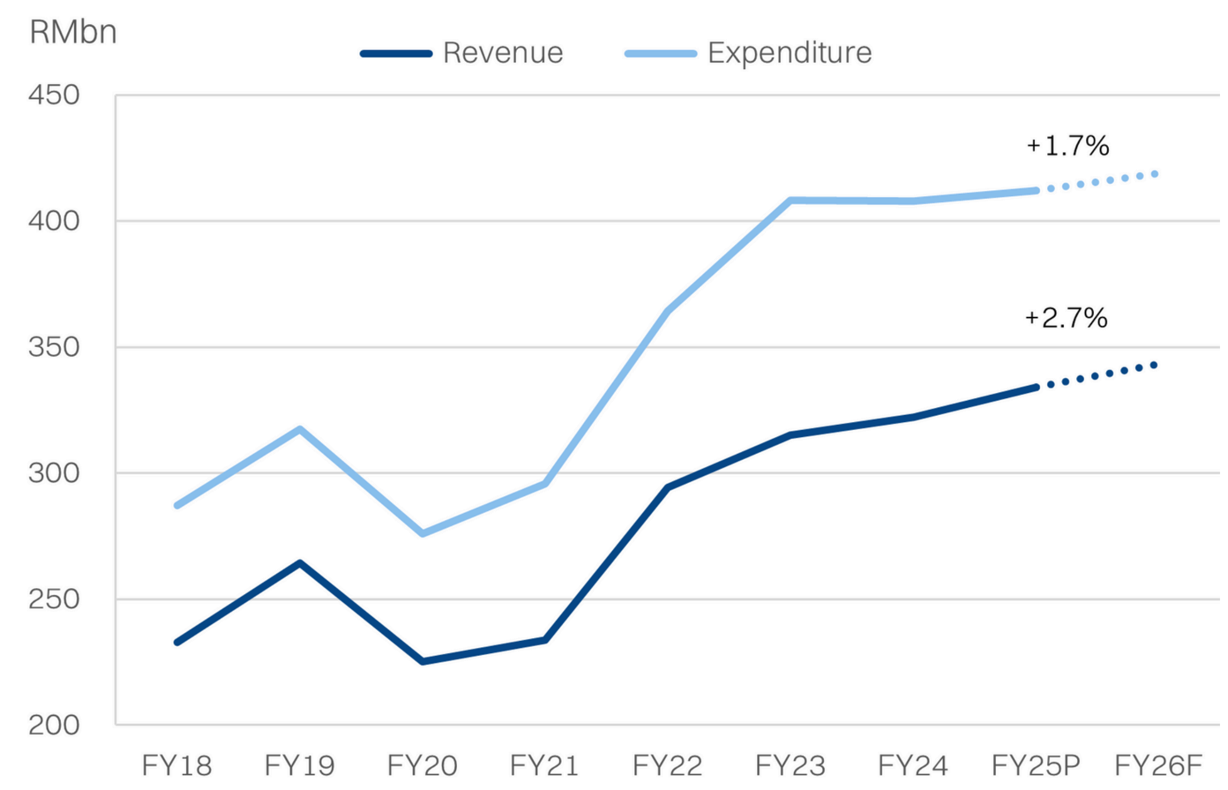
BUDGET 2026

Constrained populism

13 OCTOBER 2025

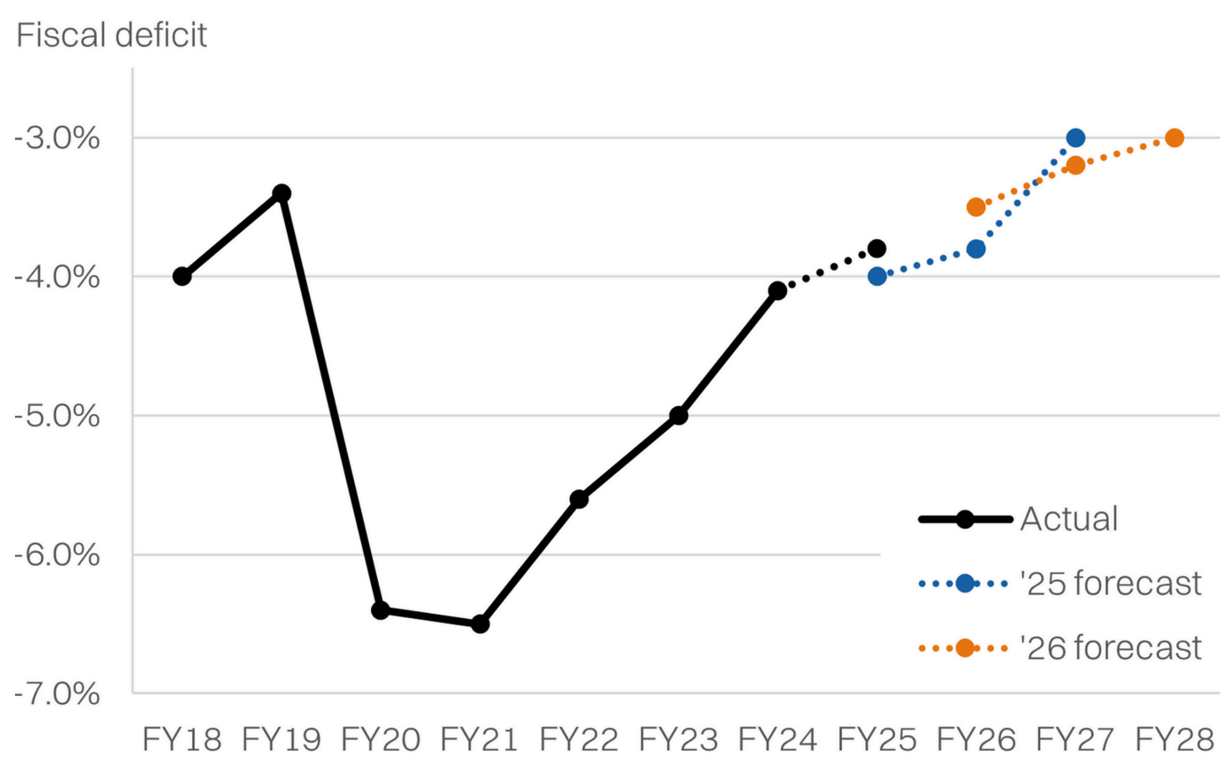
Macro I Strategy

Trimming expenditure growth



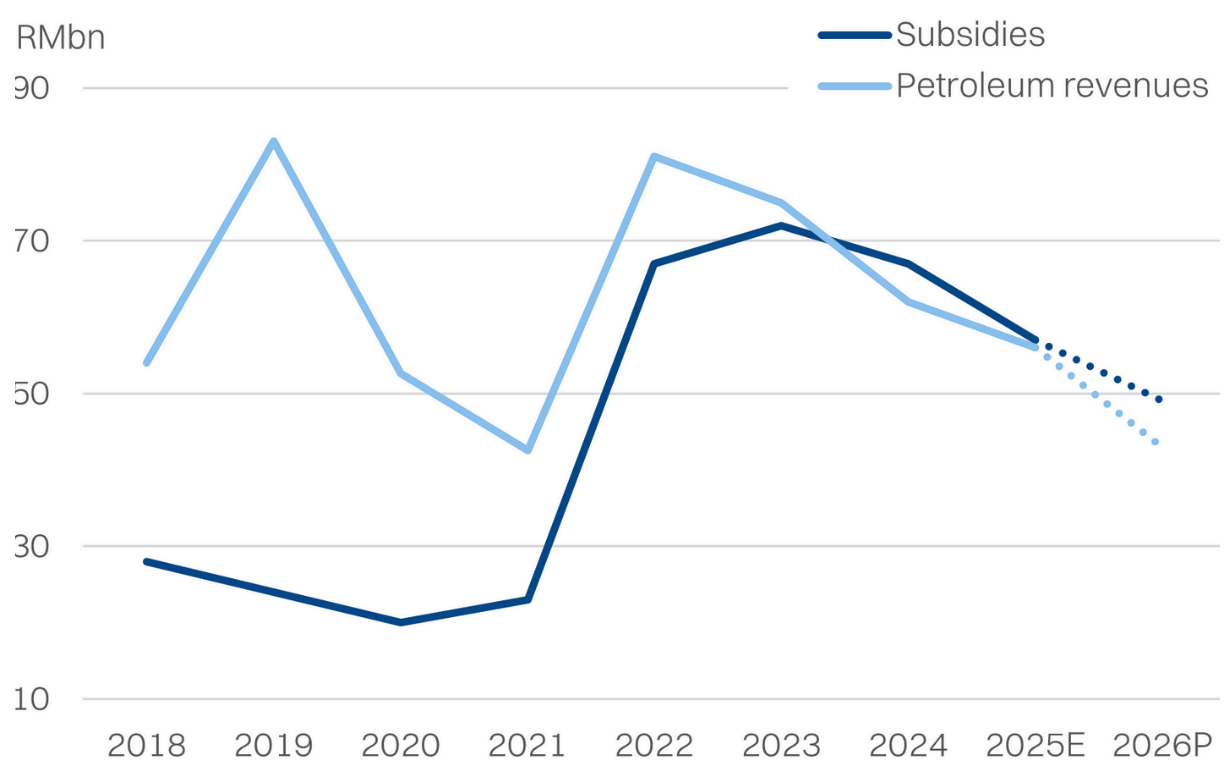
Source: MOF, NPS Research, October 2025

3% deficit target pushed out by another year



Source: MOF, NPS Research, October 2025

Subsidy cuts and lower petroleum dependence



Source: MOF, NPS Research, October 2025

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BALANCED BUT BORING

- No major positive or negative surprises for the market. Key sectors include consumer, sin stocks, infrastructure and tourism.
- Headline deficit to fall to 3.5%, but the MTFF target of 3% is pushed out another year. Still, subsidy reforms underwrite the trend.
- Elevated emphasis for spending on key states - Sabah & Sarawak - RM6.9bn and 6bn development expenditure allocated respectively.

SECTORS IN FOCUS

- **Consumption stimulus:** The biggest surprise is the repeat RM100 SARA handout that will benefit 22million Malaysians in Feb 2026. The relevant consumer stocks that have the most direct upside include 99SpeedMart and Nestle. Other consumption catalysts could include the proposed trade-in scheme for cars over 20 years old that could spur some demand for local marques, benefitting SIME (via Perodua) and DRB-Hicom (via Proton).
