



## EQUITIES RESEARCH

# Malaysia Strategy

2024 outlook: Position for big policy reforms

January 2024



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## Our team



**Ben Shane Lim**

Malaysia strategy, banks, tech manufacturing



**Max Koh**

Utilities, O&G, Aviation, Autos



**Izzati Hakim**

Telcos, tech, IT services



**Huan Wen Gan**

Plantations, consumer, healthcare



**Kaushal Ladha**

Thai strategy, petrochemicals



**Gilbert Lopez**

Philippines strategy, gaming



# Overview

## Outlook for 2024

### Policy:

- **Fuel subsidy unwinding** - transition to targeted subsidies and cash transfers
- **Energy transition** - NETR implementation. TNB's RP4 will be a key milestone.
- **Continued support for FDI's; key sectors in focus:**
  - Penang tech investments.
  - Datacentres in Johor.
  - Sarawak sovereign fund.
- **Clarity on telco 5G dual wholesale network.**

### Macro:

- **4-5% GDP growth in 2024**, driven by domestic consumption and with upside tilt.
- **Note:** 3Q23 +5.3% q/q, +3.3% y/y.
- **Inflation will pick up in 2024**, driven by policies, rising to ~3.5%.
- **OPR to hold at 3%.**
- **Labour market remains tight**, wage growth should continue to put pressure on corporate costs; offset by foreign labour import.
- **Exports showing signs of recovery**, E&E has upside potential, but commodities tilted to the downside.

### External:

- **China tourism: potential to normalize to pre-pandemic volumes; currently only ~75%. Visa-free travel implemented in December.**
- **Trade diversion: Noise around US elections likely to drive further supply chain migration; Penang remains a top destination.**
- **Fed rate cuts: We forecast 200bps cuts in 2H24.**
  - Supportive of MYR (FY24E: 4.50).
  - Relative NIM resilience for banks.

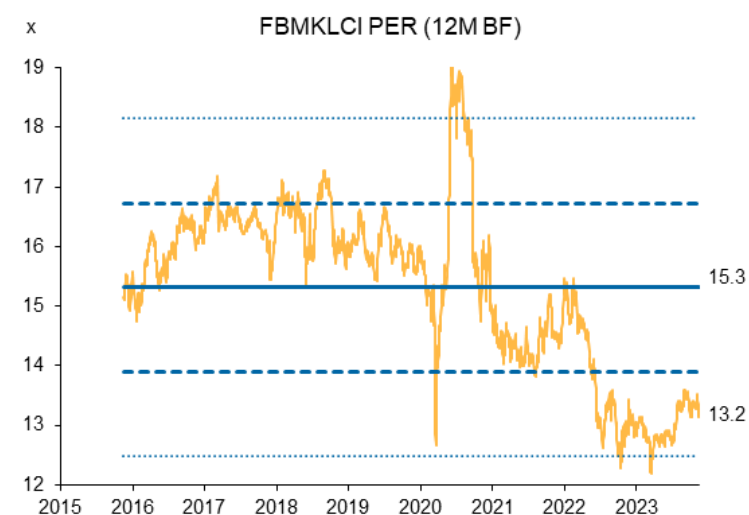
# Overview

KLCI target: 1,570 points on +10% earnings growth

## Index rebalancing lifts FY24 earnings growth

| RMbn              | Market cap |       |      | Earnings |      |      |      |     | PER  |      |
|-------------------|------------|-------|------|----------|------|------|------|-----|------|------|
|                   | Last       | CY24  | Δ%   | CY23     | CY24 | CY25 | y/y  | y/y | CY24 | CY25 |
| <b>Banks</b>      | 440        | 458   | 4%   | 36.2     | 40.9 | 42.3 | 13%  | 4%  | 11.2 | 11.3 |
| <b>Energy</b>     | 227        | 237   | 4%   | 16.7     | 17.1 | 17.4 | 2%   | 2%  | 13.9 | 14.8 |
| <b>Telco</b>      | 115        | 117   | 2%   | 2.4      | 4.5  | 5.1  | 90%  | 14% | 25.9 | 26.5 |
| <b>Plants</b>     | 102        | 96    | -6%  | 7.9      | 5.3  | 5.6  | -33% | 6%  | 18.2 | 18.8 |
| <b>Consumer</b>   | 56         | 58    | 4%   | 2.2      | 2.2  | 2.4  | 4%   | 9%  | 25.9 | 25.9 |
| <b>Health</b>     | 37         | 42    | 14%  | 0.9      | 1.0  | 1.3  | 8%   | 25% | 41.6 | 35.1 |
| <b>Other</b>      | 71         | 78    | 10%  | 1.2      | 3.5  | 4.4  | 188% | 25% | 22.3 | 20.1 |
| <b>KLCI total</b> | 1,047      | 1,085 | 3.6% | 67.5     | 74.4 | 78.5 | 10%  | 5%  | 14.6 | 14.9 |

|                     |              |              |             |
|---------------------|--------------|--------------|-------------|
| <b>Index points</b> | <b>1,515</b> | <b>1,570</b> | <b>3.6%</b> |
|---------------------|--------------|--------------|-------------|



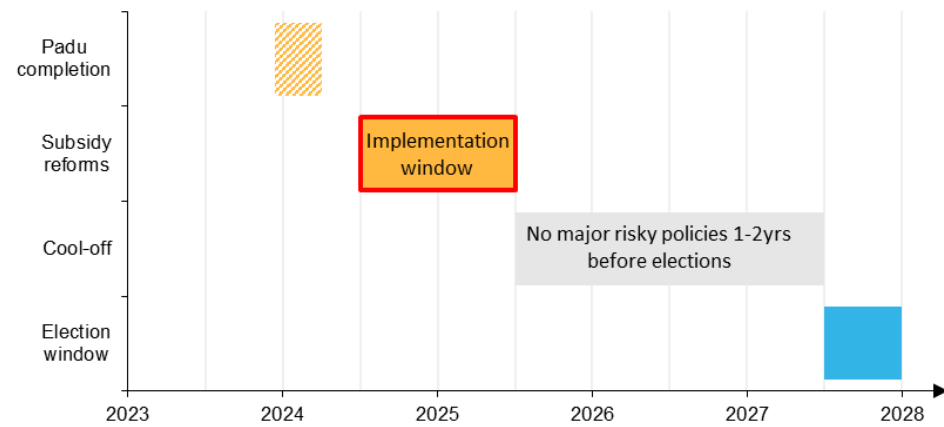
Priced as of Jan 29, 2024.

Source: Bloomberg, Macquarie Research, January 2024

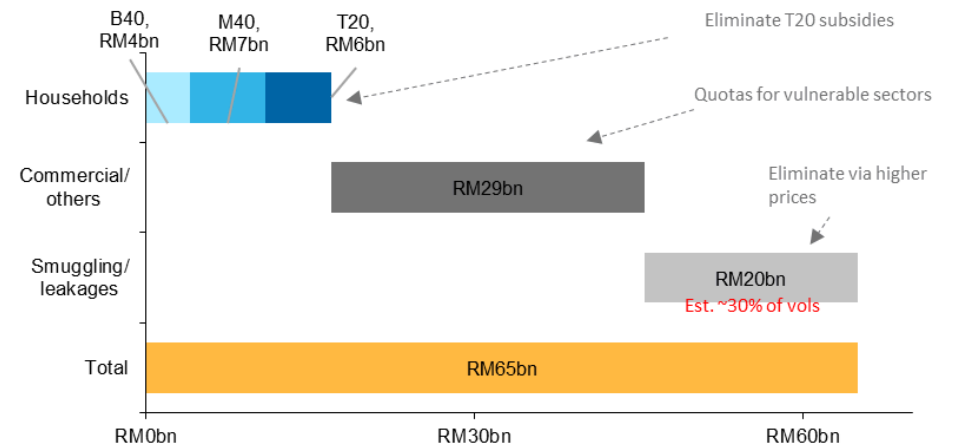
# Policy reforms

## Removal of blanket fuel subsidies

### Finite implementation window



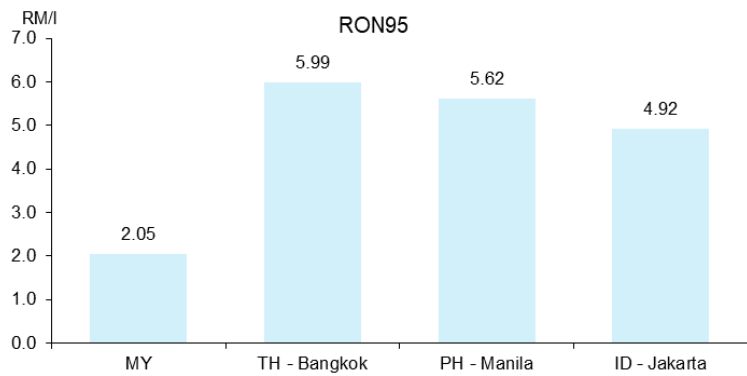
### Fuel subsidy breakdown



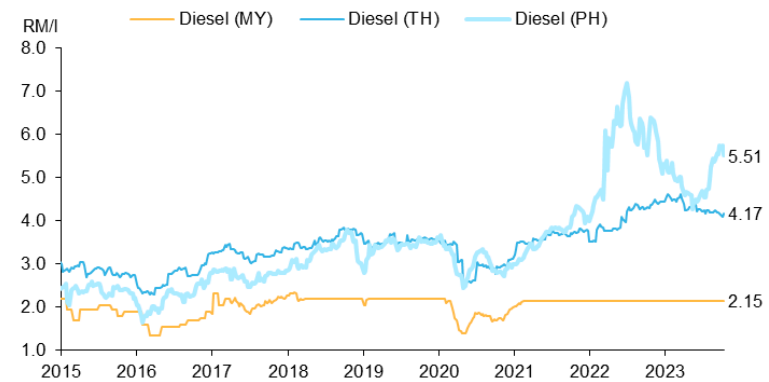
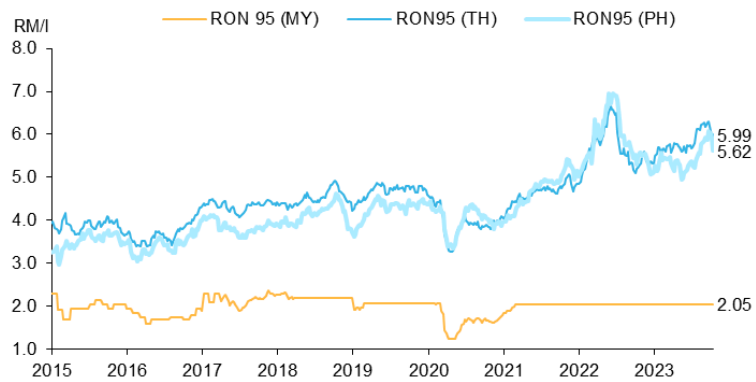
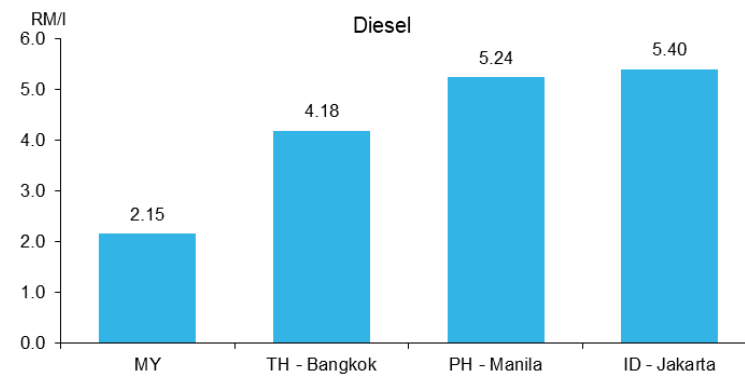
# Policy reforms

