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Economic Highlights

	2023	2024F	2025F
GDP Growth Rate	3.6%	5.2%	4.6%
Inflation Rate	2.5%	2.0%	2.6%

FBM KLCI

FBM KLCI current:		1,646
FBM KLCI end-2024 Target:	(↔)	1,680
FBM KLCI end-2024 Target:	(↔)	1,750

Budget 2025 Top Picks

Company	Price (RM)	TP (RM)
LAGENDA	1.38	1.71
QES	0.51	0.855
SLVEST	1.59	1.94
SAMAIDEN	1.04	1.66
PEKAT	0.935	1.11

Market Outlook: Budget 2025

Fostering Growth and Promoting Equality

Executive Summary

- **Carrying the theme "MADANI Economy, Prosperous Nation, Well-being of the People" is the third series of the Madani Budget that aims to restore and restructure the economy and improve the living standards for all Malaysians.**

- **Budget 2025 witness an increase of RM13.5bn to RM421.0bn in total expenditure (2024E: RM407.5bn). Of this total, RM335.5bn is channeled to Operating Expenditure (OE) while the balance of RM86.0bn is allocated to Development Expenditure, excluding RM2.0bn for contingency savings.**

- **With expected total revenue next year at RM340.0bn, Budget 2025 aims to narrow the country's fiscal deficit from estimated 4.3% in 2024 to 3.8% of gross domestic product (GDP) in 2025 in bid to achieve the government's long term fiscal consolidation target.**

- **Given that the re-introduction of GST was put off the table, the (i) broadening of tax base under SST regime to include non-essential goods, (ii) proposed 2% dividend tax on dividend income of RM100,000 and above, (iii) implementation of GMT in 2025, (iv) carbon tax on iron, steel and energy industries by 2026, (v) hike in sugar-sweetened beverages tax by 40 sen/litre, (iv) full implementation of e-invoicing by 1 Jul 2025 along with the removal of blanket subsidies for RON95 in mid-2025 will be supportive towards fiscal consolidation target.**

- **Once again, the education sector occupies a lion share at RM82.1bn, representing 19.5% of the total Budget allocation highlights the Government commitment towards improving education access and quality, particularly for disadvantaged communities, while the healthcare sector was allocated RM45.3bn, representing 10.8% over the total budget allocation underscores the government focus towards delivery of greater healthcare services.**

- **Despite allocation towards development expenditure allocation remain unchanged at RM86.0bn vis-à-vis revised Budget 2024, the construction sector will be kept busy by several on-going key mega infrastructure projects alongside with the influx of DC-related projects in recent times.**

- **Overall, we opine that Budget 2025 as largely Neutral as it moves to mitigate some of the high cost of living through greater cash aids and broadening individual tax reliefs that will invariably translate to stronger domestic spending, going forward.**

- **We are in view that Budget 2025 beneficiaries include consumer, tourism-related, healthcare, gloves, property and technology sectors (see more below).**

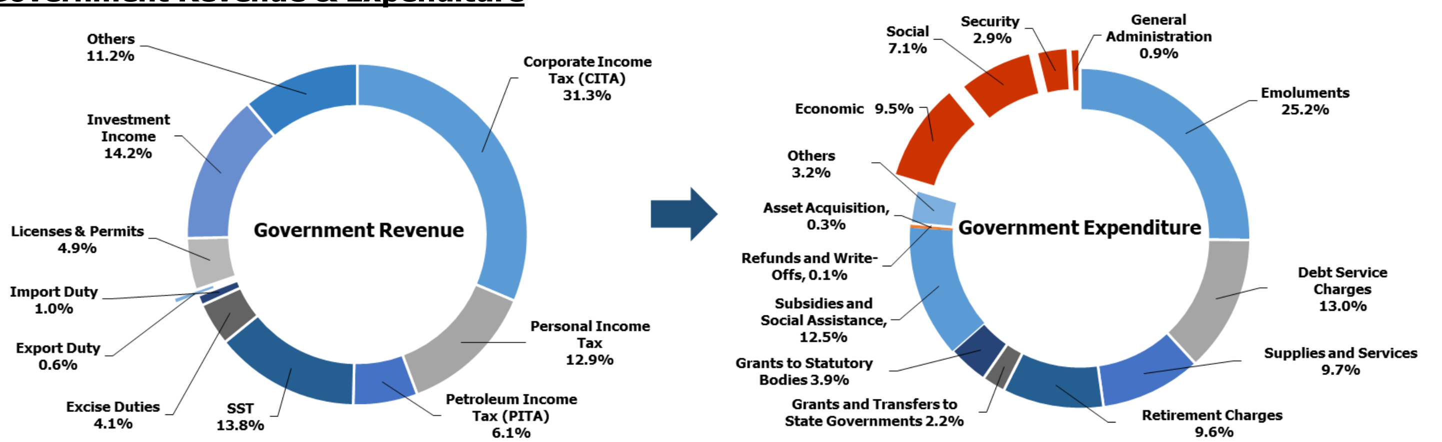
- **We maintain our 2024F and 2025F year-end target for FBM KLCI at 1,680 and 1,750 respectively, based on assigned 15.5x PERs.**

