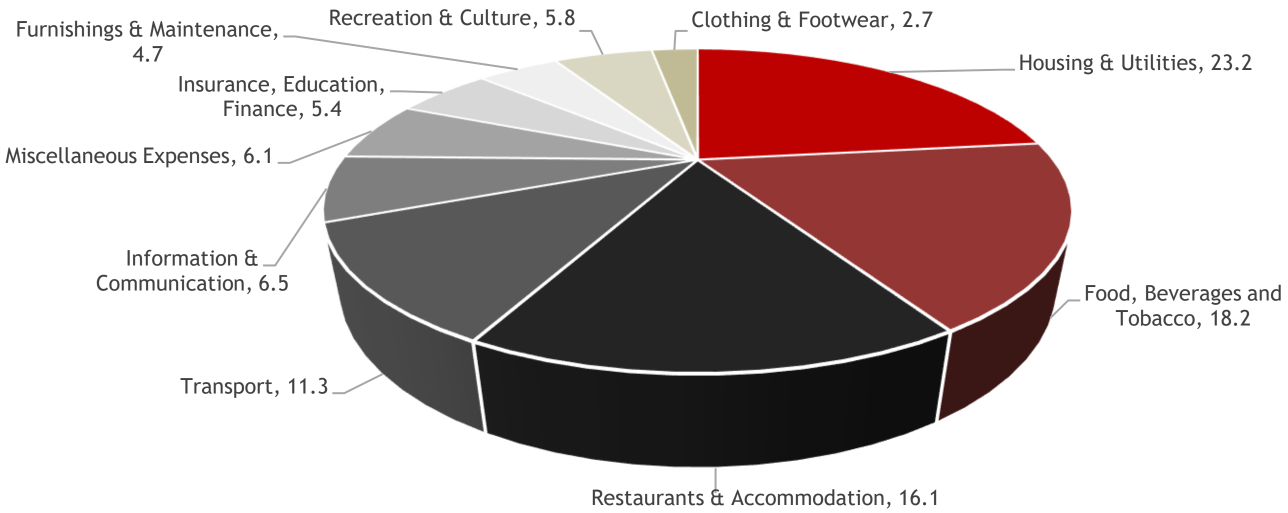
Chart 31: Raw Material Futures Price Trend for Poultry Producer (USD/mt)



Sources: Bloomberg, MIDFR

Retargeted electricity subsidy could offset the higher electricity tax for electricity consumption– Neutral Impact. The retargeted electricity subsidy in Peninsular Malaysia was introduced through the ICPT charges for 1HCY24. Specifically, electricity consumption below 1,500kWH will receive an RM0.02 rebate, compared to previously no rebate for consumption between 601-1,500kWH. However, the benefits of the retargeted subsidy will be offset by the higher service tax rate (from 6% to 8%) for electricity consumption above 601kWH starting 1 March 2024. This will have a slight impact on certain consumer spending, considering housing and utility (including electricity) contributed 23.2% of Malaysian household expenditure by strata in 2022. We expect consumers going forward to be more price-sensitive, preferring competitively priced discretionary products. Staple demand is likely to remain stable due to essential daily consumption needs. Additionally, the higher service tax for electricity is expected to raise the operating costs of all F&B, poultry, and retail consumer companies, given the electricity consumption for daily manufacturing, warehouse, and distribution facilities for F&B and poultry producers, as well as the consumption for retail store daily operations.

Chart 32: Malaysia's Mean Monthly Household Consumption Expenditure & Composition by strata in 2022



Source: DOSM, MIDFR

Potential Impact of Targeted Fuel Subsidy Scenarios on Consumer Companies – Mixed Impact. Our in-house economists identified four potential scenarios for the targeted fuel subsidy measures, with only 3 possible scenarios. The various magnitude of these scenarios will have various impacts on the revenue of consumer companies. Recall that transport costs accounted for 11.3% of Malaysian household expenditure by strata in 2022. Malaysian consumer sentiment as per MIER has been below the 100% optimal level since 1Q2023.The potential winners and losers across these scenarios are outlined as follows:

Scenario 1: RON95 remains status quo at RM2.05 per litre – No Impact. With RON95 prices unchanged in 2HCY24, we anticipate no direct impact on consumer spending. Particularly, the demand for competitively priced staples is expected to remain stable. As such, we foresee no changes to the FY24 revenue forecast for consumer staples under our coverage, including **QL Resources (BUY, TP:RM6.50), Leong Hup (BUY, TP:RM0.70), Frasers and Neave (BUY, TP:RM33.50), Hup Seng (BUY, TP:RM0.99), Spritzer (NEUTRAL, TP:RM2.08),** and **Nestle Malaysia (NEUTRAL, TP:RM127.00).** However, expected rising inflationary pressures due to the other implementation (including Low-value goods tax, high value goods tax and higher service tax) may prompt consumers to exercise caution in discretionary spending, leading to increased price sensitivity. This will potentially cap the upside for **Aeon Co (NEUTRAL, TP:RM1.14)** and **Padini (NEUTRAL, TP:RM3.50)** under our coverage.