## Fuel costs vs region

RON 95 vs neighbouring benchmark



Diesel vs neighbouring benchmark



Source: Bloomberg, Macquarie Research, January 2024

# Policy reforms

## Plugging the leakages

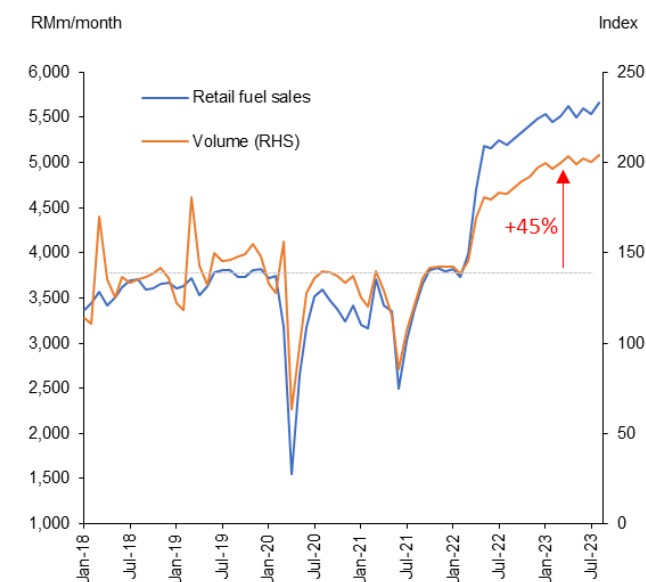
### Key features:

- Direct cash transfers and/or digital fuel card with quota.
- Monthly transfers/quota.
- Disbursed via e-wallets.
- Heavy emphasis on low-income/vulnerable groups.
- Criteria based on household income and/or individual income.
- Centralised database – PADU.

### Key implications:

- Inflationary – both cash transfers and subsidy withdrawal.
- Stimulative for growth – low-income groups have low savings rate.
- Catalyst for EV adoption and broader investment in energy efficient vehicles.
- Negative for retail fuel operators – volume destruction.
- Positive for financials – better income stability, higher debt service ceiling.
- Positive for consumers – discretionary and out-of-home spending.

### Estimated >30% leakages



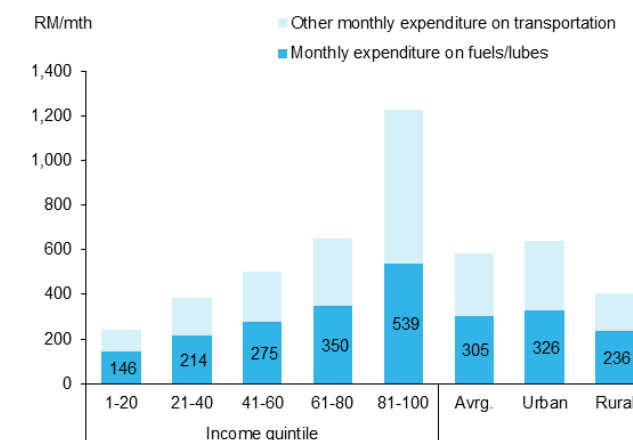
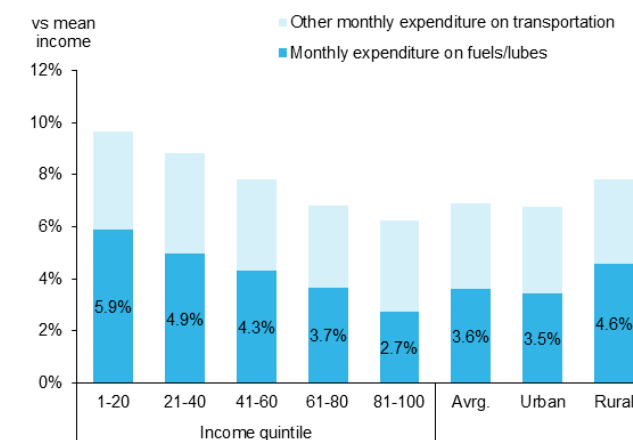
# Policy reforms

## Fuel subsidy consumption breakdown

### High-income households consume the bulk of subsidies

| Income group | No. of h'holds | Mean h'hold income | Mean h'hold expenditure | of which: transportation expenditure | of which: expenditure on fuels/lubes | vs mean income | Estimated subsidy consumption | Gross household fiscal cost |
|--------------|----------------|--------------------|-------------------------|--------------------------------------|--------------------------------------|----------------|-------------------------------|-----------------------------|
|              | '000           | RM/mth             | RM/mth                  | RM/mth                               | RM/mth                               |                | RM/month                      | RMbn/year                   |
| 1-20         | 1,582          | 2,479              | 2,340                   | 239                                  | 146                                  | 5.9%           | 85                            | 1.6                         |
| 21-40        | 1,582          | 4,322              | 3,496                   | 382                                  | 214                                  | 4.9%           | 125                           | 2.4                         |
| 41-60        | 1,582          | 6,386              | 4,556                   | 500                                  | 275                                  | 4.3%           | 161                           | 3.0                         |
| 61-80        | 1,583          | 9,557              | 5,947                   | 649                                  | 350                                  | 3.7%           | 205                           | 3.9                         |
| 81-100       | 1,581          | 19,652             | 9,836                   | 1,226                                | 539                                  | 2.7%           | 315                           | 6.0                         |
| Average      |                | 8,479              | 5,231                   | 584                                  | 305                                  | 3.6%           | 178                           |                             |
| Urban        | 6,156          | 9,428              | 5,675                   | 639                                  | 326                                  | 3.5%           | 190                           | 14.1                        |
| Rural        | 1,753          | 5,147              | 3,409                   | 403                                  | 236                                  | 4.6%           | 138                           | 2.9                         |
| <b>Total</b> | <b>7,909</b>   |                    |                         |                                      |                                      |                |                               | <b>16.9</b>                 |

### Fuel expenditure by income group



Source: DOSM, Macquarie Research, January 2024



# Policy reforms

## Scenario analysis

### Scenario 1: Subsidy offset for B40 & M40

| Income group | Mean h'hold expd. | Est. subsidy/h'hold | Gross fiscal cost | Cash transfer |               |         | Fiscal savings |
|--------------|-------------------|---------------------|-------------------|---------------|---------------|---------|----------------|
|              | RM/mth            | RM/mth              | RMbn/yr           | RM/mth        | vs mthly exp. | RMbn/yr | RMbn/yr        |
| 1-20         | 2,340             | 85                  | 1.6               | 85            | 3.6%          | 1.6     | 0.0            |
| 21-40        | 3,496             | 125                 | 2.4               | 125           | 3.6%          | 2.4     | 0.0            |
| 41-60        | 4,556             | 161                 | 3.0               | 161           | 3.5%          | 3.0     | 0.0            |
| 61-80        | 5,947             | 205                 | 3.9               | 205           | 3.4%          | 3.9     | 0.0            |
| 81-100       | 9,836             | 315                 | 6.0               |               |               |         | 6.0            |
| Average      | 5,231             | 178                 |                   |               |               |         |                |
| Urban        | 5,675             | 190                 | 14.1              |               |               |         |                |
| Rural        | 3,409             | 138                 | 2.9               |               |               |         |                |
| <b>Total</b> |                   |                     | 16.9              | 575.6         |               | 10.9    | 6.0            |

### Scenario 2: Fiscal breakeven

| Income group | Mean h'hold expd. | Est. subsidy/h'hold | Gross fiscal cost | Cash transfer |               |           | Fiscal savings |
|--------------|-------------------|---------------------|-------------------|---------------|---------------|-----------|----------------|
|              | RM/mth            | RM/month            | RMbn/year         | RM/month      | vs mthly exp. | RMbn/year | RMbn/year      |
| 1-20         | 2,340             | 85                  | 1.6               | 350           | 15.0%         | 6.6       | -5.0           |
| 21-40        | 3,496             | 125                 | 2.4               | 300           | 8.6%          | 5.7       | -3.3           |
| 41-60        | 4,556             | 161                 | 3.0               | 150           | 3.3%          | 2.8       | 0.2            |
| 61-80        | 5,947             | 205                 | 3.9               | 90            | 1.5%          | 1.7       | 2.2            |
| 81-100       | 9,836             | 315                 | 6.0               |               |               |           | 6.0            |
| Average      | 5,231             | 178                 | 0.0               |               |               |           |                |
| Urban        | 5,675             | 190                 | 14.1              |               |               |           |                |
| Rural        | 3,409             | 138                 | 2.9               |               |               |           |                |
| <b>Total</b> |                   |                     | 16.9              | 575.6         |               | 10.9      | 0.0            |

