MALAYSIA BUDGET 2014 – The Rebalancing Act?

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Numbers at a Glance: Federal Government Finance

(RM bil)	2012	2013 Preliminary	2014 Forecast
Revenue	207.2	220.4	224.1
Operating Exp	202.6	216.2	217.7
Development Exp	46.9	43.5	43.6
Overall (Deficit)/ Surplus	(42.3)	(39.3)	(37.1)
Deficit/GDP (%)	(4.5)	(4.0)	(3.5)
GDP Growth (%)	4.5 – 5.0	4.5 – 5.0	5.0-5.5
- Agriculture	0.6	2.7	3.0
- Construction	15.5	10.6	9.6
- Manufacturing	4.2	3.2	3.8
- Mining	1.5	2.2	3.1
- Services	5.5	5.5	5.7

Sources: Economic Report 2012/ 2013, Ministry of Finance

Comment:

For 2014 the government has targeted a fiscal deficit ratio of 3.5% GDP. This is 0.5% lower than that of 2013 or a fifth consecutive year of declining deficit ratio since 2010. Revenue is projected to rise by 1.7% while subsidies rationalisation has finally kicked in. Rationalisation of sugar subsidies are projected to save RM0.55bn in 2014 while a similar increase in quantum in fuel prices (RM 0.2) would save an additional RM3.3bn per annum for the government. However, this fiscal target has been made complicated by BR1M 3.0 in which government has allocated RM4.6bn for 2014. This is an increase of circa 53% from 2013's BR1M 2.0 of RM3.0bn.

Goods and Service Tax (GST)

- Effective from 1 April 2015, 6% of GST will replace the current sales and services tax of 10% and 6%



Comment:

Impact of GST on various sectors is mostly negative as it could result in higher cost which may not be passed on especially consumer sector. Spending in both nonessential and essential good could ease.

Auto sector and telco sector will benefit from the replacement with the 10% sales tax with the lower GST while telco operators able to save the current 6% service tax which they currently absorbed as cost and pass to prepaid users.

Oil & Gas

Among projects to be undertaken by Petronas are:

i) Sabah Ammonia Urea Project (SAMUR) in Sipitang, Sabah
ii) Integrated oil and gas production development project in Kebabangan, Sabah
iii) Regasification plant project in Lahad Datu, Sabah
iv) RAPID project in Pengerang, Johor

Allocation of RM3bn in soft loans to provide financing for development of the shipping industry, shipyard construction, oil and gas as well as maritime-related support activities.

Comment:

Although there were no new offshore or onshore projects being announced, Petronas' 5-Year capital expenditure commitment will continue.

The incentives in terms of soft loans would be good for offshore support vessel (OSV) companies given the uptrend in charter and utilisation rates in recent quarters. The outlook for offshore activities will remain bullish.

Aviation

- Formulation of a National Aviation Policy to transform Malaysia into a regional aviation hub.
- Allocation of RM312m to upgrade several airports.
- Allocation of RM700m to build new air traffic management center in KLIA
- Allocation of RM1.2bn in 2013 and 2014 for tourism promotion, Visit Malaysia Year (VMY)

Comment:

Government's efforts to boost the tourism industry will have positive impact on aviation especially MAHB as the increased in capacity means more landing fees and Passenger Service Charges (PSC) to be earned due to increase in airside capacity.

Telco

- Implementations of 2nd Phase of High Speed Broadband (HSBB) project where RM1.8bn will be allocated to increase coverage and Internet speed in urban area while another RM1.6bn for sub-urban area
- To increase Internet coverage in rural areas by building 1,000 telco transmission towers over the next 3 years.
- Allocation of RM850m from Universal Services Provision Fund (USP) to increase Internet access in Sabah and Sarawak via laying of new underwater cables over the next 3 years



Comment:

We think TM would benefit by getting additional grant of RM3.4bn for its HSBB projects on top of RM2.4bn gotten last year. The wider HSBB coverage would potentially see existing Streamyx subscribers to upgrade to Unifi packages which will improve its ARP U.

