

Malaysian Economy Construction & Property Outlook

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November 2017

Glance at Budget 2018

	2017e		2018f	
	RM bn	% of TR	RM bn	% of TR
Total Revenue (TR)	225.3	100.0	239.9	100.0
Direct Tax	119.7	53.1	127.7	53.3
Corporate	67.8	30.1	72.5	30.2
Individual	30.1	13.4	13.4	13.4
Petroleum	10.9	4.9	11.4	4.8
Indirect Tax	60.5	26.9	63.9	26.6
GST	41.5	18.4	43.8	18.3
Excise duties	11.8	5.2	12.3	5.1
Import duty	3.0	3.0	1.3	1.3
Export duty	1.2	1.4	0.5	0.6
Non-tax Revenue	45.1	20.0	48.3	20.1
Operating expenditure	219.9	97.6	234.3	97.7
Development expenditure	46.0	20.4	46.0	19.2

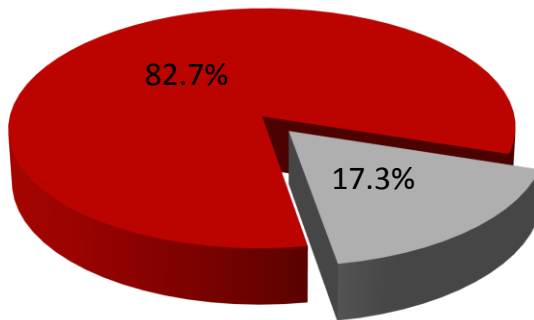
Development expenditure by sector

	2017e		2018f	
	RM bn	% of TDE	RM bn	% of TDE
Total Development Expenditure (TDE)	45.9	100.0	46.0	100.0
Economic	25.9	56.3	26.3	57.3
Transport	10.8	23.4	10.5	22.8
Trade & Industry	4.8	10.5	4.1	9.0
Energy and Public Utilities	2.5	5.5	2.7	6.0
Agriculture & Rural development	2.4	5.3	2.5	5.5
Environment	2.2	4.8	2.0	4.4
Social	12.1	26.4	11.7	25.5
Education & Training	5.9	12.8	5.3	11.4
Housing	0.9	1.9	1.2	2.5
Health	1.5	3.3	1.9	4.2
Security	5.3	11.5	5.2	11.3
General administration	2.7	5.8	2.7	5.9

Comparison of expenditure – MY and SG

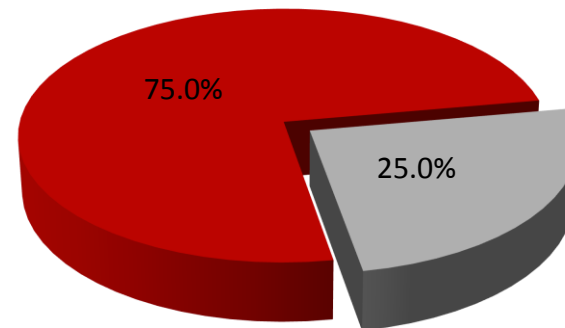
Malaysia

- Operating expenditure
- Development expenditure



Singapore

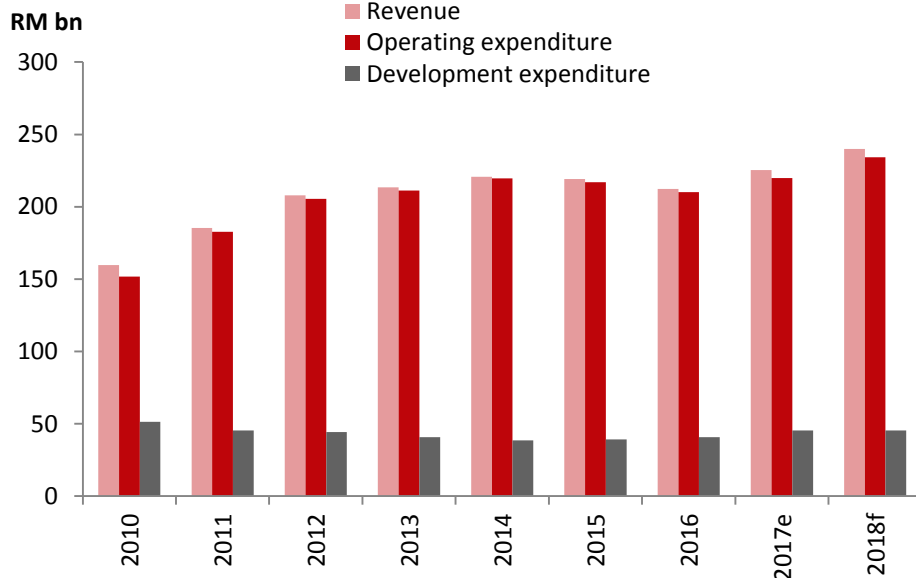
- Operating expenditure
- Development expenditure