# Policy reforms

## Scenario analysis

### Scenario 3: Aggressive cash transfer

| Income group | Mean h'hold expd. | Est. subsidy/h'hold | Gross fiscal cost | Cash transfer |               |         | Fiscal savings |
|--------------|-------------------|---------------------|-------------------|---------------|---------------|---------|----------------|
|              |                   |                     |                   | RM/mth        | vs mthly exp. | RMbn/yr |                |
| 1-20         | 2,340             | 85                  | 1.6               | 585           | 25%           | 11.1    | -9.5           |
| 21-40        | 3,496             | 125                 | 2.4               | 524           | 15%           | 10.0    | -7.6           |
| 41-60        | 4,556             | 161                 | 3.0               | 456           | 10%           | 8.6     | -5.6           |
| 61-80        | 5,947             | 205                 | 3.9               | 178           | 3.0%          | 3.4     | 0.5            |
| 81-100       | 9,836             | 315                 | 6.0               |               |               |         | 6.0            |
| Average      | 5,231             | 178                 | 0.0               |               |               |         |                |
| Urban        | 5,675             | 190                 | 14.1              |               |               |         |                |
| Rural        | 3,409             | 138                 | 2.9               |               |               |         |                |
| <b>Total</b> |                   |                     | 16.9              | 575.6         |               | 10.9    | -16.2          |

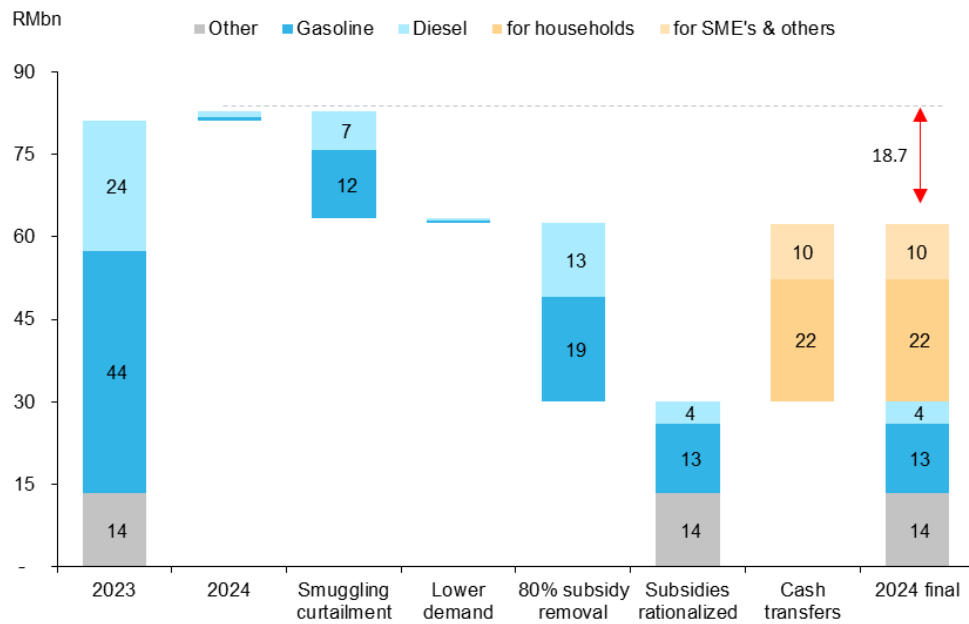
### Scenario 4: Inflation protection

| Income group | Mean h'hold expd. | Est. subsidy/h'hold | Gross fiscal cost | Cash transfer |               |         | Fiscal savings |
|--------------|-------------------|---------------------|-------------------|---------------|---------------|---------|----------------|
|              |                   |                     |                   | RM/mth        | vs mthly exp. | RMbn/yr |                |
| 1-20         | 2,340             | 85                  | 1.6               | 351           | 15%           | 6.7     | -5.0           |
| 21-40        | 3,496             | 125                 | 2.4               | 524           | 15%           | 10.0    | -7.6           |
| 41-60        | 4,556             | 161                 | 3.0               | 273           | 6.0%          | 5.2     | -2.1           |
| 61-80        | 5,947             | 205                 | 3.9               | 119           | 2.0%          | 2.3     | 1.6            |
| 81-100       | 9,836             | 315                 | 6.0               |               |               |         | 6.0            |
| Average      | 5,231             | 178                 | 0.0               |               |               |         |                |
| Urban        | 5,675             | 190                 | 14.1              |               |               |         |                |
| Rural        | 3,409             | 138                 | 2.9               |               |               |         |                |
| <b>Total</b> |                   |                     | 16.9              | 0.0           |               | 0.0     | -7.2           |

