MINORITY SHAREHOLDERS WATCH GROUP
BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD
(Incorporated in Malaysia . Registration No. 200001022382 (524989-M))

The Observer

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❖ Obsolete Budget 2023 sets benchmark for new Budget 2023

Doubtlessly, Budget 2023 only had a three-day lifespan between its tabling on 7 October and the dissolution of Parliament on 10 October to pave the way for the 15th General Election (GE15).

Even as the election-centric budget would become obsolete in every sense of the word, it is still worthwhile to appraise it as a benchmark for future Budget 2023, which will come under the prerogative of whichever government comes into power post-GE15.

Before we proceed to articulate the impact of Budget 2023 on Malaysia's capital markets – specifically the stock market – there is a need to point out that although historical trends showed a strong tendency for the FBM KLCI to rally closer to budget day, that trend was missing this year.

This is predominantly due to the US Federal Reserve's aggressive monetary tightening process, which is poised to continue, as well as bearish market sentiment stemming from domestic political uncertainties, especially the widespread belief that the Parliament could be dissolved anytime soon after the tabling of Budget 2023.

In a way, Budget 2023 resembles Budget 2000 as the latter was tabled by the then Barisan Nasional (BN) Government on 29 October 1999, only for the Parliament to be dissolved on 11 November 1999 to make way for GE10 on 29 November 1999. BN eventually retained power in GE10.

After GE10, the Parliament reconvened for a special session on 20-22 December 1999 to table a Supplementary Supply Bill to provide for Government expenditure for essentials like civil service salaries, pensions and debt services in early 2000.

Recall that Budget 2000 was re-tabled on 25 February 2000 and passed on 12 April 2000. Under Article 102 of the Federal Constitution, Parliament can authorise expenditure for a part of the year budget under the circumstances of "unusual urgency" until a Supply Bill is formally passed.

Assuming that there is little change in the government after GE15, the likelihood is that most of the Budget 2023 allocations will stay with minor tweaking. However, if indeed there is a change of government, differences are likely to be made to the plans and fund allocations before the budget is tabled again.

No repeat of *Cukai makmur*

Given the continuing challenging fiscal situation faced by the Government, the corporate sector was braced for Budget 2023 to potentially contain corporate levies structured along similar lines to Budget 2022's one-off *Cukai Makmur* prosperity tax.

The one-off prosperity tax was applied to companies with taxable income above RM100 million via the excess income being taxed at a higher 33% rate for the 2022 tax assessment year.

While the corporate sector did not receive any significant fiscal "goodies" in Budget 2023, the equity market will be positively biased or able to breathe a sigh of relief that there were no taxes or levies like *Cukai Makmur* either.

Overall, numerous measures articulated in Budget 2023 support the corporate sector's operating recovery and profitability. Still, they are predominantly incremental and/or long-term and do not warrant stock/sector/market earnings adjustments at this juncture.

Escalating operating cost

CGS-CIMB Research expects the market reaction to be neutral to negative post-Budget 2023, given that there were plenty of election goodies (personal and SME tax cuts) but not significant enough to boost corporate earnings materially.

"The lack of details on fiscal revenue reforms and potential dissolution of Parliament before Budget 2023 is passed (Parliament has already been dissolved on 10 October) could weigh on market sentiment," cautioned the research house earlier.

A case in point is that the Government said it plans to implement a multi-tiered levy for foreign workers in 2023 and re-allocate proceeds raised from this additional levy to support funding automation initiatives for employers. However, it did not provide details on the new levy rate for foreign workers.

Some analysts perceive this as a negative surprise for companies with high foreign workforce, especially those in the plantation, manufacturing, services, and construction sectors. Companies involved in these industries are expected to incur higher labour costs but may not be able to pass on these higher costs to consumers.

Moreover, the Government revealed in its fiscal report that the targeted subsidy mechanism will be gradually implemented in 2023. The government has reduced the subsidy and social assistance allocation to RM42 billion in Budget 2023 from RM58.9 billion in 2022.