Looking back: FG finance

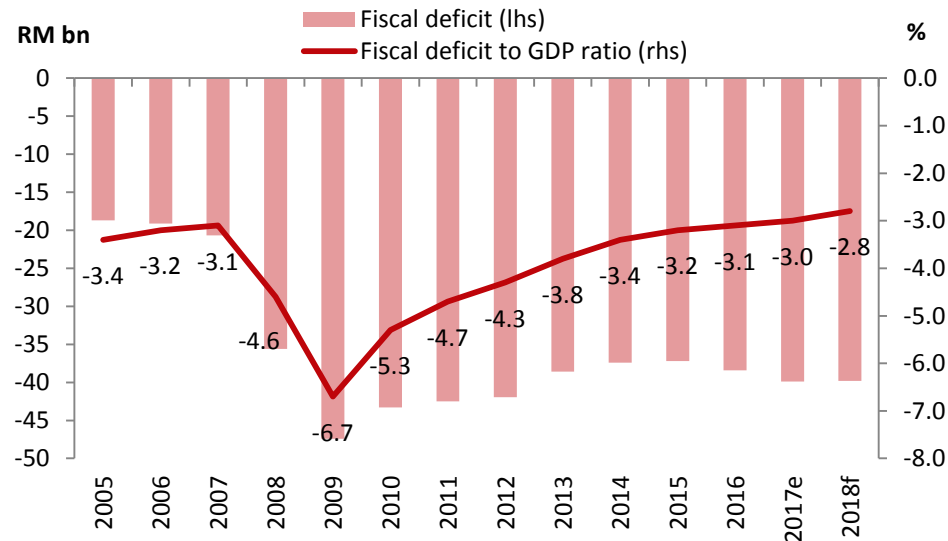
- Limited scope for expansionary fiscal policies, as gov't remains committed to fiscal consolidation
 - Target for fiscal deficit to fall to 2.8% to GDP in 2018 (2017e: -3.0%)
- In 2018, gov't revenue is expected to increase by 6.4% to RM239.9bn (2017e: RM225.3bn)
 - Estimated – Corporate income tax collection (30%), GST collection (18%), oil-related revenue (16%)
- Gov't proposed to allocate RM234.3bn (2017e: RM219.9bn) in operating expenditure and maintain development expenditure of RM46bn

Federal government's expenditure and revenue



Source: Ministry of Finance

Fiscal deficit



Riding on global growth recovery

- Malaysia's economy grew 5.7% in the first half of 2017
- Gov't expects 2017 and 2018 GDP growth to expand between 5.2% - 5.7% and 5.0% - 5.5% respectively

GDP growth by sector and aggregate demand (% y-o-y)

