

# 2010 Budget

## Long term goals, little excitement now

- **Long terms objectives. The people centric budget friendly budget** is driven by a 11.4% YoY decrease in **RM 189.5b** government expenditure comprising **RM 51.2 b (RM53.6b in 2008) development expenditure and RM138.3b (RM160.2b in 2008) operating expenditure**. The fiscal discipline by cutting back on the excess in operating expense enables a 5.6% budget deficit which is better than expected.
- **3 pronged strategies: 1) Towards High Income Economy, 2) Holistic and Sustainable Development, 3) Well being of the Rakyat**. These strategies are noble and focus on developing Malaysia for the long term competitiveness. However, execution and perseverance in follow through remains to be seen. Results in the short term will be negligible.
- **But...Policy flip-flop again**. Reintroduction of 5% real property gains tax for properties sold within 5 years after 2 years of abolishment is perplexing as property values rise sharply in the past sector is not in a bubble with a sharp rise in price. But proposal to allow further draw downs from EPF account II to finance first house purchase compensates for the 5% RPGT. High-end property developers, typically catering to the investment market, may find sales slowing down. Township developers with products priced at first home buyers may see surge in sales.
- **Sin taxes spared as expected**. The tobacco excise duty was increased on 1 October 2009 (+1 sen or 5.6% per stick) and all other sin taxes like alcohol, casino and number forecasting operations were spared tax hike as the tax revenue collect is not significant compared to the budget deficit.
- **Individual income tax rate for highest bracket reduced by 1% to 26% and special income tax of 15% for Iskandar region** for individual working in selected industries who apply on or before end of 2015. **These are efforts designed to draw high income talents to Malaysia and also new FDIs.**
- **A new fuel subsidy scheme** using the MYKard to determine the level of petrol subsidy and **intentions to put GST in place** will provide **more equitable income distribution and spur domestic spending.**
- **Construction will continue to be the main beneficiary given the overall allocation from various sectors totalled about RM25b**. With the other measures largely within expectations except for the reintroduction of RPGT, we expect the equity market reaction to be largely muted. the market is expected to continue to trade higher in the short term buoyed only by liquidity. We continue to recommend our investors to take profit in the short term as it is fundamentally overvalued. The limited EPS expansion for 2010 of 20%, at best cannot support market PER valuation of 20x.