"If targeted fuel subsidy is implemented in 2023, it is likely to raise the operating costs of businesses in 2023. (Also) it was revealed in Budget 2023 that the Government intends to introduce a carbon tax and will study the feasibility of a carbon pricing mechanism. When introduced, this could further raise operating costs," projected CGS-CIMB Research.

Winners & losers

At a glance, a higher disposable income (via personal income tax rate reduction but partly offset by lower *Bantuan Keluarga Malaysia* hand-outs) is positive for the retail sector. The discontinuation of the one-off prosperity tax in 2023 is favourable for large corporations like banks, utilities and telcos as this will lead to a lower effective tax rate, hence boosting their net profit in 2023.

Meanwhile, the increase in stamp duty exemption to 75% from 50% for residential properties priced above RM500,000 to RM1 million for first-time homebuyers is positive for the property sector as this will likely spur buying interest among first-time home buyers for real estate in that price range.

The construction sector should also benefit from the increase in development expenditure, reaffirmation of the Mass Rapid Transit Line 3 (MRT3) and flood mitigation projects (RM15 billion till 2030, with RM700 million allocated for 2023 alone). However, there is a lack of plans to implement new large-scale contracts (there was also no mention of the High-Speed Rail contract).

The absence of any sin-excise/tax hike should offer relief for gaming players, tobacco companies and brewers. The latter two should also benefit from continued efforts to clamp down on illicit products.

The Government's initiative to boost the Malaysian electrical & electronics (E&E) by encouraging industry players to move up the value chain by facilitating the expansion of global multinational (MNC) operations in Malaysia and promoting the integrated circuits (IC) chips design industry will be positive for the semiconductor sector over the longer term.

On the flip side, introducing a multi-tiered levy for foreign workers is likely to be short-term pain, long-term gain plan to encourage more automation initiatives. This could be mildly negative towards foreign worker-intensive sectors like the electronic manufacturing service (EMS), construction and plantation sectors – at least for the start.

Above all else, although plenty of goodies like personal income tax cuts and cash handouts were provided in Budget 2023, these may not be significant enough to materially boost corporate earnings, given that they could be offset by plans to implement target subsidies in 2023.

This, coupled with the dissolution of Parliament to make way for GE15, is very likely to further weigh down market sentiment, which is already weak.

Though obsolete, Budget 2023 as enunciated will serve as a benchmark for the new Budget 2023.

By Devanesan Evanson

MSWG AGM/EGM Weekly Watch 17 – 21 October 2022

For this week, the following are the AGMs/EGMs of companies which are in the Minority Shareholders Watch Group's (MSWG) watch list.

The summary of points of interest is highlighted here, while the details of the questions to the companies can be obtained via MSWG's website at www.mswg.org.my.

Date & Time	Company	Quick-take
17.10.22 (Mon) 03.00 pm	Sapura Energy Berhad (EGM)	The Company will seek shareholders' approval to dispose of three drilling rigs, Sapura T-19, Sapura T-20 and Sapura Setia, to NKD Maritime for a total of US$8.2 million.
18.10.22 (Tue) 12.30 pm	SP SETIA Berhad (Adjourned EGM)	SP SETIA will seek shareholders' approval for the four resolutions below: - Proposed amendments to Clause 12 of the Constitution of the Company, which sets out the terms of the Islamic Redeemable Convertible Preference Shares of the Company ("RCPS-I A") (Proposed Amendments to RCPS-i-A") - Proposed amendments to Clause 13 of the Constitution of the Company, which sets out the terms of the RCPS-I B - Proposing renounceable rights issue of new class C Islamic Redeemable Convertible Preference Shares in SP Setia ("RCPS-i C") to raise gross proceeds of up to RM1.18 billion. - Proposed amendments to the Constitution of the Company
19.10.22 (Wed) 10.00 am	Eurospan Holdings Berhad (AGM)	The Company suffered a pre-tax loss for FYE 2022 due to the interruptions to its production arising from MCOs. The Company has done well in recent years as its products which are mainly for the export market, managed to meet the high standards imposed by these markets. Moving forward, the Company should be able to return to profitability as the pandemic abates and disruptions to its production are minimised.