Budget Highlights

- **Final Budget under 12th Malaysia Plan**. In bid to balance economic growth and people's well-being, Budget 2025 is touted to be the largest in Malaysia's history with an allocation of RM421.0bn (up from RM407.5bn in the revised Budget 2024) is third series under Madani Budget before moving into the 13th Malaysia Plan. Of the total allocation, RM335.0bn will be channelled for operating expenditure, while the balance RM86.0bn will be allocated for development expenditure, excluding RM2.0bn for contingency savings. Carrying the theme "MADANI Economy, Prosperous Nation, Well-being of the People" will focus onto five key areas namely;

  (i) Navigating MADINI Economy
  (ii) Greater Reformation Implementations
  (iii) Elimination of Bureaucratic Red Tape
  (iv) Rising Wages and Incomes
  (v) Improving People's Living Standards

Government Revenue & Expenditure



Source: Budget 2025, Apex Securities

- **Targeted subsidy policy**. In bid to safeguard the well-being of Rakyat and to ensure fiscal sustainability, the implementation of electricity subsidy rationalisation, removal of subsidies for certain FMCG products and targeted fuel subsidy programmes remains in place. The much-anticipated targeted subsidy on RON95 is expected to take place in mid-2025. The move is expected to trim operating expenditure's subsidies and social assistance from RM61.4bn (19.1% of total expenditure) in 2024 to RM52.6bn (15.7% of total expenditure) in 2025.

- **Broadening revenue through widening scope of taxes and introduction of new taxes**. In bid to boost the government revenue collection, Sales & Service Tax (SST) will not be levied on basic food items, but will be levied on non-essential goods such as imported premium goods as well as expanded to include new taxable services such as commercial service transactions between businesses (B2B). Meanwhile, excise duty rate for sugar-sweetened beverages will be increased in phases from 1 January 2025. Several taxes were also introduced including 2% tax rate on dividend income of individuals receiving dividends exceeding RM100,000/annum (exemptions on foreign sourced dividend and distributions from EPF, ASNB, LTAT and unit trusts are being studied) as well as Global Minimum Tax (GMT) on multi-national entities. Meanwhile, the carbon tax will be introduced on the iron and steel, and energy industries will only take place in 2026. These key moves are expected to boost Government's revenue to RM339.7bn (+5.5% yoy) in 2025.

- **Minimal impact from dividend tax**. While the introduction of dividend tax caught us by surprise, we believe the impact to be negligible towards the mass market participants. Also, the impact towards higher-income population are relatively negligible against total cost of investment/capital.

  Scenario
  Investor X investment capital = RM3,000,000
  PLC annual dividend yield = 5.0%.
  Annual dividend pay-out to investor A = RM150,000

  Dividend tax @ 2.0% = RM3,000
  Dividend tax against Investor X capital = 0.1%

- However, with details of dividend tax is still scant at current juncture, we will not be able to assess the impact on whether the dividend tax would be charged in tandem with personal income tax or on a separate matter.

- **Balanced by more handouts**. Given that the introduction of new taxes aims to narrow the income disparity of the nation, we gather that RM52.6bn is allocated for various social welfare initiatives, including subsidies, incentives and assistance. Additionally, cash handout will increase from RM10.0bn under Budget 2024 to RM13.0bn, whilst targeted subsidies remain on the cards, particularly for RON95. All in, the additional subsidies mainly aimed towards B40 and certain groups in M40 will serve as a progressive fiscal policy to address the wealth gap and reduce poverty in the nation.

- **Fiscal deficit continues to narrow**. With firm and gradual measures undertaken, the annual Budget deficit is expected to pare down from -5.0% in 2023 to -4.3% in 2024E and to -3.8% in 2025F. The move is largely on track to meet the longer-term fiscal consolidation target of-3.0% and to reduce the debt burden to less than 60% of GDP (debt-to-GDP ratio is projected to remain around 64.0% by the end of 2024 and 2025).

Malaysia Fiscal Position

Fiscal Position (RM bn)	2023	2024E (revised)	2025F
Revenue	315.0	322.1	339.7
Operating Expenditure	311.3	321.5	335.0
Current Account Balance	3.7	0.6	4.7
Gross Development Expenditure	96.0	86.0	86.0
Less: Loan Recovery	1.0	1.2	1.3
Net Development Expenditure	95.1	84.8	84.7
Overall Balance	-91.4	-84.3	-80.0
GDP at Current Price	1822.9	1946.6	2082.4
Fiscal Surplus/(Deficit)	-5.0%	-4.3%	-3.8%

Source: Budget 2025, Apex Securities

Economics Highlights

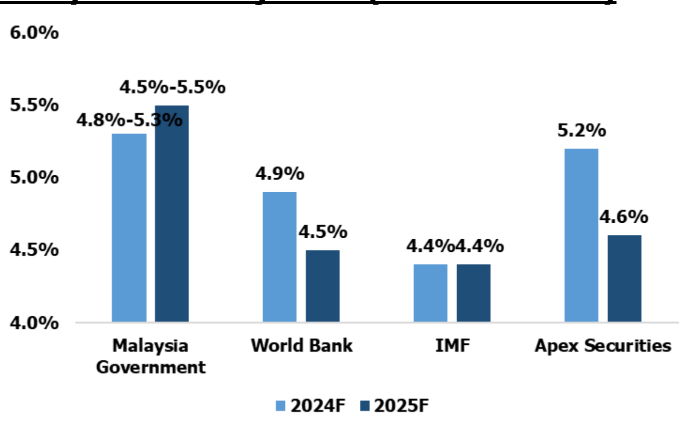
- **2024-to-date review**. The domestic economy growth remains resilient, boosted by solid personal consumption expenditure that was aided by strong labour market with unemployment rate falling to the lowest level since January 2020 at 3.2% in August 2024. Inflation rate during that period was relatively steady 1.9%, though impact of the hike in diesel prices has been muted. According to MIDA, Malaysia's foreign investment totalled at RM160.0bn, inclusive of RM74.6bn in foreign direct investment (FDI).

