



AmInvestment Bank

Market report

28 Sep 2021

STRATEGY



Staying the course for inclusivity & sustainability

1,643

End-2021 FBM KLCI target (pts)
(Maintained)

Equity Research Team

Rationale for report: 12th Malaysia Plan (2021–2025)

Highlights

A Prosperous, Inclusive, Sustainable Malaysia with RM400bil allocation

- **3 themes, 4 catalytic policy enablers and 14 game changers.** The three themes for the 12th Malaysia Plan (12MP) are resetting the economy; strengthening security, wellbeing and inclusivity; and advancing sustainability. Altogether, there are eight game changers to achieve these themes. There are also four catalytic policy enablers and these are developing future talent; accelerating technology adoption and innovation; enhancing connectivity and transport infrastructure; and strengthening the public service. These will be supported by six game-changing initiatives. A total of RM400bil was allocated for development expenditure. However, details on the breakdown are not available at this juncture. For comparison, RM260bil was allocated for the 11MP (RM248bil spent).

EXHIBIT 1: SUMMARY OF 14 GAME CHANGERS UNDER 12MP

Themes / Catalytic Policy Enablers	Game Changers (GC)
Looking Ahead to a Prosperous, Inclusive, Sustainable Malaysia	GC1: Imperatives for reform and transformation
Theme 1: Resetting the Economy	GC2: Catalysing strategic and high impact industries to boost economic growth GC3: Transforming micro, small and medium enterprises (MSME) as the new driver of growth
Theme 2: Strengthening Security, Wellbeing and Inclusivity	GC4: Enhancing National Security and Unity for Nation-Building GC5: Revitalising the Healthcare System in Ensuring a Healthy and Productive Nation GC6: Transforming the Approach in Eradicating Hardcore Poverty GC7: Multiplying Growth of Less Developed States especially Sabah and Sarawak to Reduce Development Gap
Theme 3: Advancing Sustainability	GC8: Embracing the Circular Economy GC9: Accelerating Adoption of Integrated Water Resources Management
Policy Enabler 1: Developing Future Talent	GC10: Improving TVET Ecosystem to Produce Future-Ready Talent
Policy Enabler 2: Accelerating Technology Adoption and Innovation	GC11: Enhancing Digital Connectivity for Inclusive Development GC12: Aligning Research and Development towards Commercialisation, Wealth Generation and Economic Growth
Policy Enabler 3: Enhancing Connectivity and Transport Infrastructure	GC13: Transforming the Logistics Ecosystem for Greater Efficiency GC14: Transforming the Public Service through the Whole-of-Government
Policy Enabler 4: Strengthening the Public Service	Approach

Source: Economic Planning Unit, AmInvestment Bank

Our view: 12MP to have minimal short-term impact on equity market

- We believe that details on the allocation for each sector will only be spelt out in Budget 2022 when the budget is tabled on 29 October. Nevertheless, it is long-term positive to Malaysia equity market as it promotes higher income per capita and reduces inequalities. The emphasis on environmental, social and corporate governance (ESG) under Game Changer 8 (Embracing The Circular Economy) is an encouraging sign that the government is moving in the right direction in the area of sustainability. Both the public and private sectors are encouraged to embrace the principles of ESG and Sustainable Development Goals (SDG) in their operations.
- We maintain our end-2021 FBMKLCI target of 1,643 points. We are also maintaining our earnings estimates for all companies under our coverage.

- Our top 10 picks remain. These include **Maybank, Tenaga Nasional, CIMB Group, Sime Darby Plantation, Telekom Malaysia, RHB Bank, Westports, Dialog Group, Sunway and Media Prima.**

