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All eyes on a populist playbook

The Star, Malaysia

All eyes on a populist playbook

Consumer staples and construction sector likely beneficiaries of Budget 2027's potential household handouts and infrastructure spending

ECONOMY

By ELIM POON
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PETALING JAYA: Budget 2027 next month could give Malaysia's domestic economy a lift through a combination of household handouts and infrastructure spending, with consumer staples and construction emerging as the sectors best placed to convert higher government spending into earnings growth.

Tradeview Capital fund manager Neoh Jia Man said Budget 2027 is widely expected to be populist, expansionary and market friendly, given that it is likely to be the last budget before the next general election.

With fiscal tightening and reforms having been the focus in the last few budgets, Neoh expects less emphasis to be placed on these areas this time around.

"If Prime Minister Datuk Seri Anwar Ibrahim's administration chooses to pursue fiscal reforms, the benefits are likely to be reaped by the subsequent administration, assuming that the present administration does not manage to form the next government.

"As such, it is better for the government to focus on expanding fiscal spending and keep citizens and businesses happy, rather than pursuing fiscal health improvement for now," he told *StarBiz*.

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Run-up to Belanjawan 2027 MALAYSIA MADANI

This then could see the government increase handouts, likely through measures such as Sumbangan Asas Rahmah (Sara) or MyKasih, which would benefit sectors with greater exposure to mass-market consumption, particularly consumer staples.

At the same time, Neoh expects Putrajaya to make announcements on several long-delayed major infrastructure projects, which would benefit the construction players.

"The Mass Rapid Transit Line 3 (MRT3) project, for instance, is one of the most awaited projects that has not been announced in previous budgets. Based on our channel checks, land acquisition for the MRT3 project has been ongoing over the past one year and the route map has also been confirmed.

"As such, it is likely that the government will try to finalise it in the upcoming budget," he said.

Neoh said the rollout of major infrastructure projects would have the biggest financial impact and economic spillover effect, as higher sales would flow not only to contractors, but also to other suppliers in the construction materials and transportation sector.

"Infrastructure projects are likely to be one of the strongest themes in the coming budget. There are two reasons for this.

"Firstly, there is the low base effect, given that announcements on this front had been quite muted in the previous budgets. Secondly, it is the multiplier effect it brings," he said.

Neoh noted the construction materials sector could offer additional upside, given that companies' valuations in the space had generally declined amid higher diesel prices stemming from the ongoing US-Iran war.

The increase in diesel costs had weighed on construction activity and, in turn, demand for building materials.

"If indeed the upcoming budget does bring good news on the infrastructure project front, there is a high chance for the share prices of construction materials companies to rise," he said.

Berjaya Research head of research Kenneth Leong concurred that the consumer sector would be one of the key beneficiaries of Budget 2027, underpinned by the government's continued efforts to protect household purchasing power and support domestic consumption.

Leong said ongoing targeted subsidies and social assistance under Sumbangan Tunai Rahmah, Sara and Budi Madani should provide direct support to lower- and middle-income households, while the prices of essential goods are expected to

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Potential increase in minimum wage a concern

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remain supported through stronger enforcement, Jualan Rahmah Madani and strategic supply management.

"At the same time, efforts to raise household incomes through progressive wage policies, high-skilled employment opportunities and community income-generation programmes such as Sejati Madani could further strengthen disposable income and consumer spending," he said.

Budget 2027 is scheduled to be tabled in Parliament on Oct 9.

Apart from the consumer sector, Leong said the technology and renewable energy sectors will remain a key focus of the Madani government's growth agenda.

Leong said there would be continued emphasis on attracting investments and creating high-value employment opportunities across semiconductors, artificial intelligence (AI), digital services, energy transition, pharmaceuticals, logistics and aerospace.

"These priorities are underpinned by key national initiatives, including the New Industrial Master Plan 2030, National Energy Transition Roadmap, National Semiconductor Strategy, the National AI Action Plan 2026 to 2030, AI untuk Rakyat, KL20 Action Plan, Bumiputra Economic Transformation Plan 2035 and the Government-linked Enterprises Activation and Reform Programme," he said.

Leong further said this is a positive for the country's medium- to long-term growth prospects.

On the other hand, he said potential announcements on measures such as a higher minimum wage and tighter foreign-worker policies can negatively impact labour-intensive sectors such as manufacturing, plantation and construction.

These companies may see margin compressions as a result, unless they are able to pass on costs through higher prices or improve productivity.

The tobacco and alcoholic beverage industries, meanwhile, could face further headwinds as the government continues to promote healthier lifestyles and discourage the consumption of harmful products.

"Potential measures such as higher excise duties could raise the cost of consumption and weigh on demand, particularly for price-sensitive consumers."

He also pointed out that the healthcare sector could be an overlooked beneficiary of the budget, as traditionally, much of the spending allocation has been directed towards public healthcare and service delivery, with relatively limited direct flow-through to listed companies.

Nonetheless, Leong opined that higher healthcare spending could create indirect opportunities for private healthcare operators, medical suppliers and service providers through greater demand and potential public-private collaboration.

Neoh, however, said the technology, oil and gas, and utilities sectors are rarely beneficiaries of budget allocations and are unlikely to see much direct earnings or share price impact from the budget.

"More developments are likely to be centred on the construction and consumer sectors, as these are areas where the impact of government spending can be felt more by households," he said.

For Neoh, the biggest concern is the potential increase in minimum wage, which could have the "greatest negative impact" on industries like food and beverage, restaurants, retail stores and manufacturing.

That said, while these industries – which are classified under the consumer discretionary and industrial sectors – could see margin pressure from higher labour costs, the impact on consumer staples could be more muted.

This is because the additional wages paid to workers could eventually be channelled back to those companies through higher sales, as lower-income households are likely to prioritise spending on daily necessities.

With regards to measures related to taxes and subsidy rationalisation, Neoh expects these to take a back seat in the upcoming budget.

RHB Research said investors should accumulate quality names on weakness as Budget 2027 is expected to be mildly positive for the market, although external risks could cap the upside.

It said in a recent report that social protection initiatives targeting the B40 and M40 groups would be positive for the consumer, property, transport and healthcare sectors, while a development spending of RM83bil would support growth initiatives.

Within the consumer sector, RHB Research's top picks are Nestle (M) Bhd, 99 Speed Mart Retail Holdings Bhd, QL Resources Bhd, Eco-Shop Marketing Bhd and Farm Fresh Bhd.

For technology, its preferred names are Malaysian Pacific Industries Bhd, Pentamaster Corp Bhd, CTOS Digital Bhd, Coraza Integrated Technology Bhd and JHM Consolidation Bhd.

In construction, RHB Research favours Gamuda Bhd, Kerjaya Prospek Group Bhd and Sunway Construction Group Bhd, while its top picks in healthcare are IHH Healthcare Bhd and LAC Med Bhd.

RHB Research also remains "overweight" on the energy sector, with YTL Power International Bhd as its top pick, alongside Tenaga Nasional Bhd, Samaiden Group Bhd and Solarvest Holdings Bhd, which it expects to benefit from new generation capacity and solar tenders.