- **GDP growth to remain resilient**. The better-than-expected 2Q24 GDP growth (+5.1% yoy) reflected strong domestic spending that was supported by the resilient labour market and steady growth in wages alongside with recovery in export. Therefore, the Malaysia Government has revised 2024 GDP growth upward to **+4.8-5.3%** yoy (from +4.0-5.0% yoy). Moving into 2025, the government is confident that with the MADINI economic reformation, GDP growth projection will approach **+4.5-5.5%** yoy is expected to be higher than the World Bank and IMF forecast of 4.9% and 4.4% respectively. For now, we are keeping our internal forecast of Real GDP remained unchanged at 2024: **+5.2%** yoy and 2025: **+4.6%** yoy, which is also within the Government's projections.

- **Inflation to remain manageable**. Several measures including the, higher excise duties on sugar-contained beverages, subsidies rationalisations, lifting of blanket subsidy for RON95 in mid-2025 may potentially set the stage for higher inflation in 2025. On that account, we maintained 2025 CPI forecast at **+2.6 yoy**, which is within the Government's forecast between 2.5%-3.0%. Meanwhile, our 2023 CPI forecast were unchanged at +2.8%, which is in line with government's forecast between 2.0%-3.5%.

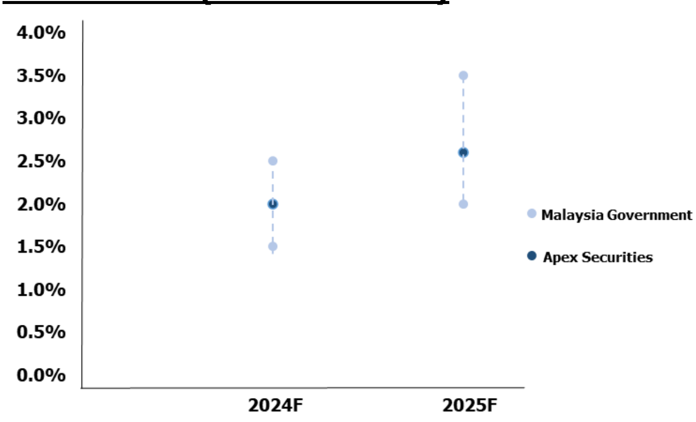
- **Private consumption growth remains sustainable**. We envisaged private consumption growth will remain as the key driver towards Malaysia economic growth in 2025. Budget 2025 highlighted several measures to support the private consumption by increasing household's disposal income such as (i) Sumbangan Tunai Rahmah (STR) that will be raise to RM13.0bn, from RM10.0bn, (ii) extension of Sumbangan Asas Rahmah (SARA) programme will benefit approximately 9.0m population which represents 60.0% of Malaysian adult population, (iii) increase in minimum wage by RM200 to RM1,700/month effective 1 February 2025 and (iv) implementation of progressive wage policy, while the expansion of personal income tax reliefs across various fields are supportive towards household disposable income.

Malaysia GDP Projection (2024F & 2025F)



Source: Budget 2025, Apex Securities

CPI Forecast (2024F & 2025F)



Source: Budget 2025, Apex Securities

Real GDP by Sector

Sector	2023	2024E (revised)	2025F
Agriculture	0.7%	2.0%	1.9%
Mining	0.5%	2.2%	-1.0%
Manufacturing	0.7%	4.1%	4.5%
Construction	6.1%	14.1%	9.4%
Services	5.1%	5.3%	5.5%
Real GDP	**3.6%**	**4.8-5.3%**	**4.5-5.5%**

Source: Budget 2025, Apex Securities

Real GDP by Expenditure

Expenditures	2023	2024E (revised)	2025F
Domestic demand	4.6%	6.3%	6.1%
Private consumption	4.7%	5.5%	5.9%
Public consumption	3.3%	3.5%	3.8%
Private investment	4.6%	11.1%	8.9%
Public investment	8.6%	9.3%	4.9%
Export	-8.1%	7.8%	3.8%
Import	-7.4%	8.4%	3.7%
Real GDP	**3.6%**	**4.8-5.3%**	**4.5-5.5%**

Source: Budget 2025, Apex Securities

Market Outlook

- **Another expansionary Budget**. Budget 2025 is yet another larger budget delivered under the MADANI government, with an allocation of RM421.0bn. Once again, there were a slew of key measures announced to support the middle to lower-income group in bid to bridge the nation's wealth gap, subsidy rationalisation programmes aimed towards narrowing fiscal deficit and sustaining robust economic growth projections.

- **Largely neutral**. We view Budget 2025 as largely neutral as it aims to alleviate some of the high cost of living, which is likely to lead to increased domestic spending in the future via various cash handouts incentives. Upward revision of economic growth projection may invariably transpire to stronger corporate earnings growth. As a result, we reckon the Malaysia stock market may sustain its recovery move as demonstrated, rising +13.2% year-to-date.