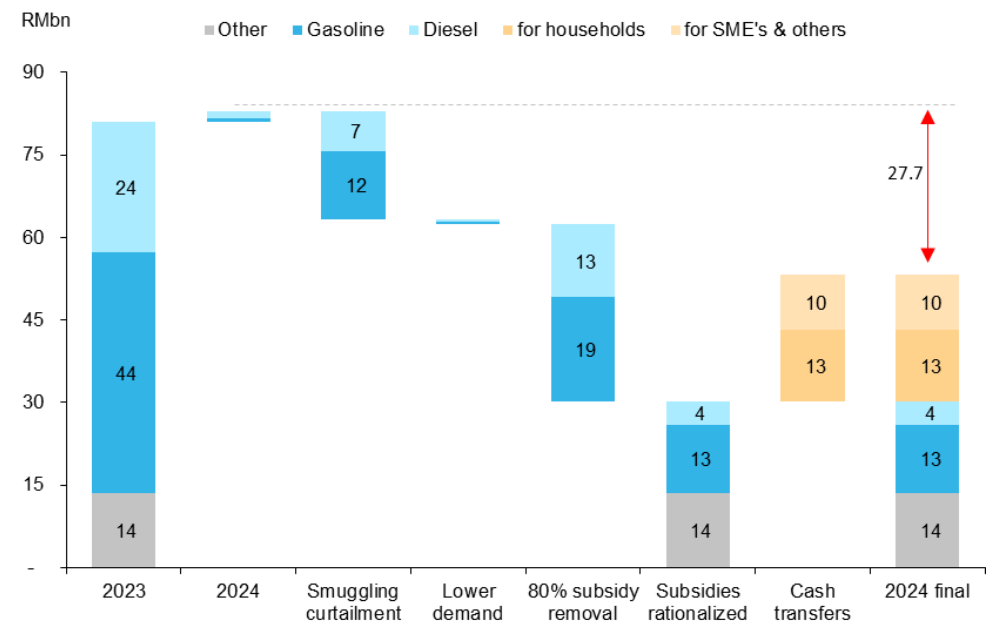
# Policy reforms

## Scenario analysis

### Scenario 3: Aggressive cash transfers



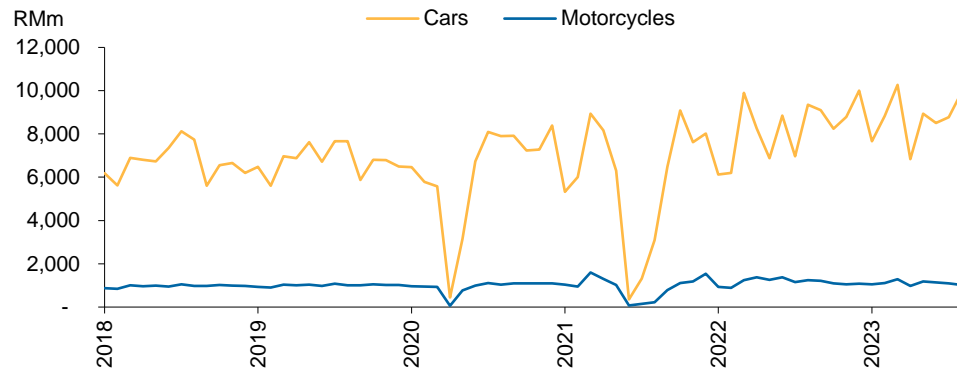
### Scenario 4: Inflation protection



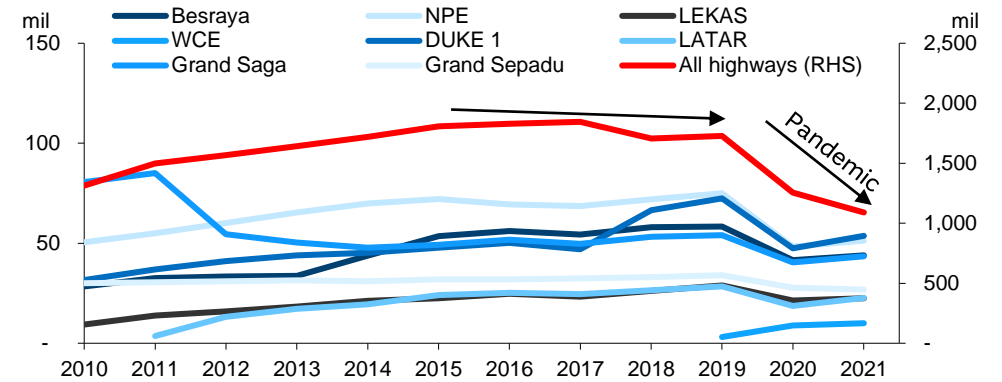
# Policy reforms

## Transportation & energy

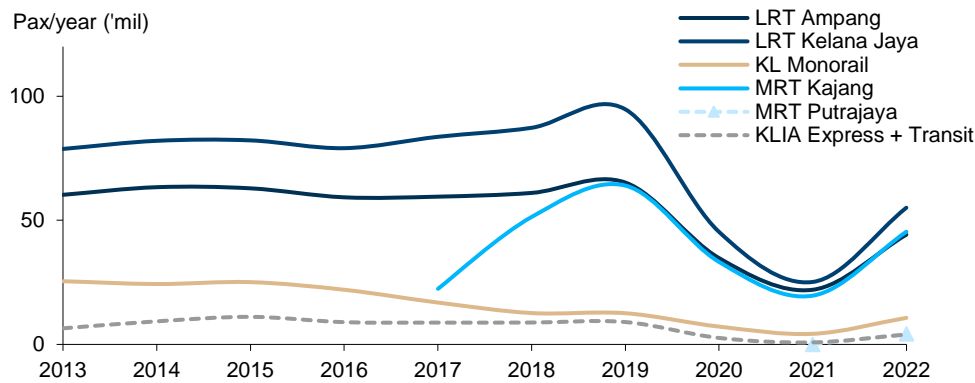
### Car sales are at record levels



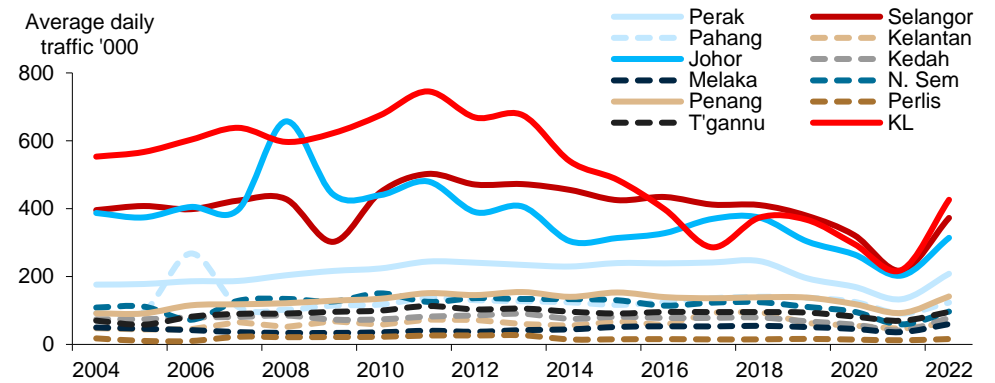
### Toll road traffic



### Public transportation use



### Traffic at selected locations

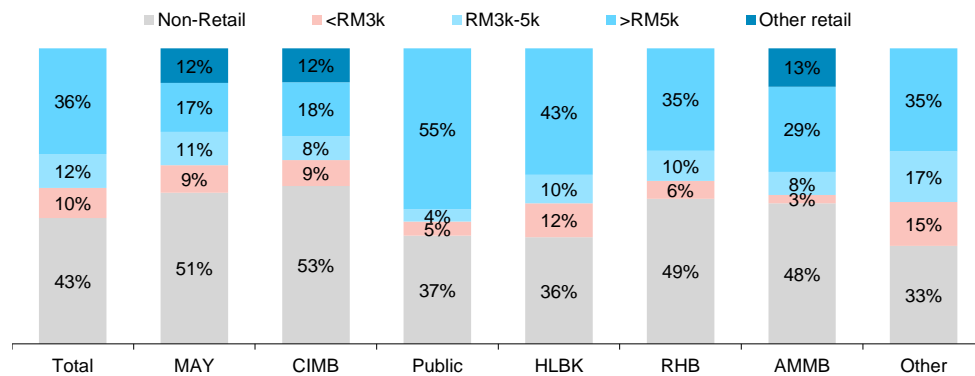


Source: MHA, MoT, Macquarie Research, January 2024

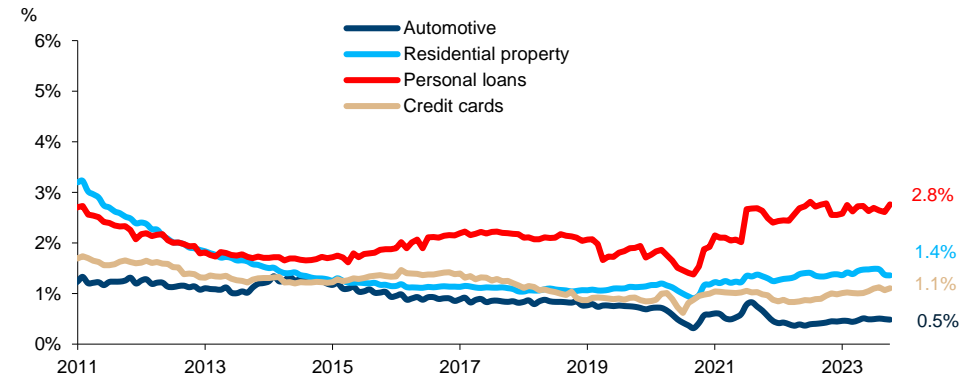
# Policy reforms

## Financials - low-income asset quality boost

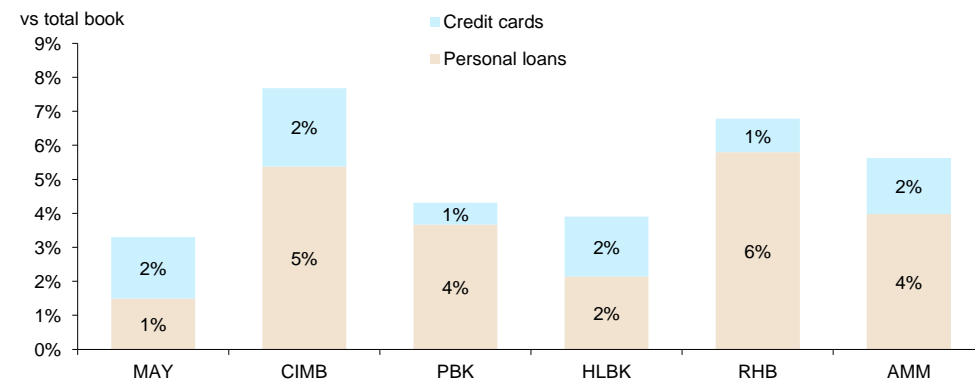
### Borrower income demographics (2020 data)



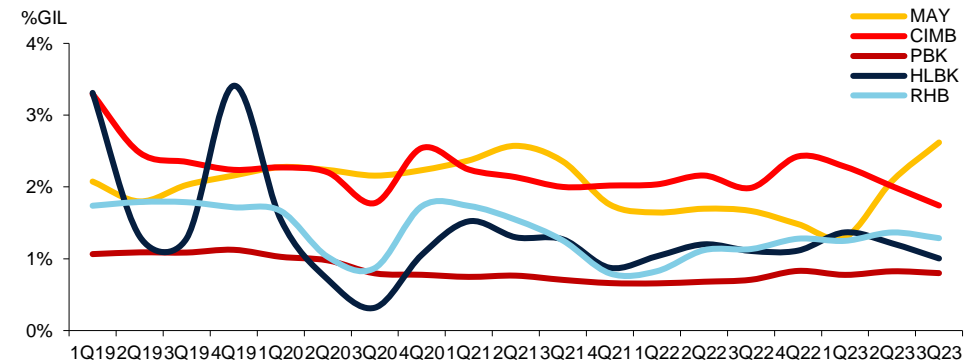
### Consumer GIL - behavioural driven



### Unsecured consumer lending exposure by bank



### Personal loan GIL by bank

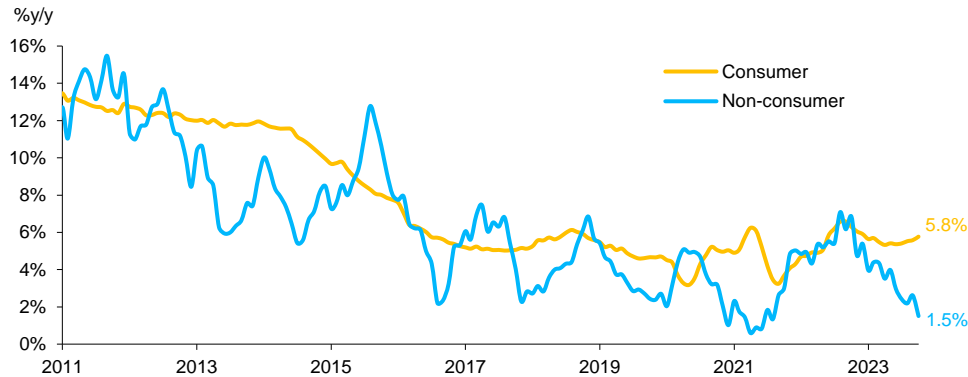


Source: BNM, Company data, Macquarie Research, January 2024

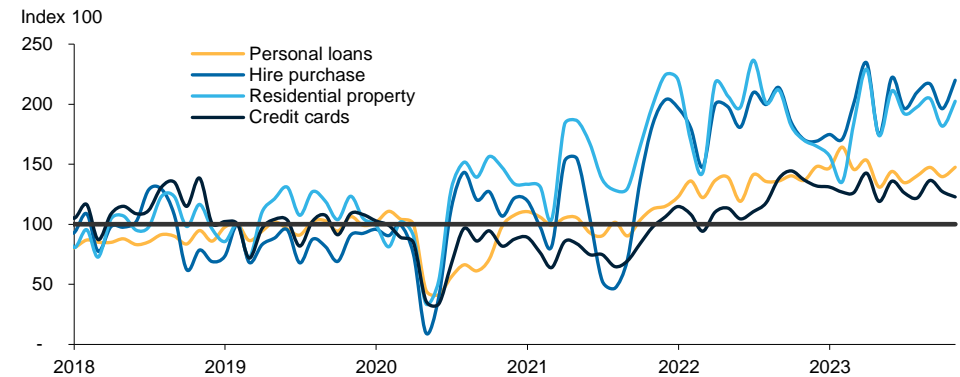
# Policy reforms

## Financials - improved credit appetite

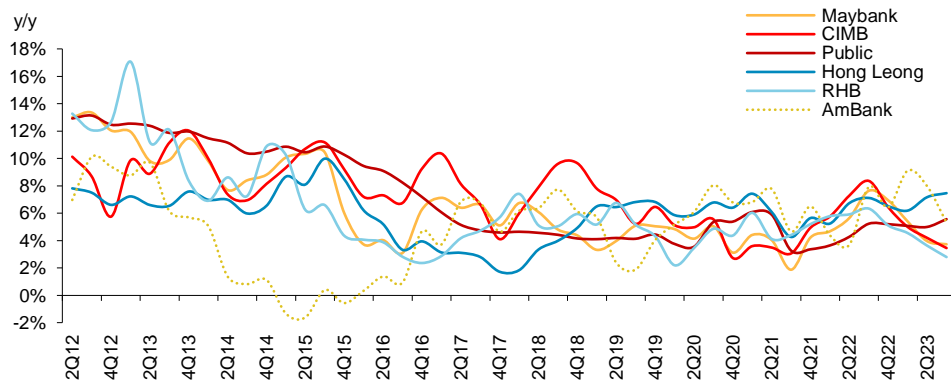
### Loans growth - consumer outperforming



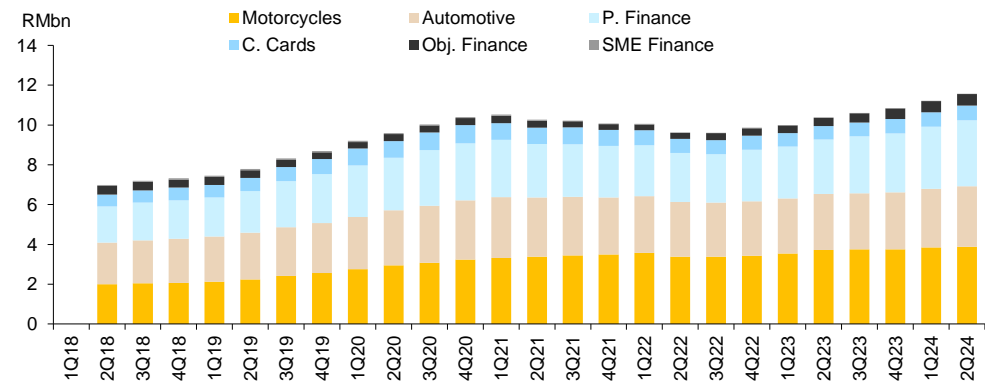
### Consumer loan applications - strong demand