## 2010 Budget: Announcements

Sector	Additional Stimulus	Remarks
Property and REIT		<p>– We remain <b>NEUTRAL</b> on the property sector with the new proposed measures given a mixture of negative and positive news. The market had expected it to be rather quiet for the property sector. The measures were targeted to benefit the low to middle income group and curb speculation. Only 1 out of 8 REHDA wishes was fulfilled (we were expecting 2; refer to report 'Budget 2010 – REHDA's wish list' on 21/10/09). There are still no changes in REHDA's request to release unsold Bumiputra units at an earlier stage. The market was also expecting lower withholding tax for REITs and incentives for Islamic REITs. However, there were no mentions made.</p>
	<p><b>5% RPGT imposed</b> on gains from disposal of real property from 1 Jan 2010. Exemption of RM10,000 or 10% of the gains, whichever is higher, be given to individuals. Exemptions to RPGT apply to: 1) gifts between family members 2) disposal of residential property once in a lifetime for individuals.</p>	<p><b>Reintroducing RPGT was a negative surprise</b>, although at a lower level of 5% vs. pre- April 2007's RPGT of 5%-30%. We did not expect the government to reintroduce RPGT so quickly since its waiver on 1/4/07. We would have preferred that the government introduce an RPGT policy that penalizes those holding the properties for less than 23 years. In Singapore, the RPGT was lifted in 2001 and was only reintroduced in mid 2009; even so, the new policy was targeted at pure investment property speculators. But keeping RPGT low and fixed at 5% indicates that the government is cognizant of RPGT's impact on the sector. Our main concern is its effect on current sentiment. Hence, we do expect some short-term pull back in sales, particularly for property investors as 1) capital gains at this current period is not as attractive 2) they own multiple properties where 5% RPGT will have a more significant impact on their portfolios. Commercial, retail and high-end residential segment or those in KLCC or Mont Kiara are likely affected, implying impact on developers like Eastern &amp; Oriental, Hunza Properties, Sunrise, etc, as current income stream are derived from such products. We think the RPGT will have the least impact on township or suburban developers, like SP Setia and Mah Sing Group, as they cater for first home buyers, owner occupancy markets and upgraders. (See table below for examples)</p>
	<p>Government to <b>launch scheme that enables EPF-contributors to utilize current and future savings in Account 2</b> Scheme will be launched in Jan 2010.</p>	<p><b>Higher EPF withdrawal amounts to finance one home were within our expectations</b>; this is a variation of REHDA's wishes. Another way of for the government to encourage home ownership but curb speculators. However, details should be made known by December 2009. Nonetheless, it is positive news as 1) buyers have more disposal income 2) buyers affordability of homes increases. Again this appeals to the upgraders market or the first time home buyers market, implying infant to maturing townships. The popularity of EPF withdrawals from Account 2 was very well received and we estimate that 30% of total EPF contributors opt for such schemes (Account 2 makes up 30% of EPF contributions). Township developers like SP Setia, Mah Sing Group, WCT Engineering will benefit.</p>
	<p><b>44,000 low-cost houses will be sold between-RM21,500-RM35,000 per unit</b> by DBKL and JPN by end 2010. JPN will also provide 74,000 low-cost houses to be rented by 2010.</p>	<p><b>Promoting low income group's home ownership has always been in the budgets.</b> It will also provide more jobs for smaller contractors, assuming these houses have not been developed yet.</p>
	<p><b>Building owners awarded Green Building Index (GBI) Certificates from 24 Oct 2009 – 31 Dec 2014 will be given 100% income tax exemption</b> equivalent to the additional capital expenditure in obtaining such certificates; applicable</p>	<p><b>Promoting 'green buildings' vis tax exemptions on CAPEX used to achieve GBI certificates is new.</b> Nonetheless, we do not expect material impact in the short to medium term. It is positive in the long term as it gives developers new avenues to compete in. We expect the likes of SP Setia (already promoting 'green' concepts in its townships like Setia Eco Park) and Mah Sing Group (has new developments in Cyberjaya which Budget 2010 earmarks as a 'green zone' by government's initiatives) to be one of the first few developers to enjoy this privilege. Note that the government introduced the GBI certificate on 21/5/09.</p>
	<p><b>Buyers purchasing buildings with GBI-Certificates from developers will be given stamp duty exemption</b> on instruments of transfer of ownership. The exemption amount is equivalent to the additional cost incurred in obtaining the GBI Certificates. This exemption is given to buyers who execute SPA from 24 Oct 09 – 31 Dec 2014.</p>	<p><b>The policy is to incentive developers as the government is giving support for GBI buildings.</b> However, we do not expect stamp duty exemptions incentives to buy GBI buildings to have material impact in the short to medium term as there are not many of these products in existence. Additionally, most developers already offer free stamp duties and/or legal fees on SPA and loan agreements.</p>
		<p>– As a result of the measures announced, we upgrade <b>SP Setia to a Trading BUY with unchanged TP of RM4.25</b> from Trading SELL and <b>reiterate BUY on Mah Sing Group at RM2.33.</b> Although developers with most of income stream from niche high end projects may be affected, we <b>maintain HOLD on E&amp;O (TP: RM1.27)</b> in view of attractive yields from ICSLS issuance and <b>Trading BUY on Hunza Properties (TP: RM1.96)</b> given rights issuance to kick-start its mall works. Defensive property companies and REITs, like <b>KLCC Property Holdings (HOLD; TP: RM3.44)</b> and <b>Axis REIT (BUY; TP: RM2.18)</b> remains unaffected. <b>NEUTRAL maintained on property sector.</b></p>