- **Near term impact may see some volatility**. Over the interim, market conditions may react slightly negative towards the introduction of dividend tax of 2.0% for dividend income received exceeding RM100,000 in 2025. While the market may turn uncertain, the attractive valuations even after the local bourse has delivered substantial gains to-date will still be in favour amid the prospects of corporate earnings growth and attractive valuations. Still, we reckon external factors such as the upcoming US Presidential election next month, geopolitical uncertainties, interest rate direction in US as well as the movement of Ringgit against major trade partners will continue to play a pivotal role in dictating the direction on Malaysia markets.

- **Malaysia Capital Markets**. Apart from the dividend tax, several initiatives are welcomed under Budget 2025 to spur the Malaysia Capital Markets. Malaysia Co-Investment Fund (MyCIF) will be allocated RM40.0m to co-invest in ECF and P2P platforms, promoting Islamic financing Government linked investment companies through GEAR-uP will collectively increase domestic investment up to RM120.0bn over the next five years with RM25.0bn to be invested in 2025. National Fund-of-Funds (NFOF) with capital of RM1.0bn will be established under Khazanah will be operational next month to support start-ups with RM300.0m allocation in 2025, while KWAP under Dana Perintis has allocated RM1.0bn for start-ups with RM200.0m allocation in 2025. Also, RM65.0m is allocated to Cradle Fund to identify and assist start-ups which has potential to expand into international scale.

- **FBM KLCI key levels**. We reckon the potential extension of rally on key index will remain choppy with key near-term supports around 1,625 followed by 1,580. Should there be firm support, upward stance remains in store. At current level (1,645), we reckon that valuations are slightly attractive with the key index trading at forward P/E of 15.2x and 13.9x for 2024F and 2025F respectively is well below its 10-year historical average of 15.5-17.5x. We maintain our 2024F and 2025F year-end target for FBM KLCI at **1,680** and **1,750** respectively, based on assigned 15.5x PERs.

- **Selected sectors in limelight**. While development expenditure allocation remains unchanged, the construction sector will be kept busy with several on-going key mega infrastructure projects alongside with the influx of DC-related projects. Under Budget 2025, we believe the (i) **consumer** sector may benefit from the higher cash aid distributions, (ii) **tourism-related** sector to be boosted by RM550.0m allocation for Visit Malaysia Year 2026, (iii) **healthcare** sector which seize the second largest slice of the pie under the budget allocation, (iv) **gloves** sector will adopt the cost-pass-through mechanism following the introduction of multi-level levy mechanism on foreign worker, (v) **property** sector benefitting from extension of measures for the implementation of affordable housing projects and tax reliefs to boost homeownerships and (vi) **technology** sector following the emphasis onto development high-value industries like semiconductors and AI-driven sectors. (refer below)

Sector Review

Sector	Highlight/Measures	In-house viewpoint
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Automotive (Neutral)	• Targeted subsidies on RON95 petrol by mid-2025. • Encourage the use of Electric Motorcycles CKD up to RM2,400 will continue with an allocation of RM10.0m. • PERODUA to release an EV model priced below RM100,000 to meet the market demand.	• RON95 rationalisation program may a certain population, particularly in M40 & T20, but is unlikely to have a significant impact on car sales as public transportation is still not an ideal option based on current infrastructures. • Measures to incentivize the adoption of EV will benefit local EV model car makers, particularly PERODUA such as **SIME (NR)** and **MBMR (TP: RM5.36)**.
Team Coverage	(603) 7980 8888 research.dept@apexsecurities.com.my	
Construction (Neutral)	• Development expenditure (DE) kept unchanged at RM86.0bn vis-à-vis revised Budget 2024 • DE allocated to Sabah and Sarawak rose by RM0.1bn each, amounting to RM6.7bn and RM5.9bn, respectively, focusing onto Sabah-Sarawak Link Road (Phase 2) with two packages to be awarded by end-2024. • Total public investment for development in 2025 at RM120.0bn over the next five years under the Finance Ministry-led GEAR-uP programme. • Invest Malaysia Facilitation Centre – Johor (IMFC-J) is currently in beng established to facilite and simplify the investment process di Johor Singapore Special Economic Zone (JSSEZ)	• While there are no new mega-infrastructure projects being dished out, we believe with existing projects such as Penang LRT, Pan Borneo Sabah (Phase 1), MRT3, ECRL, Sabah-Sarawak Link Road and flood mitigation projects among others will keep household turnkey contractors names such as **GAMUDA (NR), IJM (NR), MMCCORP (NR), MRCB (NR), WCT (NR)** and **SUNCON (NR)** busy in coming years.
	• RM2.8bn allocated for rehabilitation and maintenance of Federal roads. • RM5.5bn allocated for rehabilitation of State roads under MARRIS. • RM3.2bn allocated for flood mitigation and river conservation projects nationwide. • RM2.9bn allocation for development basic infrastructures in rural areas.	• Road specialists such as **PRTASCO (NR), BDB (NR), SCIB (NR)** and **SUNMOV (NR)** may eye a slice onto road maintenance works. • Flood mitigation projects will benefit water-related players such as **JAKS (NR), PUNCAK (NR), KPS (NR), SALCON (NR), TALIWRK (NR), HSSEB (NR)** and **MELATI (NR)**, while water-related component players like **ENGTEX (NR), FITTERS (NR), HIAPTEK (NR), RESINTC (NR)** and **COSMOS (NR)** will also eye a slice of the pie.
	• More than RM1.8bn allocated to build, maintain and repair all civil servant quarters including teachers, doctors, policemen, firefighters, prison guards and the Armed Forces.	• **WCT (NR)** which has experience in redevelopment of police quarters at Ulu Kelang, Selangor is expected to be one of the forerunners for the civil servants living quarters.
	• Upward revision in minimum wage threshold to RM1,700 (from RM1,500), effective 1 February 2025.	• We believe the hike in minimum wages threshold could have a minimal impact to the Construction sector as most, if not all workers are already above the threshold.