- **Sin and luxury taxes:** Corporates can breath a sigh of relief, as there were no major tax hikes this year. The focus for revenue enhancement this year is skewed to plugging leakages, in part supported by e-invoicing. A carbon tax was mentioned but without any details. However, avoiding the gaze of the tax man for many years, tobacco on alcohol have now been hit with higher excise duties. Price impact should be roughly 5% for cigarettes and 10-20% for alcohol. The government also indicated luxury taxes will be implemented in 2026 but did not disclose details.
- **Infrastructure:** The government announced that MCMC will be investing RM2bn to build a Sovereign Cloud AI. Details are scant at this juncture, but this could be a catalyst for construction stocks like Gamuda and Suncon, as well as datacenter players like YTL Power. Additionally, the government also announced an RM2bn undersea submarine cable to connect Johor with Sabah and Sarawak (3,190km). Otherwise, the government is following through on existing rail transportation contracts - LRT3, Penang LRT, ECRL - with a total spend of RM10.5bn for FY26.
- **Visit Malaysia 2026:** The government also announced a broad package of stimulus to catalyze a targeted 47 million arrivals and RM165bn in receipts. In addition, there will be tax deductions to encourage more domestic tourism as well. The likely beneficiaries will be Genting Malaysia as well as AirAsiaX.

