Investment Strategy

The Doctor Dispenses

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The just announced RM20b stimulus budget directs aid most to those directly affected by Covid-19 as well as to address the slowing down of the overall economy. While the primary target is the tourism sector, this stimulus that is nearly three times the size of the RM7.3b SARS stimulus in 2003 looks to us like an extension of the RM270bn Budget 2020, providing additional funding for infrastructure investments, SMEs, rural development and human capital training. There will be more handouts for the masses in the form of e-tunai and digital vouchers too. The biggest beneficiaries are those in the tourism industry, the consumer and retail sectors. Favoured picks are GENTING (OP; RM6.65), GENM (MP; TP: RM2.95), PADINI (OP; RM3.70), HEIM (MP; RM28.90) and BAT (OP; TP: RM16.70).

Domestic tourism incentive: Cuti-Cuti Malaysia has just been given a boost from personal income tax relief of up to RM1,000 on domestic tourism related expenditure. And, an allocation of RM500m is set aside to provide digital vouchers of up to RM100 per individual to spend on domestic flights, rails and hotel accommodation. Stocks like **GENM (MP; RM2.95), AIRPORT (OP; RM9.90), GENTING (OP; RM6.65)** and **AIRASIA (UP; RM1.00**) are top on our list as beneficiaries. Among other tourism related stocks that cater to the masses which we don't cover (or NR - non rated) are Grand Central Enterprises, Avillion, OWG and Perak Transit.

Boost to consumption: In terms of the measure we think as having a significant positive impact to the market is the measure to boost consumption growth via a voluntary 4% reduction in employees' minimum EPF contribution from 11% to 7% from 1 Apr – 31 Dec 2020. This potentially releases up to RM10bn worth of private consumption or circa 0.6% of GDP by our estimate. Not only that, the Bantuan Sara Hidup (BSH) recipients' RM200 entitlement payment will be brought forward from May to March in addition to an extra RM150 that will be paid in May of which RM50 will be in e-tunai. It would encourage greater transactions at electronic point of sales, benefitting e-gateway providers such as GHL Systems (NR) and Revenue Group (NR). Other beneficiaries in the consumer/retail space are **PADINI (OP; RM3.70), PWROOT (OP; RM2.75), SPRITZER (OP; RM2.50), BAT (OP; RM16.70), CARLSBG (UP; RM29.00)** and **HEIM (MP; RM28.90).**

Relief measures for tourism related businesses: For a six-month period from Apr to Sept, a 15% discount in monthly electricity bills will be given to hotels, travel agencies, airlines, shopping malls, convention and exhibition centres that will benefit the likes of **AIRASIA (UP; RM1.00), AIRPORT (OP; RM9.90)** and Reits. Tourism-related businesses are also allowed to defer monthly income tax instalment payments and revise profit estimates for 2020 for monthly tax instalment payments without penalty during this period. And, from Mar to Aug 2020, the 6% service tax for hotels will be exempted. Specific to AIRPORT, the airport operator will provide rebates on rental for premises at airports and landing and parking charges. We estimate that based on an assumed 10% rebate given over six months, this may impact earnings by as much as 6% for 2020.

Relief measures for the financially challenged: BNM has been tasked to ensure that banks provide relief in the form of restructuring and rescheduling of loans for affected businesses and individuals. A one-off RM600 hand-out will be paid to taxi and tourist bus drivers, tourist guides and registered trishaw drivers, while special monthly critical allowance of RM400 for medical workers and RM200 for immigration and front-line staff will commence February until the pandemic ends.

Relief measures for SMEs: The government will also provide low-interest rate lending for SMEs via BNM's special relief facility worth RM2bn as well as BSN's microcredit facility and Bank Pembangunan's RM1.5bn Tourism Infrastructure Fund.

Promoting quality investments: In promoting quality investments, GLCs are to accelerate planned investment projects for 2020 which includes opening bids for solar power generation. GLCs such as TNB will accelerate RM13b investments in street lights, transmission lines and roof-top solar installations. MCMC will implement up to RM3b works related to the National Fiberisation and Connectivity Plan (NFCP). We see the prime beneficiaries in this space being **PESTECH (OP; RM1.75),** an established builder of electricity transmission infrastructure and **OCK (MP; RM0.630)** which has been aggressively building up a portfolio of solar generation assets as well as being a leading telco tower installer. The impact of all this on TNB is marginal as the investments in the mentioned projects are merely capex brought forward.

Rural stimulus: An additional RM2b is allocated for small infrastructure repair and upgrading works in rural areas. Here, we think of East Malaysia as prime beneficiaries given that rural dwellers make up half of the population there and they form two-thirds of state constituencies. East Malaysian construction plays are **KKB (NR)**, **SCIB (NR)**, **HSL (OP, RM1.77)**, **NAIM (NR)**, and **CMSB (NR)**

Stimulus budget necessary in light of the current risks to growth: This RM20b stimulus package is timely and much needed given the pervasive Covid-19 disruptions worsened by the current political crisis facing the country. While the government's assessment of a mere 0.2% widening of the budget deficit from 3.2% to 3.4% of GDP looks optimistic to us, it is a necessary expense not beyond means.

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Stock Ratings are defined as follows:

Stock Recommendations

OUTPERFORM	: A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM	: A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM	: A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT	: A particular sector's Expected Total Return is MORE than 10%
NEUTRAL	: A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT	: A particular sector's Expected Total Return is LESS than -5%

******Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.***

Published and printed by:

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PP7004/02/2013(031762)