

Budget 2013

Suhaimi Ilias
suhaimi.ilias@maybank-ib.com
(603) 2297 8682

Ramesh Lankanathan
ramesh@maybank-ib.com
(603) 2297 8685

William Poh
william.poh@maybank-ib.com
(603) 2297 8683

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Politically-correct budget

Budget 2013 is mildly expansionary. The 16th consecutive budget deficit is projected to be lower at MYR40b or 4% of GDP (2012E: MYR42.3b; 4.5% of GDP) as the Government aims to stay on track to achieve the 3% target in 2015.

Slightly lower total spending allocation. The Government allocates MYR249.7b for its expenditure, 1.1% lower than MYR252.4b estimated for 2012. MYR201.9b is for operating expenditure (OE), down 0.3% from MYR202.6b in 2012E, while MYR47.8b is for gross development expenditure (GDE), a 4.2% drop from MYR49.8b in 2012E. A notable cut in next year's spending allocation is on subsidies to MYR37.6b from this year's record-high of MYR42.4b.

The things to watch are the Government's budgetary discipline and debt level. This is given the "track record", where actual spending – especially OE – has been exceeding the original budget due to sizeable Supplementary Budgets. Government debt is also edging towards the cap of 55% of GDP (2013E: 54.2%; 2012E: 53.7%).

As expected, laden with people-friendly and feel good measures ahead of the 13th General Election (as per our Budget 2013 Preview), which include 1) repeat of Budget 2012's cash handouts (i.e. BR1M, financial assistances to students) 2) measures to address the affordable housing issue; 3) more goodies for civil service e.g. bonus; pension revision; 4) financial assistances and initiatives to alleviate rising living cost and provide safety nets for target groups and 5) allocations to address other major issues raised by the public e.g. crime, education & training, public transport and rural infrastructure. We estimated these measures accounted for at least MYR73.2b or 29.3% (including MYR37.6b subsidy allocation) of the overall Budget 2013.

Tax measures a mixed bag. As per our Budget 2013 Preview (18 Sep 2012), there were no Goods and Service Tax (GST) and "sin tax" hikes. We also highlighted the probability of reviews in personal income tax rate and reliefs, which materialised via 1% cut on taxable income of between MYR2,501 and MYR50,000, and the increases in reliefs for children education. The big surprise was the second consecutive Budget of hike in real property gains tax (RPGT).

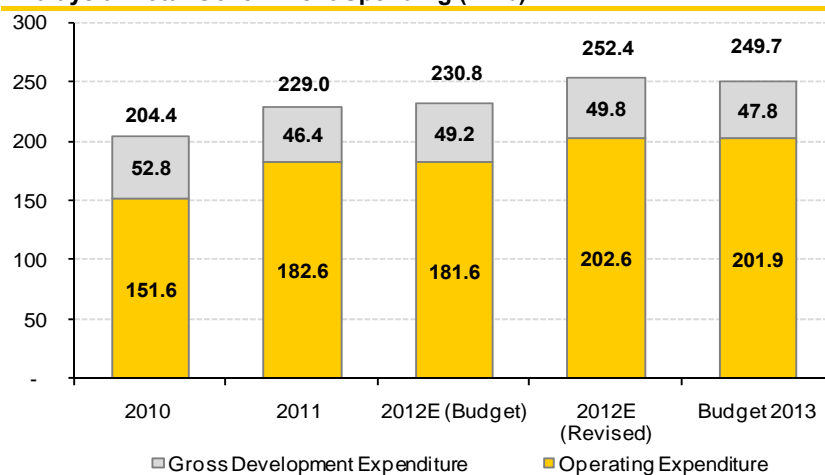
Oil & gas, capital markets, SMEs, education, agriculture and R&D activities are the major beneficiaries given the incentives and allocations for 1) investment in petroleum products' refinery activities and LNG trading; 2) issuance of and transactions in AgroSukuk and retail bonds/sukuks as well as promotion of business trusts; 3) SME funds and financing schemes (at least RM3.7b worth versus around MYR5b in Budget 2012); 4) education & training (including pre-school and childcare services) 5) agriculture and food security, and 6) commercialization of R&D.

Targeting around 5% real GDP growth in 2013. The Government forecasts real GDP growth of 4.5%-5.5% in 2013 (2012E: 4.5%-5%). We expect the economy to grow by 4.8% next year (2012E: 5%).

The Ringgit and Sen(se) of Budget 2013

Slightly lower total spending allocation. In Budget 2013, the Government allocates a grand total of MYR249.7b for its expenditure, 1.1% lower than MYR252.4b estimated for 2012. Of that, MYR201.9b goes to operating expenditure (OE), down 0.3% from MYR202.6b in 2012E, and MYR47.8b is for gross development expenditure (GDE), a drop of 4.2% from MYR49.8b in 2012E, thus maintaining the trend of capping GDE at below MYR50b.

Malaysia: Total Government Spending (RMb)



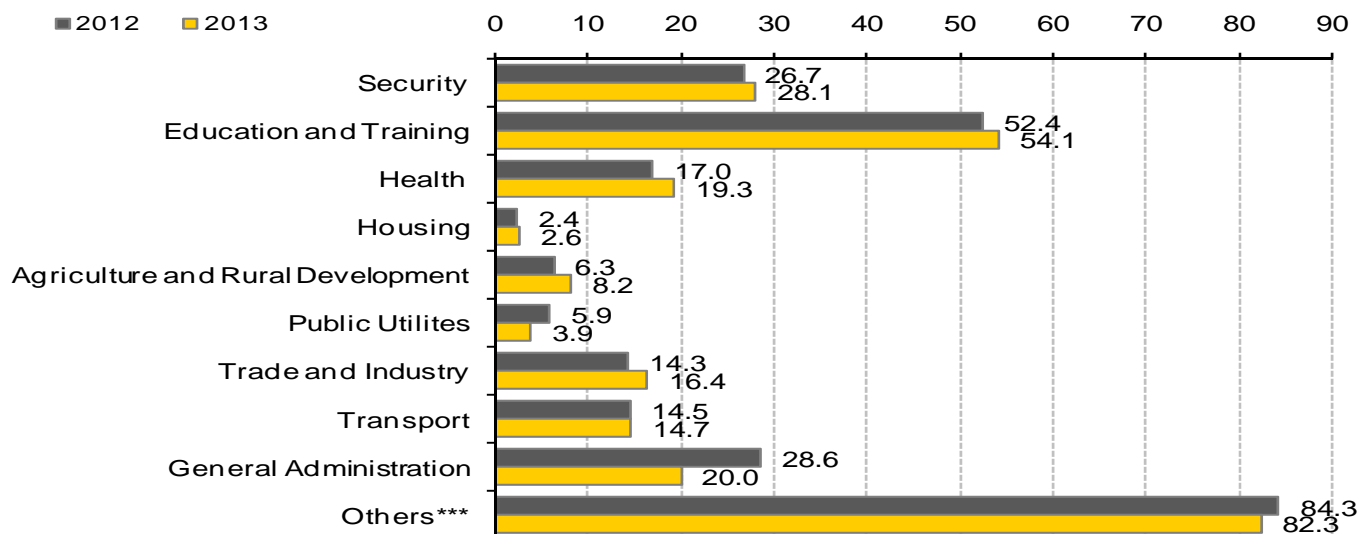
Sources: Economic Report 2011/2012 and 2012/2013 (MoF)

Where's the money going to? Looking at the allocations of Budget 2013's overall spending by sectors, slightly over half (53.1%) of the Budget 2013 goes to Education & Training (MYR54.1b; 21.7% of total), Security – covering defence and internal security (MYR28.1b; 11.2% of total), Health (MYR19.3b; 7.7% of total), Trade & Industry (MYR16.4b; 6.6% of total) and Transport (MYR14.7b; 5.9% of total). Another MYR87.5b or 35% goes to General Administration (MYR20b; 8%) and Others (MYR67.5b; 27%) which cover the OE for Public Services Department, Department of Statistics, royal Malaysian Customs Department and Ministry of Foreign Affairs, as well as debt service charges and transfer payments.

In the case of OE specifically, three-quarters of next year's allocation goes into the four big-ticket items:

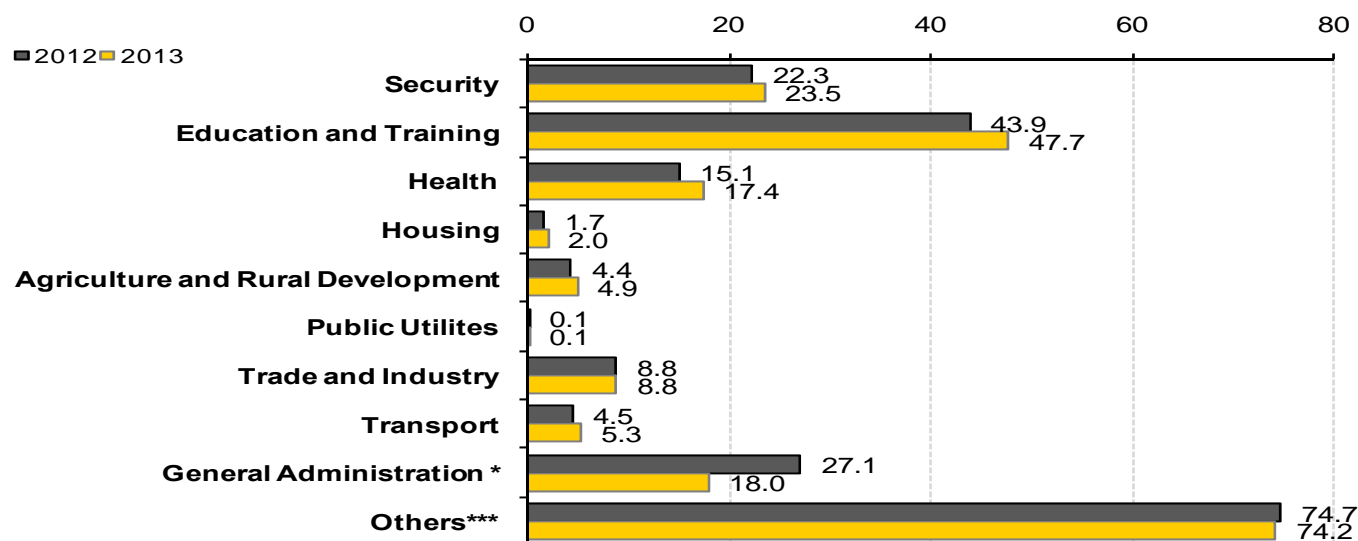
- Emoluments (2013E: MYR58.6b or 29% of OE; 2012E: MYR59.2b or 29.2% of OE).
- Subsidy (2013E: MYR37.6b or 18.6% of OE; 2012E: MYR42.4b or 20.9% of OE).
- Supply and Services (2013E: MYR33.7b or 16.7% of OE; 2012E: MYR32b or 15.8% of OE)
- Debt Service Charges (2013E: MYR22.2b or 11% of OE; 2012E: MYR20.5b or 10.1% of OE).

