

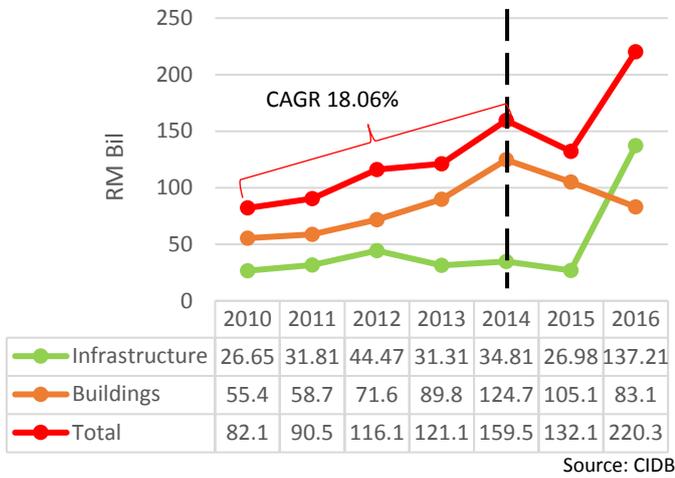
Research release: Increased Foreign Contractors for Malaysian Infrastructure Projects



RESEARCH RELEASE: INCREASED FOREIGN CONTRACTORS FOR MALAYSIAN INFRASTRUCTURE PROJECTS

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Diagram 1: Awarded Construction Projects in Malaysia 2010 - 16



The construction sector is the fastest growing sector in Malaysia. In terms of awarded project values, the construction sector has recorded a strong 17.88% Compounded Annual Growth Rate (CAGR) over the period of 2010 – 2016.

The strongest growth trend can be observed during 2010 - 2014, which recorded a CAGR of 18.06%, with increasing project values from RM 82.1 billion in 2010 to RM 159.5 billion in 2014.

Thereafter, a decline in building construction projects (including residential and commercial) caused by the implementation of stricter cooling measures and oversupply in the property sector saw the construction industry dipping in 2015, before gaining 66.7% in the following year backed by a

massive increase in infrastructure project awarded.

The substantial increase in infrastructure projects awarded have more than compensated for the continued decline in building construction projects in the same year.

In 2016, infrastructure projects awarded achieved an all-time high, recording values amounting to a total of RM 137.21 billion, a far contrast compared to the previous high which was recorded at RM 44.47 billion in 2012 contributed by the MRT1 project.

This mammoth increase in infrastructure projects comes off the back of the 11th Malaysian Plan (2016 - 2020) which is deemed as the final stretch towards Malaysia's vision of becoming a developed nation by 2020.

The various mega infrastructure projects in Malaysia are expected to boost the economy for the next 5 to 7 years, with the spill over effect estimated to drive the country towards a high-income nation.

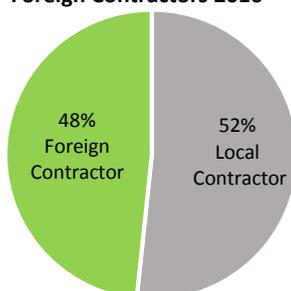
Once again, rail based mega projects will be the main drivers in transforming Malaysia's infrastructure landscape. Amounting to RM 101.9 billion, rail based projects are valued at least 2 times more than port or road based projects both of which are valued at about RM 30 billion.

Diagram 2: Malaysian Mega Infrastructure Projects



Source: Cardas

Diagram 3: Infrastructure Projects Awarded to Local & Foreign Contractors 2016



Source: CIDB

In recent years, Malaysia has witnessed increased participation of foreign companies within the construction sector. Data from CIDB shows that foreign contractors have managed to clinch a growing number of construction projects especially in the last 3 years.

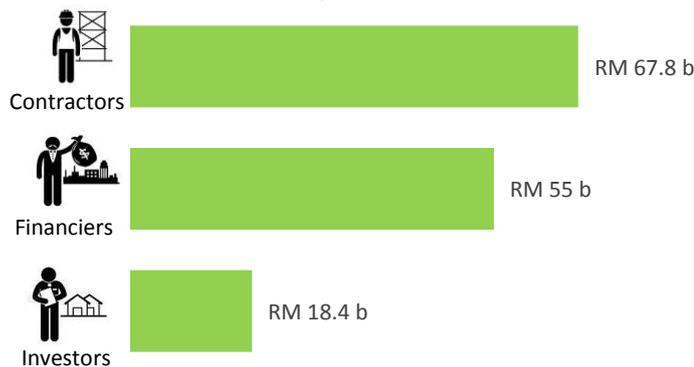
In 2016 alone, foreign contractors were able to secure 48% of all infrastructure construction projects in Malaysia valued at RM 66.32 billion. Local companies on the other hand managed to secure 52% of the share at RM 70.89 billion.

China has been identified to be the single largest foreign contractor in Malaysia, securing 79% of all construction contracts awarded to foreign companies in 2016 a massive increase from 32% in 2015.

Other foreign contractors pale significantly compared to China, with Korea coming in at a far second at 9% while Australia and Japan clinching only 3% and 2% respectively.

Under the One Belt One Road (OBOR) initiative, China has identified Malaysia's position as one of the most strategic and logical central node in the maritime belt, which explains China's growing interest in Malaysian infrastructure.

Diagram 4: Contribution of Chinese Companies in Malaysian Infrastructure Projects as Announced 2016-17



Source: Cardas

The Chinese companies mainly take up contractor roles for these infrastructure projects, favoured for their higher level of technical expertise, and faster rate of delivery.

However, Chinese companies were also observed to provide support to these projects in terms of financing, either directly via loans or via foreign direct investments.

Diagram 4 summarises the announced commitments by Chinese companies towards Malaysian infrastructure projects for the year of 2016 to 2017 which indicate active roles in all 3 functions.

Taking into consideration Malaysia's equally if not larger non-infrastructure projects like TRX, Melaka Gateway, Bandar Malaysia and other various mega developments, we expect improve sales volume for raw materials as demand surges.

Based on CIDB's prediction, the materials required for the construction industry in 2017 is estimated at RM 7.5 billion.

This value is significantly lower than 2016's requirement at RM 33.3 billion even though the number of projects awarded in 2016 was recorded at an all-time high. This is explained by the nature of the work process for construction which consumes lower materials at the initial stage of the project due to land clearing & site preparation activities.

Construction projects typically experience a higher concentration of work within the intermediate stages of the project which will consume a higher amount of materials.

We estimate demand for cement and steel to increase by 20-50% from 2018 and beyond.

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