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Consumer (Positive)	• Higher minimum wages are now RM1,700 (from RM1.500. • Implementation of Progressive Wage Policy	• Higher minimum wages would lead to higher disposable income and consumer spending, but this could be offset by increased labour costs for companies that rely on labour-intensive operations, such as **PADINI (TP: RM 3.51)** and **AEON (NR), MR DIY (NR)** and **99SMART (NR)**.
	• The price of chicken has become fully floated, while chicken eggs remain subsidised and subject to price controls.	• Poultry-related players such as **CCK (TP:RM1.65), QL (NR), LHI (NR), CAB (NR), TEOSENG (NR), LAYHONG (NR), MFLOUR (NR)** and **PWF (NR)** may continue to see improved margins, while chicken egg producers will continue to benefit from subsidies. The government might consider removing the subsidy once market supply and demand reach equilibrium. Currently, the market supply and demand remain imbalanced, particularly for certain grades of eggs.
	• Rationalisation of RON95 blanket subsidy will be implementation in mid-2025. • Rahmah Cash Aid (STR) allocations have been raised to RM13.0bn. This should benefit 9.0m recipients The maximum rate has been increased to RM4,600, from RM3,700. • Social Welfare Department (JKM) allocation has increased to RM 2.9bn (from RM 2.4bn), with a maximum rate of RM1,000/family.	• Rationalising the blanket subsidy for RON 95 may affect consumers' disposable income for travel expenses, but we believe that the higher minimum wage will help alleviate this burden. With a higher cash handout aids may benefit consumer staples companies such as **KAWAN (NR), HUPSENG (NR)** and **HWATAI (NR)**.
	• Excise duty on sugary drinks to be raised by RM0.40/liter, starting January 2025 (currently: RM0.50/liter). • 8% Sales tax to be levied on imported premium goods such as salmon and avocado.	• The sugar tax expected to reach RM0.90/liter by 2025. Demand for sugary beverages may be negatively impacted for sugar producers like **MSM (NR)** and sugar-sweetened beverage manufacturers such as **NESTLE (NR), F&N (NR), FFB (NR),** and **DLADY (NR)**.
	• Extension of My50 transport passes will benefit 180,000 Klang Valley residents using Prasarana bus and rail services • Widening of personal tax reliefs	• Expansion of the SST is likely to raise business costs, especially for premium food products. Nevertheless, we do not foresee a major effect on earnings.

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Finance (Neutral)	• Higher minimum wage rate and improved starting salary guidelines for all job sectors.	• Higher disposable income should improve debt serviceability, which bodes well for asset quality and retail credit demand.
	• Service Tax will be expanded to cover commercial services – even financial fee-based services.	• We doubt it's going to have any meaningful impact on fee-income contribution.
	• Flood mitigation projects and any form of catastrophic event protection.	• Positive for insurance players such as **LPI (NR), ALLIANZ (NR)** and **TUNEPRO (NR)**, to prevent reinsurance costs from ballooning.

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Gloves (Positive)

- Upward revision of minimum wages from RM1,500 to RM1,700, starting February 2025.
- Multi-level levy mechanism on foreign worker is introduced.

- We believe production costs that have increased by USD0.30/1,000 pcs to USD0.50/000 pcs will be passed onto consumers amid rising demand.
- Malaysian glove manufacturers will adopt the cost-pass-through mechanism are expected to raise their average selling prices to USD 21–22.50/1,000 pcs for orders scheduled for November–December 2024. Potentially beneficiaries are **TOPGLOV (TP:RM 1.26), HARTA (TP:RM2.92), KOSSAN (NR)** and **SUPERMX (NR)**.

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Healthcare (Positive)

- Healthcare sector receive second highest allocation (RM45.3bn) from RM41.2bn. This represents 10.8% of total Budget 2025 allocation.
- RM1.35bn has been allocated for maintaining health infrastructure.
- Upgrading of mobile clinics and enhancing rural healthcare services stood at RM300.0m (+200% from 2023).
- RM25.0m has been allocated to cover medical costs of rare diseases.
- Individual tax exemption on premium payments medical insurance increased to RM4,000
- Individual income tax exemption for medical expenses up to RM10,000. This also includes payments made by the taxpayer under insurance and takaful plans with co-payment.
- Expansion of income tax relief for individuals includes coverage for diagnostic test fees, the purchase of health screening equipment, and disease detection test kits, promoting self-directed healthcare practices.
- Enhanced public-private partnerships for high-demand medical services (eg: cardiology, radiology, and nephrology).
- Revenue generated from sugar tax will be used to fund diabetes treatment and provide peritoneal dialysis for end-stage kidney patients, including those in Felda settlements.
- Implementing offtake policy and specific procurement from companies investing domestically in essential pharmaceuticals and medical devices.