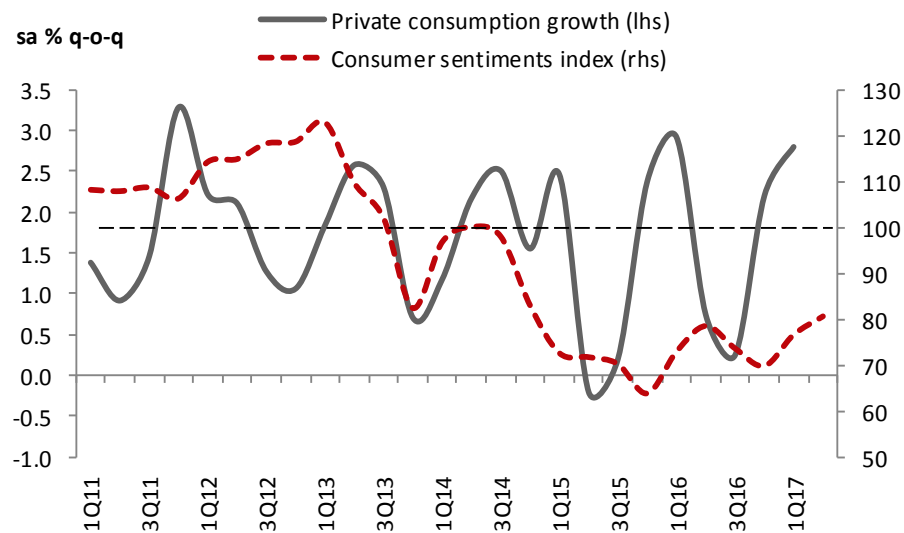
	2016	2017		2017e		2018e	
		1Q	2Q	AllianceDBS	MOF	AllianceDBS	MOF
Real GDP	4.2	5.6	5.8	5.4	5.2 - 5.7	5.0	5.0 - 5.5
Agriculture	-5.1	8.3	5.9	5.6	5.6	3.0	2.4
Mining	2.2	1.6	0.2	0.6	0.5	5.5	0.9
Manufacturing	4.4	5.6	6.0	5.8	5.5	8.0	5.3
Construction	7.4	6.5	8.3	7.7	7.6	5.5	7.5
Services	5.6	5.8	6.3	5.8	5.9	5.3	5.8
Consumption							
- <i>Public</i>	0.9	7.5	3.3	3.5	2.7	2.0	1.3
- <i>Private</i>	6.0	6.6	7.1	7.1	6.9	7.0	6.8
Investment							
- <i>Public</i>	-0.5	3.2	-5.0	2.2	3.7	1.0	-3.1
- <i>Private</i>	4.3	12.9	7.4	9.1	9.3	8.5	8.9
Exports	1.1	9.8	9.6	6.9	8.0	3.4	2.3
Imports	1.1	12.9	10.7	7.0	9.9	3.5	2.5
- <i>Net exports</i>	-3.7	-14.5	1.4	5.9	7.3	3.1	2.5

Source: BNM, AllianceDBS

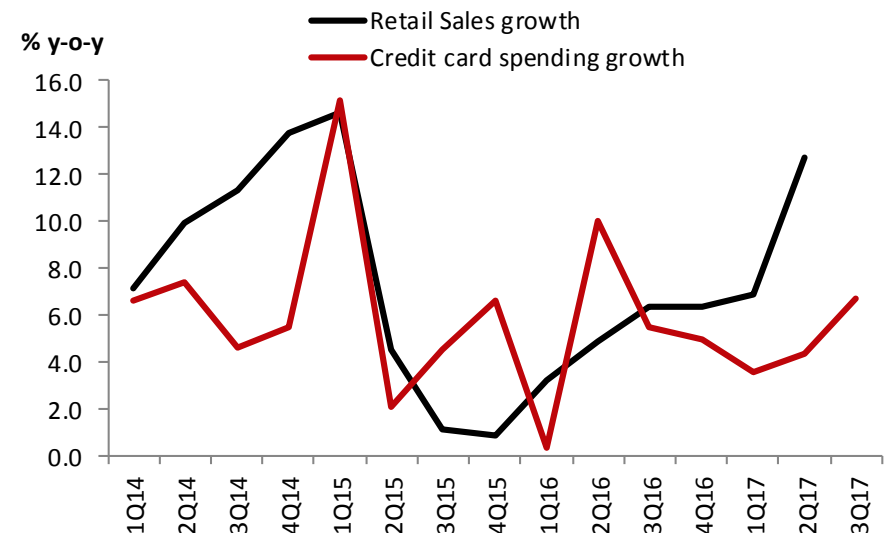
Private consumption – resilient, susceptible to downside risks