**2010 Budget: Announcements (Cont'd)**

Sector	Additional Stimulus	Remarks							
<b>Impact of 5% RPGT</b>									
House value at purchase (RM)	House value upon sale (RM)	Real Property Gains pre RPGT (%)	Real Property Gains (RM)	Exemptions based on higher of RM10k or 10% of gains (RM)	Taxable gains (RM)	5% RPGT on Taxable gains (RM)	Real Property gains post RPGT (RM)	Real Property gains post RPGT (%)	Loss to RPGT (%)
75,000	82,500	10%	7,500	10,000	0	0	7,500	10%	0%
75,000	97,500	30%	22,500	10,000	12,500	625	21,875	29%	-1%
75,000	112,500	50%	37,500	10,000	27,500	1,375	36,125	48%	-2%
150,000	165,000	10%	15,000	10,000	5,000	250	14,750	10%	0%
150,000	195,000	30%	45,000	10,000	35,000	1,750	43,250	29%	-1%
150,000	225,000	50%	75,000	10,000	65,000	3,250	71,750	48%	-2%
250,000	275,000	10%	25,000	10,000	15,000	750	24,250	10%	0%
250,000	325,000	30%	75,000	10,000	65,000	3,250	71,750	29%	-1%
250,000	375,000	50%	125,000	12,500	112,500	5,625	119,375	48%	-2%
500,000	550,000	10%	50,000	10,000	40,000	2,000	48,000	10%	0%
500,000	650,000	30%	150,000	15,000	135,000	6,750	143,250	29%	-1%
500,000	750,000	50%	250,000	25,000	225,000	11,250	238,750	48%	-2%
750,000	825,000	10%	75,000	10,000	65,000	3,250	71,750	10%	0%
750,000	975,000	30%	225,000	22,500	202,500	10,125	214,875	29%	-1%
750,000	1,125,000	50%	375,000	37,500	337,500	16,875	358,125	48%	-2%
1,000,000	1,100,000	10%	100,000	10,000	90,000	4,500	95,500	10%	0%
1,000,000	1,300,000	30%	300,000	30,000	270,000	13,500	286,500	29%	-1%
1,000,000	1,500,000	50%	500,000	50,000	450,000	22,500	477,500	48%	-2%
1,250,000	1,375,000	10%	125,000	12,500	112,500	5,625	119,375	10%	0%
1,250,000	1,625,000	30%	375,000	37,500	337,500	16,875	358,125	29%	-1%
1,250,000	1,875,000	50%	625,000	62,500	562,500	28,125	596,875	48%	-2%

## 2010 Budget: Expectations versus Announcements (Cont'd)

Market Expectations	Budget Announcement	Above / Below Expectation	Sector	Stock	Comments
No expectations	<p>Tenaga Nasional (TNB) to spend RM5b to implement electricity generation, transmission and distribution projects in 2010; including hydroelectric plans in the ECER (Ulu Jelai, Pahang and Hulu Terengganu</p> <p>TNB's 80% subsidiary, Sabah Electricity Sdn Bhd (SESB) will increase its electricity generation capacity, as well as, strengthen delivery and distribution system in Sabah. This will reduce the System Average Interruption Duration Index to 700min by 2010.</p>	?	Power	<p>TNB</p> <p>TNB</p>	<p><b>Within expectations.</b> Ulu Jerai (372MW) and Ulu Terengganu (212) hydropower plants has been in TNB's plans for the last few years to improve electrification in the ECER. CAPEX of RM5b for electricity generation, transmission and distribution is typical for TNB, whose annual CAPEX ranges from RM4.9RM5.2b in FY07-08. To date, 9M09 CAPEX is RM3.0b or 60% of RM5b. We have already accounted for such CAPEX; we estimate RM5.0b-RM5.6b per year for FY10-12E.</p> <p><b>Within expectations</b> With regards to reducing power disruptions in Sabah, we expect new power plant project announcements in the near future. Although coal fired power plants are more feasible than hydro/oil/gas in terms of cost and fuel supply, we believe this may be tough; recall that plans to build a 300MW coal-fired power plant in Lahad Datu was scrapped due to environmental issues. Alternative sites could be Tawau or Semporna. New generation capacity will certainly be beneficial for TNB as generation revenue is better than transmission or distribution revenue. A 300MW coal power plant should take 3 years to complete.</p> <p><b>Maintain Trading BUY on TNB with RM9.00 fair value.</b></p>
No expectations	Switch the Petroleum (Income Tax) Act 1967, from a preceding year assessment rule to a current year and self assessment system. The Petroleum (Income Tax) Act 1967 applies to upstream petroleum companies. To alleviate the burden of upstream companies, the income derived from 2009 (to be paid in 2010) is allowed to be paid by instalments for 5 years.	↓	Oil and Gas		Neutral impact to upstream companies, as this is just a change to the structure of the tax regime they are under. Most companies under our coverage are under the Income Tax Act 1967 instead of the Petroleum (Income Tax) Act 1967. Plus points are that the tax instalments based on 2009's income is allowed to be paid over 5 year, this reduces the negative impact to the companies.

