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A NEW HOPE: REVIEW OF MALAYSIAN ELECTION AND EQUITY VIEW

On the 9 May 2018, approximately 70-80% of the 14m registered voters exercised their civil rights to vote in the 14th Malaysian General Elections (“GE14”). GE14 that was earlier deemed as a forgone conclusion of a Barisan Nasional win, but became increasingly a tighter race in the last two weeks leading up to the election day. After 61 years of Barisan Nasional rule, Malaysians have reached a new milestone and voted in a new government under the coalition of Pakatan Harapan.



After a tense 29 hours post the close of voting day, Malaysians witnessed history where by a new government under the coalition of Pakatan Harapan was asked by the King to form the Federal Government, and thereafter swore in Tun Mahathir as the 7th Prime Minister (“PM”) of Malaysia.

So what can we expect in the coming weeks and months? With the swearing in of the PM, the work can then be done towards the formation of the Federal Cabinet – this is not likely to take too long given a lot of the negotiations and preliminary discussions is likely to have taken place prior to the elections in the formation of the coalition and taking into account of the personalities who won their respective seats. The other post that is certain is that of Deputy Prime Minister, which will be held by Wan Azizah Wan Ismail, the current President of Pakatan Harapan. The number of Ministers in Cabinet will also be reduced, from the previous 26 ministries (not including the 9 ministers in the PM’s office) in to potentially just 10 key ministries. Simultaneously, the individual states will also move towards the official swearing in of their respective Menteri Besar or Chief Minister, and begin the formation of the government at the state level (be it PH or BN, or PAS).

As evident in the many press

conferences Tun Mahathir and the key senior PH members have provided, the new government will be firstly focusing on domestic issues, looking to deliver their 100 days promises as highlighted in their manifesto, whilst establishing and maintaining good relations with other countries.

The first 100 days of Pakatan Harapan in the Federal Government will be challenging given what they have identified in their manifesto to achieve, which includes the following 10 promises (in summary):

1. Abolish the GST and take steps to reduce cost of living
2. Stabilise the price of petrol and introduce targeted petrol subsidies
3. Abolish unnecessary debts that have been imposed on FELDA settlers
4. Introduce EPF contribution for housewives
5. Equalise the minimum wage nationally and start the processes to increase the minimum wage
6. Postpone the repayment of PTPTN to all graduates whose salaries are below RM4000 per month and abolish the blacklisting policy
7. Set up a Royal Commissions of Inquiry on 1MDB, FELDA, MARA and Tabung Haji and to reform the governance of these bodies

8. Set up a special cabinet committee to properly enforce the Malaysia Agreement 1963.
9. Introduce SKIM Peduli Sihat with RM500 worth of funding for the B40 group for basic treatments in registered private clinics
10. Initiate a comprehensive review of all megaprojects that have been awarded to foreign countries.

Of the 10 promises outlined, the abolishment of the GST will be by far the biggest endeavour, and likely to have the most impact on all stakeholders. GST was expected to contribute to 19% of 2018’s total government revenue (2018F: RM43.8b versus RM42b in 2017). This is compared to the previous sales and services tax which collected about RM16.b in 2013, the last full year before the GST was implemented (estimated sales and services tax in today’s value is at RM20b). The task to repealing the GST can be a potential lengthy one given the need to require parliament’s vote, but they can commence the process to abolish it. Any short fall in revenues (which would not be immediate as the GST collection would likely continue for a while) will be made up via cutting from the PMO’s budgeted expenditure of RM20.8b to less than half. Other potential revenue lift may come in the form of the higher



oil prices which should help shore up petroleum related revenues. However, there are several measures where the PH government intends to provide targeted subsidies to petrol prices. There could be some risk to meeting the fiscal deficit targets set earlier under BN given the transition year, and GDP growth for 2018 may be weaker during this transition. Potential risk to Malaysia's sovereign rating due to the potential fiscal changes will likely be mitigated by proactive measures they intend to take in addressing the country's debt and their promise to reform important institutional entities in efforts to improve accountability and governance.

EQUITY VIEW

Overall, we expect the impact in the short term to be negative on the market – as equity markets generally despise uncertainty. Nevertheless, we are cautiously optimistic – cognisant of the fact that it will take time for the transition and this early on post such a historic moment can be subject to unexpected hurdles such as

potential changing of party allegiance. In any case, as we progress step by step, beginning with the swearing in of Tun Mahathir as PM, and tomorrow with the announcement of the cabinet, the political risk will hopefully dissipate somewhat and move to investors monitoring the implementation and execution by the PH government. Sectors most at risk in the near term is the construction sector as there will be a review of the mega contracts in particular the East Coast Rail Line (ECRL), High Speed Rail (HSR) and potentially the MRT3. Companies connected to the provision of GST collection monitoring and other companies which have ties to certain political parties may be subject to some sell down when the Malaysian equity bourse opens on Monday, 14 May 2018.

The key winner of GE14 will be the consumer sector. Consumers should see an improvement to their disposable income should the PH's measures come to pass. We are hopeful that the focus on addressing corruption may also mean a more concerted effort towards stamping out illicit sales of cigarettes and

alcohol.

We remain focused on fundamentally strong companies, and we believe any correction will be a good opportunity to accumulate.

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