The additional 1,000 towers to be built would benefit telco service providers like OCK and Instacom while RedTone might be benefitted from the rural area projects given their track records in those areas.

Utilities

- No implementation timeline for Fuel Cost Pass Through (FCPT) mechanism announced.
- Allocation of RM865m for uninterrupted electricity supply to more than 16k homes nationwide.
- Allocation of RM265m to improve electricity supply in Sabah.



- No hike in excise duty for brewers

- No hike in gaming duty

Comment:

The lack of measure announced like FCPT which involves electricity tariff adjustment and might cause knee-jerk reaction in Tenaga, but we believe the implementation of FCPT will come and Tenaga will be benefited by protecting itself from fuel price risk.

Despite Malaysia has the highest beer excise duty in Asia Pacific, we believe the government wants to draw more tourists next year, which has been declared Visit Malaysia Year.

Gaming taxes remain unchanged since the last revision in 1998 at flat 25%. We believe BjToto, Magnum, Genting Bhd and Genting Malaysia earnings will not be affected.

Property

- Review real property gain tax (RPGT) and close to original tax structure where it starting at 30% on a declining scale (30/30/30/20/15/0)
- Removal of Developer Interest Bearing Scheme (DIBS)
- Increase transparency in property sales price including all the benefits and incentives offered to buyers
- Doubling the floor price for properties bought by foreigners from RM500k to RM1m

Comment:

- Hike in real property gain tax (RPGT) is within expectation. To further curb the speculative activities in property market, we think other cooling-measures like stamp duty and loan-to-value (LTV) should be revised but were not mentioned during the budget.
- Most of the luxury properties in Malaysia are priced above RM1m and we believe it will not affect much on the foreign purchases.

Construction

Projects allocation:

i) RM5.6b for West Coast Expressway (WCE)
ii) RM7b for Southern Rail Double Track
iii) RM1.6b for five regional corridors
iv) RM500m for Pan-Borneo Highway
v) RM980m for rural transformation programme
vi) RM1.2b for dams and water treatment plants
vii) RM312m to upgrade airports
viii) RM831m to build and maintenance of schools
ix) RM659m for flood mitigation program

Comment:

Mega project sequencing was not mentioned but we reckon the momentum will continue. Progress and new milestone for the KVMRT (Line 2 & 3) was not laid out, we reckon that the implementation and allocation will go beyond 2015.

Strong emphasis was placed on rural development. Sarawak contractors like Cahya Mata Sarawak, Hock Seng Lee and Naim Holdings will be cheered by spending of the government on the aforesaid development.

Based on the past track record, Gamuda, IJM, WCT and Kimlun will benefited from the Southern Double Track, WCE, airport upgrade and building school project respectively.

Rakyat Goodies

- A special tax relief of RM2,000 will be given to tax payers with a monthly income up to RM8,000 received in 2013.
- BR1M to households with a monthly income of below RM3,000 will be increased from RM500 to RM650
- Single individuals aged 21 and above with monthly income not exceeding RM2,000, BR1M will be increased from RM250 to RM300
- BR1M assistance of RM450 will be extended to households with a monthly income of between RM3,000 and RM4,000.
- Special financial assistance of RM250 to pensioners
- A half month bonus for 2013 to civil servants with minimum payment of RM500

Comment:

Overall disposable income from tax saving is expected to increase up to RM480. The one off cash incentives will not bring much multiplier effect in terms of consumption and spending with further rationalisation of subsidies and increase in interest rates.

Subsidies

- Abolishment of the sugar subsidy of 34 sen effective 26 Oct, taking the retail price to RM2.84/kg from RM2.50/kg.

- There was no mention on rationalisation on other items namely fuel and energy prices. Consumers may be surprised by the sudden abolishment sugar subsidies. MSM will suffer from lower sales of sugar, although its margin could remain the same.
- We will see some price adjustment in F&B products resulted from the increase in sugar cost. However, we think the impact to the stock market would be rather muted.

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