Note: ↑ Above expectation ↓ Below expectation ? Within expectations

To be continued... Page 4 of 9

## 2010 Budget: Expectations versus Announcements (Cont'd)

Market Expectations	Budget Announcement	Above / Below Expectation	Sector	Stock	Comments
Further Developing Islamic Finance System	<p>20% stamp duty exemption on Islamic financing instrument</p> <p>Tax exemption on banking profit from overseas operation.</p> <p>Deduction on expenditure incurred in promoting Malaysia as International Financial Centre</p> <p>Establishment of Islamic stock brokering, issuance of Islamic securities, and</p> <p>Tax exemption on profit received from non-Ringggit sukuk.</p>	?	Banking	CIMB, AMMB, RHBC and Maybank	<p>Banks with strong Islamic and Investment banking franchises will benefit as corporation will choose Islamic financial instruments rather than conventional for the tax saving and others incentives.</p> <p>The incentives are steps taken to promotes Malaysia as a regional Islamic banking hub over the longer term to increase ours competitiveness against neighbor countries i.e. Indonesia and Singapore.</p>
Reduce RM40 minimum brokerage and removing of clearing fees cap	<p>Liberalising the commission-sharing arrangements between stockbrokers and remisiers to encourage retail participation</p> <p>Allow flexible brokerage sharing at minimum of 40% for remisiers and fully liberalized in 2011.</p>	↓	Banking	Bursa	<p>We are disappointed that there were no changes to 1) the cap of clearing fees, and, 2) minimum brokerage of RM40. As a result, we are unlikely to see a significant jump in Bursa's revenues with effective clearing fee remaining at a discount level of below 3bps.</p> <p>We believe that retail participants would not increase in a bear market as liberalising the commission sharing only affects the revenue split between remisiers and stockbrokers. We expect retail participation to fall to 24% from 29% if year 2010 is a Bear year.</p>
None	Credit cards' service tax of RM50 on principal card and RM25 on each supplementary card (effective 1 January 2010)	?	Banking	All Banks	Based on our sources, credit card utilization rate was only 50%. We believe the new service tax imposed on credit cards will be able to reduce this issue as card holders reduce the number of cards they hold and load the spending on fewer cards. Immediate impacts on earnings will be minimal as its only accounted 4% of Malaysian loans. Strong credit card players like CIMB and Citibank might see reduction in its market share. We do not discount that banks would heat up the competition by dishing out more benefits to attract card holders and retain existing ones with rebates etc.

