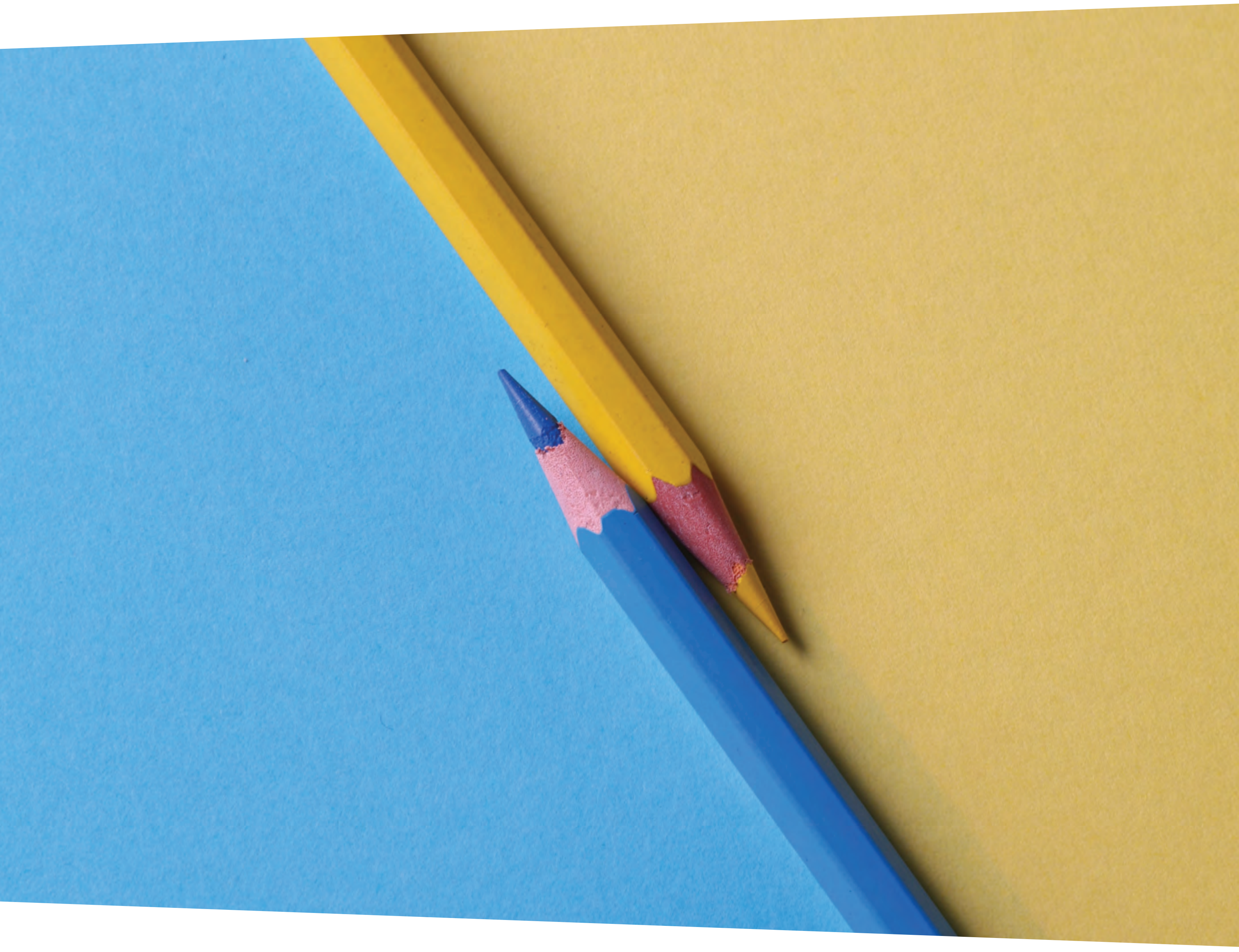
A Tale of Two Halves

Economic Stimulus Package

28 February 2020



Malaysia's RM20bn economic stimulus package

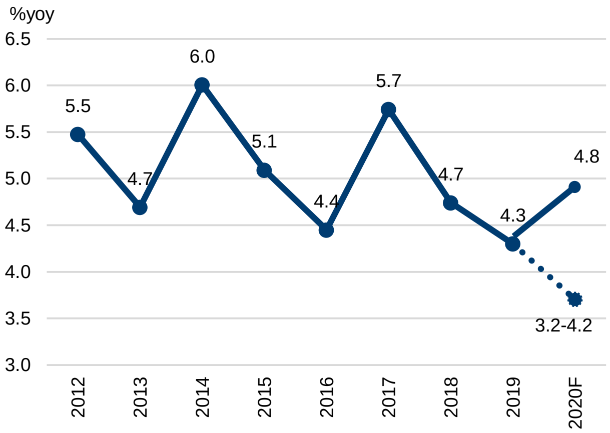
Economic Update

Malaysia – Economic Stimulus Package

Focus on stimulating growth and protecting jobs to counter Covid-19

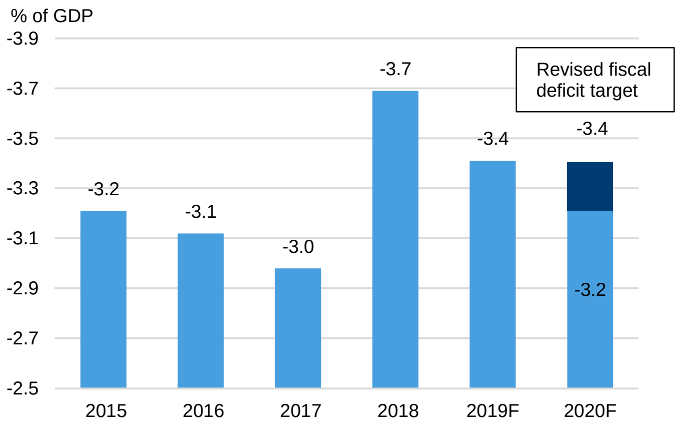
YAB Tun Dr Mahathir Mohamad, Interim Prime Minister of Malaysia, unveiled the much-anticipated fiscal stimulus package to support the country's economic growth and to counter the negative effects from the Covid-19 outbreak, which has dampened consumer and business sentiment in 1Q2020. For this purpose, the Government rolled out an Economic Stimulus Package valued at RM20bn that we estimate will roughly add about 1.4 percentage points to GDP growth in 2020. Nevertheless, taking into account the uncertainty in the global economy and slower domestic demand, the Government has revised lower Malaysia's GDP growth forecast to a range of between 3.2-4.2% for 2020, against the Government's earlier 4.8% projection as announced in Budget 2020 in October last year.

Fig 1: Revision to GDP growth projection for 2020



Source: BNM, MOF

Fig 2: Fiscal deficit target



Source: MOF

On the government's fiscal position, after the adjustment to the revenue and expenditure of the stimulus package, the Government has also revised the country's budget deficit position slightly higher to -3.4% of GDP in 2020, from the initial target of -3.2% of GDP, the same level of deficit at -3.4% of GDP as last year. The economic stimulus package is necessary to ensure that Malaysia's economic growth will remain stable as the Government's revenue from direct taxation fluctuates with the performance of the economy.