EXHIBIT 2: TOP BUYS

	Recomm.	Price (RM)	FV (RM)	Upside (%)	Mkt Cap (RMmil)	FYE	EPS (sen)		EPS growth (%)		P/E (x)		P/B* (x)	ROE* (%)	NDPS* (sen)	DY* (%)
							FY21F	FY22F	FY21F	FY22F	FY21F	FY22F				
Malayan Banking	BUY	8.10	9.90	22.2	92,830.5	Dec	68.3	74.4	15.4	8.9	11.9	10.9	1.1	9.8	58.0	7.2
Tenaga Nasional	BUY	9.85	12.10	22.8	55,589.5	Aug	82.3	84.7	20.4	2.9	12.0	11.6	1.0	8.6	85.6	8.7
CIMB Group	BUY	4.81	5.80	20.6	47,729.5	Dec	48.1	57.5	274.1	19.5	10.0	8.4	0.8	9.5	28.8	6.0
Sime Darby Plantation	BUY	3.63	4.88	34.4	24,991.0	Dec	27.7	22.2	111.4	(20.0)	13.1	16.4	1.7	10.4	15.0	4.1
RHB Bank	BUY	5.43	6.80	25.2	21,774.5	Dec	63.9	73.8	17.3	15.4	8.5	7.4	0.7	10.0	36.9	6.8
Telekom Malaysia	BUY	5.78	7.10	22.8	21,721.2	Dec	28.2	29.7	7.6	5.1	20.5	19.5	2.3	12.1	15.0	2.6
Westports Holdings	BUY	4.34	5.07	16.9	14,799.4	Dec	21.4	21.4	8.9	0.2	20.3	20.3	5.2	25.8	16.1	3.7
Dialog Group	BUY	2.37	3.75	58.2	13,362.8	Jun	9.2	10.7	(13.5)	15.8	25.7	22.2	2.7	12.5	3.1	1.3
Sunway	BUY	1.68	2.20	31.1	8,290.3	Dec	7.8	10.7	13.4	37.8	21.6	15.7	0.8	5.3	2.9	1.7
Media Prima	BUY	0.50	0.75	49.4	554.6	Dec	3.7	5.2	496.0	41.0	13.6	9.7	0.8	8.9	0.0	0.0

*FY22

Source: AmInvestment Bank

Impact on sectors

- For now, we see minimal near-term impact from the 12MP on most of the sectors that we cover. This is understandable given the focus and implementation of the 12MP which are spread over 5 years. Having said that, there are three sectors that will see more action (although the impact is not significant) as highlighted below.
- **Construction.** For mega public infrastructure projects, the focus is on completing ongoing projects (in phases to ensure fiscal sustainability) such as the Klang Valley Double Tracking (Phase 1), Gemas–Johor Bahru Double Tracking, East Coast Rail Link, Central Spine Road, Johor Bahru–Singapore Rapid Transit System, Pan Borneo Highway and Sarawak–Sabah Link Road. A new funding model for mega infrastructure projects "Public Private Partnership 3.0" has been introduced and projects to be implemented under this model shall be revealed in mid-2022. We believe that this could indicate that the MRT3 project (which is likely to fall under this category) may be delayed to 2022 from 2021.
- **Property.** Another 500,000 affordable homes will be built by 2025 to improve the liveability of target groups. On top of current initiatives like Rumah Mesra Rakyat, Residensi Wilayah (RUMAWIP) and Program Perumahan Rakyat, stricter measures such as introducing ceiling prices on secondary affordable homes and limiting the purchase to 1 unit for 1 eligible citizen will be introduced to ensure adequate supply of affordable housing for the target groups. While the measures are new, the focus on affordable home has been there for quite some time, hence it is neutral to the sector.
- **Telecommunication.** The government plans to accelerate digital connectivity by introducing telecommunication services as a public utility under Uniform Building by-laws, continuing the National Digital Infrastructure Plan (Jendela), encouraging more private sector infrastructure investment and expanding access for students via a private-public partnership approach. This will be positive for fibre infrastructure operators such as Telekom Malaysia and Time dotCom.