WEANING SUBSIDIES WITHOUT LOSING VOTES

- Considering fiscal limitations, we are overall positive on Budget 2026, even if market impact might be low. Fiscal reform is gaining credibility, but populist tendencies remain entrenched based on the surprise handout.

Key budget impact sectors

Consumption catalysts			
Scheme	**Value**	**Details**	**Impact**
SARA (Sumbangan Asas Rahmah)	RM2.2bn	22 million Malaysians aged 18 and above will receive a one-off RM100 SARA cash aid in mid-February 2026, credited directly to their MyKad.	Grocery retailer: 99SMART (5326.KL) - Increased purchaser, FMCG: Nestlé (Malaysia) Berhad- Produce Food and beverage products.
SARA (Sumbangan Tunai Rahmah)	RM2bn	Low-income households will get RM100 monthly SARA aid (RM1,200/year). Combined with STR, they can receive up to RM4,600 a year in total assistance.	
Aid for civil servants	RM900m	RM500 Aidilfitri aid for Grade 15 and below civil servants, including contract staff, paid on 5 April 2024.	
Aid for government retirees	RM1.26bn	RM250 aid for pensioners, derivative pension recipients, and veterans.	

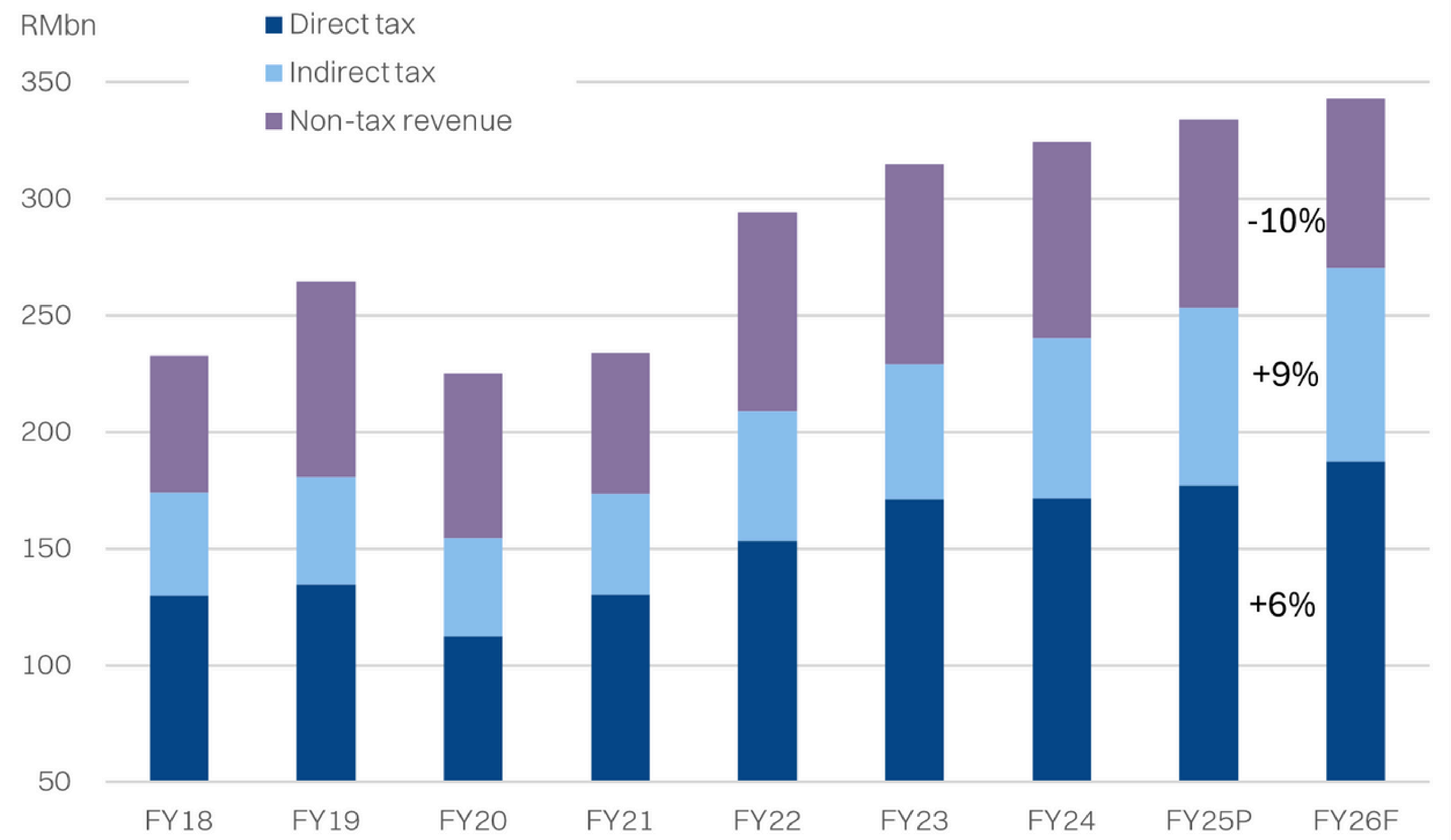
Notable infrastructure projects			
Scheme	**Value**	**Details**	**Impact**
Soverign AI Cloud	RM2bn	MCMC to "build" a sovereign AI cloud. Limited details, but presumably would entail a datacentre.	Construction companies like Gamuda and Suncon, as well as DC players like YTL Power.
Submarine cable	RM2bn	Subsea fibreoptic cable to connect Johor to Sarawak & Sabah - from Sedili to Kuching, Sibu, Tuaran, Kudat, Pulau Banggi, Sandakan and Tawau.	Beneficiaries unclear. Submarine cables are fairly specialised, but could have spillover for offshore service vessel operators.
Rail	RM10.5bn	RM7.5bn for the continuation of MRT 3, LRT3 and Penang LRT, and RM3bn for the completion of ECRL.	Nothing new announced. Gamuda would benefit from MRT3, but project execution is a few years out at least.

