



AmInvestment Bank

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A balancing act

BUDGET
2022

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Highlights

- **First budget under the 12th Malaysia Plan (12MP); focuses on healing the economy.** Budget 2022 aims to heal the economy in the short term through various revitalisation efforts. As expected, Budget 2022 remains expansionary. It is equipped with the various measures to support the people and businesses, develop new shoots of growth and ensure sustainable growth in the still challenging and uncertain environment. This budget has unveiled measures to chart the pathway and to support the overarching aim of the 12MP. In 2021, GDP is expected to grow by 3–4%. As for 2022, GDP growth is expected to grow by 5.5%–6.5%. Recall that in the 1H2021, the economy has grown by 7.1%. Although 3Q2021 GDP will be affected by the recent movement control, 4Q2021 GDP is expected to show a recovery as almost all states in Malaysia have moved to Phase 4 with the economy and social activities allowed to operate at full capacity.
- **Cukai Makmur should cause short-term volatility in the market.** Cukai Makmur is a one-off special tax which will apply to companies with chargeable income above RM100 million. We gather that for the first RM100 million, the chargeable income will be subjected to income tax at a rate of 24%. As for the remaining chargeable income above RM100 million, a 33% rate will apply. All these will be applicable for the year of assessment 2022. Out of the 96 stocks that we cover, 62 (or 65% of them) have profit before tax at above RM100mil. The impact to the bottom lines for these companies ranges from 1.2% to 11.8%. We estimate that the sector with sharpest short-term impact on 2022 earnings are gloves (average 10.3% impact), oil and gas (average 10.1%) and banking (average 8.6%). See Exhibit 1 for our estimates on the 62 stocks that we cover.
- **Higher stamp duty on contract notes should affect trading volume in the short term.** Stamp duty rates on contract notes will now be 0.15% (from 0.10%). Additionally, the RM200 stamp duty limit for contract note has been abolished. We expect the measure to result in lower trading volume for Bursa Malaysia in the near term. However, in the long run, as market participants get used to the new fee, we believe that the volume will normalize as the long-term determinant is still earnings growth and fundamentals of the Malaysian stock market as well as its ESG prospects.
- **Notable sectors – plantation and property.** The reduction in windfall tax payments is positive for plantations as it would help improve the net profit of planters. We estimate that the improvement in the net profit of the planters to be small though, at less than 5%. This is because most of the plantation companies have already expanded to Indonesia. In addition, the large companies also have sizeable downstream operations. For companies with large exposure to Sabah, we think that the new proposals may be negative as the doubling of the windfall tax rate offsets the increase in the windfall tax threshold level. For the property sector, real property gains tax (RPGT) will be exempted for house sales starting from the sixth year of purchase. (previously 5%). We believe this will gradually spur secondary transactions while curbing excessive speculation.
- **Positive on the ESG front.** On the governance or G aspect of ESG, we gather that the Securities Commission will make it compulsory for public-listed company to have at least one female director. We are positive on this as a higher female representation in the board promotes gender diversity. This is good for governance in the long run to avoid the “groupthink” trap. As for environment or E aspect of ESG, Malaysia aims to be carbon neutral by 2050. Malaysia plans to launch the Voluntary Carbon Market which will be managed by Bursa Malaysia. There will be 100% road tax exemption for electric vehicles. There is a RM450mil allocation to protect the environment and biodiversity. Lastly, there is plan to launch green sukuk with amount of RM10bil. There is a RM1 billion allocation to assist MSMEs to increase green and low-carbon practice. On the social front, the limit of individual income tax relief for upskilling and self-enhancement course fees will be raised to RM2,000 (previously RM1,000). This will also be extended to year of assessment 2023. In addition, those who undertake courses with any professional bodies (inclusive of accounting, finance and ESG-related) will be eligible for a tax relief of up to RM7,000.