EXHIBIT 3: IMPACT TO EACH SECTOR UNDER COVERAGE

Sector	Impact
Banking	<p>No new measures with material impact on the sector. The priority remains on promoting the Islamic finance agenda and positioning Malaysia as the leading international Islamic financial centre. This is on top of further improving financial literacy and inclusion with greater accessibility for borrowers to affordable and innovative financial products and services.</p> <p>In addition, emphasis will be placed on supporting companies with borrowings from banks to embed ESG into their business practices and move to low-carbon economy.</p>
Construction	<p>Development expenditure under the 12MP is projected at RM400bil vs. RM248.5bil spent under the 11MP. However, it is likely to be backloaded, i.e. with higher allocation from 2023 when Covid-19-related spending begins to taper. Priority will be given to less developed states – Kedah, Kelantan, Perlis, Sabah, Sarawak and Terengganu – by allocating at least 50% of the total basic development expenditure, with the key focus on basic infrastructure and connectivity enhancement.</p> <p>For mega public infrastructure projects, the focus is on completing ongoing projects (in phases to ensure fiscal sustainability) such as the Klang Valley Double Tracking (Phase 1), Gemas–Johor Bahru Double Tracking, East Coast Rail Link, Central Spine Road, Johor Bahru–Singapore Rapid Transit System, Pan Borneo Highway and Sarawak–Sabah Link Road. A new funding model for mega infrastructure projects "Public Private Partnership 3.0" has been introduced and projects to be implemented under this model shall be revealed in mid-2022 (which means the MRT3 project, likely to fall under this category, may be delayed to 2022 from 2021).</p> <p>The 12MP does not play out to be an immediate or near-term catalyst for mid-sized and large contractors (listed on Bursa Malaysia) given: (1) that the key focus is on rural projects (in the spirit of balanced and inclusive development) that are typically small-scaled and likely to go to privately-owned smallish contractors; (2) the backloading of development expenditure during the 5-year plan; and (3) the absence of new ambitious mega infrastructure projects. We therefore maintain our NEUTRAL weighting.</p>
Gloves	<p>The industry is still not allowed to bring in foreign workers as the ban has been extended until 31 Dec 2021. There was no mention of windfall tax.</p> <p>The overall sector impact is neutral from the 12MP. ASP downtrend remains the key challenge for the industry in the near term. We reiterate our NEUTRAL call on the sector as the lower earnings outlook is offset by the brighter ESG outlook for FY22.</p>
Healthcare	<p>The healthcare sector is the focus of Game Changer 5 where it seeks to revitalise the healthcare system to ensure a healthy and productive nation. Lessons learnt from the Covid-19 pandemic will form the basis for an improved healthcare system.</p> <p>Malaysia plans to develop its own vaccine in the long run. Towards this end, the National Vaccine Development Roadmap is being finalised. There are also plans to build more healthcare facilities in addition to the existing 12 hospitals which are currently being constructed. However, these are not expected to have any impact on the private healthcare segment.</p>
Insurance	<p>There are no new measures with material impact on the sector. We remain NEUTRAL on concerns of the potential implementation of Phase 2 of detariffication which is likely to impact the pricing competitiveness for fire and motor insurance.</p> <p>Besides, there remains uncertainties from the adoption of FRS 17 which is likely to be implemented on 1 Jan 2023. We expect a potential normalisation of motor and medical claims after mobility restrictions are eased for fully vaccinated individuals and the gradual opening up of more economic sectors.</p>
Oil and Gas	<p>Policies will be streamlined for global transition trends towards clean and sustainable energy sources. These will include prioritising domestically produced petrol and diesel, scaling up biofuel usage, developing a natural gas roadmap, promoting high-value investments in petrochemical industry and encouraging collaboration and strategic partnerships among small and medium O&G operators to undertake complex projects.</p> <p>In our view, these policies support our positive outlook for the sector as the low current exploration and development activities by international oil companies are likely to lead to a global supply shortfall over the next 5–10 years unless capex rollouts accelerate substantively over the next 2–3 years.</p> <p>Additionally, rising demand for natural gas (which is a transition fuel) and petrochemicals in tandem with a global post-pandemic economic recovery and expanding population will continue to underpin earnings momentum for the sector.</p>