Taxes			
Scheme	**Value**	**Details**	**Impact**
Cigarettes	n/a	RM0.02/stick increase, previous tax rate RM0.40/stick (2014).	Marginally negative for tobacco companies, including BAT.
Alcohol	n/a	10% increase, Rebased from RM175/ litre to RM192.50/litre.	Heineken and Carlsberg will be negatively affected as higher prices weigh on sales and drive substitution to illicit alternatives.
Heated tobacco products	n/a	RM20/KG increase in Heated Tobacco Products.	
Vehicle tax exemption	n/a	Vehicle tax exemption in Langkawi, Labuan limited at no more than RM300,000 value.	
Property stamp duty	n/a	Stamp duty for non-citizens, non-permanent residents will be increased from 4% to 8%.	Incrementally negative for property developers, but impact should be relatively small.
Luxury taxes	n/a	No details yet, but will be imposed on selected items in 2026.	
Carbon tax	n/a	Will apply to iron, steel and energy sectors and implemented in 2025, but details are limited.	

Source: MOF, NPS Research, October 2025

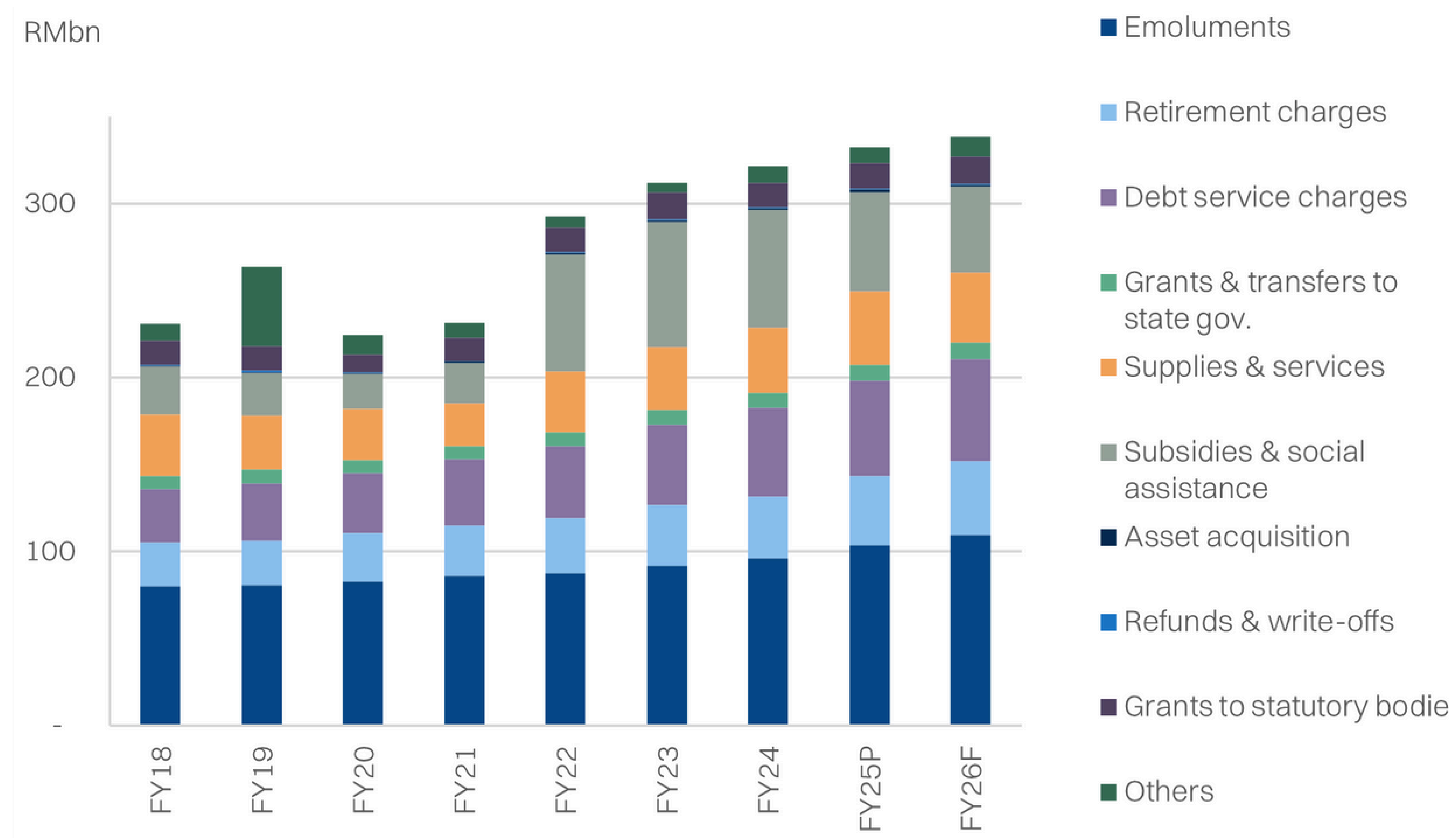
Fiscal trends

Indirect tax is driving budget 26 revenue targets



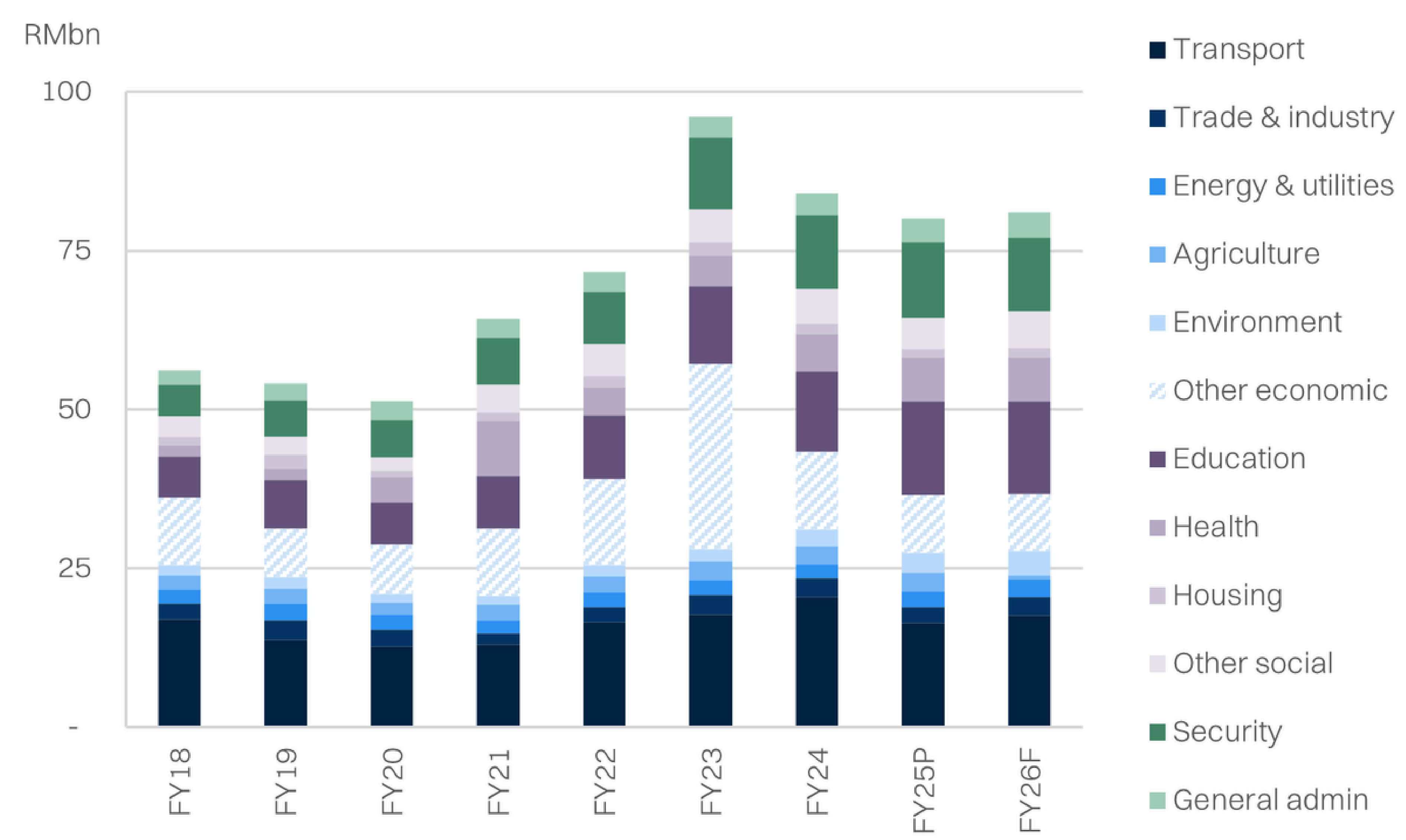
Source: MOF, NPS Research, October 2025

Opex: Emoluments and debt service charges driving growth



Source: Source: MOF, NPS Research, October 2025

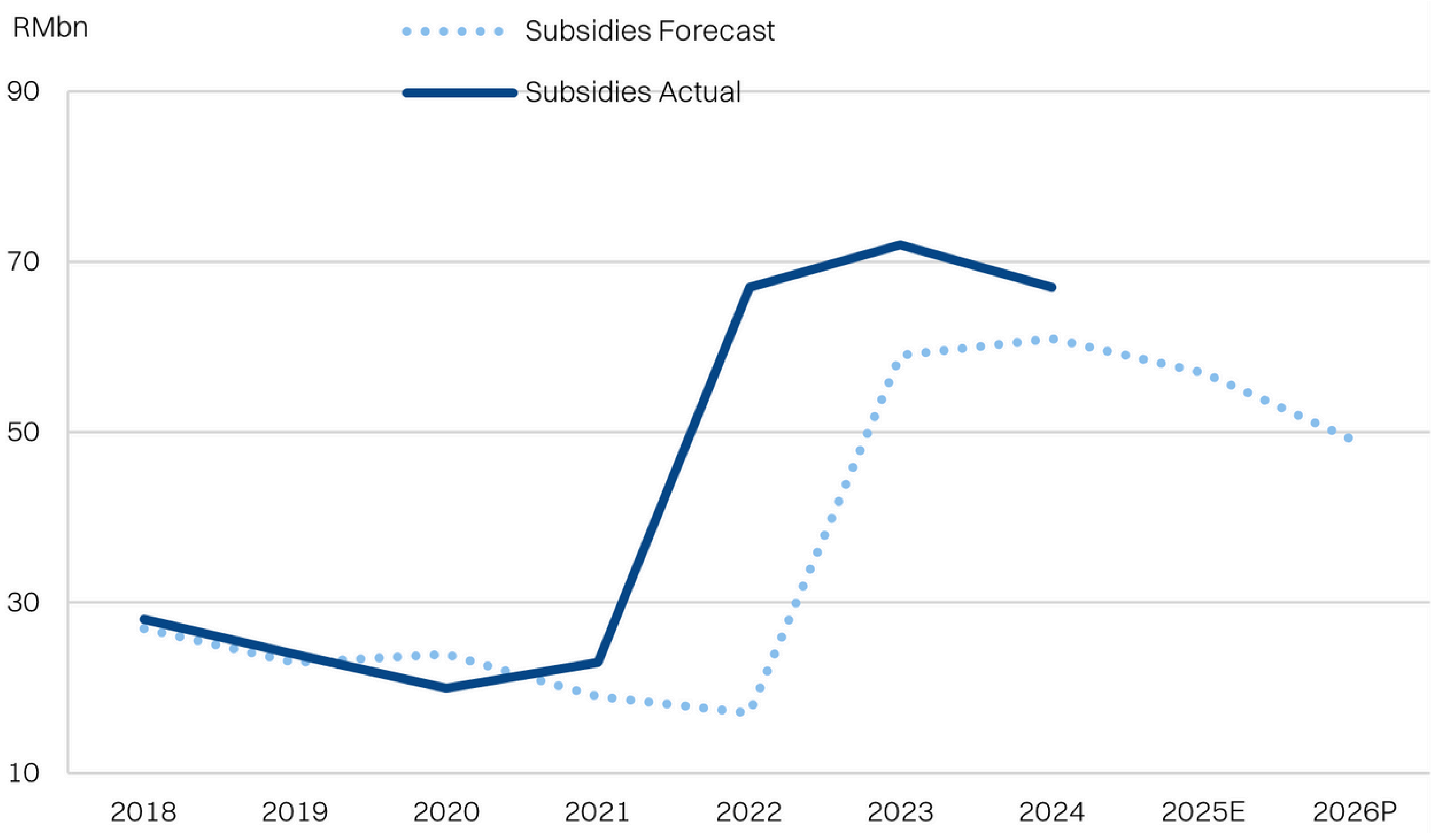
Development expenditure - mostly stable



Source: Source: MOF, NPS Research, October 2025

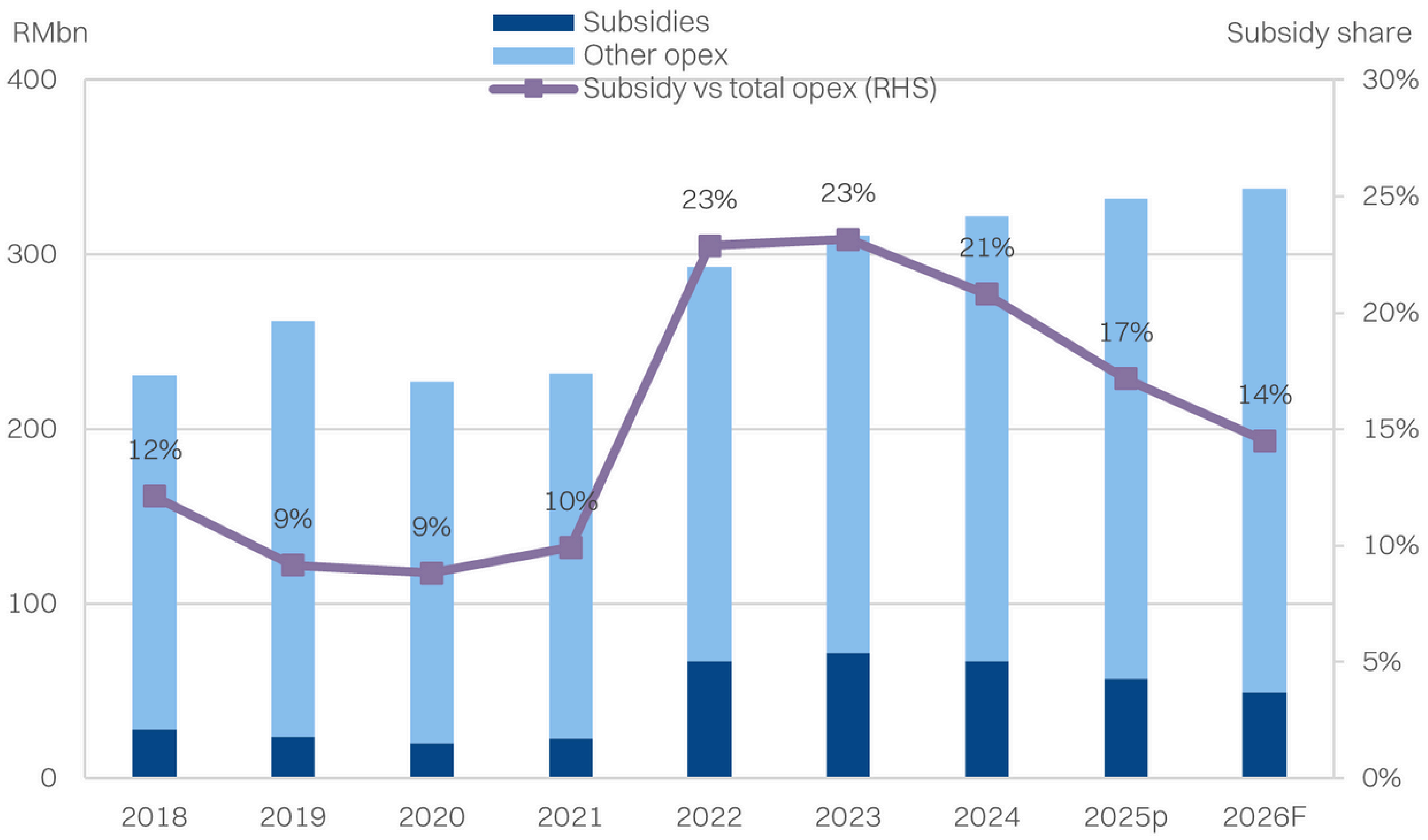
Subsidy rationalization