Scenario 2: RON95 will be raised by 5 cents each month starting in Jun-24 – Manageable Impact. Under this possible scenario, we anticipate that the gradual increment in RON95 prices will afford consumers more time to adapt to the changes, as opposed to a sudden 17% surge. Given that transport expenditure accounted for 11.3% of household expenditure by strata in 2022, we expect consumers to gradually adjust their household spending to accommodate the rising fuel prices. This could likely include reducing fuel consumption or exploring alternatives such as carpooling, public transportation, or opting for more fuel-efficient vehicles. Nevertheless, we also anticipate that price-sensitive consumers will likely favor both staple and discretionary products that are competitively priced. This inclination could exert pressure on consumer companies to maintain competitive prices to retain existing and attract new customers. Despite the upward pressure on fuel prices, we believe that the recent normalization of most raw material input costs for F&B players may help alleviate the necessity for product price hikes. The government cash handouts for those eligible under the Padu system combined with the increased allocation for Sumbangan Tunai Rahmah (STR), are expected to partially mitigate the impact of the gradual rationalization of RON95.

Scenario 3: RON95 will be raised by one-off 35 cents in Jun-24 – Notable Impact. The new fuel price of RM2.40 will remain fixed until the end of 2024. This sudden 17% increase in RON95 fuel prices is expected to lead to a 2% rise in the monthly mean household expenditure in Malaysia, assuming RON95 consumption per litre remains unchanged at 90.2 litres per month. Among various income groups, we anticipate that the M40 income group will bear the brunt of the inflationary pressure, given their greater contribution to household expenditure on RON95 fuel compared to B40 income groups. The T20 group is expected to be less affected by the one-off hike in RON95 price due to their higher income levels and financial resilience. As such, we expect that consumer companies serving the M40 income group are likely to experience a notable impact under scenario 3. Particularly, the 3QCY24 revenue of **Aeon Co (NEUTRAL, TP:RM1.14)** and **Padini (NEUTRAL, TP:RM3.50)** are expected to be impacted badly as consumers might tighten non-essential spending immediately. Staple food companies could also encounter a slight drop in demand for staple foods as we believe that price-sensitive consumers will opt for cheaper products or choose smaller package sizes for staple foods.

Scenario 4: RON95 set at market price starting in Jun-24 – Substantial Impact. We estimate that the RON95 fuel price under this scenario will 55% higher than the current subsidized RON95 price. While we believe this scenario is unlikely to be adopted, we anticipate that the normalization of price to market price in June 2024 will have a substantial impact on the consumer sector. It is expected to impact the 2HY24 topline of all consumer companies under our coverage as we believe that consumers will likely reduce consumption for both essentials and non-essentials following the hike.

Consumer companies are exposed to the normalization of diesel prices. The normalization of diesel prices to market rates will be introduced. However, the removal of diesel subsidies does not extend to Sabah and Sarawak, nor does it affect water and land transport in Peninsular Malaysia. In the worst-case scenario that the exemption to water and land transport is not applicable, we view that consumer companies will have exposure to the normalization of diesel prices. This exposure encompasses procuring raw materials or OEM products from suppliers to manufacturing facilities, as well as delivering finished products to customers or stores. Given that delivery trucks use diesel, and third-party logistics companies typically employ a cost-plus-margin approach to pass on any cost hikes to customers (consumer companies in this case). Consumer companies not only utilize delivery trucks but also other transportation means. We are also aware that **Frasers and Neave (Buy, TP: RM33.50)** have invested in their own delivery trucks, for which the exemption on own delivery trucks is not mentioned.

Maintain NEUTRAL on consumer sector. Overall, we anticipate that the rationalization of subsidies for poultry, electricity, RON95, and diesel prices in Malaysia will have a negative impact on the consumer sector, particularly on consumer discretionary due to reduce consumption. Demand for consumer staples is expected to remain resilient but may face increased price sensitivity, prompting consumers to seek cheaper alternatives to staple foods. On a positive note, the inelastic demand for staple food, a stable job market outlook, and the return of international tourists will continue to support the topline of consumer staple companies. Our top picks remain consumer staple names such as **QL Resources (BUY, TP: RM6.50)** and **Frasers and Neave (BUY, TP: RM33.50),** which stand to benefit from stable demand for staple foods, a diversified revenue base, and support from the influx of tourist activities.

CONSUMER (Sugar) ....Maintain NEUTRAL

Analyst: MIDF Research team

We foresee that post-implementation of PADU, the government will later, able to expand the targeted subsidy range. The expansion will not be limited to fuel ceiling prices only but also could varying to many other staples, particularly coarse grain sugar (CGS) and fine granulated sugar (FGS). Note that CGS and FGS ceiling prices have never moved above RM2.85/kg and RM2.95/kg respectively. Based on our study, retail CGS prices have increased by only one cent over the past decade, from RM2.84/kg in 2013 to the current RM2.85/kg. The fact that sugar is not subsidized by the government and the industry has never struggled with this level of rising input costs.