Nevertheless, we believe the Government will be reverting back to the fiscal consolidation path when the economic environment stabilises. Sovereign rating agencies will continue to monitor Malaysia's macroeconomic developments, but with economic fundamentals intact, we believe the country's sovereign rating outlook will be kept as stable by international rating agencies.

On the macroeconomic impact, we believe it is too early to indicate that the negative effects from Covid-19 on the global and the domestic economy would be comparable to the 2002-2003 SARS outbreak, see Fig 3. However, we believe the RM20bn fiscal stimulus package, if properly implemented, will help to strengthen the country's aggregate domestic demand, especially private consumption growth. The economic stimulus package has included measures to assist certain sectors and industries affected by Covid-19, especially hotels, airlines, travel companies and the tourism-dependent retail industry.

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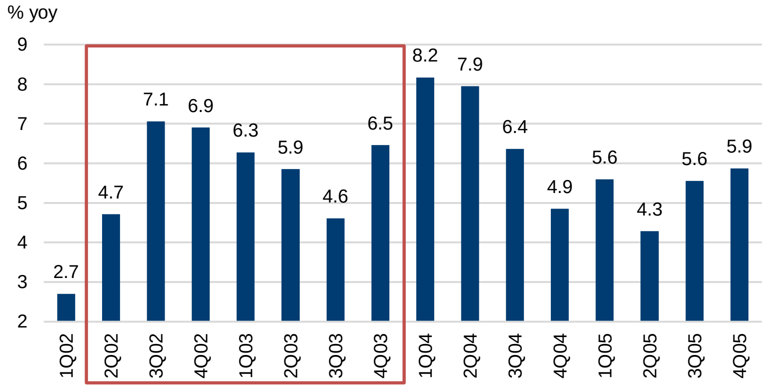
Fig 3: Malaysia's GDP growth during SARS outbreak in 2002 & 2003



Source: BNM

Going forward, we believe the positive effects stemming from the combined accommodative monetary policy and fiscal stimulus expansion in the country will contribute to support the country's domestic demand and consumer spending.