Source: AmlInvestment Bank

EXHIBIT 4: IMPACT TO EACH SECTOR UNDER COVERAGE

Plantation	<p>12MP initiatives are mainly for smallholders and farmers. In respect of food production areas, we believe that the palm companies in our coverage are focusing on improving FFB yields, and several of them like FGV Holdings are diversifying into other crops such as durians and pineapples.</p> <p>Under 12MP, operation and production processes in the agriculture sector will be transformed to minimise costs, reduce processing time and optimise the usage of resources through the adoption of digital technology. Efforts to increase high value-added products will be intensified in the upstream and midstream activities by producing premium agricultural products, high-yielding crop varieties and breeds as well as internationally accepted by-products. Smart indoor vertical farming or plant factory will be expanded by leveraging existing permanent food production parks, idle land and abandoned buildings. Farmers will also be encouraged to adopt organic farming practices.</p> <p>The role of dedicated food production areas will be strengthened to increase participation of agropreneurs in modern farming. A comprehensive mechanism in developing and managing the food production areas such as Aquaculture Industrial Zone will be formulated by the federal and state governments.</p> <p>A national biomass policy will be formulated to ensure the sustainable development of the industry. An effective business model will be developed to facilitate better profit-sharing mechanisms among stakeholders in the value chain. A holistic biomass database will also be built to integrate information along the value chain.</p>
Power	<p>We believe any capex that Tenaga Nasional has to undertake will be provided and allocated under the RP3 (Regulatory Period) guidelines, which are being discussed currently. RP3 is expected to take place from 2022F to 2024F.</p> <p>Investments in generation capacity and reinforcement of transmission and distribution networks will continue. New gas-fired power plants with total capacity of 3,441MW will be commissioned in Peninsular Malaysia to replace power plants that will be decommissioned. This is not new. Edra Energy's 2,242MW gas power plant is expected to be commissioned in 2H2021 while Tadmax Resources' 40%-owned 1,200MW gas power plant is expected to be commissioned in 2023F.</p> <p>The Sabah electricity system will be strengthened through the construction and upgrading of generation facilities, transmissions and distribution networks. The issue of insufficient power generation in the east of Sabah will be resolved through the construction of a power station and transmission upgrading works in the Sabah East-West Grid. The Southern Link transmission network will start initial works under the 12MP. The Incentive-Based Regulation framework will be introduced to improve the quality and efficiency of electricity supply.</p> <p>The Sarawak electricity system will be further improved with the implementation of the 1,285MW Baleh hydroelectric project, which is expected to be completed in 2025F. Sarawak will expand its 500KV transmission line as the second transmission backbone. The Northern Grid system will be developed to cover the whole state. This will provide electricity to many villages under the Rural Electrification Scheme and provide opportunities for exports of energy to Sabah and Kalimantan.</p> <p>New mechanisms for green energy will be explored to encourage corporate customers to buy energy directly from RE generators. Efforts will be intensified to encourage waste-to-energy generation and development of floating solar projects as well as to deploy more rooftop solar projects through existing financing options, including solar leasing programme and PPA.</p>
Property	<p>Another 500,000 affordable homes will be built by 2025 to improve the liveability of target groups. On top of current initiatives like Rumah Mesra Rakyat, Residensi Wilayah (RUMAWIP) and Program Perumahan Rakyat, stricter measures such as introducing ceiling prices on secondary affordable homes and limiting the purchase to 1 unit for 1 eligible citizen will be introduced to ensure adequate supply of affordable housing for the target groups.</p> <p>Efforts will also encompass increasing access to financing and managing housing construction costs to facilitate home ownership.</p> <p>Pending detailed allocations for the initiatives, we maintain our NEUTRAL stance on the sector. We believe the sector remains muted in the short term due to persistently subdued consumer sentiment and employment prospects against a backdrop of the prolonged pandemic, which are restraining consumers from committing to the purchase of big-ticket items, particularly, a house.</p>