EXHIBIT 1: CUKAI MAKMUR IMPACT ON STOCKS UNDER COVERAGE

| No | Sector | Company | FY22 Impact to bottom line |
|----|--------------------|----------------------------|----------------------------|
| 1 | Auto | Sime Darby | 1.2% |
| 2 | Auto | UMW Holdings | 7.1% |
| 3 | Auto | Bermaz Auto | 1.3% |
| 4 | Auto | DRB Hicom | 8.4% |
| 5 | Auto | MBM Resources | 3.2% |
| 6 | Banking | Maybank | 9.9% |
| 7 | Banking | CIMB | 8.9% |
| 8 | Banking | Public Bank | 11.1% |
| 9 | Banking | RHB Bank | 8.0% |
| 10 | Banking | HL Bank | 10.7% |
| 11 | Banking | Alliance Bank | 6.8% |
| 12 | Banking | Bank Islam | 5.5% |
| 13 | Banking | MBSB | 8.2% |
| 14 | Construction | Gamuda | 9.8% |
| 15 | Construction | IJM | 10.2% |
| 16 | Construction | Sunway Construction | 5.6% |
| 17 | Consumer | PPB Group | 4.5% |
| 18 | Consumer | M Flour | 7.3% |
| 19 | Consumer | MR DIY | 10.9% |
| 20 | Consumer | Nestle | 10.4% |
| 21 | Consumer | Padini | 4.3% |
| 22 | Consumer | Leong Hup | 7.7% |
| 23 | Consumer | Guan Chong | 7.2% |
| 24 | EMS | V.S. Industry | 9.1% |
| 25 | EMS | ATA IMS | 7.8% |
| 26 | Gloves | Hartalega | 10.9% |
| 27 | Gloves | Top Glove | 11.0% |
| 28 | Gloves | Kossan | 9.0% |
| 29 | Healthcare | IHH Healthcare | 3.2% |
| 30 | Insurance | LPI Capital | 8.8% |
| 31 | Insurance | Allianz Malaysia | 3.2% |
| 32 | Insurance | Syarikat Takaful | 8.4% |
| 33 | Media | Astro Malaysia | 10.3% |
| 34 | Non-Bank Financial | Bursa Malaysia | 6.8% |
| 35 | Non-Bank Financial | Hong Leong Financial Group | 10.6% |
| 36 | Oil & Gas | Bumi Armada | 9.8% |
| 37 | Oil & Gas | Dialog Group | 8.0% |
| 38 | Oil & Gas | Hibiscus Petroleum | 9.2% |
| 39 | Oil & Gas | Petronas Chemicals | 10.7% |
| 40 | Oil & Gas | Petronas Gas | 11.3% |
| 41 | Oil & Gas | Yinson Holdings | 11.8% |
| 42 | Plantation | IOI | 8.7% |
| 43 | Plantation | KLK | 9.9% |
| 44 | Plantation | Sime Darby Plantation | 11.3% |
| 45 | Plantation | Genting Plantations | 8.0% |

Source: AmInvestment Bank Estimates

Note: Our estimates do not take into account the possibility of business change in FY22 by corporate. Collective tax at the subsidiary level may differ as our estimate is done at the Group level. Companies with PBT at below RM100m will not have impact.

EXHIBIT 2: CUKAI MAKMUR IMPACT TO STOCKS UNDER COVERAGE

| No | Sector | Company | FY22 Impact to bottom line |
|----|----------------|-----------------------|----------------------------|
| 46 | Plantation | FGV | 5.5% |
| 47 | Plantation | IJM Plant | 2.0% |
| 48 | Power | Tenaga | 7.0% |
| 49 | Power | Malakoff | 6.9% |
| 50 | Property | Mah Sing | 9.2% |
| 51 | Property | SP Setia | 10.7% |
| 52 | Property | UEM Sunrise | 1.4% |
| 53 | Property | Sunway | 11.6% |
| 54 | Property | Sime Darby Properties | 8.3% |
| 55 | Property | Lagenda Properties | 9.1% |
| 56 | Tech | MPI | 8.8% |
| 57 | Tech | Inari | 9.0% |
| 58 | Tech | Pentamaster | 5.0% |
| 59 | Tech | Vitrox | 5.2% |
| 60 | Telco | TM | 11.1% |
| 61 | Telco | Maxis | 11.4% |
| 62 | Transportation | Westports | 10.6% |

Source: AmInvestment Bank Estimates

Note: Our estimates do not take into account the possibility of business change in FY22 by corporate. Collective tax at the subsidiary level may differ as our estimate is done at the Group level. Companies with PBT at below RM100m will not have impact.