2020 to be a tale of two halves

We forecast the Malaysian economy will go through a sharp slowdown in 1H20 as the economic impact of the Covid-19 sets in. While there remains downside risk to the slower economic outlook continuing into 2H20, we believe prospects of stabilisation and possible recovery in the global economic environment will likely lead to some improvement in the country's economic growth in 2H20. Coordinated efforts by major countries, especially in China, to introduce fiscal stimulus and cut interest rates should also cushion the impact from the Covid-19 outbreak globally. Domestically, the economic recovery in 2H20 hinges on the effectiveness of the RM20bn economic stimulus package implementation, as well as the extra public spending (additional RM2bn in development expenditure for spending on small infrastructure repair and upgrading projects), which will create the multiplier effect on construction and investment activity.

On domestic consumption, with various measures being announced in the package, including a temporary cut in the employee contributions to the Employees Provident Fund (EPF) by four percentage points from 11% to 7% (which will potentially unlock up to RM10bn worth of private consumption and part of the RM20bn stimulus), the economic stimulus package will be effective to raise disposable incomes of households, and will also be supported by accommodative monetary policy. Besides that, there will be an increase in cash assistance of Bantuan Sara Hidup (BSH) on top of the allocation under Budget 2020 and a repeat of the e-wallet disbursement to increase the disposable income of the B40 group. In addition, the personal income tax relief of up to RM1,000 on expenditures related to domestic tourism as well as digital vouchers for domestic tourism of up to RM100 per person will support the domestic tourism and spending. Furthermore, we expect growth in private consumption to be also bolstered by one-off payments of RM600 to taxi drivers, tourist bus drivers, tourist guides and registered trishaw drivers. An additional monthly RM400 allowance for medical doctors and medical personnel as well as RM200 for immigration and front-line staff until the end of the Covid-19 outbreak will also stimulate some spending. As a result, with the stimulus package, we believe Malaysia's real GDP growth will likely recover from a low 3.5% in 1H20 to around 4.5% projected for 2H20. For 2020 as a whole, we believe real GDP growth will likely average around 4.0%, as compared to the current official projection of 3.2-4.2% (4.3% in 2019).

No major lift for the market; key sector beneficiaries are Construction, Consumer and Tourism-related sectors

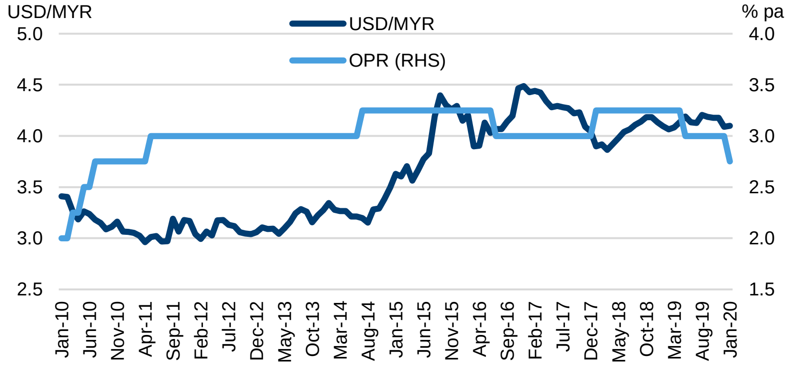
From an equity market perspective, the initiatives are mostly positive for the Construction (RM2bn additional development expenditure), Tourism (as above), Consumer (as above) and the Manufacturing (financial aid and capital allowances) sectors. Other than for construction, we would nevertheless read these measures as propping up the already frail sector prospects rather than providing a significant leg up to growth. Some key beneficiaries include Tourism plays like Genting Malaysia (GENM MK, RM2.93, Hold, TP: RM3.10) and possibly non-discretionary consumer plays such as Aeon (AEON MK, RM1.30, Hold, TP: RM1.22), Bonia (BON MK, RM0.85, Sell, TP: RM0.80), and Hai-O (HAIO MK, RM1.95, Hold, TP: RM1.50) including the likes of auto companies such as, UMW (UMWH MK, RM3.23, Hold, TP: RM4.75) and MBM (MBMR MK, RM3.82, Buy, TP: RM5.40).