- Heightened focus on the healthcare sector could benefit healthcare service providers like **KPJ (NR), IHH (NR)** and **TMCLIFE (NR)**.
- Meanwhile, equipment specialists such as **UMEDIC (NR)** and **SCOMNET (NR)** may see heightened demand for their products.

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Oil & Gas (Neutral)	• Plans to implement targeted subsidy on RON95 by mid-2025. Under this subsidy rationalisation measure, foreigners and top 15% earners will no longer enjoy subsidies of c.RM8bn, though government will continue to bear subsidies of c.RM12bn for the remaining 85% of the nation.	• Recap that under the automatic pricing mechanism, profit margin for oil companies is 5 sen per litre for petrol. With targeted subsidy for RON95, sales volume is expected to decline, negatively impacting profitability of **PETDAG (NR)** and **PETRONM (NR)**.
	• Tax incentives such as investment tax allowance or income tax exemption for Carbon Capture, Utilisation and Storage (CCUS) activities. To support the development of CCUS in Malaysia via expansion of carbon utilisation as downstream products and provision of tax incentives under the New Investments Incentive Framework, while also easing access to sustainable financing, particularly mixed financing (involve both the government and private sectors). Government will table the Progressive Regulatory Framework Bill for CCUS in the near future.	• According to Economy Minister Mohd Rafizi Ramli, the Bill will be tabled in Parliament in November. Details of the tax incentives could be included in the Bill. We view the establishment of regulatory framework positively as this is a significant step for Malaysia to emerge as a regional hub for CCUS. Potential beneficiaries include **MISC (NR)** as the charterer of LCO2 carriers, **MHB (NR)** as an EPCIC contractor for CCUS projects, **PANTECH (NR)** as supplier of CCUS pipelines, and **WASCO (NR)** as provider of pipe-coating jobs for the CCUS pipelines.
	• To introduce Carbon Tax on the iron, steel and energy industries in Malaysia by 2026 to encourage the use of low-carbon technology. The revenue generated from tax will be used to finance green technology and research programs.	• No further details on the scope and quantum of carbon tax are provided. As a reference, Singapore currently imposes carbon tax of SG$25 per tonne of Scope 1 carbon dioxide equivalent emitted for industrial facilities with annual emission of at least 25,000 tonnes. We believe the government will start low and gradually increase the tax, eventually expanding it to all industries. Based on the latest annual reports, **HIBISCS (NR), PCHEM (NR)** and **MISC (NR)** will be most negatively impacted due to significant scope 1 emission.
	• Introduction of Carbon Tax on the iron, steel and energy industries in Malaysia by 2026 to encourage the use of low-carbon technology. The revenue generated from tax will be used to finance green technology and research programs.	• No further details on the scope and quantum of carbon tax are provided. As a reference, Singapore currently imposes carbon tax of SG$25 per tonne of Scope 1 carbon dioxide equivalent emitted for industrial facilities with annual emission of at least 25,000 tonnes. We believe the government will start low and gradually increase the tax, eventually expanding it to all industries. Based on the latest annual reports, **HIBISCS (NR), PCHEM (NR)** and **MISC (NR)** will be most negatively impacted due to significant scope 1 emission. Steel players such as **ANNJOO (NR)** are also potential victims of this tax.

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Plantation (Neutral)	• Upward revision in windfall profit levy threshold to RM3,150 (from RM3,000) in Peninsular Malaysia and 3,650 (from RM3,500) for Sabah and Sarawak.	• Higher windfall profit threshold is beneficial across the whole plantation sector but the impact will be muted at the moment given CPO price is expected to maintain above the threshold level at around RM3,800-3,900 in CY25.
	• Export duty structure was revised to include a 10% rate (vs 8% under the old structure) for CPO price above RM4,050, which will be effective in the coming month Nov 24. • Allocated RM100.0m replanting incentives to smallholders.	• The new export duty structure is expected to reduce Malaysia's competitiveness in the world market as its export duty is relatively higher compare to Indonesia which introduced a flat rate of 7.5%. **SDG (TP: RM4.50)** and **FGV (NR)** was identified to establish collaboration with Petronas for production of SAF.

	• Allocated RM65.0m to enhance the sustainability level of the palm industry. • The government is looking opportunities to produce sustainable aviation fuel (SAF) form palm oil mill waste. • Tax incentives in the form of Accelerated Capital Allowance as well as tax exemption on any CAPEX for the automation of the agriculture and commodity sector. • Minimum wage raised from RM1,500 to RM1,700 which is effective from Feb 25 onwards.	• Minimum wage hike will result in higher production cost given the labor-intensive nature of the plantation industry.