EXHIBIT 3: SECTORAL IMPACT

| Sector | Impact |
|---------|--|
| Auto | SST is extended by another 6 months. We believe that this is part of the government's effort to assist the economy to recover faster to pre-pandemic level. This is also positive to the auto sector as it helps to support sales. |
| Banking | <p>Bank Negara Malaysia (BNM) has provided a Business Recapitalization Fund worth RM1bil to assist companies facing leverage and gearing problems.</p> <p>BNM's special funds under the targeted relief and recovery facility have been increased by RM2bil, bringing the total availability of various BNM SME funds to RM11.2bil.</p> <p>The above allocation of funds will assist SMEs to ease their cash flows, thus mitigating the asset quality risk on banks.</p> |

Source: AmInvestment Bank

EXHIBIT 4: SECTORAL IMPACT

| Sector | Impact |
|--------------|---|
| Consumer | <p>Direct cash assistance of RM2,000 for household with 3 children or less than income of RM2,500 per month.</p> <p>Additional cash assistance of RM500 for single parent with children with income of less than RM5,000 per month.</p> <p>Lastly, another RM300 cash assistance for senior elderly.</p> <p>RM100 for 400,000 teachers under Ministry Of Education. Also RM150 to be credited into the e-wallet of youth age 18-20. A total of RM300m has been allocated and this will benefit 2m youth.</p> <p>Discount for PTPTN payment.</p> <p>Micro, Small and Medium Enterprise (MSME) to get tax payment delay by 6 months.</p> <p>These measures are positive for consumer sector as it improves individual's cash flow and purchasing power.</p> |
| Construction | <p>Development expenditure gets an allocation of RM75.6bil, an increase of 11% from RM68.2bil in 2021.</p> <p>RM3.5bil is allocated for major infrastructure projects such as the Pan Borneo Highway and Central Spine project, which are ongoing projects.</p> <p>No new projects were announced, including the market anticipated MRT3.</p> <p>As such, the construction sector is forecasted to remain lacklustre in 2022.</p> |
| Gloves | <p>No windfall tax as expected.</p> |
| Healthcare | <p>The Health Ministry gets RM32.4bil, the second highest allocation after the Education Ministry.</p> <p>Another RM4bil will be allocated to fight Covid-19. Out of this, RM2bil is for vaccination expenses while another RM2bil is to improve healthcare facilities.</p> <p>RM70mil is set aside for mental health, especially in the areas of counselling, psychosocial and advocacy programmes, including strengthening the role and collaboration with non-governmental organisations.</p> <p>We are positive on these proposals as they show that the government prioritises the people's wellbeing.</p> |

Source: AmInvestment Bank

EXHIBIT 5: SECTORAL IMPACT

| Sector | Impact |
|------------|--|
| Insurance | <p>The scope of MySalam, a medical insurance scheme for the B40s has been extended to cover claims for the cost of medical devices such as stents for heart. In 2022, the MySalam scheme will be extended to the Bantuan Keluarga Malaysia (BKM) recipients. Dependents of eligible mySalam recipients will also be eligible to the claim benefits of medical device costs.</p> <p>We are NEUTRAL on this measure and do not see the extension of claims to be of material negative impact on the earnings of insurance companies.</p> |
| Oil & Gas | <p>Setting up the Voluntary Carbon Market under Bursa Malaysia to allow a voluntary platform for carbon credit trades between green asset owners and other entities to encourage the transition to a low-carbon lifestyle.</p> <p>Bank Negara will prepare matching funds of up to RM1bil with financial institutions to increase the use of renewable energy. Exemption of import/excise duties and sales tax for the purchase of electric vehicles. Additionally, a full exemption of road tax and income tax deduction of RM2,500 per individual for the purchase, installation or rental of charging facilities.</p> <p>These measures will benefit operators who have already begun moving towards net zero carbon targets such as Yinson, which has recently invested in solar power generation, marine battery technology and EV charging stations.</p> <p>All in, we are positive on these initiatives as the industry needs to transition towards clean energy in line with the Paris Agreement given Petronas' net-zero commitment by 2050. Also, operators with "greener" credentials could benefit from higher valuations as both local and international funds are increasingly becoming ESG conscious.</p> |
| Plantation | <p>The reduction in windfall tax payments is positive for the sector as it would help improve the net profit of planters. We estimate that the improvement in the net profit of the planters to be small though, at less than 5%. This is because most of the plantation companies have already expanded to Indonesia. In addition, the large companies also have sizeable downstream operations.</p> <p>For companies with large exposure to Sabah, we think that the new proposals may be negative as the doubling of the windfall tax rate offsets the increase in the windfall tax threshold level. Companies with significant operations in Sabah include IJM Plantations and TSH Resources. However, the negative impact is small as more than half of the companies' FFB are from Indonesia. Almost 90% of TSH's FFB production are from Indonesia.</p> <p>The largest beneficiaries are pure palm oil companies with a large proportion of FFB production in Peninsular Malaysia. Also, companies with significant Indonesia operations and large downstream operations would not benefit as much as the pure ones based in Malaysia.</p> <p>Companies with more than 50% of FFB coming from Indonesia include Genting Plantations, KL Kepong, TSH Resources and IJM Plantations. Only slightly more than 50% of Sime Darby Plantation's FFB are from Malaysia. The balance is from Papua New Guinea and Indonesia.</p> <p>The windfall tax threshold will be raised to RM3,000/tonne from RM2,500/tonne for Peninsular Malaysia (PM) and to RM3,500/tonne from RM3,000/tonne for Sabah and Sarawak. The windfall tax rate for Sabah and Sarawak will be raised to 3.0% from 1.5% previously. The 3.0% rate would now be the same as PM.</p> |
| Power | None |