Possibility of a 25bps OPR cut in next MPC meeting

We believe Bank Negara Malaysia (BNM) may likely cut its overnight policy rate (OPR) by another 25bps to 2.5% for 2020 (having cut by 25bps from 3.0% to 2.75% in January 2020). During the SARS epidemic, prior to the introduction of the OPR in April 2004, BNM lowered its 3-month intervention rate by 50bps to 4.5% to reinforce measures introduced by the Government in order to support Malaysia's economic growth.

In recent weeks, greater volatility was experienced in foreign-exchange markets, where Asean currencies fluctuated and depreciated against the US$. While the Malaysian Ringgit is expected to remain volatile in the near term, we continue to maintain our year-end target of MYR4.20/US$, supported by sound economic fundamentals, liquidity in the domestic market and a sound financial market, positioned to face any major volatility.

Fig 4: Malaysia's RM/US$ and OPR



Source: BNM, Bloomberg

Government would need to focus on economy

Whatever the outcome of the current political situation and the changes to the political landscape in Malaysia, the priority of the government will need to focus towards ensuring the sustainability of the country's economy, by bringing back and restoring confidence among businesses and investors quickly, especially when the global economy still faces significant downside risks. At the recent G20 Finance Ministers and Central Bank Governors meeting, the International Monetary Fund (IMF) Managing Director guided that the global GDP growth forecast will likely be revised lower by 0.1 percentage point in its next review, from the current projected 3.3% to 3.2% for 2020.

The downward revision takes into account that GDP growth in China will be hard hit by the Covid-19 epidemic, whereby the IMF will likely cut the country's GDP growth by 0.4 percentage points from 6% to 5.6% for 2020. Apart from tourism-related sectors, and the loss in tourist receipts, if the Covid-19 outbreak is prolonged beyond one quarter, the subsequent disruptions within the global supply chain in the manufacturing sector will also impact on the country's manufacturing sector.

Furthermore, we believe that if the revival and acceleration in Malaysia's infrastructure projects will be delayed again due to political uncertainty, investment will not provide a second leg to the economy, which is needed to complement the growth of private consumption. We also believe that development expenditure plays an important role to support the country's economic growth, and preserves the government's revenue source generated by economic activities. It is important for the government of the day not to complicate implementation of earlier government policies and stimulus package measures, but also to provide immediate clarity on the economic policies for sustainability of economic growth, to revive consumer and business sentiment and spending.

Appendix I: Stimulus package summary

Strategy 1	Mitigating impact of Covid-19
Easing cashflow	• Allow deferment of monthly income tax instalment payments for tourism sector • 15% discount in monthly electricity bills to hotels, travel agencies, airlines, shopping malls, conventions and exhibition centres • Exempt HRDF levies for hotels and travel related companies • Exempt 6% service tax for hotels (Mar – Aug 2020) • BNM to provide RM2bn relief facilities to SMEs at interest rate 3.75% • BSN to allocate RM200mn in microcredit facility at 4% interest rate • Bank Pembangunan's Tourism Infrastructure Fund of RM1.5bn • All banks to provide financial relief in the form of payment moratorium • Hotels to offer discounts and shopping malls to reduce rentals • MAHB to provide rebates on rentals, landing and parking charges
Assistance for affected individuals	• One-off payment RM600 to taxi drivers, tourist bus drivers, tourist guides and registered trishaw drivers • Monthly allowance RM400 for medical doctors and medical personnel, RM200 for immigration and front line staff (Feb 2020 – end of pandemic) • To provide necessary management resources for Covid-19 disease
Human capital development	• Double deduction on expenses incurred on approved tourism-related training • RM100mn to HRDF to fund additional 40,000 employees from tourism and affected sectors • RM50mn to subsidise short courses in digital skills and highly skilled courses • EIS to increase claimable training cost from RM4k to RM6k for affected sectors • RM30 per day provided to trainees under EIS
Stimulate tourism sector	• Personal income tax relief up to RM1k on expenditure related to domestic tourism • Digital vouchers up to RM100 per person for domestic flights, rails, and hotel accommodations to all Malaysians • RM500mn will be provided for tourism promotions and vouchers • Relaxation of guidelines limiting use of hotels by Government agencies
Strategy 2	**Catalysing rakyat centric economic growth**
Rakyat's assistance	• EPF contribution reduced from 11% to 7% with the option to opt out (Apr 2020 – Dec 2020) • BSH RM200 payments for May 2020 to be brought forward to March 2020 • Additional RM100 to be paid to all BSH recipients in May 2020, additional RM50 e-tunai • BNM to provide Agrofood facility of RM1bn at interest cost of 3.75% • RM10mn allocation to FAMA to help reduce food prices • Grants of RM1k to 10,000 entrepreneurs to promote products on e-commerce platforms • Allocation of RM20mn to MDEC to transform Pusat Internet Desa into e-commerce hubs
Rural stimulus	• RM2bn for immediate implementation of infrastructure repairs and project upgrades • MoF to provide special relaxation on financial procedures: 1. Increase procurement threshold RM50k to RM100k (balloting) and RM500k to RM800k (quotations) 2. Ensure Ministries channel sufficient allocations to respective implementing agencies by 1Q2020
Strategy 3	**Promoting Quality Investments**
	• Sustain public investments and expedite in 2020, the tenders and implementation of development expenditure projects • Agencies and Government linked companies will accelerate planned investment • Co-Investment fund of RM500mn to be co-invested and matched by private • Waiving of listing fees by Securities Commission and Bursa Malaysia for one year • BNM will provide an SME Automation & Digitalization Facility of RM300mn at an interest cost of 3.75% • Accelerated capital allowances >2 year period on expenses on machinery and equipment • Tax deduction of up to RM300,000 on renovation and refurbishment cost • Import duty and sales tax exemption on importation or local purchase of machinery and equipment used in port operations