Malaysia: Total Government Spending by Sector (MYR b)



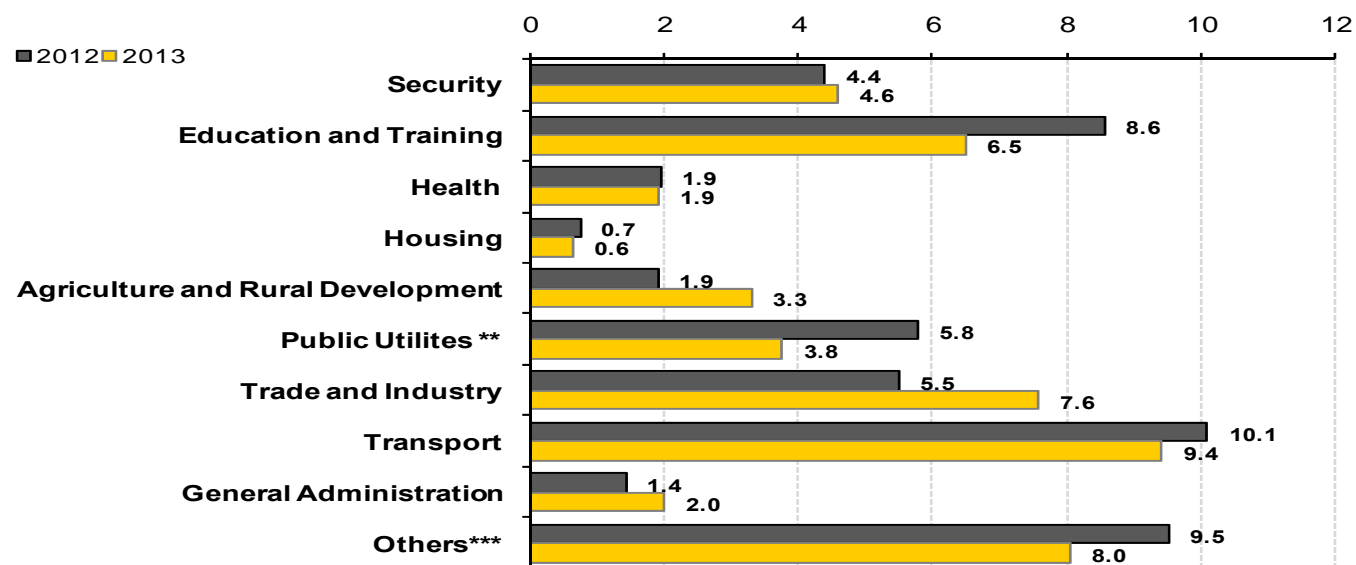
*** Includes debt service charges, transfer payments, communication, social and economic services
 Source: Economic Report 2012/2013 (MoF)

Malaysia: Government Operating Expenditure (OE) by Sector (MYR b)



* Includes Public Services Dept., Dept. of Statistics, Royal Customs Dept. and Ministry of Foreign Affairs, Malaysia
 *** Includes debt service charges, transfer payments, communication, social and economic services
 Source: Economic Report 2012/2013 (MoF)

Malaysia: Government Development Expenditure (DE) by Sector (MYR b)

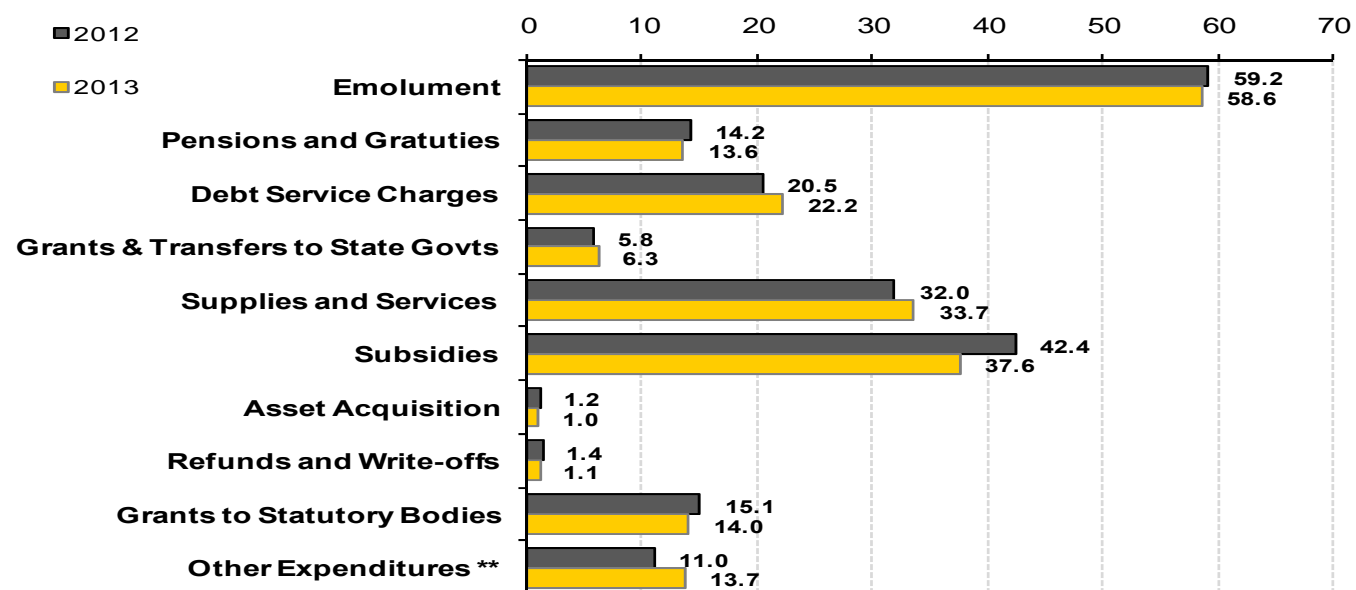


** Mainly electricity and water supply

*** Includes Public Services Dept., Dept. of Statistics, Royal Customs Dept. and Ministry of Foreign Affairs, Malaysia

Source: Economic Report 2012/2013 (MoF)

Malaysia: Government Operating Expenditure (OE) by Object (MYR b)

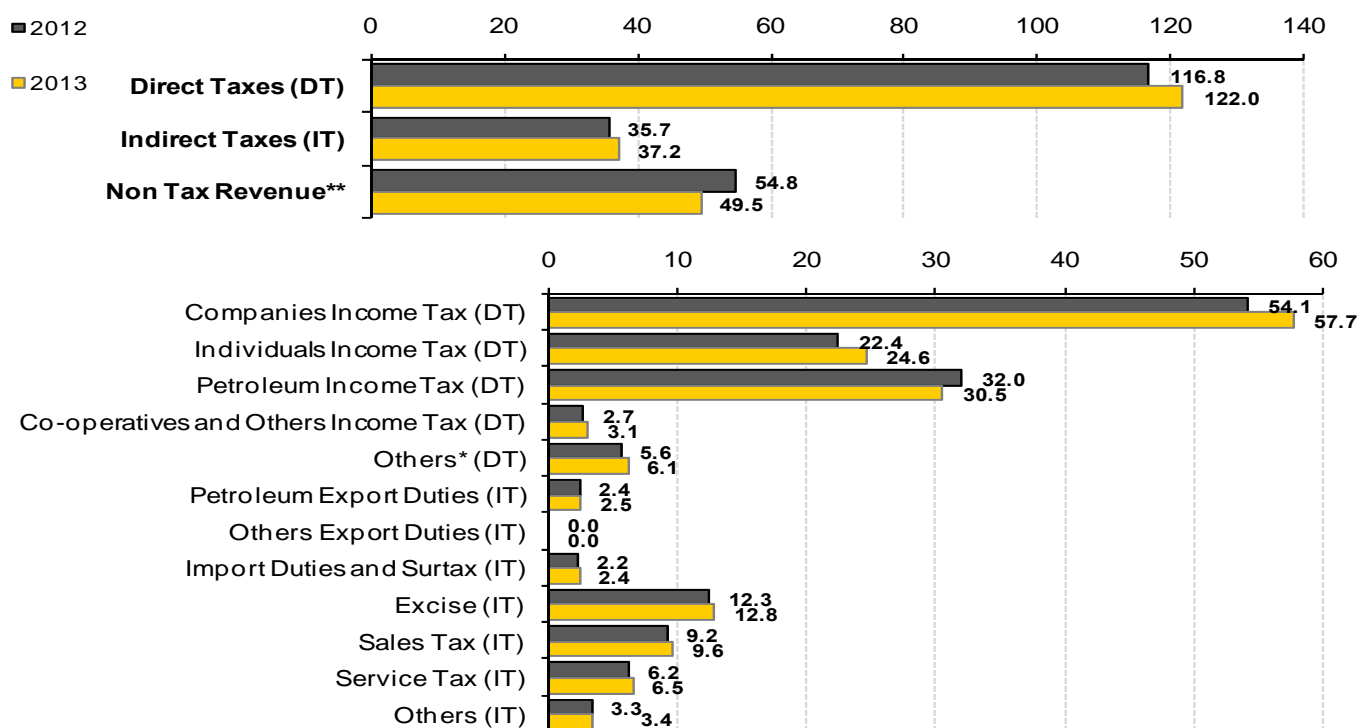


** Includes grants to Statutory Fund, public enterprise, International organisations, insurance claims and gratuities, and others

Source: Economic Report 2012/2013 (MoF)

Where's the money coming from? Revenues are expected to be MYR208.7b, up slightly from the estimated MYR207.3b this year. The bulk of this – MYR115.8b or 55.5% – comes from income taxes on corporate, petroleum companies, individuals and cooperatives. Indirect taxes such as excise duties, sales tax, service tax, export duties and import duties are projected to raise MYR37.2b or 17.8% of revenues next year. Another MYR55.6b or 26.7% will come from other direct taxes and non-tax revenues such as stamp duties, oil & gas royalties, investment returns, sales of assets, road tax, licenses, fees etc. We noted lower revenues projected for petroleum income tax (2013E: MYR30.5b; 2012E: MYR32b) and non- tax sources that include petroleum royalties (2013E: MYR49.5b; 2012E: MYR54.8b).