Source: AmlInvestment Bank

EXHIBIT 5: IMPACT TO EACH SECTOR UNDER COVERAGE

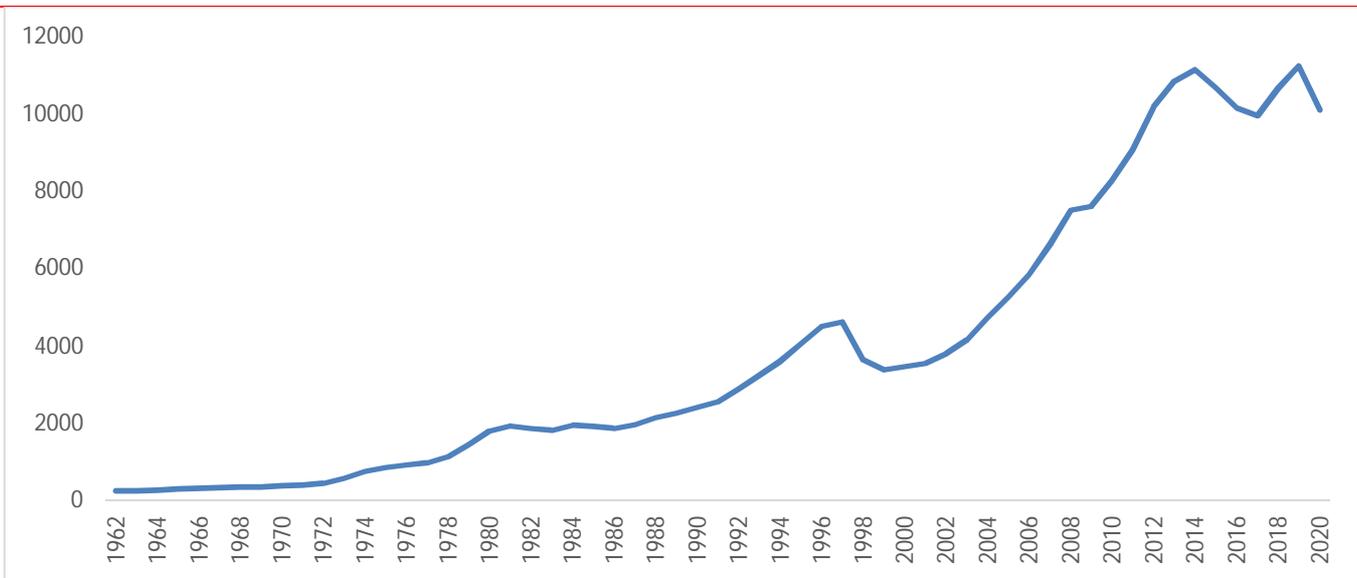
Telco	<p>Accelerate digital connectivity by introducing telecommunication services as a public utility under Uniform Building by-laws, continue with the National Digital Infrastructure Plan (Jendela), encourage more private sector infrastructure investment and expand access for students via private-public partnership approach. This will be positive for fibre infrastructure operators such as TM and Time dotCom.</p> <p>More importantly, the government will also explore the feasibility of pay-per-use concept which could revamp the current subscription-based model which offer quotas on speed and data.</p> <p>Given that 5G services in Malaysia are targeted to progressively roll out from the end of this year, we are not surprised if such a system were to be developed as the infrastructure and spectrum will be owned by the government's Digital Nasional Bhd. Nevertheless, service quality standards have to be agreed upon before the imposition of tariff rates, which could impact telco revenues depending on the speed of consumers' 5G adoption.</p> <p>For now, we are neutral on the potential change in billing systems given the competitive landscape currently while operators would be hesitant to proceed unless the rates have a slight impact to overall revenues.</p>
Transport	<p>Under the 12MP, the focus will be to improve first and last-mile connectivity, boost the competitiveness of the transport and logistics sectors and strengthening their governance.</p> <p>As part of its aim to enhance the efficiency of the transport and logistics infrastructure, the government plans to integrate the rail and road networks between airports, ports, industrial areas and cities. This is positive for both Malaysia Airports and Westports.</p> <p>The final goal is to provide seamless connectivity and reliable transport and logistics services, hence facilitating growth across all sectors of the economy.</p>

Source: AmInvestment Bank

Recap of 11th Malaysia Plan (2016–2020)

The 11th Malaysia Plan (11MP) was disrupted by the Covid-19 pandemic, causing 2016–2020 GDP to grow at only 2.7% (against the original target of 5%–6% annually). In 2020, Malaysia's GDP shrank by 3.2% compared to a 2.8% growth in 2019. The latest gross national income (GNI) for Malaysia figure is RM42,500 (or US\$10,100) per capita. This is still 20% below the World Bank's latest high-income definition of US\$12,695 for GNI per capita. In the 11MP, a total of RM248.5bil has been spent for the country's development. Fiscal deficit expanded to 6.2% of GDP while debt-to-GDP also rose to 57.9% of GDP.