Source: AmInvestment Bank

EXHIBIT 6: SECTORAL IMPACT

| Sector | Impact |
|------------|---|
| Property | <p>RM1.5bil is allocated for affordable housing projects and RM2bil for a housing credit guarantee scheme to assist those without steady income such as gig economy workers to purchase homes. The allocation is in line with the 12th Malaysia Plan's goal of reaching 500K affordable homes. We believe the housing credit guarantee scheme will continue to support the buying interest of owners-occupiers with unstable income. However, these are likely to involve low-cost and affordable homes which may not have a significant impact.</p> <p>Real property gains tax (RPGT) will be exempted for house sales starting from the sixth year of purchase. (previously 5%). We believe this will gradually spur secondary transactions while curbing excessive speculation. For now, we think home buyers will prioritise new launches in order to enjoy the benefit of stamp duty exemption and discounts under the Home Ownership Campaign (HOC) which will end on 31 December 2021.</p> <p>Special tax exemption for building/commercial unit owners who give at least 30% rental discount. Developers that are involved in property investment such as Sunway (BUY, FV RM2.19) and Sime Darby Properties (HOLD, FV RM0.67) will be able to enjoy special tax exemption by giving at least 30% rental discount to their tenants. Nevertheless, as property investment account for a relatively small proportion of these companies' revenue (less than 10% in 1HFY21), we expect this incentive to have a slight positive boost to their medium-term earnings.</p> <p>Overall, we are mildly positive on these measures which could support the recovery of the sector.</p> |
| Telco | <p>The government will allocate RM450mil while telcos contribute RM65mil to provide B40 students with tablets under the "PerantiSiswa Keluarga Malaysia" programme. Telcos will work together with the government to distribute 600K tables to eligible students while the RM65mil represents the distribution cost. This translates to a mild 1% of the telco's earnings.</p> <p>A RM700mil allocation to expand digital connectivity in 47 industrial areas and 630 schools which are not in cities.</p> <p>MyDigital Initiative aims to reach 80% cloud storage usage for government services next year.</p> <p>Neutral impact on the sector as digital connectivity plans are already under the MCMC's JENDELA programme while MyDigital Initiative has already been announced earlier. In our view, the main beneficiaries are fibre owners such as TM and to a lesser extent, Time dotCom. TM has also been appointed as the only local cloud provider for the government.</p> |
| Technology | <p>A RM12mil grant was allocated for the research on gallium nitrate, a material that is arguably better than silicon in the semiconductor manufacturing process. This shows that the government is committed push Malaysia up the semiconductor value chain.</p> |

Source: Budget 2022, AmInvestment Bank

EXHIBIT 7: SECTORAL IMPACT

| Sector | Impact |
|-----------------------|--|
| Transport & Logistics | <p>RM1.6bil for the tourism sector, which includes wage subsidy and grant programmes; exemption of tourism tax until 31 Dec 2021; RM1,000 tax relief for domestic travel extended till 2022; RM20mil to promote Malaysia as a healthcare travel destination; and RM209mil in subsidies for air transport services to Sabah and Sarawak.</p> <p>Initiatives to revive the domestic tourism activities will benefit the air transport operators, i.e. AirAsia and Malaysia Airport as air passenger traffic recovers. Cash flow relieve measures such as the wage subsidy programme will also temporarily help to secure some jobs in the industry, but we believe the impact will not be significant.</p> <p>The SME Digitalisation Grant Scheme will be increased to RM200mil in 2022; RM250 million to continue the Shop Malaysia Online and Go-e-Commerce Onboarding programmes; and service tax to be imposed on the delivery of items sold on online platforms, except for food & drinks and logistical services.</p> <p>Measures to promote business digitalisation and boost e-commerce adoption will continue to support the parcels volume growth, which will benefit parcel delivery players such as Pos Malaysia. Meanwhile, the service tax to be imposed on delivery services might help to increase the competitive edge of pure logistics services providers, giving them better cost advantage.</p> |

Source: AmInvestment Bank



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