19.10.22 (Wed) 11.00 am	Glomac Berhad (AGM)	In FY2022, Glomac achieved a lower revenue of RM259.5 million, compared to RM366.9 million in FY2021, due to various MCOs implemented. Nevertheless, its profitability improved in FY2022, with the pre-tax margin rising to 23.7% from 15.5% in FY2021, partly lifted by cost-saving initiatives implemented during the financial year.
20.10.22 (Thur) 02.30 pm	Mudajaya Group Berhad (EGM)	The EGM is to seek shareholders' approval for Mudajaya's acquisition of the entire equity interest in Real Jade Limited for a total of HKD400 million (or equivalent to RM224.32 million) to be satisfied entirely via cash.
21.10.22 (Fri) 10.00 am	Pintaras Jaya Bhd (AGM)	The Group recorded a net profit of RM41.2 million for FY2022 compared to a net profit of RM64.1 million for FY2021, despite unprecedented headwinds of Covid, labour shortages, material price increases, high energy costs and supply chain disruptions.

One of the points of interest to be raised:	
Company	**Points/Issues to Be Raised**
Eurospan Holdings Berhad (AGM)	The Company's products, which are mainly exported, have met the stringent standards set by overseas buyers. To maintain its high quality, the Company has to continuously invest in Research & Development. (R&D) a) What was the R&D expense in FYE 2022? b) How much has the Company allocated for R&D for FYE 2023?
Glomac Berhad (AGM)	The Group's sales of completed properties dropped RM9.37 million in FY 2022 as compared to RM26.36 million in FY 2021. The gross profit from the sales of completed properties was RM2.41 million in FY 2022 as compared to RM8.63 million in FY 2021. The gross profit margin from the sales of completed properties was 25.7 % in FY 2022 as compared to 32.7% in FY 2021. (Pages 141 & 142 of AR) a) What was the reason for the lower revenue from the sales of the completed properties in FY 2022? b) Why was the gross profit margin from the sales of the completed properties lower in FY 2022 as compared to FY 2021.

	c) What were the measures taken by the Group to clear the inventories of completed properties- amounting to RM100.1 million in FY 2022 as compared to RM106.1 million in FY 2021? (Page 167 of AR) d) Please provide the value of completed unsold properties as of FY 2022 by the ageing bands of less than 1 year, more than 1 year but less than 2 years and more than 2 years, respectively.
Mudajaya Group Berhad (EGM)	Real Jade Group's business is not expected to be phased out by the PRC authority as it was issued a manufacturing license on 26 April 2021 with an expiry date on 30 December 2025. Shandong Allied Wangchao Cement Limited, a wholly-owned subsidiary of Real Jade, is the authorised license holder. The license tenure of 5 years is in line with the industry norm, and is subject to further renewal which can be applied 6 months prior to expiry (Page 5 of the Circular). Regarding the nature of the abovementioned manufacturing license, there is a risk of non-renewal. Post-acquisition, how does the Board intend to mitigate this risk and ensure Shandong Allied Wangchao Cement Limited, a wholly-owned subsidiary of Real Jade, continues to hold the license beyond 2025?
Pintaras Jaya Bhd (AGM)	In FY2022, the Group recorded a lower PBT margin of 10.9% compared to a PBT margin of 20.3% in FY2021. This is mainly due to unprecedented headwinds of Covid, labour shortages, material price increases, high energy costs, and supply chain disruptions (Page 35 of the Annual Report 2022). a) The abovementioned factors and costs may continue to impact the Group's PBT adversely. In what ways can the Group improve the PBT margin? b) Can the Group pass on the costs or a portion of it to the customers? c) What is the Group's targeted PBT margin for FY2023?

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DISCLOSURE OF INTERESTS
•*With regard to the companies mentioned, MSWG holds a minimum number of shares in all* the companies covered in this newsletter.

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