EXHIBIT 6: MALAYSIA GROSS NATIONAL INCOME PER CAPITA IN USD

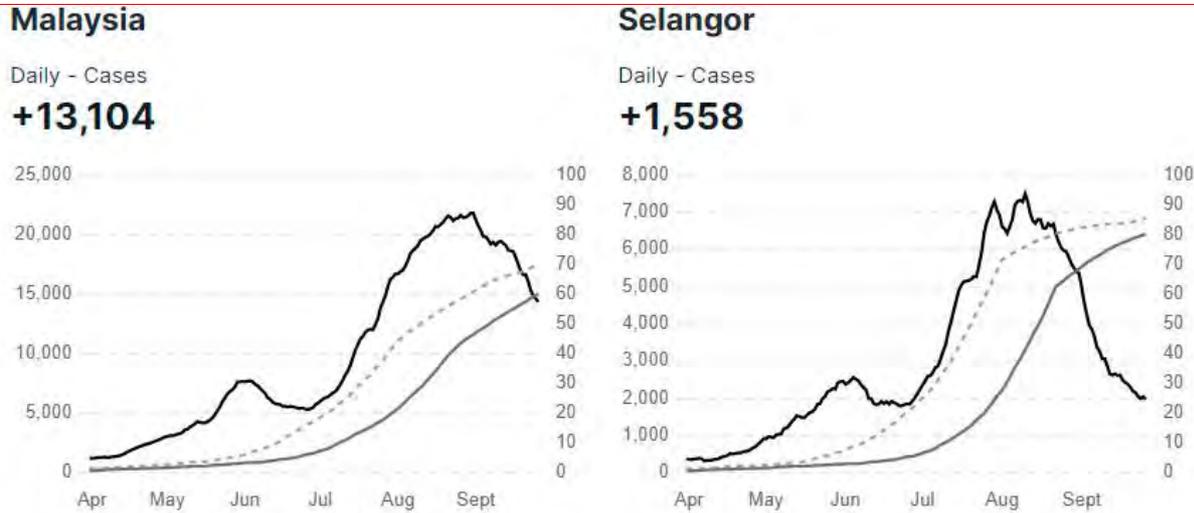


Source: World Bank, AmInvestment Bank

Significant decline in Covid-19 cases

Separately, we noticed that the Covid-19 situation has improved significantly in the past two months. In terms of new infections, the latest number of cases has declined to 10,959 on 27 Sep. This is much lower than the peak of 24,599 cases reported on 26 Aug 2021. The lower number of cases is mainly attributed to the decline in new cases in Selangor. Recall that on 6 Aug 2021, Selangor’s daily new cases peaked at 8,792 but have since declined to 979 cases as of 27 Sep 2021.

EXHIBIT 7: DAILY COVID-19 CASES IN MALAYSIA AND SELANGOR



Source: covidnow.moh.gov.my

Malaysia 60% vaccination rate is higher than US and Australia

We believe that the key factor that led to lower Covid-19 cases is the fast vaccination rate for Malaysian adults aged 18 years old and above. Our vaccination programme started on 24 Feb 2021 with 60 doses dispensed on the first day – 41 in Kuala Lumpur, 18 in Putrajaya and 1 in Sarawak. Since then, Malaysia has progressed well, hitting the daily vaccination peak of 579,774 on 28 July 2021. As of 26 Sep, 83.7% of Malaysian adults have been fully vaccinated with 42.38mil doses of vaccine successfully dispensed. Additionally, 60.1% of the total population have been fully vaccinated. This is a great achievement as it has exceeded that of some developed nations such as the US and Australia where only 56% and 42% of their respective total population have been fully vaccinated.