With the launch of the PADU system, this will allow the government to streamline its aid to eligible targeted recipients while simultaneously restructuring the existing irrational sugar ceiling price to the market price. Separately, this initiative will aid sugar industry players as well, like MSM and CSR in navigating and overcoming margin losses arising from its main input cost, which is NY11 sugar, all while ensuring food security. Our sensitivity analysis suggests an increase of +10 cents of CGS price in FY25 will increase MSM bottom-line to RM304m (+16%yoy), or +RM25.4m on monthly basis. At the current level, we view the stock's 8.8x PE based on EPS of 37.3 cents as attractive, and it is 25% discount to the group's historical FY14-15 average PE of 11.7x. Hence, we think it deserves a re-rating, we reiterate our **BUY** Call with a new TP of **RM4.48** on the stock, by pegging its FY24 EPS of 37.3 cents to PER of 12x.

POWER UTILITIES...Maintain NEUTRAL

Analyst: Hafriz Hezry

Does Tenaga benefit from an electricity subsidy rollback? Not really; the main beneficiary is the Government given savings on subsidy spending. In the Incentive Based Regulatory (IBR) framework, Imbalance Cost Pass-Through (ICPT) is a mechanism for Tenaga to pass through cost under-recovery (or over-recovery) to consumers on semi-annual basis. Following the post-Covid global economic reopening and the Ukraine-Russia war, global coal prices soared to a record high of USD356/MT, which far exceeded the IBR's applicable coal price of USD79/MT for Regulatory Period 3 (2022-2024). As per the IBR, this incremental cost is passed through via the ICPT mechanism, which at the peak, would have resulted in ICPT surcharge ballooning to as high as 27sen/kwh, effectively a +68% increase against base tariff of 39.95sen/kwh. As a measure to alleviate the burden on consumers, the government stepped in to provide electricity subsidies – technically, this means the government pays Tenaga the ICPT surcharges on behalf of consumers depending on consumer category. It is important to note that Tenaga still receives the same amount of ICPT proceeds to compensate for its cost under-recovery, regardless whether the ICPT is collected directly from consumers or from the government. The electricity subsidy rollback which commenced since January 2023 therefore, essentially means the government is passing back the burden of ICPT surcharges to consumers, albeit gradually. **Tenaga (NEUTRAL, TP: RM11.00)** remains largely earnings neutral to ICPT movements, as outlined under the IBR framework.

Water tariff hike well priced in. The latest round of national water tariff revisions commenced in January 2023, initially with the non-domestic sector, followed by the domestic sector in February 2024. Of stocks under our coverage, Ranhill Utilities (Ranhill), which is the water operator for Johor, is one of the beneficiaries. For Johor, non-domestic tariffs were raised by 6%-11% (20-30sen/m³), while domestic tariffs were raised by 5%-31% (15-35sen/m³) *(See Table 6)*. As per our company update on **18th January 2023 titled "Boost from Water Tariff Hike"**, the non-domestic sector forms more than half of Ranhill's water revenue given a fairly large industrial customer base and much higher base tariffs for the segment. Since commencement of the national water tariff revisions in January 2023, Ranhill's share price has risen by some +132%. Even at our FY24F earnings growth assumption of +69%yoy, which already factors in earnings upside from the latest domestic sector water tariff hike, Ranhill trades at elevated valuations of 25x FY24F PER i.e., at +25% premium to historical mean, while dividend yield has now compressed to just 3.1%. As such, we keep our **NEUTRAL** call on Ranhill at unchanged SOP-derived **TP** of **RM1.07**. This follows our previous BUY call on Ranhill throughout CY23 in anticipation of upside from the water tariff hikes and commercial operation of Ranhill's maiden large scale solar power plant in FY24F.

Table 6: Summary of Water Tariff Revisions for Johor

Effective January 2023		**Previous Rate**	**New Rates**	
Type of Use	**Utilisation**	**Rate per m³ (RM)**	**Rate per m³ (RM)**	**change (%)**
Non-domestic	0m³ - 35m³	2.80	3.10	10.7%
	>35m³	3.30	3.50	6.1%
Shipping	Average rate	7.00	7.00	0.0%
Water Treatment Company (Water Kiosk)	Average rate	7.00	7.00	0.0%

Effective February 2024		**Previous Rate**	**New Rate**	
Type of Use	**Utilisation**	**Rate per m³ (RM)**	**Rate per m³ (RM)**	**change (%)**
Domestic	0 m³ - 20 m³	0.80	1.05	31.3%
	21m³ - 35m³	2.00	2.35	17.5%
	> 35m³	3.00	3.15	5.0%

Source: Company, MIDFR

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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