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Property (Positive)	• Close to RM900.0m allocated for the implementation of 48 projects under Program Residensi Rakyat (PPR) and 14 projects under Rumah Mesra Rakyat with 30 projects under PPR will be completed by end-2025 to benefit close to 17,500 new residents	• Implementations of affordable housing projects aiming to tackle home ownership affordability remains supportive towards developers specialising in low-cost housing projects **LAGENDA (TP: RM1.71), L&G (NR), MJPERAK (NR), GADANG (NR), LBS (NR)** and **TELADAN (NR)**.
	• Special incentive to attract quality investments and create high-value jobs in Johor Singapore Special Economic Zone (JSSEZ) to be announced by end-2024	• Emphasis over JSSEZ development is expected to benefit developers with exposure in the South such as **IWCITY (NR), UEMS (NR), SUNWAY (NR), KSL (NR)** and **LAGENDA (TP: RM1.71)**
	• First home buyers eligible for tax relief up to RM7,000 for residential properties priced up to RM500,000 as well as RM5,000 for residential properties priced between RM500,000 to RM750,000 for transactions completed between 1 January 2025 to 31 December 2027. • Syarikat Jaminan Kredit Perumahan (SJKP) program will continue to guarantee housing loans up to RM10.0bn, benefiting 20,000 home buyers. • Upward revision in minimum wage threshold to RM1,700 (from RM1,500), effective 1 February 2025. • Implementation of progressive wage policy.	• We are pleasantly surprise over the additional tax relief in bid to encourage home ownership amongst Malaysians. The move will beef up the number of property transactions, particularly for new home buyers. We like township developers whom priced their properties within the threshold such as **MATRIX (TP: RM2.07), SKYWLD (TP:RM0.51), MAHSING (NR)** and **OSK (NR).**

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Renewable Energy (Neutral)	• RM305.9m allocation for National Energy Transition Facility (NETF).	• Funding increased from RM100.0m in 2024, supporting marginally bankable energy transition projects.
	• Net Energy Metering (NEM) program extended until 30 June 2025 and additional 50MW quota for NEM Rakyat and 300MW quota for NEM NOVA.	• The remaining quota are low for the NEM Rakyat (6.6%) and NOVA (6.3%). NEM GoMEn still has 42.1% quota remaining. Beneficiaries are Solar EPCC players such as **SAMAIDEN (TP: RM1.66), SUNVIEW (NR), PEKAT (TP: RM1.20), SLVEST (TP: RM1.94),** and **TENAGA (NR)** via GSPARX.

- Implementation of the Hybrid Hydro-Floating Solar (HHFS) project in Kenyir and the green hydrogen hub in Terengganu. This project is expected to have a capacity of up to 1GW, with half dedicated for the first green hydrogen hub project involving partnership between PETRONAS and TENAGA.
- We believe the EPCC tenders for HHFS will prioritise local players or joint ventures involving domestic players, hence a positive catalyst for the solar EPCC players mentioned above, as well as **Tenaga (NR)**, the key rollout partner in HHFS.

- Implementation of open grid access initiatives via the CRESS.
- As highlighted in our RE Sector Update published on 1 Oct 2024, Path to Liberalisation, we believe the existing framework is unlikely to drive user adoption due to cheaper alternative of Green Electricity Tariff. A reduction in SAC for non-firm output to around 25 sen/kWh would be a more reasonable rate to encourage adoption.

- Introduce specific programs that prioritises the design of dual-functional renewable energy generation structures, such as the agrivoltaic to avoid the negative impact of renewable energy power plants on food production.
- Agrivoltaic combines solar energy generation with crop cultivation. Although the project seems promising, we are neutral on it due to concerns regarding the cost-effectiveness and scalability.

- Introduce Energy Performance Contracting for government agencies to reduce electricity bills by up to 10%. Up to RM70.0m e-Rebate to incentivise the purchase of energy-efficient appliances. The rebate is provided by Suruhanjaya Tenaga under the Nikmat Untuk Rakyat PETRA (NUR@PETRA) program.
- EE is one of the six energy transition levers. EE could negatively impact **TENAGA (NR)** and IPPs such as **MALAKOF (NR)** as it drives lower demand for electricity.

- RM24.0m allocation under the Energy Audit Conditional Grant to ensure energy efficiency practices both in the industrial and commercial sectors.

- Installation of solar panels along Putrajaya's 5-kilometer-long pedestrian walkway and car park.
- **TENAGA (NR)** and the subsidiary of PETRONAS, Gentari are few of the companies that are tasked with installing solar panels in Putrajaya.

- To introduce Carbon Tax on the iron, steel and energy industries in Malaysia by 2026 to encourage the use of low-carbon technology. Revenue generated from tax will be used to finance green technology and research programs. Green Technology Financing Scheme (GTFS)
- The Carbon Tax will likely be passed through to customers, leading to higher tariffs, hence encouraging users to own solar panels to save electricity costs. Higher electricity tariffs will be negative on electricity demand.

- To continue implementing GTFS with fund allocation of up to RM1.0bn until 2026.
- GTFS is a financing scheme to support six key sectors, including Energy, Manufacturing, Transport, Building, Waste and Water. Overall, we think the Budget is Neutral on the RE sector as most of the measures are within expectations. Our top picks for the sector are **PEKAT (BUY, TP: RM1.20)**, **SLVEST (BUY, TP: RM1.94)** and **SAMAIDEN (BUY, TP: RM1.66)**. These players stand to benefit from higher demand for rooftop solar and HHFS driven by the initiatives above.

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Telco (Neutral)	• The Government will continue to promote the use of 5G applications in various industries ahead of the 2025 Asean chairmanship.	• Lack of any major or fresh developments during the announcement.
	• MCMC allocated RM120.0m to improve internet access in public, universities, schools, military camps and institutions.	• Emphasis on digitalisation and connectivity will remain as prime focus.