EXHIBIT 8: COVID-19 VACCINATION RATE BY STATE



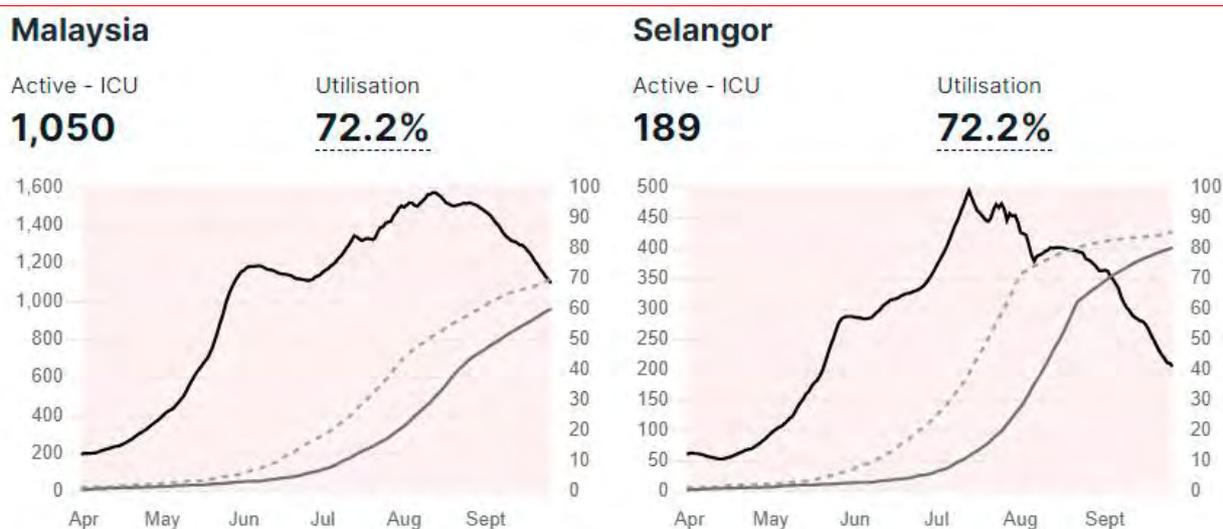
Source: covidnow.moh.gov.my

According to media reports, Senior Defence Minister Datuk Seri Hishammuddin Hussein said that permission for interstate travel is expected to be finalized in three weeks' time after the country has hit its target of fully vaccinating 90% of the adult population against Covid-19. If interstate travel is allowed, it will benefit the transportation sector as it will boost local tourism activities.

However, we believe that Malaysians should still be cautious and adhere to the standard operating procedures (SoP) diligently even if interstate travel is allowed as the risk of infection still remains due to new Covid-19 variants. Having said that, vaccines have been proven to protect against severe symptoms. According to the World Health Organization (WHO), "when cases increase and transmission accelerates, it's more likely that new dangerous and more transmissible variants emerge, which can spread more easily or cause more severe illness. Based on what we know so far, vaccines are proving effective against existing variants, especially at preventing severe disease, hospitalization and death".

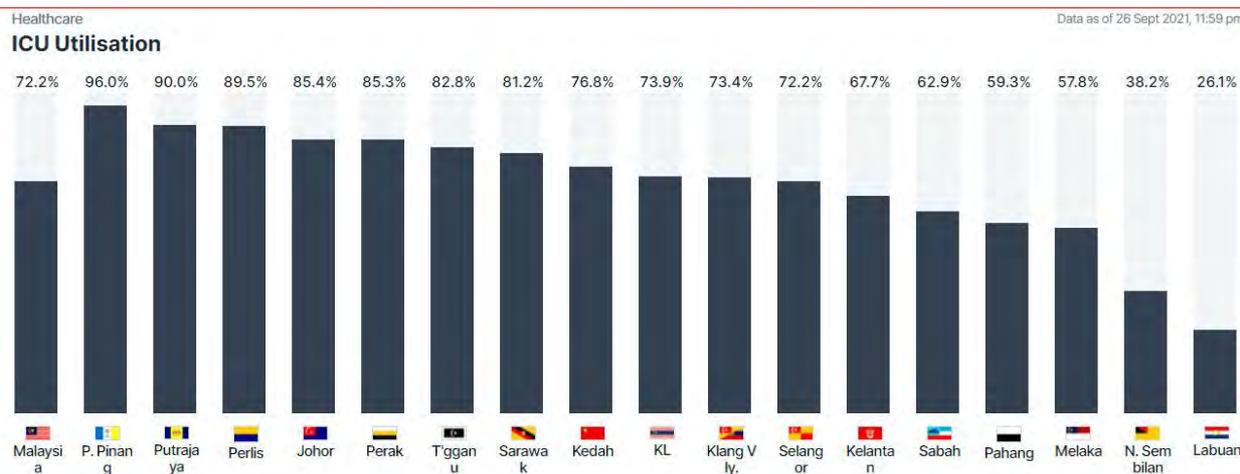
In Malaysia, intensive care unit (ICU) utilization has declined as vaccination progresses. As of 26 Sep, ICU utilization for has fallen to 72.2%. While it has declined, total active cases which need ICU care are still considerably high at 1,050. Among the states, Penang is the most affected with 96.0% ICU utilization rate. This is followed by Kedah (90.0%) and Perlis (89.5%).

EXHIBIT 9: ICU UTILIZATION RATE IN MALAYSIA AND SELANGOR



Source: covidnow.moh.gov.my

EXHIBIT 10: ICU UTILIZATION RATE BY STATE



Source: covidnow.moh.gov.my

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