Malaysia: Total Government Revenues (MYR b)



* Includes revenue from stamp duties

** Includes government commercial undertakings, interest and returns on investments, licenses, service fees, road tax, fines and forfeitures, rental revenue from Federal Territories, contributions from foreign governments & international agencies and petroleum royalties / gas cash payments.

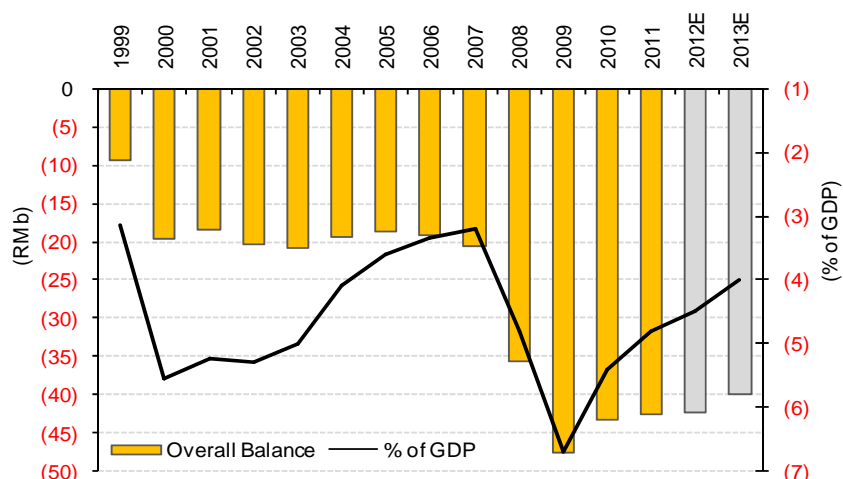
Source: Economic Report 2012/2013 (MoF)

Sustaining operating surplus and projecting smaller overall deficit in 2013. The revenues are more than enough to cover for OE, in turn sustaining the current or operating budget surplus (2012E: +MYR4.6b; 2012E: +MYR6.7b). When GDE is taken into account, Budget 2013 will register the 16th consecutive year of overall deficit since 1998. However, the size of next year's shortfall is projected to be MYR40b or 4% of GDP, down from MYR42.3b or 4.5% of GDP estimated for this year. The Government aims to reduce the deficit to 3% of GDP by 2015.

Budget deficit will be financed by domestic borrowings. The balance of the Government total spending not funded by its revenues will come from borrowings, which will be totally funded by domestic borrowings.

Government debt above 50% of GDP and edging towards the 55% cap. According to the Ministry of Finance's Economic Report 2012/2013 (Chapter 1 – Economic Management and Prospect, pg4), total Government debt in 2012 is estimated to be MYR502.8b or 53.7% of GDP (based on official nominal GDP estimate of MYR936.2b). Based on the projected Government net domestic borrowings (+MYR40b) and net external borrowings (-MYR0.4b) for 2013, we calculated that the Government's total debt will increase to MYR542.9b or 54.2% of GDP next year.

Malaysia: Budget Balance



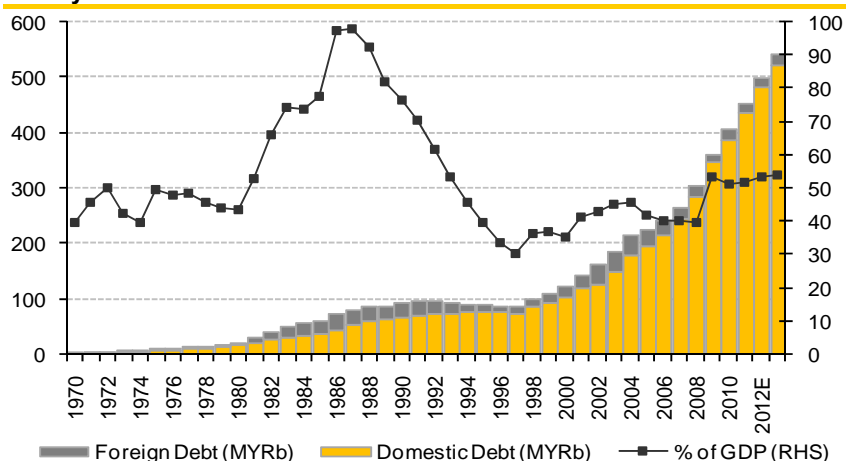
Sources: BNM, Economic Report 2012/2013 (MoF)

Malaysia: Financing Budget Deficit (MYRb)

Year	Budget Deficit	Sources of Financing the Deficit			% Share of Financing	
		Net Domestic Borrowings	Net External Borrowings	Chg in Assets	Net Domestic Borrowings	Other
2000	(19.7)	12.7	0.9	6.1	64.5	35.5
2001	(18.4)	13.4	6.3	(1.3)	72.6	27.4
2002	(20.3)	6.1	8.0	6.2	30.0	70.0
2003	(20.9)	23.3	(3.7)	1.3	111.1	(11.1)
2004	(19.4)	25.7	0.1	(6.4)	132.1	(32.1)
2005	(18.7)	12.7	(3.5)	9.5	67.8	32.2
2006	(19.1)	17.8	(3.1)	4.4	92.9	7.1
2007	(20.7)	25.8	(4.3)	(0.8)	124.9	(24.9)
2008	(35.6)	35.7	(0.5)	0.4	100.2	(0.2)
2009	(47.4)	56.9	(6.3)	(3.2)	119.9	(19.9)
2010	(43.3)	36.5	3.7	3.2	84.2	15.8
2011	(42.5)	45.1	0.5	(3.1)	106.0	(6.0)
2012E	(42.3)	43.3	(0.5)	(0.5)	102.5	(2.5)
2013E	(40.0)	40.5	(0.4)	(0.1)	101.3	(1.3)

Source: MOF Economic Report (various issues)

Malaysia: Government Debt

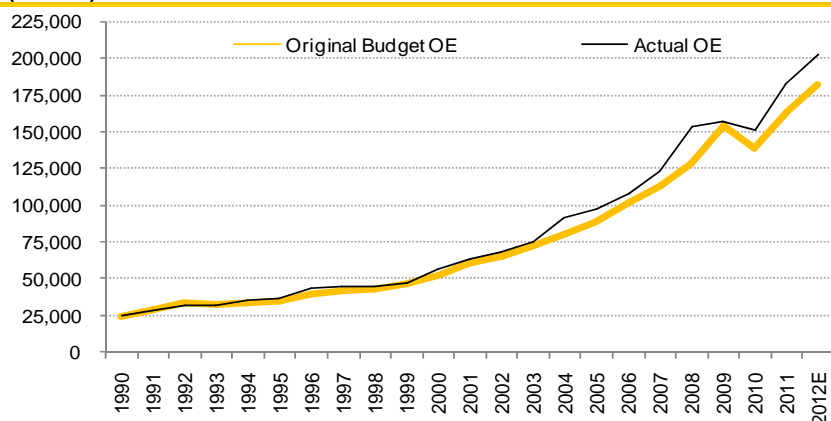


Sources: BNM, Economic Report 2012/2013 (MoF)

Can the Government sticks to its budget? The lower total spending allocation in Budget 2013 shows the Government wants to control its spending to stay on track in achieving the target of cutting its budget deficit to 3% of GDP by 2015. However, analysis of the Government finance showed actual spending – especially OE – has been exceeding the original allocation due to sizeable Supplementary Budgets which came within 6-9 months after the Budget tabling. Therefore, actual spending ended up overshooting what was budgeted originally. Indeed, this year's estimated total spending of MYR252.4b is MYR21.6b or 9.4% higher than the original Budget 2012 allocation of MYR230.8b. The additional spending during the year is due to several factors, namely:

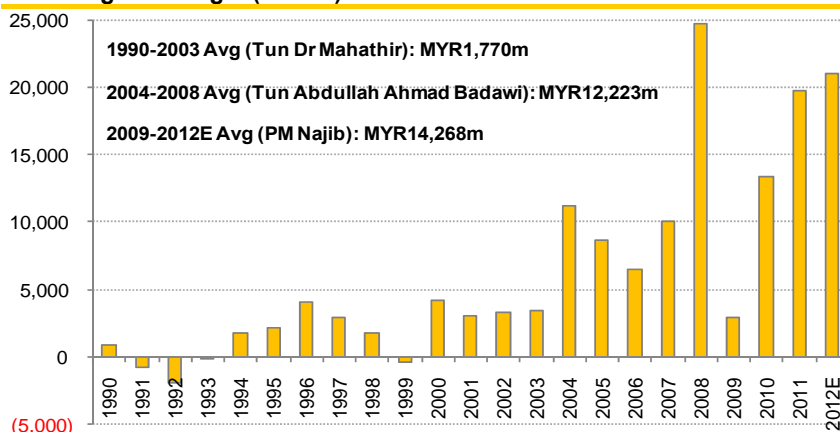
- Larger than initially estimated one-off cash handouts e.g. MYR500 *Bantuan Rakyat 1 Malaysia (BR1M)* to households earning MYR3,000 and below cost MYR2.2b and benefited 4.2m households, compared with Budget 2012 original allocation of MYR1.8b targeted to reach 3.4m households.
- Record-high subsidy bill of MYR42.4b vs original Budget 2012 allocation of MYR33.2b as a result of the freeze on the Subsidy Rationalisation Programme since 2H 2011.
- “Goodies” for the current and retired civil service employees:
 1. 7%-13% increase in civil service pay announced in Mar 2012, backdated to Jan 2012 and paid in Apr 2012, adding MYR6b to the Government's salary bill.
 2. Revision in the pay structure from the “matrix pay schedule” to the “minimum-maximum pay schedule” resulting in an annual wage increase being fixed between MYR80 and MYR320 for those in Grades 1 to 4
 3. Increase in monthly Cost of Living Allowance (COLA) by MYR50.
 4. Half a month bonus with a minimum of MYR500 to 1.27m civil service and MYR500 special payment to 657,000 pensioners which cost the Federal Government MYR2.2b.
- Others like expenses for general elections, compensation for operators of tolled highways.

Federal Government Operating Expenditure: Actual vs Original Budget (MYRm)



Sources: BNM, Economic Report 2012/2013 (MoF)

Federal Government Operating Expenditure: Difference Between Actual and Original Budget (MYRm)



Sources: BNM, Economic Report 2012/2013 (MoF)

Maybe this time it is going to be different in the sense that this will be the last Budget before the 13th General Election (GE13) which could take place anytime from the recently speculated Nov 2012 until as late as end-June 2013. Therefore, the over-spending in the past few Budgets can be somewhat curtailed in Budget 2013, reflecting a “partial-year” as opposed to a “full year” of election spending. Moreover, although the above-budget OE in recent years were duly covered by better than expected revenues, there is question whether current revenue structures and sources can continue to support any unchecked rise in expenditure given structural issues such as:

- Narrow tax base and dependency on income taxes, including oil-related revenues e.g. only 11% of registered companies and 14.8% of workers pay income taxes; oil-related revenues account for one-third of total revenue.
- Postponement of Goods and Services Tax (GST), thus delaying the broadening of the tax base and revenue sources.
- Prospect of lower dividend from Petronas as it implements the proposed cap on payout at 30% of its profit.

Highlights and Key Takeaways

Budget 2013, themed a mouthful and politically-laced “Prospering the Nation, Enhancing Well-Being of the Rakyat: A Promised Fulfilled” focused on five key areas:

- Boosting Investment Activities
- Strengthening Education and Training
- Inculcating Innovation, Increasing Productivity
- Fiscal Consolidation and Enhancing the Public Service Delivery
- Enhancing the Well-Being of Rakyat

Overall, in line with our expectations of a Budget laden with people-friendly and feel good measures ahead of the 13th General Election (GE13) as per our Budget 2013 Preview on 18 Sep 2012. These include:

- Repeat of Budget 2012’s cash handouts (i.e. BR1M, financial assistances to students).
- A host of measures to increase the supplies of – and reduce the cost of purchasing – affordable houses.
- More goodies for civil service e.g. a total of 1½ months of bonus; increase in minimum pension.
- Financial assistances and initiatives to alleviate rising cost of living and provide safety nets (e.g. Government-funded insurance coverage scheme) for target groups such as the armed & police forces; farmers & fishermen; hawkers & petty traders; pensioners; senior citizens.
- Allocations to address other major issues raised by the public such as crime; education, training and skills; rural infrastructure development and public transport.

We estimated at least MYR73.2b or 29.3% (including MYR37.6b subsidy allocation) of the overall MYR249.7b spending allocation go into these people-friendly and feel good measures (excluding the personal income tax measures), more than one-fifth that we estimated for the Budget 2012.

Resumption in subsidy rationalisation? Budget 2013 allocation for subsidies is lower at MYR37.6b versus the record-high of MYR42.4b estimated for 2012. This hints at the resumption in the Subsidy Rationalisation Programme (SRP) that was suspended since middle of 2011. In his Budget Speech, PM mentioned about the gradual shift from blanket subsidies that also benefited the high-income group and lead to leakages towards targeted subsidies. Marking a minimal and lease controversial resumption in SRP, the subsidy on sugar price will be reduced by RM0.20 per kg to RM0.34 per kg effective 29 Sep 2012. We expect the more substantial reinstatement of SRP will come in 2H 2013 after GE13. Among the first move could be electricity tariff in view of the calibration in domestic gas prices following the operation of the Melaka re-gasification plant this quarter which will process and supply imported gas to the local market.

No GST but sending out the message that it is inevitable. The absence of the Goods and Services Tax (GST) in Budget 2013 came as no surprise. Nonetheless, in his Budget speech, PM mentioned about review of the tax system from the income-based taxation system to a more comprehensive and fair taxation system. PM added that this will not implemented hastily but after a thorough study and in an orderly manner to give sufficient time for all parties to make the necessary adjustments, and gain public acceptance through information programmes, education and extensive consultations. Most importantly, it will not affect particularly the medium- and low-income groups as all the basic needs such as food, housing or public transport will be protected. To us, this is a veiled reference to the inevitable introduction of GST, which PEMANDU said could be in 2014 or 2015.

Otherwise, a mixed bag of tax measures. As per our Budget 2013 Preview note (18 Sep 2012), there were no “sin tax” hikes. We also highlighted in our Budget 2013 Preview note the probability of reviews in personal income tax rate and reliefs, although we were less sanguine about rate cut and were expecting increases in reliefs to reflect higher cost of living. What materialised were a 1% cut on taxable income of between MYR2,501 and MYR50,000 which remove 170,000 individuals from paying tax and tax savings for others, plus higher reliefs for children education i.e. increase in reliefs for the children’s higher education to MYR6,000 per person from MYR4,000 per person; and for savings in the National Education Savings Scheme (SSPN) to MYR6,000 per person from MYR3,000 per person. The big surprise on the tax front was the second consecutive Budget of hike in real property gains tax (RPGT). As in the case of Budget 2012, the rumour on RPGT hike surfaced just before the tabling of Budget 2013 which turned out to be true.

Main beneficiaries of Budget 2013 allocations and incentives are oil & gas, capital markets, SMEs, education, agriculture and R&D activities given the incentives and allocations for:

- Investment in petroleum products’ refinery activities and LNG trading.
- Issuance of and transactions in AgroSukuk and retail bonds/sukuks as well as promotion of business trusts.
- SME funds and financing schemes (at least RM3.7b worth versus around MYR5b in Budget 2012).
- Education, skills & training (including pre-school and childcare services).
- Agriculture and food security.
- Commercialization of R&D.

Economic Outlook: Range-bound official growth forecasts amid external uncertainties

The Government tweaks slightly its 2012 growth forecast to 4.5%-5% from 4%-5% previously, while 2013 growth forecast is set at 4.5%-5.5%. The revised growth estimate for 2012 implies the economy is expected to expand at a slower pace 3.9%-4.9% in 2H 2012 after 5.1% in 1H 2012. Meanwhile, the official 2013 growth outlook is essentially premised on the expected pick up in global growth in 2H 2013, which is particularly contingent upon the resolution of the Eurozone debt crisis and stronger growth momentum in Malaysia's major trading partners. This is in addition to the resilient domestic demand as accommodative monetary policy plus moderate inflation (2013E: 2%-3%; 2012E: 1.9%) and low unemployment rate (2013E: 3.1%; 2012E 3.2%) support consumer spending, while the commencement of major infrastructure and investment projects, especially in public transport (MRT), oil & gas, and real estate / property (development of strategic Government lands) add momentum to the growth in both private and public investment.

We are cautious about the 2013 growth outlook. Following our recent upward revision in 2012 real GDP growth forecast to 5% (4.4% previously) in the wake of the stronger-than-expected 5.1% expansion in 1H 2012, our 2013 growth projection is revised to 4.8% (5.1% previously), implying a relatively stable rather than faster pace of growth next year from an implied growth of around 4.8% in 2H 2012. In part, the trimming of next year's real GDP growth reflects the high-base effects following the better than expected growth in 2012. At the same time, we are cautious about external demand, taking cue from our Head of Regional Research & Economics contrarian call of below-7% real GDP growth in China next year (i.e. 6.8%) amid risks of US fiscal cliff and unresolved Eurozone crisis, the prospect of downgrade in global economic growth by IMF next week (9 Oct) as well as recent cut in 2012 and 2013 global trade growth by the World Trade Organisation (WTO) to 2.5% and 4.5% respectively from 3.7% and 5.6% previously.