### Domestic loans growth by bank



### Personal loan GIL by bank

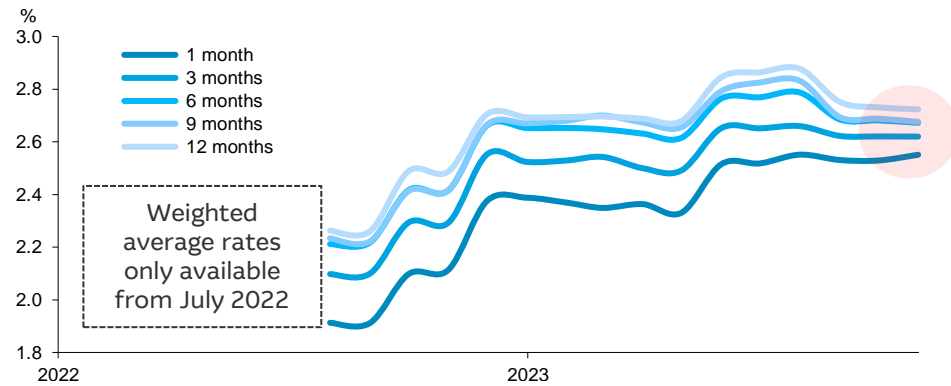


Source: BNM, Company data, Macquarie Research, January 2024

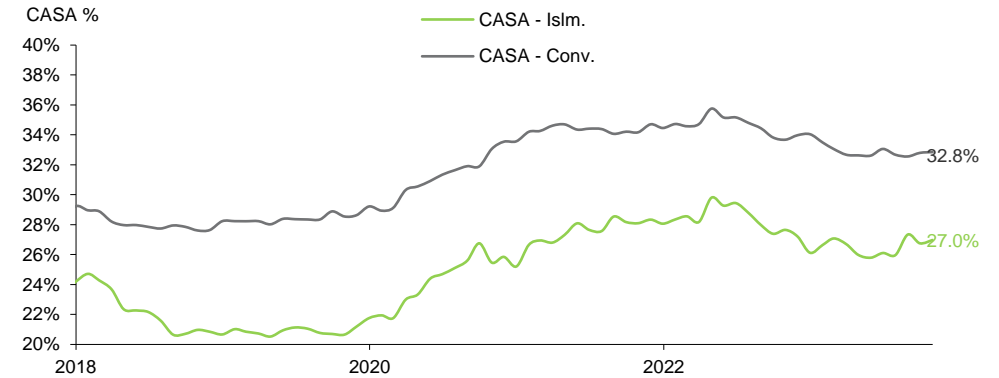
# Policy reforms

## Financials - liquidity boost

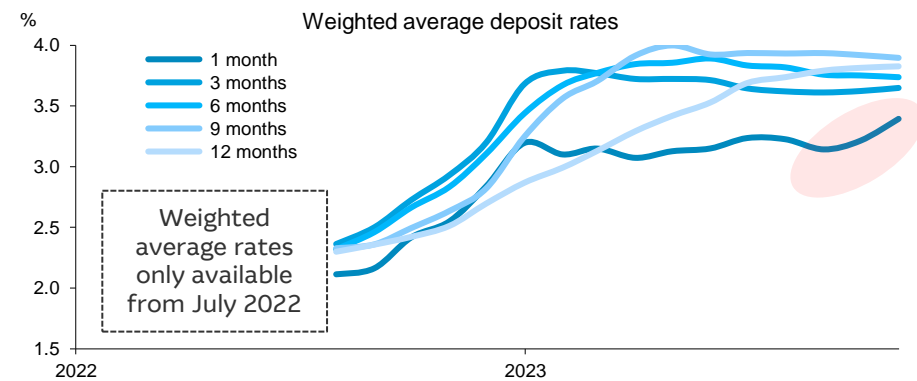
**Conventional weighted avg. FD rates - stable in October**



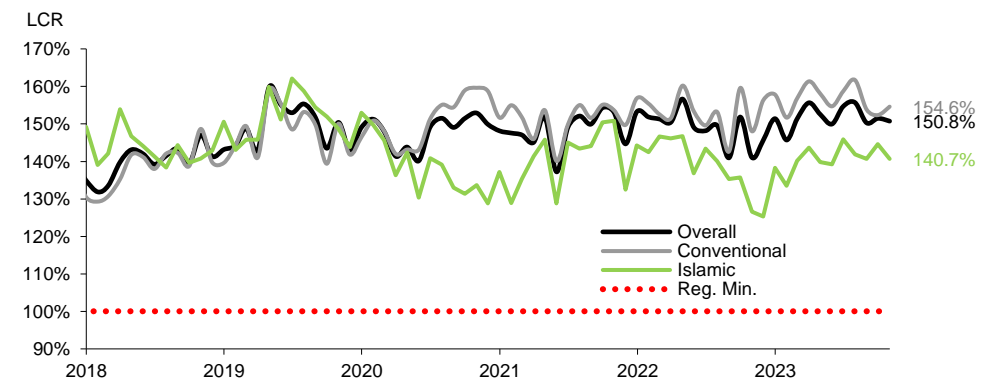
**CASA - elevated vs pre-pandemic**



**Islamic weighted avg. FD rates - stable in October**



**Liquidity ratios - Islamic lags**

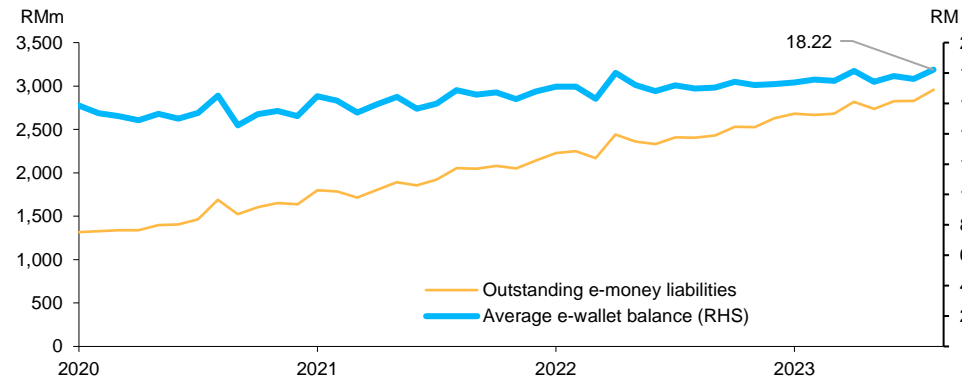


Source: BNM, Company data, Macquarie Research, January 2024

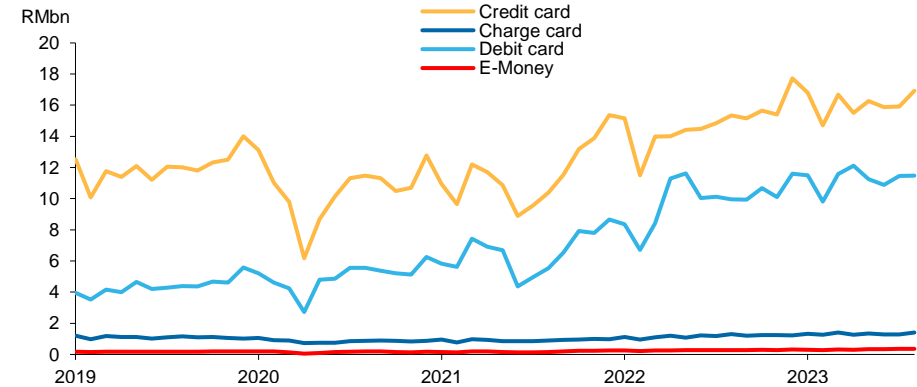
# Policy reforms

## Financials - e-wallet angle

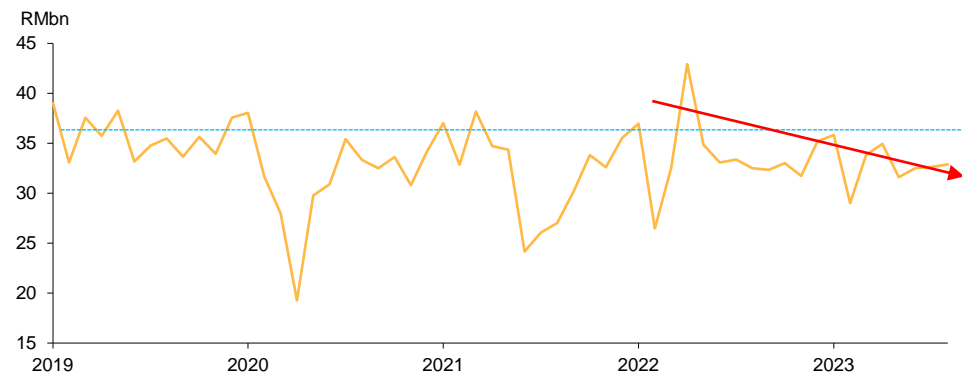
### E-wallet landscape



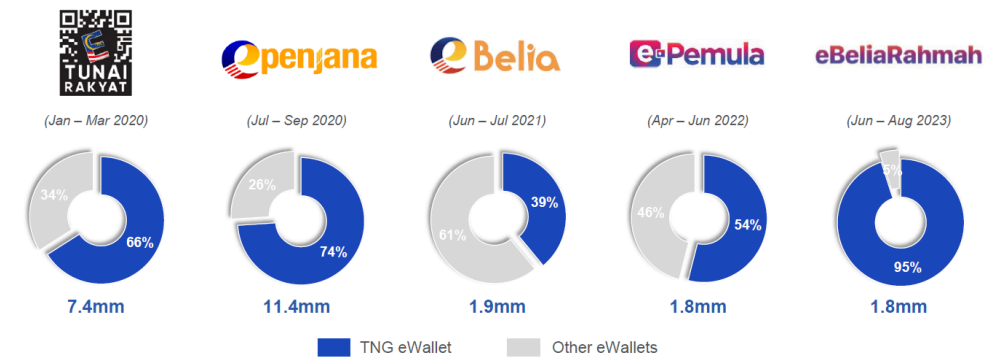
### Transaction value by channel



### ATM withdrawals - stagnating



### Touch 'n Go e-money disbursements



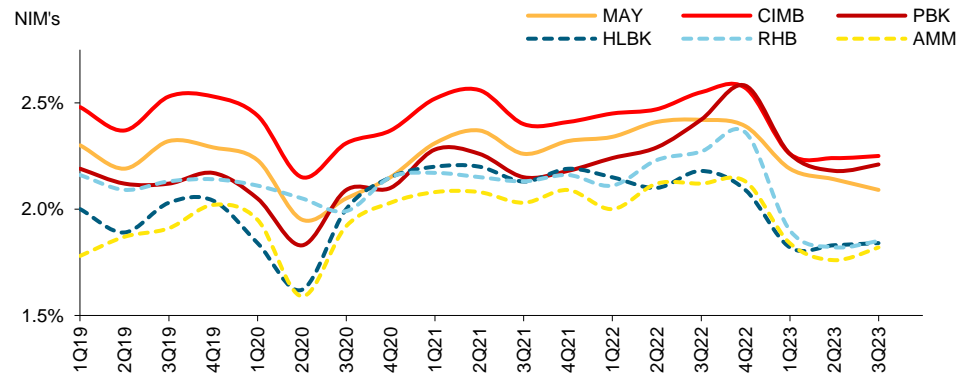
Source: BNM, Company data, Macquarie Research, January 2024