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Technology (Positive)	• Increase in monthly minimum wage to RM1,700 (from RM1,500) effective from 1 Feb 2025. • Multi-tier levy system will be implemented early next year to reduce dependence on foreign workers. Revenue generated from this levy will be reinvested into the industry to facilitate automation. • A loan fund of RM3.8bn is provided by BNM to support entrepreneurs transitioning towards digitalisation and automation, while also continuing to assist the agro-food sector and sustainable practices. • Expansion of Kulim Hi-Tech Park which houses semiconductor players such as Infineon and development of Batu Kawan Industrial Park 3 project.	• Hike in minimum wages is expected to affect companies in the EMS, OSAT, and semiconductor sectors, as a significant portion of their operational workforce consists of employees earning minimum wages. • However, the increase in minimum wages, along with the multi-tier system and loan fund, is likely to encourage local companies to expedite their automation efforts. This could benefit local automation solutions providers such as **QES (TP: RM0.855), CNERGENZ (NR), PENTAMASTER (NR)** and **VITROX (NR).**
	• USM is exploring AI in semiconductors in line with Malaysia's status as a global semiconductor hub, enhancing collaboration with companies including Intel and Infineon. • The Government will introduce a New Investment Incentive Framework that focuses on high-value activities; expected to be implemented in Q3 2025. Tax incentives for export growth will be broadened to encompass integrated circuit design activities, Special tax deductions to private higher education institutions that develop new courses in areas such as digital technology, AI, robotics, the Internet of Things, data science, FinTech, and sustainable technology.	• Efforts to move up the value chain through tax incentives and expand facilities to host global MNCs in the E&E and semiconductor sectors reflect the Government continued commitment to attract FDI. This will further enhance the development of domestic semiconductor players, particularly benefiting equipment providers such as **QES (TP: RM0.855), PENTA (NR), VITROX (NR), GREATEC (NR), MI (NR), AEMULUS (NR)**, as well as IC designers like **OPPSTAR (NR)**.
	• Government will provide accelerated capital allowances for purchase of ICT equipment, software packages, and consulting fees, allowing these costs to be fully claimed within a two-year period in preparation for full implementation of e-invoicing by 1 July 2025. • The National Cyber Security Agency will receive an additional 100 positions along with an additional allocation of RM10.0m.	• Initiatives to support startup growth and the allowance for increased ICT spending could potentially benefit IT infrastructure and cybersecurity service providers such as **INFOTEC (TP: RM0.905), INFOM (NR), LGMS (NR), VSTECS (NR),** and **SNS (NR).**
	• RM178.0m is allocated for the installation of new streetlights and smart traffic lights on federal roads nationwide.	• Allocation for urban infrastructure development could accelerate the adoption of smart city initiatives, potentially benefiting companies like **ITMAX (NR)**.

- 180 high-definition CCTV cameras and 45 emergency buttons will be installed in Putrajaya and Labuan to enhance safety levels.

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Transport (Neutral)

- The government plans to grant a 60% investment tax allowance to logistics companies engaged in complex smart logistics activities for a period of five years.
- Malaysia Development Bank Berhad provides RM6.4bn in financing to support sectors including logistic and transportation.
- The government will implement expansion projects for Tawau Airport in Sabah and Miri Airport in Sarawak, with a total cost of RM253 million.
- The ITA grant and financing facilities are likely to benefit domestic integrated logistics service providers, such as **TASCO (TP: RM1.00), SWIFT (TP: RM0.62), TIONGNAM (NR)** and **GDEX (NR)**, supporting their expansion plans.

- Development allocations for Sabah and Sarawak of RM6.7 billion and RM5.9 billion respectively, making them among the highest in the country.
- East Malaysian port operators, such as **SURIA (NR)** and **BIPORT (NR)**, stand to benefit indirectly from the increased development allocation for East Malaysia, which could potentially lead to higher port throughput.

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Utilities (Negative)

- Introduction of Carbon Tax on the iron, steel and energy industries in Malaysia by 2026 to encourage the use of low-carbon technology. The revenue generated from tax will be used to finance green technology and research programs.
- No further details on the scope and quantum of carbon tax are provided. The measure may be difficult to implement for the power generation sector that operates under the incentive-based regulation as power generation companies cannot pass through the carbon tax to their customers. To facilitate the pass through of carbon tax, the tax needs to be included in the tariffs. Based on the latest annual reports, **TENAGA (NR)** and **MALAKOF (NR)** will be negatively impacted due to significant scope 1 emission. **YTLPOWR (NR)** should be relatively shielded as majority of the group's greenhouse gas emitting businesses are overseas.

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RESEARCH RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS
BUY: Total returns* are expected to exceed 10% within the next 12 months.
HOLD: Total returns* are expected to be within +10% to – 10% within the next 12 months.
SELL: Total returns* are expected to be below -10% within the next 12 months.
TRADING BUY: Total returns* are expected to exceed 10% within the next 3 months.
TRADING SELL: Total returns* are expected to be below -10% within the next 3 months.
*Capital gain

SECTOR RECOMMENDATIONS
OVERWEIGHT: The industry defined by the analyst is expected to exceed 10% within the next 12 months.
NEUTRAL: The industry defined by the analyst is expected to be within +10% to – 10% within the next 12 months.
UNDERWEIGHT: The industry defined by the analyst, is expected to be below -10% within the next 12 months.