Malaysia: Real GDP

(% chg)	ACTUAL		MAYBANK IB				OFFICIAL		
	2011	1H 2012	2012E		2013E		2012E Revised	2012E Previous	2013E
			Revised	Previous	Revised	Previous			
Real GDP Growth	5.1	5.1	5.0	4.4	4.8	5.1	4.5-5.0	5.0-6.0	4.5-5.5
Manufacturing	4.7	5.0	4.9	4.2	4.6	5.0	4.2	4.5	4.9
Services	7.0	5.8	5.8	5.3	5.8	6.0	5.5	6.5	5.6
Agriculture	5.9	(1.5)	(3.3)	3.0	3.4	3.7	0.6	4.1	2.4
Mining	(5.7)	1.3	1.0	1.0	2.4	2.0	1.5	2.5	2.7
Construction	4.6	18.9	16.8	10.9	9.5	6.9	15.5	7.0	11.2
Domestic Demand	8.2	11.8	10.7	8.6	6.9	8.2	9.4	7.6	5.6
Private Consumption	7.1	8.1	7.7	7.3	6.0	7.4	7.0	7.1	5.7
Public Consumption	16.1	8.4	9.9	9.7	4.6	4.1	11.3	3.0	(1.2)
Gross Fixed Capital Formation	6.5	21.3	17.5	10.8	9.8	12.2	13.5	11.7	9.3
Private Investment	12.2	22.4	17.8	11.5	12.5	11.7	11.7	15.9	13.3
Public Investment	(0.3)	19.5	17.0	9.9	6.2	12.8	15.9	7.0	4.2
Exports of Goods & Services	4.2	2.5	2.1	2.9	3.8	4.0	1.6	2.5	2.8
Imports of Goods & Services	6.2	7.5	6.0	4.3	5.6	6.0	5.1	3.6	3.6

Sources: Dept of Statistics, BNM Annual Report 2011, Economic Report 2012/2013, Maybank IB

Summary of Budget 2013

Boosting Investment Activities	Key Measures, Incentives & Allocations
Implementation of the 12 National Key Economic Areas (NKEAs)	<ul style="list-style-type: none"> • MYR3b allocation for implementation of entry point projects (EPPs) <ul style="list-style-type: none"> • MYR1.5b for agriculture projects such as oil palm, rubber, high-value herbs and paddy. • MYR500m for the River of Life project for the beautification of the Klang River. • MYR300m for replacement of water pipelines & sewage.
Promoting Domestic Investment	<ul style="list-style-type: none"> • MYR1b Domestic Investment Strategic Fund under the Malaysian Investment Development Authority (MIDA) to leverage outsourcing activities and acquisition of technology by Malaysian companies. • Government reintroduced the incentive for the acquisition of foreign companies and a special tax rate to encourage local service providers to merge into bigger entities.
Intensifying Small & Medium Enterprises (SMEs)	<ul style="list-style-type: none"> • MYR1b for SME Development Scheme under SME Bank • MYR200m Halal Industry Fund for SME working capital to promote development and exports of high-impact halal products jointly managed by SME Bank and Islamic Development Bank (IDB) . • Perbadanan Nasional Berhad (PNS) will introduce the Business in Transformation programme to support efforts to modernise the operations of hawkers and small businesses to higher standards and competitiveness through the licensing or franchising model. The programme will provide guidance and advisory services on new business concepts such as mobile shops, kiosks and online businesses. For this, PNS will provide soft loans to hawkers and small businesses of up to MYR25,000 for licensees and MYR500,000 for licensors. • MYR1b Bumiputera Financing Fund provided by SME Bank to assist local SMEs to finance the acquisition of GLC subsidiaries engaged in non-core activities. To date, two GLCs have identified their potential subsidiaries for divestment to Bumiputera investors • Extend the duration of the SME Working Capital Guarantee Scheme (MYR900m left of the MYR10b total) until 31 Dec 2013 and expand this scheme to High-Performing Bumiputera (TERAS) companies and increase the companies' shareholders fund eligibility from MYR10m to MYR20m. • Government provides an allocation of MYR350m to Tabung Ekonomi Kumpulan Usaha Niaga (TEKUN), including MYR50 million to the Malaysian Indian community. • MYR50m Young Entrepreneurs Fund will be established by the SME Bank. The soft loans, aimed at youths aged 30 and below, offers a 2% interest rate subsidy for loans up to RM100,000 with a 7-year repayment period.
Intensifying Tourism Sector	<ul style="list-style-type: none"> • MYR358m GDE allocation to target 26.8m tourist arrivals in conjunction with Visit Malaysia Year 2013/2014. • 3-year extension on income tax exemption for tour operators who bring in at least 750 foreign tourists or handle 1,500 local tourists a year.
Malaysia as Oil & Gas Hub	<ul style="list-style-type: none"> • 100% Investment Tax Allowance for the period of 10 years to qualified companies for investment in the refinery activities on petroleum products. • Enhancement of Global Incentive for Trading (GIFT) programme: <ul style="list-style-type: none"> • 100% income tax exemption on statutory income for the first 3 years of operations for LNG trading companies. • Commodity trading approved under GIFT will be extended to include other commodities such as agriculture, refined raw materials, base minerals and chemicals.

Source: 2013 Budget Speech

Summary of Budget 2013 (continued)

Boosting Investment Activities	Key Measures, Incentives & Allocations
Stimulating the Capital & Financial Markets	<ul style="list-style-type: none"> • Securities Commission (SC) will provide a framework on the issuance of AgroSukuk for companies engaged in the agriculture sector and agro-based industries. • Expenses for the issuance of AgroSukuk will be given a double deduction for a period of four years effective from year of assessment 2012 to 2015. • To encourage retail bonds/sukuk market: <ul style="list-style-type: none"> • SC has formulated a framework for retail bond and sukuk issuances to enable investors to acquire stakes in the bond and sukuk markets. • DanaInfra Nasional Berhad will issue retail bonds worth MYR300m by end-2012 to finance MRT development projects. • Additional expenses incurred in the issuance of retail bonds and retail sukuk will be given a double deduction for a period of four years effective from year of assessment 2012 to 2015. • Stamp duty exemption on instruments relating to the transactions of retail bonds/sukuk for individual investors. • SC will establish a Capital Market Promotion Centre; and introduce the Graduate Representative Programme via collaboration with the private sector to train 1,000 graduates to meet the needs of the securities and derivatives industry. • MYR100m will be provided to the Capital Market Foundation through the Capital Market Development Fund under the SC. • To encourage the development of business trusts, the transfer of any business, asset and real property to a business trust will be given stamp duty exemption and real property gains tax exemption at the early stage of the establishment of a business trust. • Additional MYR400m to Danajamin for the next two years. The additional fund will multiply the issuance value between MYR4b and MYR6b.
Enhancing Agricultural Activity, Sustaining Food Security, Safeguarding Farmers & Fishermen	<ul style="list-style-type: none"> • MYR5.8b allocation for the Ministry of Agriculture and Agro-Based Industry. • MYR30m allocation for agricultural development programmes, including high-technology fruit and vegetable production, increase the supply of high-quality seedlings, price stabilisation through direct selling from farms, establishment of fish markets and improving agricultural training institutions. • MYR75m allocation to increase the output of food and health products. • MYR432m allocation for oil palm replanting programmes under the Palm Oil NKEA • MYR127m is allocated for the development of high-value oleo derivatives to transform the downstream industry towards higher production of derivatives. • Existing 389,000 hectares of paddy granaries producing 1.8m tones will be strengthened through an integrated and systematic paddy management system, and MYR140m to develop and expand four new paddy granaries in Kota Belud, Batang Lupar, Rompin and Pekan with acreage of 19,000 hectares and involving 12,237 farmers to produce 104 tonnes. • MYR230m allocation to maintain the incentive for fish landing incentive (between MYR0.10 to MYR0.20 per kg) at licensed jetties nationwide, MYR200 per month living allowances for 55,000 registered fishermen, and Fishermen Insurance Scheme with a maximum coverage of MYR100,000. • MYR2.4b in subsidies and incentives to assist farmers in reducing cost of production, mainly for paddy production i.e. subsidies for paddy price (MYR480m), paddy fertilisers (MYR465m); rice price (MYR528m) and high-quality paddy seeds (RM85 million); incentives to increase paddy yield (MYR80m) and paddy production (MYR563m). • MYR50m allocation for Paddy Takaful Coverage Scheme (SPTP) for 172,000 paddy farmers who own fields less than 10 hectares. Total compensation to be received by each farmer is estimated at MYR13,000. • MYR41m for AZAM Tani Projects to benefit 6,730 participants to reduce poverty and increased average income.

Source: 2013 Budget Speech

Summary of Budget 2013 (continued)

Strengthening Education & Training	Key Measures, Incentives & Allocations
Malaysia Education Blueprint 2013 – 2025	<ul style="list-style-type: none"> • MYR38.7b is allocated to the Ministry of Education (MOE) for OE and GDE. • Allocate another MYR500m to enhance teaching skills in core subjects such as Bahasa Malaysia, English, Science and Mathematics through the Higher Order Thinking Skills approach. The allocation includes the establishment of an Education Delivery Unit to monitor and evaluate the effectiveness of the transformation plan. • Additional allocation of MYR1b to the Special Fund for the Building, Improvement and Maintenance of Schools, to cater for immediate needs to refurbish school buildings, maintenance, purchase of school equipment and construction of additional blocks i.e. MYR400m for national schools; MYR100m to national-type Chinese schools; MYR100m to national-type Tamil schools; MYR100m to mission schools; MYR100m to Government-assisted religious schools; MYR100m to boarding schools; and MYR100m to Maktab Rendah Sains MARA.
Strengthening Role of Pre-School	<ul style="list-style-type: none"> • MYR1.2b allocation for pre-school education to Jabatan Kemajuan Masyarakat, MOE, PERMATA and Department of National Unity and Integration. • MYR380m allocation for MOE for placement of kindergarten teachers • Incentives to promote high-quality pre-school and childcare services <ul style="list-style-type: none"> • Launching grant of RM10,000 to assist operators of Early Childhood Care and Education (ECCE) private centres in opening new high quality pre-schools. It is estimated that 1,000 new private ECCE centres will benefit from this initiative. • Double deduction on the allowance or subsidies provided to the employees and expenses for the maintenance of childcare centres be given to the employers. • Income tax exemption for 5 years and industrial building allowance at the rate of 10% a year be given to operators of pre-school and private childcare centres. • Income tax exemption for 5 years and industrial building allowance at the rate of 10% a year be given to operators of private pre-schools.
Skills & Training	<ul style="list-style-type: none"> • MYR3.7b allocation to train students in technical and vocational fields. • To assist unemployed graduates, the Graduate Employability Blueprint will be launched by end-2012 and Graduate Employability Taskforce will be established with MYR200m allocation. • MYR440m allocation to the Skills Development Fund Corporation (PTPK), to provide loans for trainees to undergo skills training. • MYR366m to upgrade as well as purchase equipment for Industrial Training Institutes and National Youth Vocational Institutes (IKBN). • MYR50m to train 3,200 Malaysian Indian students in the estates to equip them with skills.