Note: ↑ Above expectation ↓ Below expectation ? Within expectations

## 2010 Budget: Expectations versus Announcements (Cont'd)

Market Expectations	Budget Announcement	Above / Below Expectation	Sector	Stock	Comments
<p>New details on timing and progress of award and implementation of several mega projects like: new LRT line, LRT extension, PORR, Penang Monorail etc</p> <p>Market expected more allocation to development expenditure for education, healthcare, rural development and security/defense as they are people centric and populist in nature</p>	<p>RM9b including :-                      RM4.7b for road and bridges,                      RM2.6b for water supply &amp; sewerage services,                      RM899m for rail facilities,                      RM820m for ports and sea services,                      RM276m for airport services.</p>	?	Construction	<p>MMC, Gamuda, IJM, WCT, TRC, TSR, Muhibbah Engineering Mudajaya, MRCB</p>	<p>Continued construction of existing projects in 2010 meant no new projects announcements and no further revelation of details of new projects to be implemented was a bit disappointing.                      The RM9b is not new allocation but existing contracts under the 9<sup>th</sup> MP, First and Second Stimulus Plans.                      70% and 51% of project value under First (RM6.1b) and Second (RM7.6b) Stimulus Plans have been completed respectively with targeted completion in 2011.</p>
	<p>RM1.6b from Education Development expenditure allocation for 80 new schools and 1,100 additional blocks and 347 school replacements.                      RM1.1b for refurbishment and upgrade of existing schools</p>	↑			<p>These simpler smaller projects are meant to benefit small class F contractors to spread the wealth and increase the multiplier effect faster especially in rural areas.</p>
	<p>Overall security / defense development expenditure package of RM7.2b include purchase of equipment</p>	?			<p>Some civil construction elements but no details were given. Existing contractors for police and armed forces include TRC Synergy, TSR Capital, Muhibbah Engineering</p>
	<p>Rural development especially in Sabah and Sarawak worth RM2.3b</p>	?			<p>This is within the 9MP projects. Emphasis will prioritise its completion.</p>
	<p>Corridor development allocation of RM3.5b</p>	?			<p>These projects meant to improve accessibility and connectivity to and within the development corridors were already in the respective economic corridor development plans but are now given the priority for implementation for completion</p>

Note: ↑ Above expectation ↓ Below expectation ? Within expectations

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## 2010 Budget: Expectations versus Announcements (Cont'd)

Market Expectations	Budget Announcement	Above / Below Expectation	Sector	Stock	Comments
None	The Government will impose RM10K for each approved permit (AP) to open AP holders for the distribution of AP in 2010, effective 1 Jan, 2010. A portion of the collection will be channeled to the Bumiputera development fund in the automotive sector.	?	Automotive	UMW, Tan Chong, MBM, Proton	<p>The government is gradually promoting a more open automotive policy. We expect the RM10K imposed for each open AP approved will impact negatively on the reconditioned cars priced below RM150,000 in the form of: (1) profit margin erosion or (2) passing-on the cost to car buyer which will make the selling price no longer attractive vis-à-vis the brand franchisee new cars in the same category. Main beneficiary from the announcement include UMW, Tan Chong and MBM.</p> <p>Separately, no further detail is revealed on the portion of the collection to be channeled to assist the Bumiputera in the auto supply chain. However based on the 2005 figure of 17,526 open APs approved, we believe the government can potentially raise more than RM200m through the new implementation.</p> <p>Positive note but we estimate no significant impact on the automotive sector. We expect more impactful announcements from the upcoming new National Automotive Policy (NAP).</p>
<p>More incentives for airlines and further liberalization of routes.</p> <p>The funding for RM2b new LCCT project.</p>	<p>MASKargo will upgrade air cargo facilities for export of perishable agriculture products.</p> <p>Provision of RM276 million for airport projects.</p>	?	Aviation	MAHB, AirAsia, MAS	<p>Neutral impact to aviation industry.</p> <p>For MAS, this will help the Group's cargo segment albeit insignificant to the top line. We suspect the upgrades include the cargo storage and cargo services. MAS collaborations with Hainan Airlines Group will extend the value add network to distribute the perishable agriculture products.</p> <p>We expect the RM276m allocation will aid MAHB's new LCCT and refurbishment of Penang Airport. It also conveys the message that Government will be monitoring the execution, viability and timeliness of the projects completion.</p>
<p>The award and execution of Langat II project. (part of Interstate Water Transfer Project)</p> <p>New water tariff structure.</p>	>RM2.6 billion for water supply and sewerage services	?	Water	Puncak Niaga, JAKS	<p>Neutral impact for water sector as the crucial announcement has been made during the earlier stimulus packages (Interstate Water Transfer). We believe that, the allocation of RM2.6b will be partly for the project such as dual pipe -laying works which cost c RM1.5b. We also expect Langat 2 packages to start next year.</p> <p>There is no tariff revision for water as the consolidation talks has not been finalized. We expect the consolidation will have to be taken in place before WSIA act to come up with new tariff structure.</p>
Privatisation of toll concessions.	>Implement dedicated lanes for buses on underutilized expressways and modify Touch'n'Go lanes at toll booths	?	Toll concessions & Post	Litrak, PLUS and Other toll concessions	It is slightly positive for toll concessions sector as there were no privatisation proposals made for the existing toll concessions. We believe that the privatisation is unlikely and the sanctity of the concessions is preserved. The promotion to use more electronic payment will help to reduce the operating cost.