- Private consumption growth has recovered from its low of 4.1% in 3Q15, following GST implementation
- Expanded 7.1% in 2Q17 (1Q17: 6.6%), highest since 1Q15
- Despite strong private consumption growth, we remain cautious on sustainability
 - MIER consumer sentiments remains bearish for the 13th consecutive quarter (3Q17: 77.1 vs 2Q17: 80.7)
 - Unemployment rate averaged 3.4% in 1H17, higher than 2010-2015 avg of 3.1%
 - Subdued wage growth, annual median income has been moderating at 6.6% in 2016 (2014: +11.7%)
 - Household debt level at 85.6% of total GDP as at mid-2017 (end-2016: 88.4% of total GDP)

Private consumption growth and consumer sentiments index

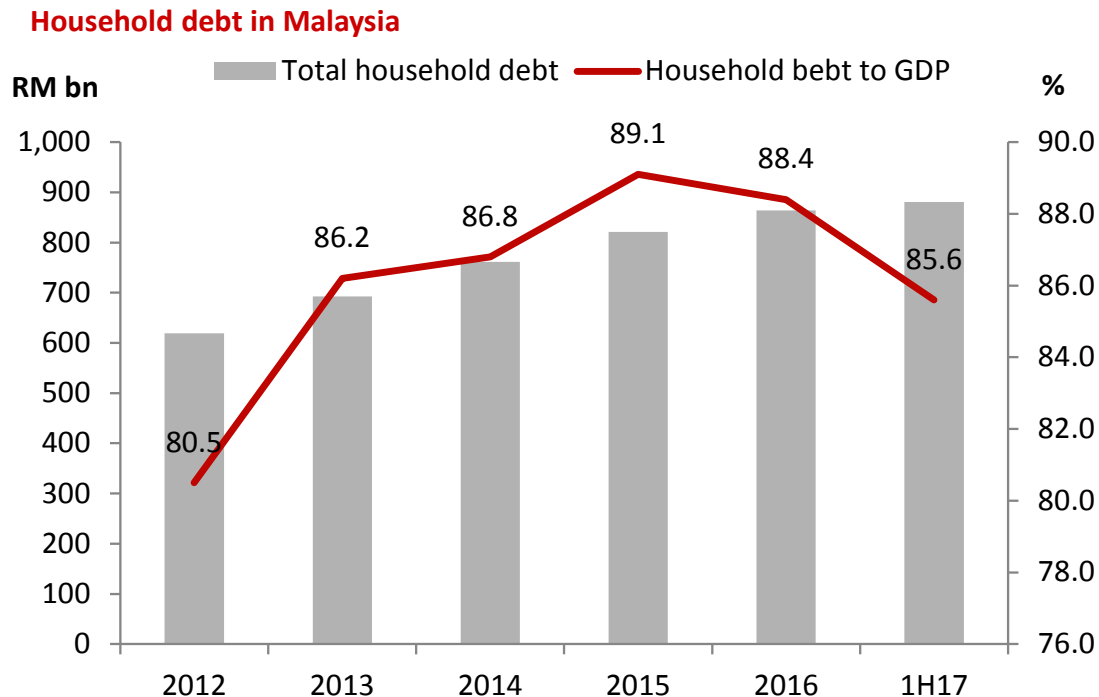


Credit card spending and retail sales growth



Household debt to GDP ratio

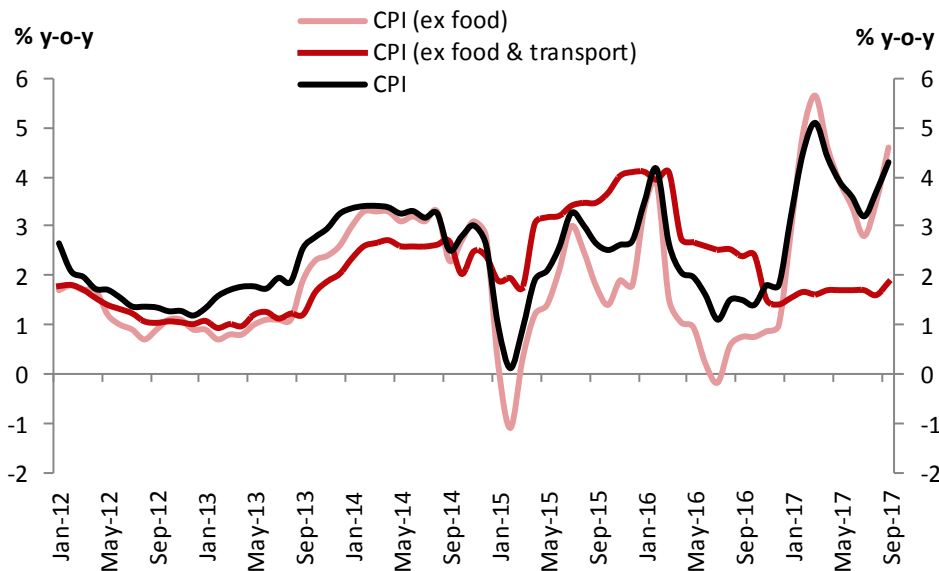
- Household debt to GDP ratio has been gradually decreasing to 85.6% as at mid-2017 (end-2016: 88.4%)
- In fact, total household debt growth ratio continues to moderate, expanding by 5.1% in 2017 (2016: +5.8%)
- Due to prudential measures by the gov't and households reducing loan exposure in non-residential properties, vehicles and securities