Source: 2013 Budget Speech

Summary of Budget 2013 (continued)

Inculcating Innovation, Increasing Productivity	Key Measures, Incentives & Allocations
Intellectual Property as Collateral	<ul style="list-style-type: none"> To enable SMEs to further expand their businesses by using intellectual property rights (IPR) as a collateral to obtain financing: <ul style="list-style-type: none"> MYR200m Intellectual Property Financing Fund scheme offered through Malaysian Debt Ventures Berhad with the Government providing a 2% interest rate subsidy and guarantee of 50% through Credit Guarantee Corporation Malaysia Berhad. MYR19m allocation for training programmes for local intellectual property evaluators conducted by Intellectual Property Corporation of Malaysia (MyIPO) with the purpose of developing a valuation model will be created to enable IPR to be valued and commercialised in the market.
R&D	<ul style="list-style-type: none"> MYR600m allocation to five research universities to conduct high-impact research in strategic fields such as nanotechnology, automotive, biotechnology and aerospace. To boost the commercialisation of R&D findings of public institutions: <ul style="list-style-type: none"> Current tax incentives for the commercialisation of resource-based R&D findings be extended to commercialisation of non-resource based R&D findings for products promoted under the Promotion of Investment Act 1986. The company which invests in its subsidiary company that undertakes the commercialisation of R&D findings will be given a deduction equivalent to the total investment made in that subsidiary. The subsidiary company that undertakes the commercialisation of R&D findings will be given income tax exemption of 100% on the statutory income for a period of 10 years.
Intensifying Venture Capital Investment by Individual Investors	<ul style="list-style-type: none"> Deduction equal to the amount of investment made by an angel investor in a venture company will be allowed to be set off against all his income.
Green Technology Investment	<ul style="list-style-type: none"> Increase in the size of the Green Technology Financing Scheme (GTFS) to MYR3.5b from MYR1.5b and extension of the application period by another three years to 31 December 2015. The Fund enables companies which are producers and users of green technology to obtain soft loans, with the Government subsidising 2% of the interest rate and providing a guarantee of 60% on the amount of financing.

Source: 2013 Budget Speech

Summary of Budget 2013 (continued)

Fiscal Consolidation & Enhancing the Public Service Delivery	Key Measures, Incentives & Allocations
Reaffirm commitments to fiscal consolidation and strengthening of Government Finance	<ul style="list-style-type: none"> • Budget deficit target of 3% of GDP by 2015 and cap to the Federal Government debt at 55% of the GDP. • Review of Malaysia's taxation system via the transition from income based taxation system to a more comprehensive and fair taxation system. • Transition from bulk subsidies to targeted subsidies. • Restructuring of the Federal Government's Housing Loan Division (BPP): <ul style="list-style-type: none"> • The Government will appoint panels from commercial banks to manage new housing loans w.e.f. from January 2013. Civil servants will continue to enjoy the existing benefits and assistance e.g. 4% interest rate on housing loan repayment. • Revise the processing fee for each housing loan application by civil servants i.e. from MYR1 for every MYR1,000 for first submission and MYR2 for second submission to a fixed processing fee of MYR100 for each application regardless of the loan amount.
Improving the Malaysian Armed Forces Scheme of Services	<ul style="list-style-type: none"> • MYR107m allocation benefiting 78,123 members for career advancement opportunities through time-based promotion for Privates to Lance Corporals, and for Lance Corporals to Corporals within a period of eight years for those who fulfill the necessary requirements and based on their performance. • MYR301m allocation for a special incentive of MYR200 per month to all 125,708 military personnel w.e.f. 1 January 2013. • Revise the military reserve force's services allowance from MYR4 per hour to MYR6 for ordinary members, and from MYR5.80 to MYR7.80 for officers, involving 65,000 members comprising Territorial Army Regiment (WATANIAH) as well as reserves in the navy and air force. • MYR12m allocation for a Group Insurance Coverage Scheme to serving armed forces and police personnel. The scheme will provide a maximum insurance coverage up to MYR15,000 to almost 242,000 armed forces and police personnel.
Reduce the cost of living of trainees undergoing the pre-service courses at the first degree, diploma and certificate level	<ul style="list-style-type: none"> • MYR84.1m allocation to increase the pre-service allowance for 31,135 trainees. The schemes of services involved are Education Services Officer, Environmental Health Assistant Officer, Medical Assistant Officer, Assistant Pharmacist, Radiographer, Nurse, Dental Nurse, Physiologist, Medical Laboratory Technologist, Dental Technologist, Community Nurse, General Medical Assistant and Dental Surgery Assistant.

Source: 2013 Budget Speech

Summary of Budget 2013 (continued)

Enhancing the Well-Being of the Rakyat	Key Measures, Incentives & Allocations
People's Welfare & Well-Being	<ul style="list-style-type: none"> ▪ MYR3b allocation for 2nd Bantuan Rakyat 1Malaysia (BR1M). The head of households earning less than MYR3,000 per month is eligible for the MYR300 assistance. In addition, assistance of MYR250 will be extended to single unmarried individuals aged 21 and above and earning not more than MYR2,000 a month. This will benefit 4.3m households and 2.7m single unmarried individuals. Existing BR1M recipients are not required to register for the second time, while new applicants may register commencing Nov 2012. ▪ MYR540m allocation for 2nd Schooling Assistance of MYR100 to all primary and secondary students, w.e.f. January 2013, benefiting 5.4m students. ▪ MYR325m allocation for 1Malaysia Book Voucher programme for 1.3m students in institutions of higher learning (IPT) and at pre-university level. The value of the voucher is increased to MYR250 from MYR200. ▪ Personal income tax rate and reliefs: <ul style="list-style-type: none"> • Personal income tax rate to be reduced by 1 percentage point for taxable annual income from MYR 2,501 up to MYR50,000. The measure will remove 170,000 individuals from paying tax and provide tax savings for others. • Increase in personal income tax relief on the children's higher education to MYR6,000 from MYR4,000 commencing from year of assessment 2013. • Increase in personal income tax relief for savings in the National Education Savings Scheme (SSPN) to MYR6,000 from MYR3,000. ▪ MYR2.6b special allocation to primary and secondary school students from low income families for per capita grant, hostel meal assistance programme, Food Supplement Programme (RMT), purchase of text books and assistance for payment of additional school fees. ▪ MYR1.5b allocation to stabilise the prices of cooking oil in the market. ▪ MYR386m allocation for Price Uniformity Scheme to ensure the prices of essential goods in Sabah and Sarawak as well as in Labuan are sold at lower prices through the opening of 57 KR1M; and to bear the cost of delivering products from Peninsular Malaysia to Sabah, Sarawak and Labuan including the interior areas. ▪ MYR6b allocated under the <i>Private Financing Initiatives (PFI 2)</i> to implement various projects and programmes such as refurbishment and maintenance of schools and health clinics; housing projects; water tank projects; flood mitigation plans and provision of sports facilities. • All Malaysians with a monthly income of MYR3,000 and below will enjoy a 50% discount on KTM Komuter fares. • Pensioners: Increase the minimum pension from MYR720 to MYR820 for pensioners who have served for at least 25 years, w.e.f. January 2013. This measure will involve an additional allocation of MYR60m a year benefiting 50,371 pensioners, including derivative pension recipients. • Senior Citizens: Reduction in the processing fee for 5-year and 2-year passports to MYR150 and MYR80 respectively from MYR300 and MYR100 respectively w.e.f January 2013. ▪ Former Malaysian Armed Forces Servicemen: One-off MYR1,000 to assist 224,000 former members of the armed forces who have opted for early retirement; served less than 21 years; and did not receive any pension. The allocation of MYR224m will be equally shared by the Government and Armed Forces Fund Board. ▪ To facilitate repayment of study loans (PTPTN): <ul style="list-style-type: none"> • 20% discount on loans for full repayment within a year w.e.f. 1 October 2012 until 30 September 2013. • 10% discount per annum on consistent repayment in accordance to the repayment schedule w.e.f. from 1 October 2012.

Source: 2013 Budget Speech

Summary of Budget 2013 (continued)

Enhancing the Well-Being of the Rakyat

Key Measures, Incentives & Allocations

Housing for Rakyat

- MYR1.9b allocation for Perumahan Rakyat 1 Malaysia (PR1MA), Syarikat Perumahan Nasional Berhad (SPNB) and Jabatan Perumahan Negara (JPN) to build 123,000 affordable housing units in 2013:
 - MYR500m allocation for PR1MA to build 80,000 houses in major locations nationwide with the selling price ranging between MYR100,000 and MYR400,000 per unit. Among the locations are Kuala Lumpur, Shah Alam, Johor Bahru, Seremban and Kuantan.
 - MYR500m allocation for PR1MA's Housing Facilitation Fund to build houses in collaboration with private housing developers. The house prices under this programme will be 20% lower than the market price and distributed through an open balloting system.
 - MYR320m allocation to SPNB to build 22,855 residential units including low and medium-cost apartments, Rumah Mesra Rakyat and Rumah Mampu Milik to be sold at about MYR120,000 to MYR220,000 per unit e.g. 1,855 medium-cost apartment units with a built-up area of 850 square feet in Shah Alam and Sungai Buloh.
 - 21,000 houses in 2013 to be build under SPNB's Rumah Mesra Rakyat programme priced at MYR65,000 per unit with a subsidy of MYR20,000 as well as a 2% subsidy on interest rate.
 - MYR534m allocation for JPN's Rakyat Housing Programme (PPR) to implement 45 projects involving 20,454 units to be priced between MYR30,000 and MYR40,000 per unit. The Government will also allocate 20% of the PPR houses to public sector employees and 1% to the disabled.
- Improvement in My First Home Scheme i.e. increase the income limit for individual loans to MYR5,000 per month from MYR3,000 per month, or joint loans of husband and wife with income of up to MYR10,000 per month; abolish the requirement for a savings record equivalent to three months installment and minimum employment of six months.
- Extension of the 50% stamp duty exemption on the instrument of transfer agreements and loan agreements for the purchase of the first residential property to 31 December 2014, and the price limit on the eligible residential properties is raised to MYR400,000 from MYR350,000.
- Revival of Abandoned Housing Projects:
 - MYR100m allocation to the Ministry of Housing and Local Government to revive 30 abandoned housing projects.
 - Banking institutions are given tax exemption on interest income received from the rescuing contractor/developer.
 - Rescuing developer will be given a double deduction on interest paid and all direct costs incurred in obtaining loans.
 - Rescuing contractor will be given stamp duty exemption on all instruments executed for the purpose of transfer of land or houses and loan agreements to finance the cost of revival.
 - Original house buyer in the abandoned project will be given stamp duty exemption on all instruments executed for the purpose of obtaining additional finance and the transfer of the house.