Note: ↑ Above expectation ↓ Below expectation ? Within expectations

## 2010 Budget: Expectations versus Announcements (Cont'd)

Market Expectations	Budget Announcement	Above / Below Expectation	Sector	Stock	Comments
No specific expectation on the plantation sector.	RM6b allocation to agriculture sector. Felcra, Felcra and Risda to form a consortium to implement high-impact upstream and downstream projects.	?	Plantation	Sime, IOI, KLK, Genting Plantation	<b>Neutral.</b> No strong urge for the abidishment of CPO windfall tax as 2009 CPO price is below the taxable threshold (RM2500/MT for Peninsular Malaysia and RM3000/MT for Sabah & Sarawak).  No details on the projects to be implemented by the consortium formed by Felcra, Felcra and Risda. We believe the positive impact of these projects will only be felt in the medium to long term.
Market does not expect any gaming tax hike	There was no announcement on increase of gaming tax.	?	Gaming	Genting, Genting Malaysia, B Toto	In line with market expectation. No impact to share prices of gaming stocks.
Reduction in fuel and food subsidies	Restructuring of fuel subsidy scheme	?	Consumer		Earlier bracing of consumers in anticipation of higher cost of living due to reduction in fuel and food subsidies turns out to be premature. The impact of the implementation of a fuel subsidy management system in early-2010 (that is likely to be extended to other commodities) remains to be seen due to lack of detail.
None	Subsidies to fishermen and farmers worth RM2b	?	Consumer	QL Resources	The government's continued promotion of the agriculture sector benefits QL Resources (BUY, TP: RM3.70) as subsidies to fishermen ensure continued supply of raw material for its surimi and fishmeal production.
No increase in sin taxes	No increase in cigarette excise duties	?	Tobacco	BAT, JTI	Tobacco players breathe easier with the absence of further tax hikes in the Budget 2010 announcement. This is a welcome break in light of the surprise increase in excise duties on 1 October 2009 (+1 sen or 5.6% per stick).  Negative outlook on the sector maintained however as TIV continues to be under serious pressure from the illicit trade that accounts for 36.8% of all cigarettes sold (at end -1HCY09) as well as the prospect of further regulatory tightening with the small-pack ban (due in 2010) and minimum pricing looming.  Retain HOLD on market leader BAT (HOLD; TP: RM45.00) for its FY09E dividend yield of 6%.
No increase in sin taxes	No increase in excise duties for breweries	?	Breweries	Carlsberg, GAB	Breweries into a 4-year streak of zero tax hikes, likely benefiting from the government's heavy promotion of tourism. Malaysia still has one of the highest taxes on beer in the world however and we expect the decreasing trend in TIV to continue due to threat of intensifying competition and illicit trade.
None	Credit cards' service tax of RM50 on principal card and RM25 on each supplementary card (effective 1 January 2010)	?	Consumer credit	AEON Credit	The new service tax imposed on credit cards will negatively impact AEON Credit's (BUY; TP: RM4.35) plans to expand its credit card segment. However, given that credit cards accounted for only 14% of group revenue in 1HFY10, we expect minimal impact to group FY10E EPS growth of 25%.
None	Moneylenders Act 1951 to be reviewed	?	Consumer credit	RCE Capital	Any significant changes to the Moneylenders Act could potentially impact RCE Capital (BUY; TP: RM0.90). Effect cannot be ascertained as yet however due to lack of detail.

Note: ↑ Above expectation ↓ Below expectation ? Within expectation

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