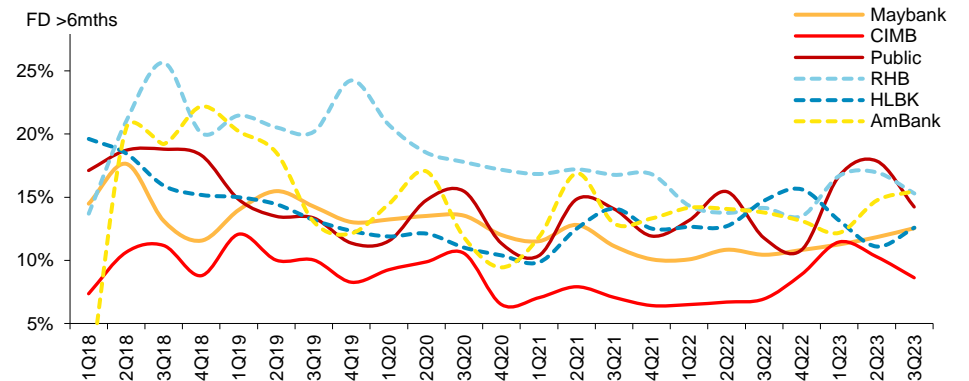
# Policy reforms

## Financials - NIM concerns

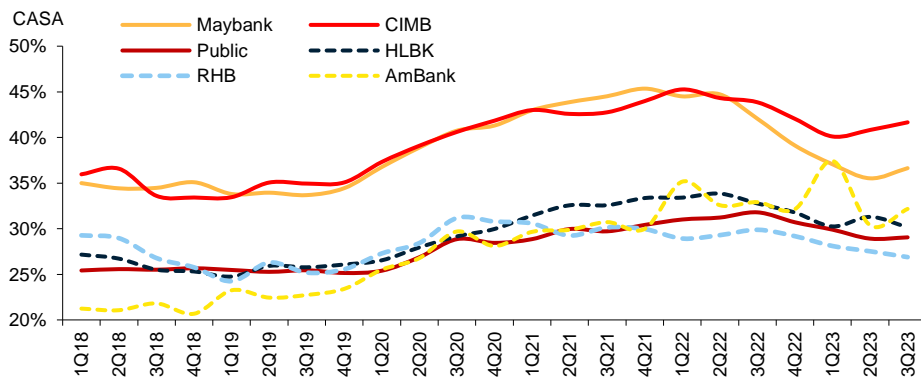
### Deposit competition has stabilized



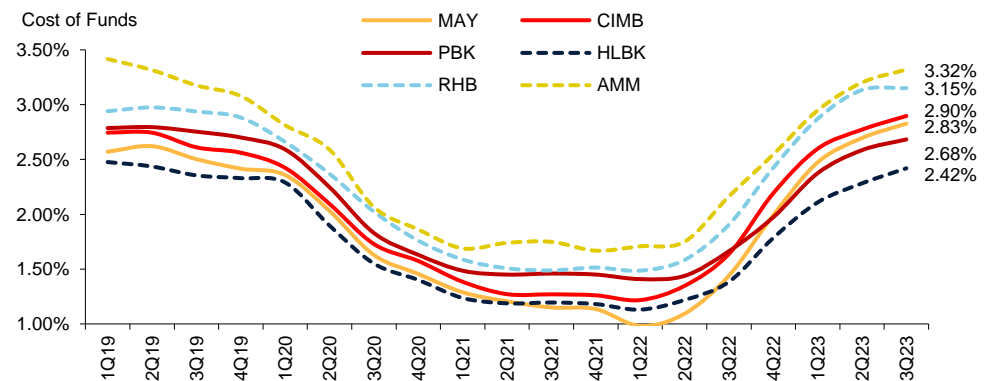
### Deposit tenures are shortening



### CASA - still holding above pre-pandemic levels



### Cost of funds

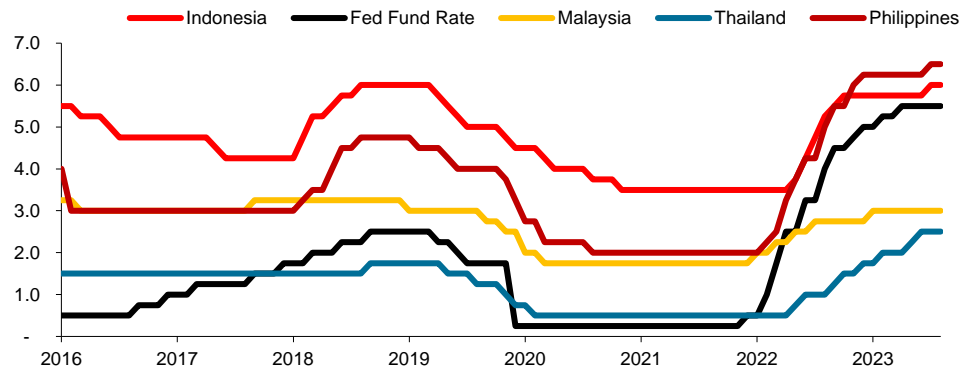


Source: BNM, Company data, Macquarie Research, January 2024

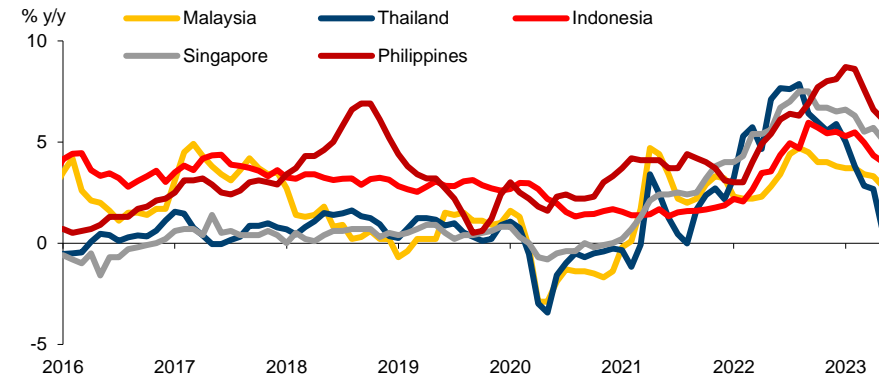
# Policy reforms

## Financials - Rate cut hedge

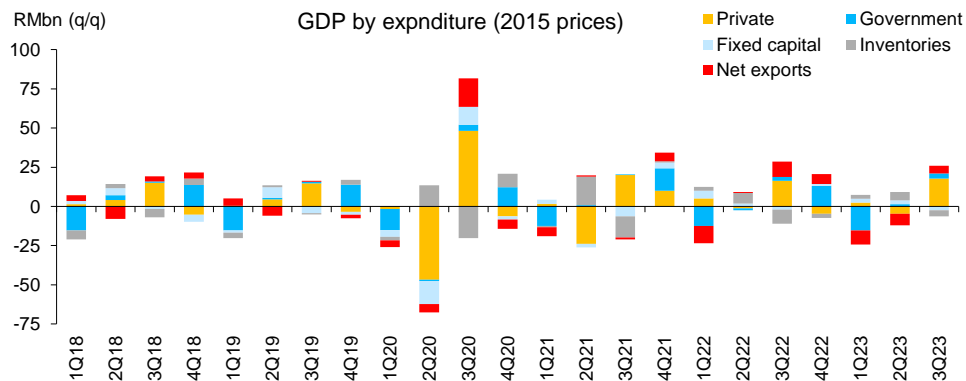
### BNM already at neutral rate; cuts unlikely



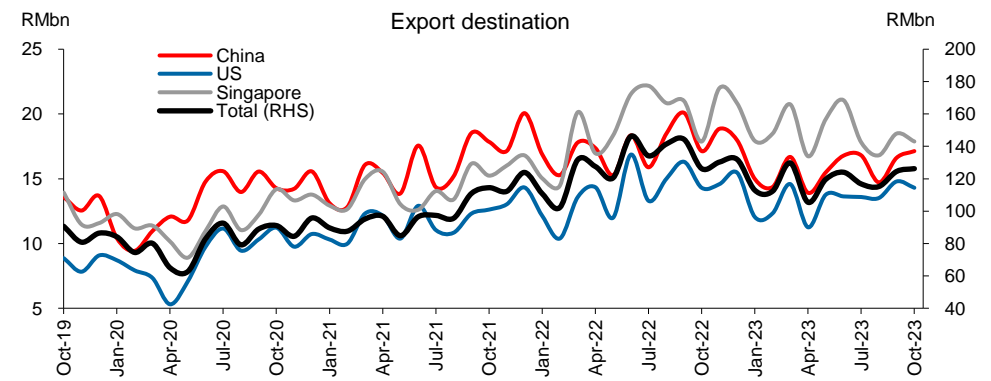
### Inflation is well-contained in Malaysia