Source: Prime Minister's Office (PMO) & MOF

Appendix II: Focus Charts

Chart 1: Quarterly GDP growth

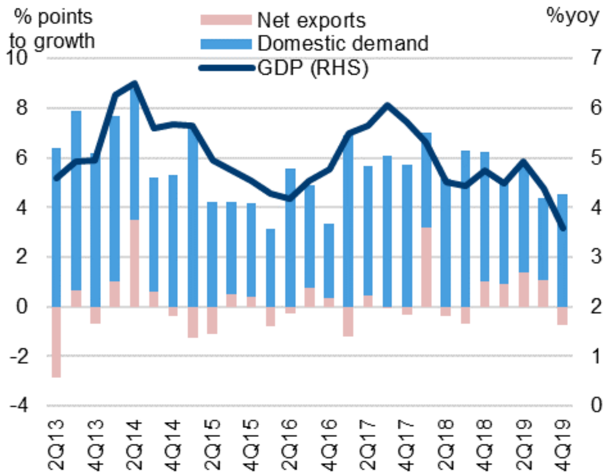


Chart 2: Current account balance position

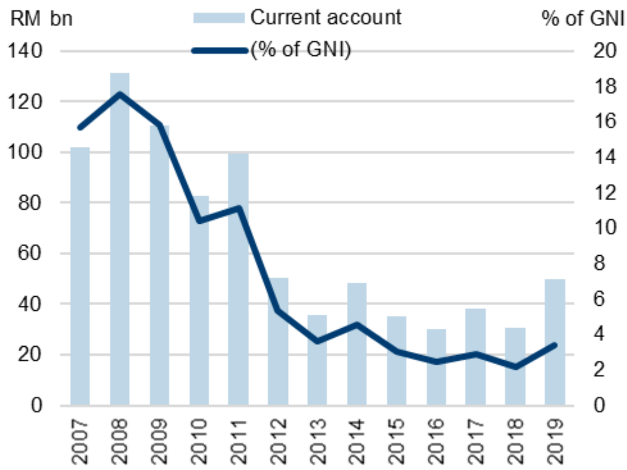


Chart 3: Fiscal balance position

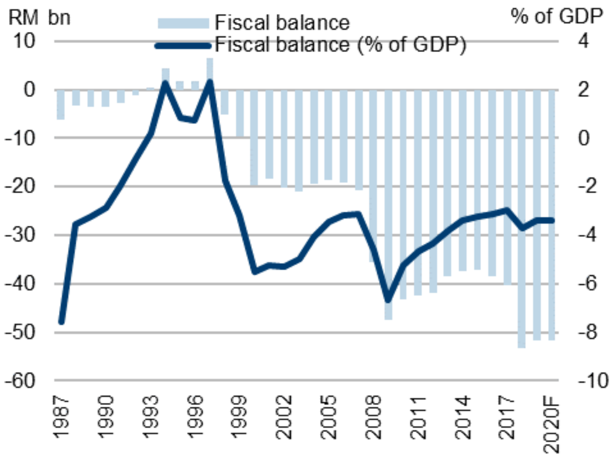


Chart 4: Tourism direct gross value added

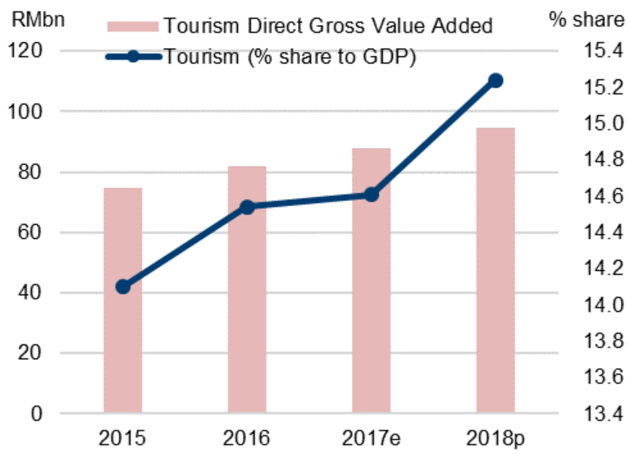


Chart 5: Government debt

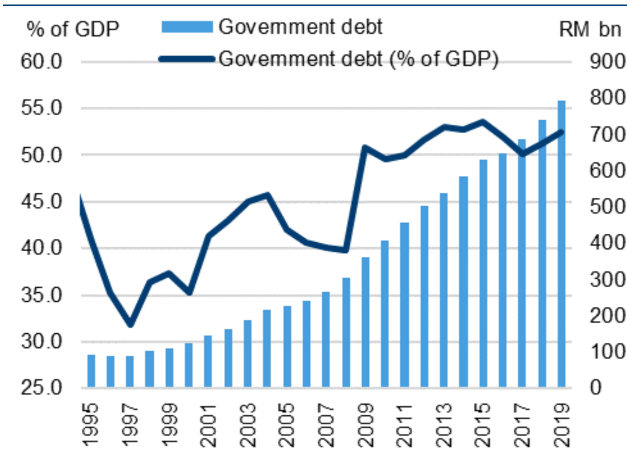
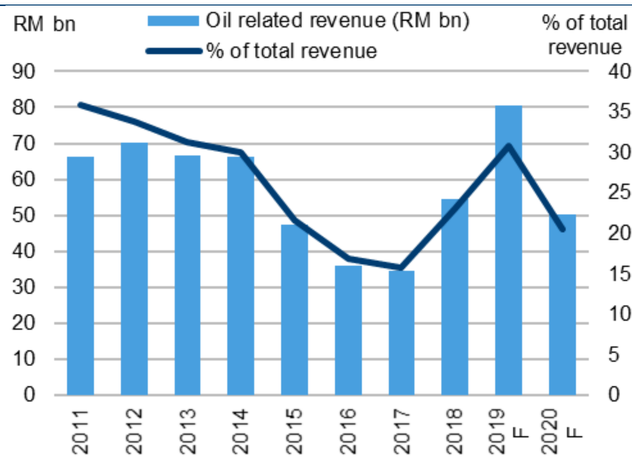


Chart 6: Government oil-related revenue



Source: All data for charts sourced from CEIC, DoS and BNM

Equity Rating Structure and Definitions

BUY	Total return is expected to exceed +10% over a 12-month period
HOLD	Total return is expected to be between -5% and +10% over a 12-month period
SELL	Total return is expected to be below -5% over a 12-month period
NOT RATED	Affin Hwang Investment Bank Berhad does not provide research coverage or rating for this company. Report is intended as information only and not as a recommendation

The total expected return is defined as the percentage upside/downside to our target price plus the net dividend yield over the next 12 months.

OVERWEIGHT	Industry, as defined by the analyst's coverage universe, is expected to outperform the KLCI benchmark over the next 12 months
NEUTRAL	Industry, as defined by the analyst's coverage universe, is expected to perform inline with the KLCI benchmark over the next 12 months
UNDERWEIGHT	Industry, as defined by the analyst's coverage universe is expected to under-perform the KLCI benchmark over the next 12 months

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