Subsidies have run above projections in previous years



Source: MOF, NPS Research, October 2025

Subsidy share of OPEX is easing towards 14%.



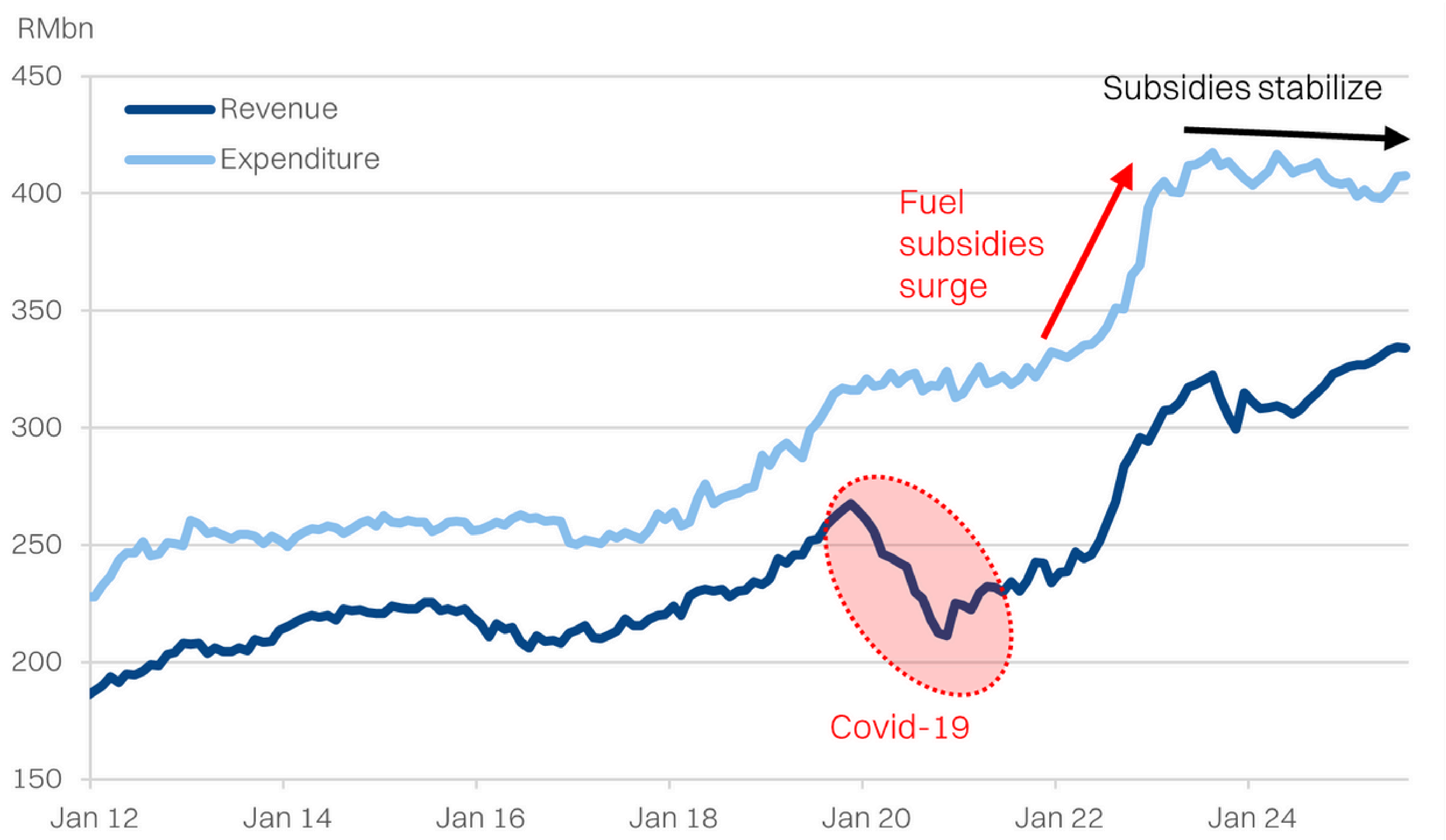
Source: Source: MOF, NPS Research, October 2025

Long-term fiscal trends

Over the past two years, the government has managed to reign in overall fiscal spend. This has been a function of cuts to development expenditure growth (-13.5%/-4.4% for FY24/25), as well as the fuel subsidy reforms (for diesel) in the past year.