### GDP - domestic-driven with exports recovering



### Exports to US/China already impacted by slowdown

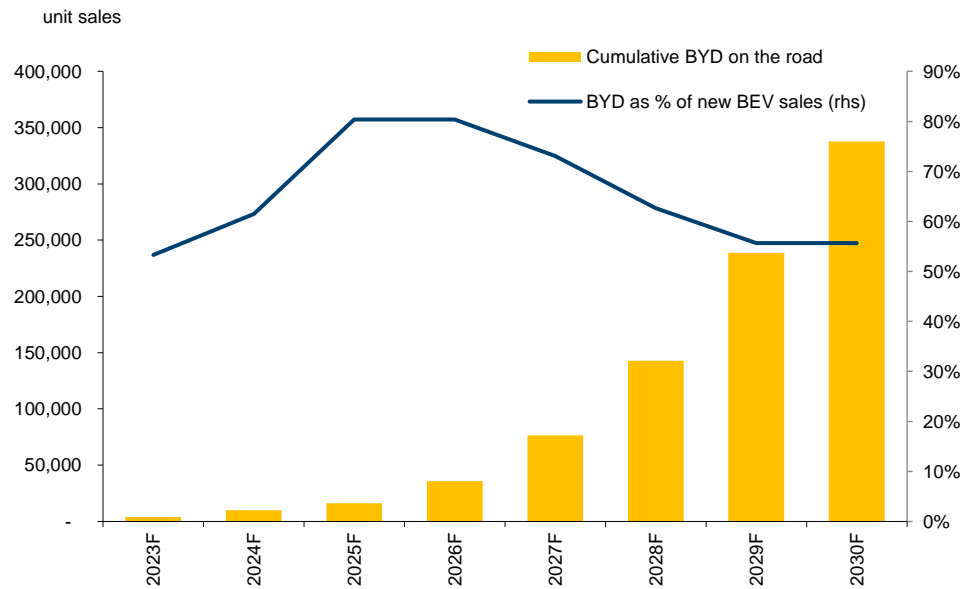


Source: Bloomberg, DOSM, Company data, Macquarie Research, January 2024

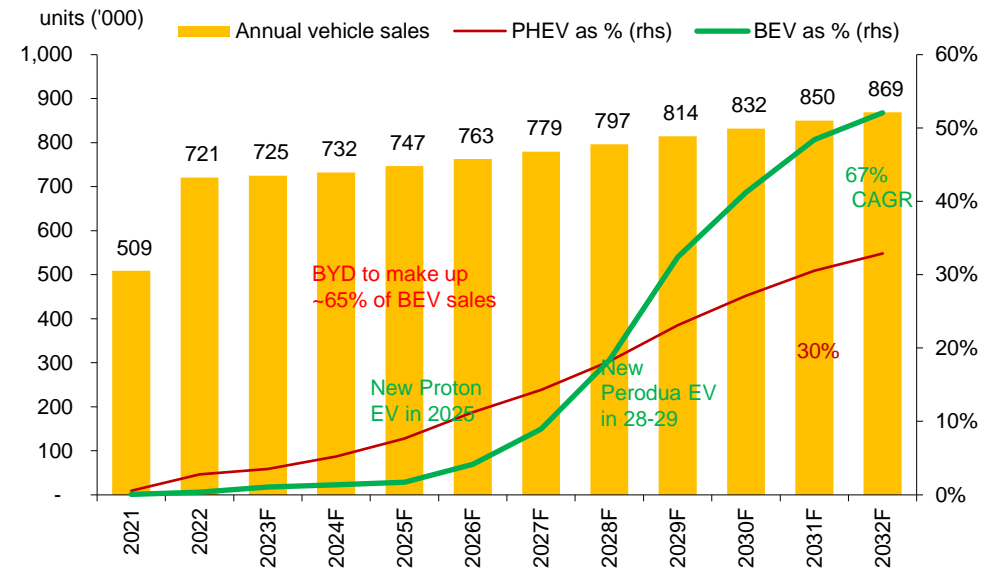
# Policy reforms

## Look for EV plays

We estimate BYD sales to make up ~65% of EV sales



BEV sales to grow at 67% CAGR until 2032F

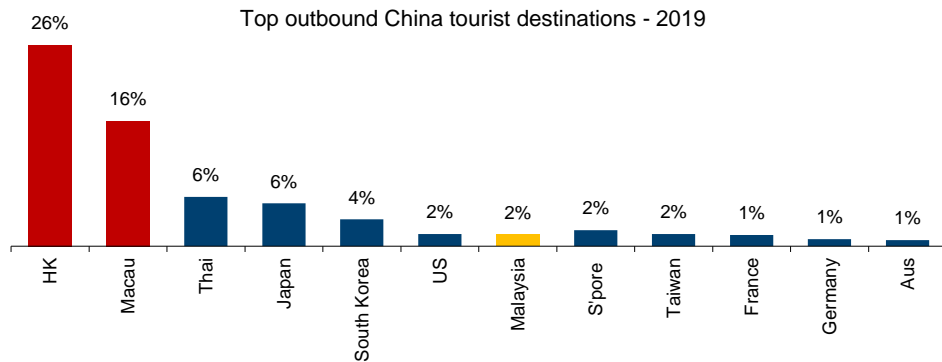


Source: Bloomberg, Company data, Macquarie Research, January 2024

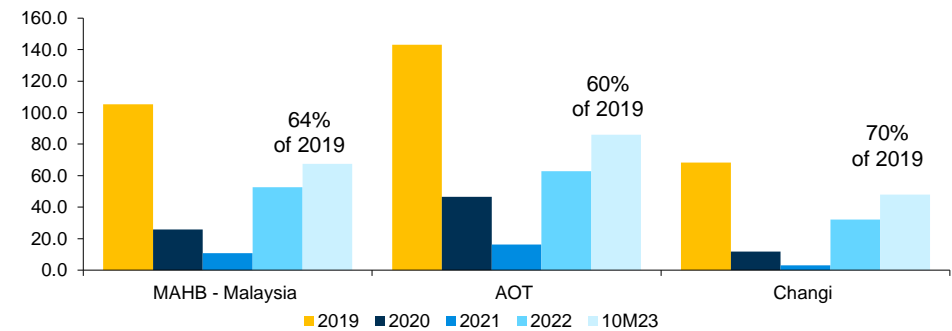
# Aviation

## China pax recovery a sector catalyst

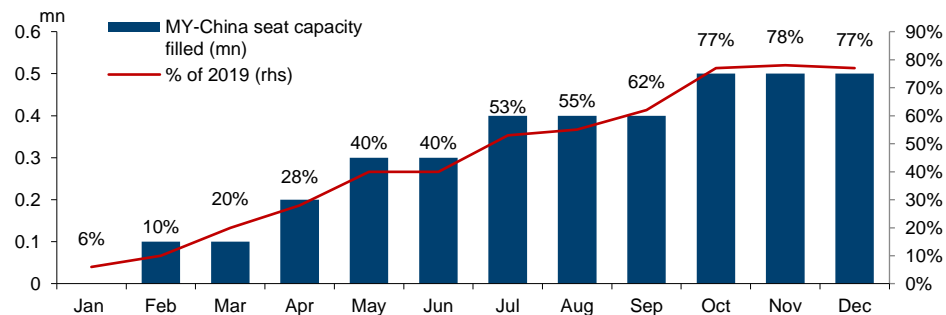
### Malaysia was top 5 destination for outbound China tourists in 2019



### Malaysia's 2023 pax at 64% of 2019 despite slower inbound Chinese tourists



### MY-China seat capacity in Dec is at 77% of pre-pandemic

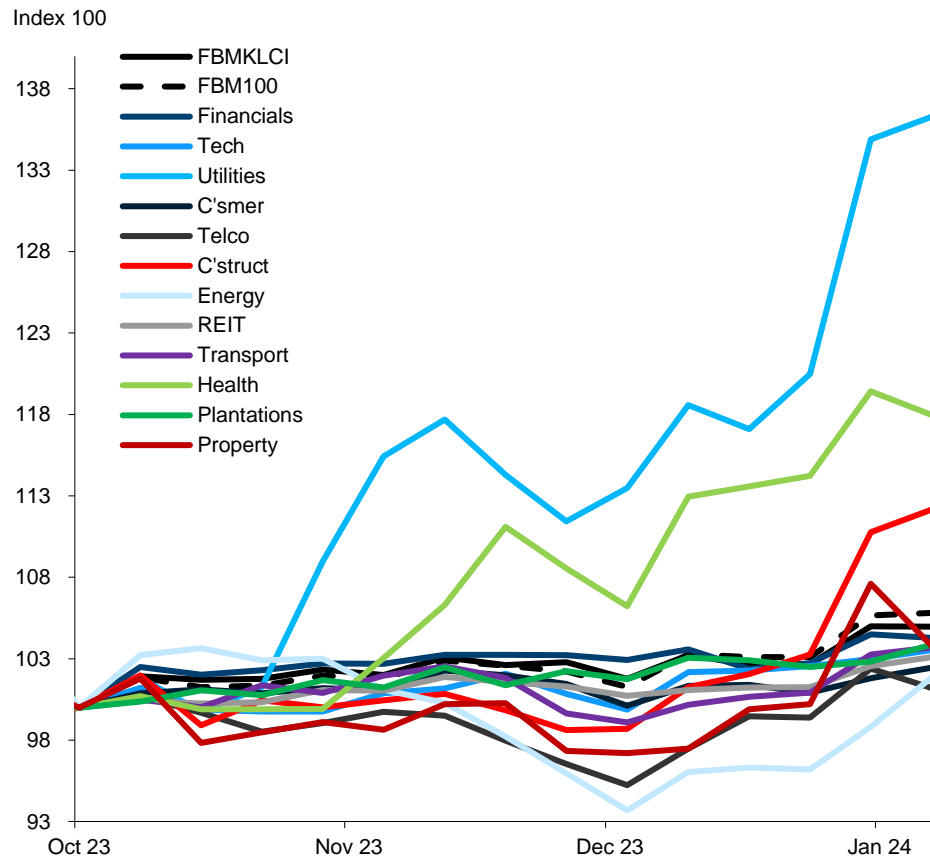


Source: Bloomberg, Malaysia Tourism, Company data, Macquarie Research, January 2024