Source: 2013 Budget Speech

Summary of Budget 2013 (continued)

Enhancing the Well-Being of the Rakyat	Key Measures, Incentives & Allocations
Reducing Crime	<ul style="list-style-type: none"> ▪ MYR591m allocated to support the Crime NKRA initiatives such as: <ul style="list-style-type: none"> • Increase the number of PDRM personnel for patrolling and combating crime, upgrading infrastructure and providing modern equipment. • MYR20m to establish a 1,000 strong Motorcycle Patrolling Unit to monitor housing areas. • MYR70m allocation to increase the number of Police Volunteer Reserve (PVR) by an additional 10,000 officers to assist the police in combating crime. • Install an additional 496 units of Closed Circuit Television or CCTV cameras in 25 local authorities in Peninsular, Sabah and Sarawak to prevent street crimes in urban areas. • The Government will provide a launching grant of MYR40m for 4,025 resident associations (RAs) registered under the Registry of Societies Malaysia, with each RA receiving RM10,000 to supporting the role of RAs and to promote patrolling activities in neighbourhoods. • MYR39m allocation to enhance the role of 6,500 neighbourhood watch (Rukun Tetangga or RT) to assist in safeguarding the neighbourhood. • MYR90m allocation to provide uniforms to 300,000 active members of People's Volunteer Corp (RELA). • Total deduction on the expenses on the installation of security control equipment in the same year the equipment is purchased as compared to the current deduction of 8 years under the Accelerated Capital Allowance. The Government has agreed to extend this incentive to housing developers.
Development for Rural Areas and Orang Asli Community	<ul style="list-style-type: none"> • MYR4.5b allocation to implement various rural infrastructure development projects including: <ul style="list-style-type: none"> • MYR1.2b to develop 441 kilometres rural roads and village link road projects to benefit 220,000 villagers. • MYR1.6b for rural utility infrastructure projects which involves water supply to 24,000 houses and electricity supply to 19,000 houses. • MYR137m to finance Program Desa Lestari involving 29 villages nationwide and benefiting 38,000 villagers. Major programmes include upgrading of food and marine product processing plants, construction of new jetties, marketing centres and tourism complexes as well as organising recreational and homestay activities. • MYR88m to implement economic development programmes and water supply projects for the Orang Asli community. • MYR100m to supply 40,000 water tanks for rainwater harvesting, particularly in the interiors of Sabah and Sarawak.
Health	<ul style="list-style-type: none"> ▪ MYR19.3b allocated to the Health Ministry for OE and GDE. ▪ MYR20m allocation for additional 70 new 1Malaysia clinics in 2013. 1Malaysia clinics will now provide blood test services which include cholesterol and glucose tests as well as urine tests. ▪ MYR 100m allocation to upgrade 350 clinics nationwide as well as to provide an additional 150 dialysis machines in Government haemodialysis centres across the country. ▪ SOCSO will allocate MYR200m to enable its 1.4m members to undertake free health screening in Government hospitals or SOCSO's panel clinics. The health screening is for all workers aged between 40 and 55 years to detect non-communicable diseases.

Source: 2013 Budget Speech

Summary of Budget 2013 (continued)

Enhancing the Well-Being of the Rakyat	Key Measures, Incentives & Allocations
Development of Women, Family & Community	<ul style="list-style-type: none"> ▪ MYR1.2b for 1Malaysia Welfare Programme (KAR1SMA) comprising assistance programmes for senior citizens, children and disabled workers as well as for chronic illnesses. ▪ MYR400m allocation for 1AZAM programme to benefit 58,330 participants from the low-income group by providing opportunities to generate income via programmes like Azam Kerja, Azam Tani, Azam Niaga, Azam Khidmat. ▪ MYR50m allocation to support the women via following measures: <ul style="list-style-type: none"> • Training of 500 women as board members under the Women Directors' Programme. • Improving the Single Mothers Skills Incubator Programme (I-KIT) to provide advisory services and training for single mothers in entrepreneurship. • Allocation of MYR 25,000 for free mammogram examination for women, which is estimated to benefit 100,000 women aged 40 and above. • Get Malaysian Business Online Programme (GMBO) to assist 50,000 small entrepreneurs, particularly women to promote their businesses by increasing their sales online with a grant of MYR1,000. SKMM will provide an allocation of MYR50m for this purpose.
Youth	<ul style="list-style-type: none"> ▪ MYR50m allocation to set up the New Entrepreneur Foundation (NEF) to provide training and guidance programmes. ▪ MYR50m allocation to establish Young Entrepreneurs Fund to be managed by the SME Bank who will provide soft loans to youths aged 30 and below with 2% interest rate subsidy for loans up to MYR100,000 with a 7-year repayment period. ▪ MYR300m allocation for Youth Communication Package offering a one-off rebate of MYR200 for the purchase of one unit of 3G smartphone from authorised dealers. The initiative is for the 1.5m youths aged between 21 to 30 years with a monthly income of MYR3,000 and below. This is a collaboration between the Malaysian Communications and Multimedia Commission (SKMM) and telecommunications companies.
Combating Corruption	<ul style="list-style-type: none"> • MYR276m allocation to Malaysian Anti-Corruption Commission, among others to increase an additional of 150 posts annually to reach a total of 5,000 personnel.

Source: 2013 Budget Speech

RESEARCH OFFICES

REGIONAL

P K BASU

Regional Head, Research & Economics
(65) 6432 1821 pk.basu@maybank-ke.com.sg

WONG Chew Hann, CA

Acting Regional Head of Institutional Research
(603) 2297 8686 wchewh@maybank-ib.com

THAM Mun Hon

Regional Strategist
(852) 2268 0630 thammunhon@kimeng.com.hk

ONG Seng Yeow

Regional Products & Planning
(852) 2268 0644 ongsengyeow@maybank-ke.com.sg

MALAYSIA

WONG Chew Hann, CA *Head of Research*
(603) 2297 8686 wchewh@maybank-ib.com

- Strategy
- Construction & Infrastructure

Desmond CH'NG, ACA

(603) 2297 8680 desmond.chng@maybank-ib.com

- Banking - Regional

LIAW Thong Jung

(603) 2297 8688 tjliaw@maybank-ib.com

- Oil & Gas
- Automotive
- Shipping

ONG Chee Ting

(603) 2297 8678 ct.ong@maybank-ib.com

- Plantations

Mohshin AZIZ

(603) 2297 8692 mohshin.aziz@maybank-ib.com

- Aviation
- Petrochem
- Power

YIN Shao Yang, CPA

(603) 2297 8916 samuel.y@maybank-ib.com

- Gaming - Regional
- Media
- Power

WONG Wei Sum, CFA

(603) 2297 8679 weisum@maybank-ib.com

- Property & REITs

LEE Yen Ling

(603) 2297 8691 lee.yl@maybank-ib.com

- Building Materials
- Manufacturing
- Technology

LEE Cheng Hooi *Head of Retail*

chenghooi.lee@maybank-ib.com

- Technicals

HONG KONG / CHINA

Edward FUNG *Head of Research*

(852) 2268 0632 edwardfung@kimeng.com.hk

- Construction

Ivan CHEUNG

(852) 2268 0634 ivancheung@kimeng.com.hk

- Property
- Industrial

Ivan LI

(852) 2268 0641 ivanli@kimeng.com.hk

- Banking & Finance

Jacqueline KO

(852) 2268 0633 jacquelineko@kimeng.com.hk

- Consumer Staples

Andy POON

(852) 2268 0645 andypoon@kimeng.com.hk

- Telecom & equipment

Samantha KWONG

(852) 2268 0640 samanthakwong@kimeng.com.hk

- Consumer Discretionaries

Alex YEUNG

(852) 2268 0636 alexyeung@kimeng.com.hk

- Industrial

Catherine CHAN

(852) 2268 0631 catherinechan@kimeng.com.hk

- Cement

Anita HWANG, CFA | Jacky WONG, CFA

anitahwang@kimeng.com.hk | jackywong@kimeng.com.hk

(852) 2268 0142 | (852) 2268 0107

- Special Situations
- Quants

INDIA

Jigar SHAH *Head of Research*

(91) 22 6623 2601 jigar@kimeng.co.in

- Oil & Gas
- Automobile
- Cement

Anubhav GUPTA

(91) 22 6623 2605 anubhav@kimeng.co.in

- Metal & Mining
- Capital goods
- Property

Haripreet BATRA

(91) 226623 2606 haripreet@kimeng.co.in

- Software
- Media

Ganesh RAM

(91) 226623 2607 ganeshram@kimeng.co.in

- Telecom
- Contractor

Darpin SHAH

(91) 226623 2610 darpin@kimeng.co.in

- Banking & Financial Services

Gagan KWATRA

(91) 226623 2612 gagan@kimeng.co.in

- Small Cap

ECONOMICS

Suhaimi ILIAS

Chief Economist
Singapore | Malaysia
(603) 2297 8682 suhaimi_iliass@maybank-ib.com

