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KLCS-BUDGET

BUDGET TO HAVE NEUTRAL TO SLIGHTLY NEGATIVE IMPACT ON MARKET

KUALA LUMPUR, Sept 23 (Bernama) -- Kuala Lumpur City Securities Sdn Bhd (KLCS) expects the 2003 Budget, unveiled last Friday, to have a neutral to slightly negative impact on the Kuala Lumpur stock market.

In the firm's report on equity strategy released to its clients today, KLCS said the proposed measures are not bad for the economy, but lack in "feel good" factors for investors.

"We certainly think that it is a people and corporate-friendly budget. Contrary to wide market expectations, there was no corporate and personal tax cuts, or motor duty reduction. Unfortunately, these euphoric expectations have been built up in the run up to the budget."

As such, it added that in the absence of such goodies, the "verdict could conveniently be passed off as below expectations."

"On the flip side, there was also no hike in sin taxes and petrol prices. Limited impact on listed companies, little excitement and stimulus to prevailing lethargic sentiments."

KLCS noted that with the budget out of the way, investors' attention will return to the external risks - the slowing US economy, heightened crisis in West Asia and the effect of a rising oil price.

Referring to the budgetary impact on sectors, it said the higher disposable income from civil servants (one month bonus or minimum of RM1,200) is unlikely to find its way into big ticket items purchase such as passenger cars.

However, incentives proposed for autoparts manufacturers may ultimately feed to auto players via cheaper parts, it added.

On banking and finance, KLCS noted that the incentives on Islamic private debt securities (PDS) papers is unlikely to have significant benefits on banks. However, it added that Prime Minister Datuk Seri Dr Mahathir Mohamad, who is also the finance minister's "indication of raising statutory reserve requirements (SRR) given the still sluggish loans growth will not only raise cost of funds but also lending rates."

"Rather than stimulating loans growth, this may discourage demand," it added.

The firm said that continued allocation for construction of low cost homes will benefit precast-based building materials suppliers such as ACP Industries Bhd while cash rich conglomerates like YTL Corporation Bhd, Sime Darby Bhd and Genting Bhd, which are on an acquisition mode, may benefit.

It added that cost incurred by a local-owned company in acquiring a foreign owned company will be given, as proposed in the 2003 Budget, an annual allowance of 20 percent for five years.

As for the construction and engineering sector, KLCS said the development expenditure of RM32.9 billion earmarked is still high with continued emphasis on basic amenities such on schools and hospital buildings.

It noted that the jobs in the pipeline are sufficient to keep earnings moving in the next 12-24 months, at least, and the preferred exposures are the "big boys such as Road Builder, Gamuda, IJM, Ranhill and WCT Engineering".

KLCS also said tobacco and brewery-based stocks will see some upside as the sectors saw some selling in anticipation of hikes in sin taxes.

Moreover, there was no direct tax impact on Number Forecasting Operators (NFOs) or casino operator Resorts World and it was good news in a

way as some people were earlier concerned of a possible hike in gaming or casino taxes.

This should help lift sentiment on NFOs and Resorts World which came under some selling pressure in the run up of the budget, it added. --

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