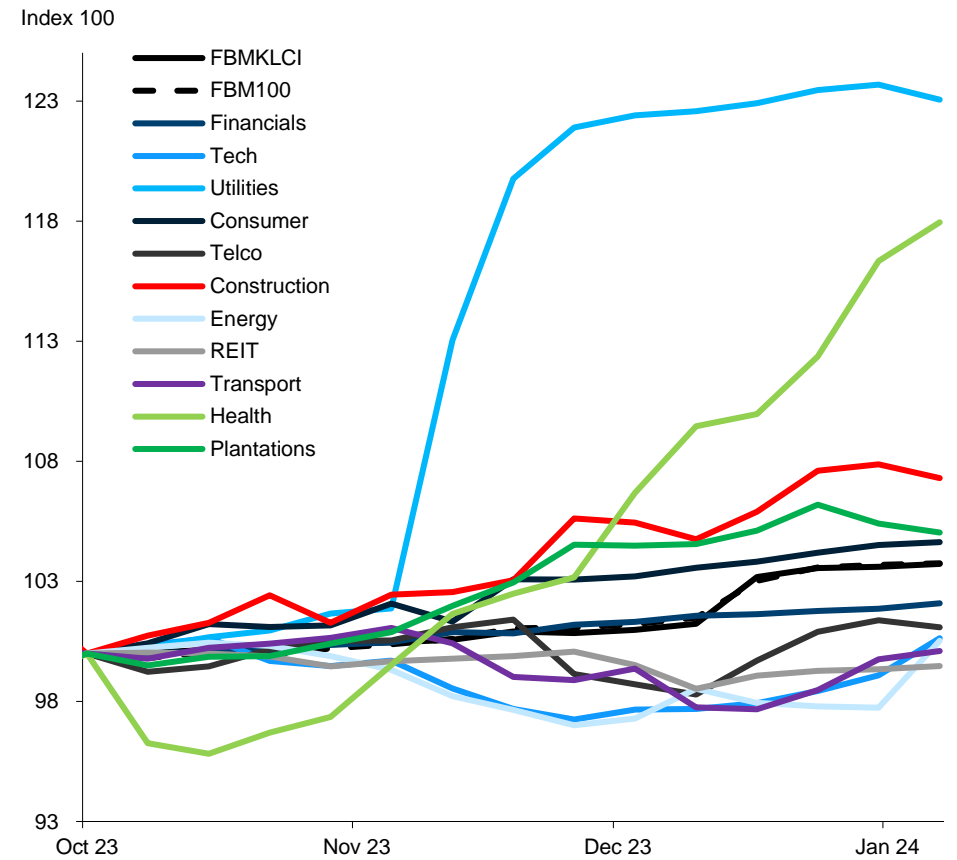
# Good start, now what?

## Consumer and tech sectors lag

**Bursa key indices performance T3M**



**Bursa key indices 1yr-fwd PER T3M**

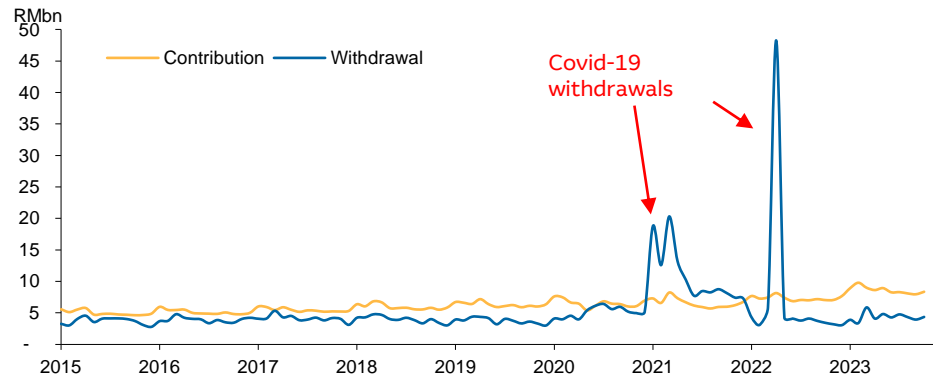


Source: Bloomberg, Macquarie Research, January 2024

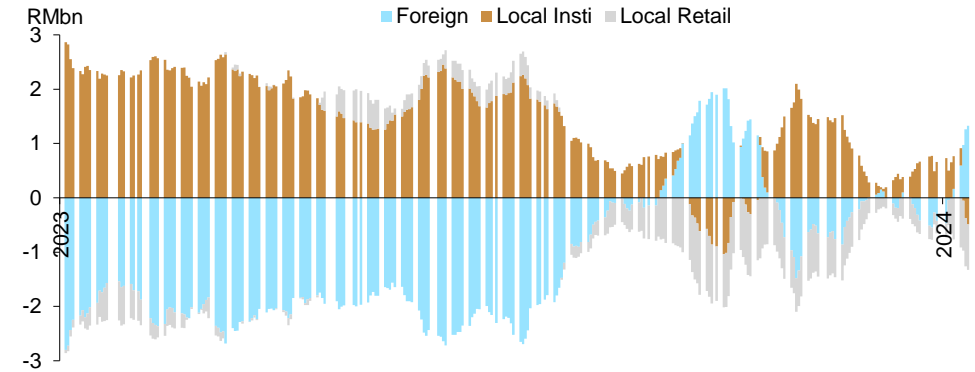
# Flows

## Returning foreign interest

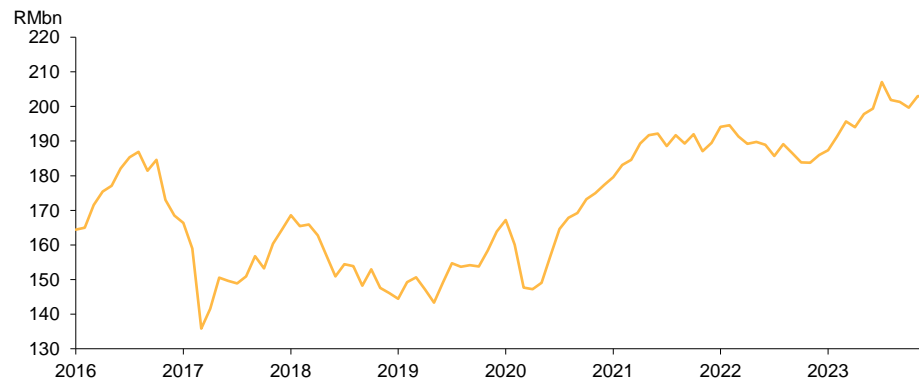
### EPF contributions vs withdrawals



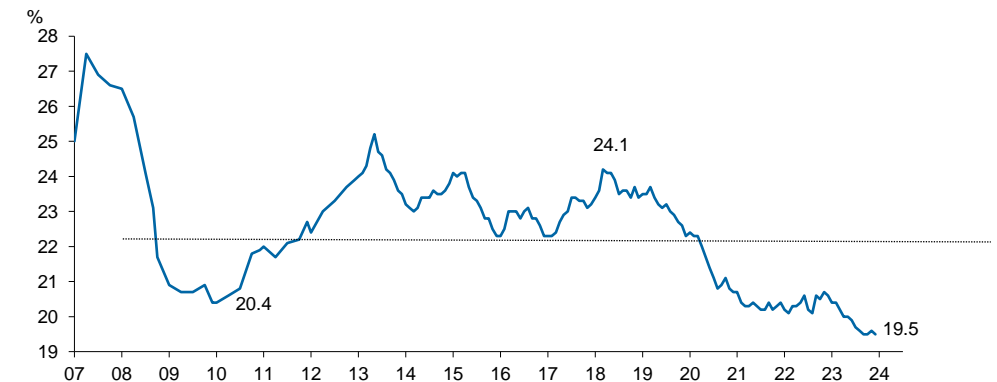
### Market participation



### Foreign MGS holdings



### Foreign shareholding - equities



Source: Company data, Bloomberg, Bursa, Macquarie Research, January 2024

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| Recommendation definitions  | Volatility index definition   | Financial definitions  |
|---|---|--|
| <p><b>Macquarie - Asia and USA</b><br/>                     Outperform - expected return &gt;10%<br/>                     Neutral - expected return from -10% to +10%<br/>                     Underperform - expected return &lt;-10%</p> <p><b>Macquarie - Australia/New Zealand</b><br/>                     Outperform - expected return &gt;10%<br/>                     Neutral - expected return from 0% to 10%<br/>                     Underperform - expected return &lt;0%</p> <p><b>Note:</b> expected return is reflective of a Medium Volatility stock and should be assumed to adjust proportionately with volatility risk</p> | <p>This is calculated from the volatility of historic price movements.</p> <p><b>Very high-highest risk</b> - Stock should be expected to move up or down 60-100% in a year - investors should be aware this stock is highly speculative.</p> <p><b>High</b> - stock should be expected to move up or down at least 40-60% in a year - investors should be aware this stock could be speculative.</p> <p><b>Medium</b> - stock should be expected to move up or down at least 30-40% in a year.</p> <p><b>Low-medium</b> - stock should be expected to move up or down at least 25-30% in a year.</p> <p><b>Low</b> - stock should be expected to move up or down at least 15-25% in a year.</p> <p>* Applicable to select stocks in Asia/Australia/NZ</p> <p><b>Recommendation</b> - 12 months</p> <p><b>Note:</b> Quant recommendations may differ from Fundamental Analyst recommendations</p> | <p>All "Adjusted" data items have had the following adjustments made:<br/>                     Added back: goodwill amortisation, provision for catastrophe reserves, IFRS derivatives &amp; hedging, IFRS impairments &amp; IFRS interest expense<br/>                     Excluded: non recurring items, asset revals, property revals, appraisal value uplift, preference dividends &amp; minority interests</p> <p><b>EPS</b> = adjusted net profit /efpowa*<br/> <b>ROA</b> = adjusted ebit / average total assets<br/> <b>ROA Banks/Insurance</b> = adjusted net profit /average total assets<br/> <b>ROE</b> = adjusted net profit / average shareholders funds<br/> <b>Gross cashflow</b> = adjusted net profit + depreciation<br/>                     *equivalent fully paid ordinary weighted average number of shares</p> <p>All Reported numbers for Australian/NZ listed stocks are modelled under IFRS (International Financial Reporting Standards).</p> |

## Recommendation proportions for quarter ending 31 December 2023

|                     | AU/NZ  | Asia   | USA    |   |
|---------------------|--------|--------|--------|---|
| <b>Outperform</b>   | 58.88% | 65.89% | 63.21% | (for global coverage by Macquarie, 2.48% of stocks followed are investment banking clients) |
| <b>Neutral</b>      | 35.53% | 21.46% | 34.91% | (for global coverage by Macquarie, 0.66% of stocks followed are investment banking clients) |
| <b>Underperform</b> | 5.59%  | 12.65% | 1.89%  | (for global coverage by Macquarie, 0.00% of stocks followed are investment banking clients) |

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