Luz LORENZO

Economist
Philippines | Indonesia
(63) 2 849 8836 luz_lorenzo@maybank-atrke.com

SINGAPORE

Stephanie WONG *Head of Research*

(65) 6432 1451 swong@maybank-ke.com.sg

- Strategy
- Small & Mid Caps

Gregory YAP

(65) 6432 1450 gyap@maybank-ke.com.sg

- Technology & Manufacturing
- Telcos - Regional

Wilson LIEW

(65) 6432 1454 wilsonliaw@maybank-ke.com.sg

- Hotel & Resort
- Property & Construction

James KOH

(65) 6432 1431 jameskoh@maybank-ke.com.sg

- Logistics
- Resources
- Consumer
- Small & Mid Caps

YEAK Chee Keong, CFA

(65) 6433 5730 yeakcheekeong@maybank-ke.com.sg

- Healthcare
- Offshore & Marine

Alison FOK

(65) 6433 5745 alisonfok@maybank-ke.com.sg

- Services
- S-chips

Bernard CHIN

(65) 6433 5726 bernardchin@maybank-ke.com.sg

- Transport (Land, Shipping & Aviation)

ONG Kian Lin

(65) 6432 1470 ongkianlin@maybank-ke.com.sg

- REITs / Property

Wei Bin

(65) 6432 1455 weibin@maybank-ke.com.sg

- S-chips
- Small & Mid Caps

INDONESIA

Katarina SETIAWAN *Head of Research*

(62) 21 2557 1125 ksetiawan@kimeng.co.id

- Consumer
- Strategy
- Telcos

Lucky ARIESANDI, CFA

(62) 21 2557 1127 lariesandi@kimeng.co.id

- Base metals
- Coal
- Oil & Gas

Rahmi MARINA

(62) 21 2557 1128 rmarina@kimeng.co.id

- Banking
- Multifinance

Pandu ANUGRAH

(62) 21 2557 1137 panugrah@kimeng.co.id

- Auto
- Heavy equipment
- Plantation
- Toll road

Adi N. WICAKSONO

(62) 21 2557 1130 anwicaksono@kimeng.co.id

- Generalist

Anthony YUNUS

(62) 21 2557 1134 ayunus@kimeng.co.id

- Cement
- Infrastructure
- Property

Arwani PRANADJAYA

(62) 21 2557 1129 apranadjaya@kimeng.co.id

- Technicals

PHILIPPINES

Luz LORENZO *Head of Research*

+63 2 849 8836 luz_lorenzo@maybank-atrke.com

- Strategy

Laura DY-LIACCO

(63) 2 849 8840 laura_dyliacco@maybank-atrke.com

- Utilities
- Conglomerates
- Telcos

Lovell SARREAL

(63) 2 849 8841 lovell_sarreal@maybank-atrke.com

- Consumer
- Media
- Cement
- Mining

Kenneth NERECINA

(63) 2 849 8839 kenneth_nerecina@maybank-atrke.com

- Conglomerates
- Property
- Ports/ Logistics

Katherine TAN

(63) 2 849 8843 kat_tan@maybank-atrke.com

- Banks
- Construction

Ramon ADVIENTO

(63) 2 849 8842 ramon_adviento@maybank-atrke.com

- Mining

THAILAND

Mayuree CHOWVIRAN *Head of Research*

(66) 2658 6300 ext 1440 mayuree.c@maybank-ke.co.th

- Strategy

Maria BRENDA SANCHEZ LAPIZ *Co-Head of Research*

Dir (66) 2257 0250 | (66) 2658 6300 ext 1399

Maria.L@maybank-ke.co.th

Andrew STOTZ *Strategist*

(66) 2658 6300 ext 5091

Andrew@maybank-ke.co.th

Suttatip PEERASUB

(66) 2658 6300 ext 1430 suttatip.p@maybank-ke.co.th

- Media
- Commerce

Sutthichai KUMWORACHAI

(66) 2658 6300 ext 1400 sutthichai.k@maybank-ke.co.th

- Energy
- Petrochem

Termporn TANTIVIVAT

(66) 2658 6300 ext 1520 termporn.t@maybank-ke.co.th

- Property

Woraphon WIROONSRI

(66) 2658 6300 ext 1560 woraphon.w@maybank-ke.co.th

- Banking & Finance

Jaroontan WATTANAWONG

(66) 2658 6300 ext 1404 jaroontan.w@maybank-ke.co.th

- Transportation
- Small cap.

Suchot THIRAWANARAT

(66) 2658 6300 ext 1550 suchot.t@maybank-ke.co.th

- Automotive
- Construction Materials
- Soft commodity

VIETNAM

Michael KOKALARI, CFA *Head of Research*

+84 838 38 66 47 michael.kokalari@kimeng.com.vn

- Strategy

Nguyen Thi Ngan TUYEN

+84 844 55 58 88 x 8081 tuyen.nguyen@kimeng.com.vn

- Food and Beverage
- Oil and Gas

Ngo Bich Van

+84 844 55 58 88 x 8084 van.ngo@kimeng.com.vn

- Banking

Nguyen Quang DUY

+84 844 55 58 88 x 8082 duy.nguyenquang@kimeng.com.vn

- Rubber

Dang Thi Kim THOA

+84 844 55 58 88 x 8083 thoa.dang@kimeng.com.vn

- Consumer

Nguyen Trung HOA

+84 844 55 58 88 x 8088 hoa.nguyen@kimeng.com.vn

- Steel
- Sugar
- Macro

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CAGR = Compounded Annual Growth Rate	FY = Financial Year	PER = PE Ratio
Capex = Capital Expenditure	FYE = Financial Year End	QoQ = Quarter-On-Quarter
CY = Calendar Year	MoM = Month-On-Month	ROA = Return On Asset
DCF = Discounted Cashflow	NAV = Net Asset Value	ROE = Return On Equity
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EBIT = Earnings Before Interest And Tax	P = Price	WACC = Weighted Average Cost Of Capital
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-  **Malaysia**
Maybank Investment Bank Berhad
 (A Participating Organisation of
 Bursa Malaysia Securities Berhad)
 33rd Floor, Menara Maybank,
 100 Jalan Tun Perak,
 50050 Kuala Lumpur
 Tel: (603) 2059 1888;
 Fax: (603) 2078 4194
- Stockbroking Business:
 Level 8, Tower C, Dataran Maybank,
 No.1, Jalan Maarof
 59000 Kuala Lumpur
 Tel: (603) 2297 8888
 Fax: (603) 2282 5136
-  **Philippines**
**Maybank ATR Kim Eng Securities
 Inc.**
 17/F, Tower One & Exchange Plaza
 Ayala Triangle, Ayala Avenue
 Makati City, Philippines 1200
- Tel: (63) 2 849 8888
 Fax: (63) 2 848 5738
-  **South Asia Sales Trading**
 Connie TAN
 connie@maybank-ke.com.sg
 Tel: (65) 6333 5775
 US Toll Free: 1 866 406 7447
-  **Singapore**
Maybank Kim Eng Securities Pte Ltd
Maybank Kim Eng Research Pte Ltd
 9 Temasek Boulevard
 #39-00 Suntec Tower 2
 Singapore 038989
- Tel: (65) 6336 9090
 Fax: (65) 6339 6003
-  **Hong Kong**
Kim Eng Securities (HK) Ltd
 Level 30,
 Three Pacific Place,
 1 Queen's Road East,
 Hong Kong
- Tel: (852) 2268 0800
 Fax: (852) 2877 0104
-  **Thailand**
**Maybank Kim Eng Securities
 (Thailand) Public Company
 Limited**
 999/9 The Offices at Central World,
 20th - 21st Floor,
 Rama 1 Road Pathumwan,
 Bangkok 10330, Thailand
- Tel: (66) 2 658 6817 (sales)
 Tel: (66) 2 658 6801 (research)
-  **North Asia Sales Trading**
 Eddie LAU
 eddielau@kimeng.com.hk
 Tel: (852) 2268 0800
 US Toll Free: 1 866 598 2267
-  **London**
**Maybank Kim Eng Securities
 (London) Ltd**
 6/F, 20 St. Dunstan's Hill
 London EC3R 8HY, UK
- Tel: (44) 20 7621 9298
 Dealers' Tel: (44) 20 7626 2828
 Fax: (44) 20 7283 6674
-  **Indonesia**
PT Kim Eng Securities
 Plaza Bapindo
 Citibank Tower 17th Floor
 Jl Jend. Sudirman Kav. 54-55
 Jakarta 12190, Indonesia
- Tel: (62) 21 2557 1188
 Fax: (62) 21 2557 1189
-  **Vietnam**
In association with
**Kim Eng Vietnam Securities
 Company**
 1st Floor, 255 Tran Hung Dao St.
 District 1
 Ho Chi Minh City, Vietnam
- Tel : (84) 838 38 66 36
 Fax : (84) 838 38 66 39
-  **New York**
**Maybank Kim Eng Securities
 USA Inc**
 777 Third Avenue, 21st Floor
 New York, NY 10017, U.S.A.
- Tel: (212) 688 8886
 Fax: (212) 688 3500
-  **India**
Kim Eng Securities India Pvt Ltd
 2nd Floor, The International 16,
 Maharishi Karve Road,
 Churchgate Station,
 Mumbai City - 400 020, India
- Tel: (91).22.6623.2600
 Fax: (91).22.6623.2604
-  **Saudi Arabia**
In association with
Anfaal Capital
 Villa 47, Tujjar Jeddah
 Prince Mohammed bin Abdulaziz
 Street P.O. Box 126575
 Jeddah 21352
- Tel: (966) 2 6068686
 Fax: (966) 26068787

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