Meanwhile, revenue is now back on an upward trend, driven by indirect taxes (+11.3% for FY25E), which has been the result of a broadening and deepening of SST. Looking ahead, it looks like the government intends to lean on more direct taxes to prop up revenue growth.

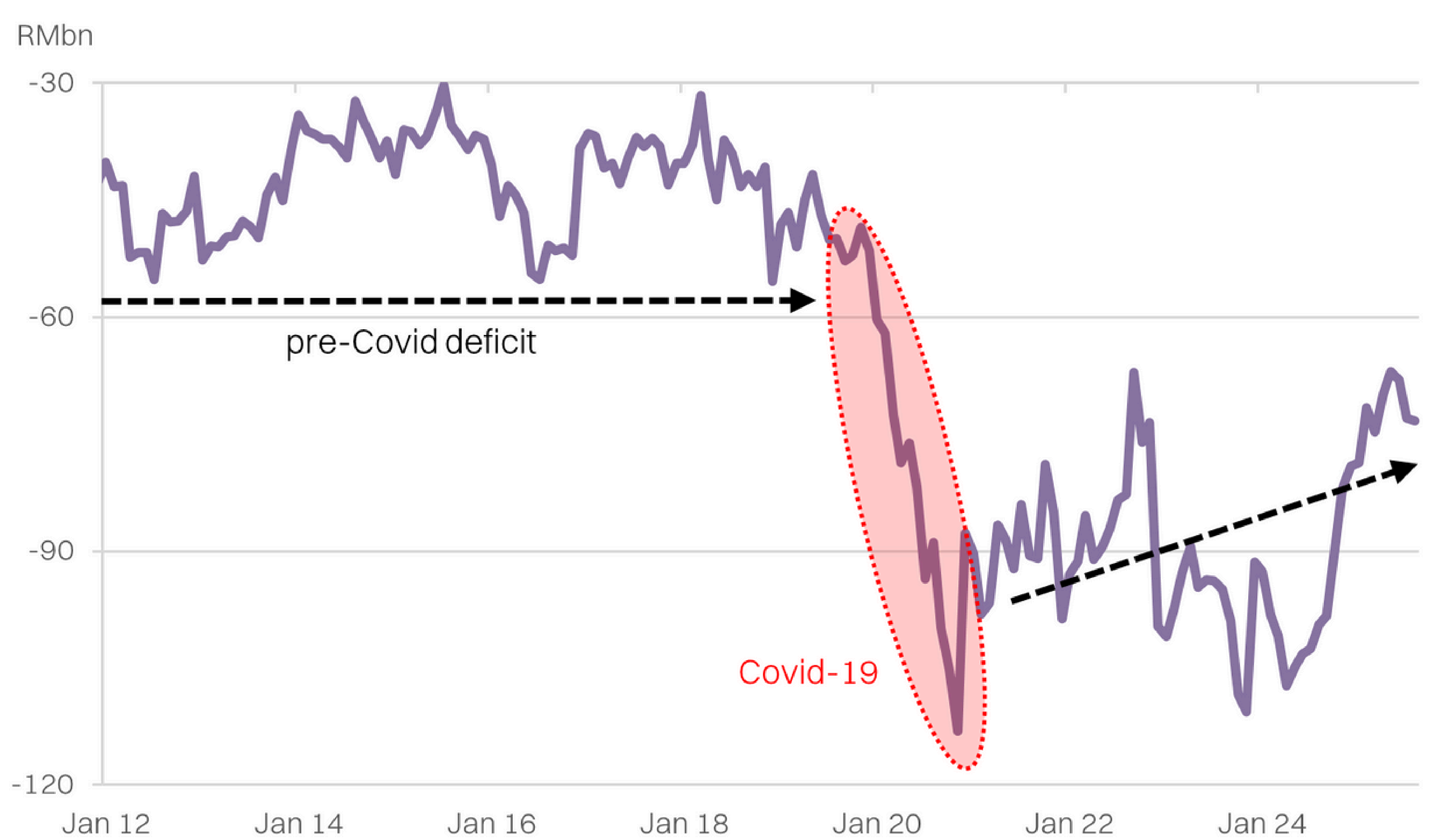
T12M Fiscal revenue & expenditure -



Source: MOF, NewParadigm Research, October 2025

In absolute terms, the Federal Government maintained a relatively disciplined fiscal balance pre-Covid with a deficit of around RM40-RM50bn. Following the pandemic however, the deficit has remained elevated at around RM90bn, exacerbated by the aforementioned surge in fuel subsidies. The deficit could have been narrowed further, but the government has trimmed its reliance on dividend income (particularly from Petronas) in the past few years. The deficit will need to narrow further by about RM20bn or so, for the fiscal balance to return to its pre-pandemic run-rate.

T12M fiscal balance - on a consolidation pathway



Source: MOF, NewParadigm Research, October 2025

Important Disclosures

Recommendation definitions

Buy – Expected return of > +10% over the next 12 months.
Hold – Expected return between ±10%
Sell – Expected return of < -10% over the next 12 months
Trading Buy – Expected return of > +15% over the next 12 months, but LT prospects uncertain.
Not rated – No recommendation on stock performance.

Note: Recommendations may fall outside of the aforementioned ranges from time to time due to share price volatility.

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