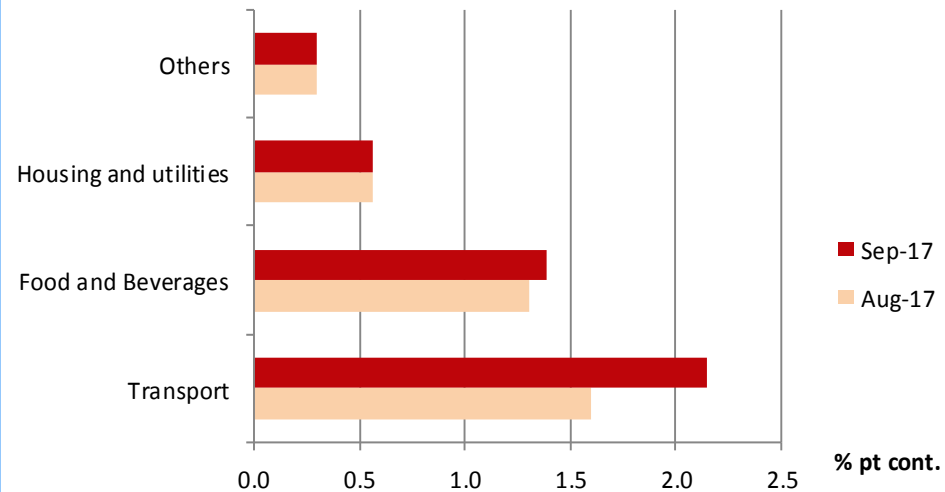
Elevated inflationary pressures

- YTD-Sep17 CPI expanded higher at 4.0% y-o-y (YTD-Sep16: +1.9%)
- Lifted by higher pump prices in transport sector on the back of rising Brent crude oil prices
- Nevertheless, the gov't expects 2018 inflation to moderate between 2.5% - 3.0% as price pressures normalise

Malaysia inflation rates



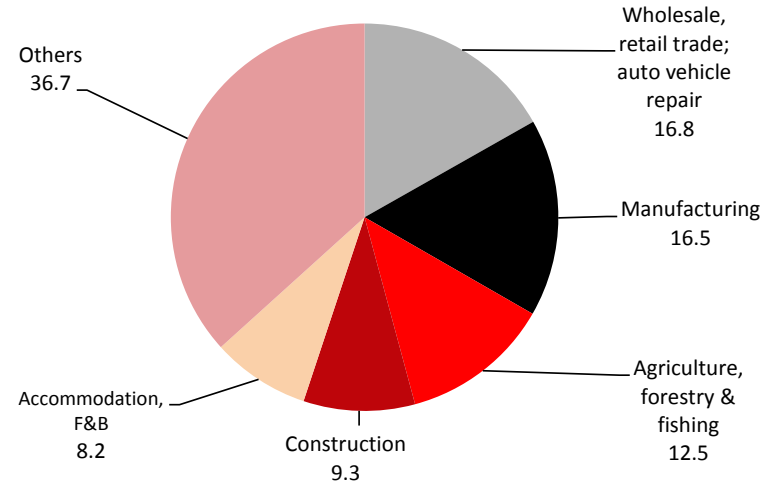
Percentage point contribution to inflation (% y-o-y)



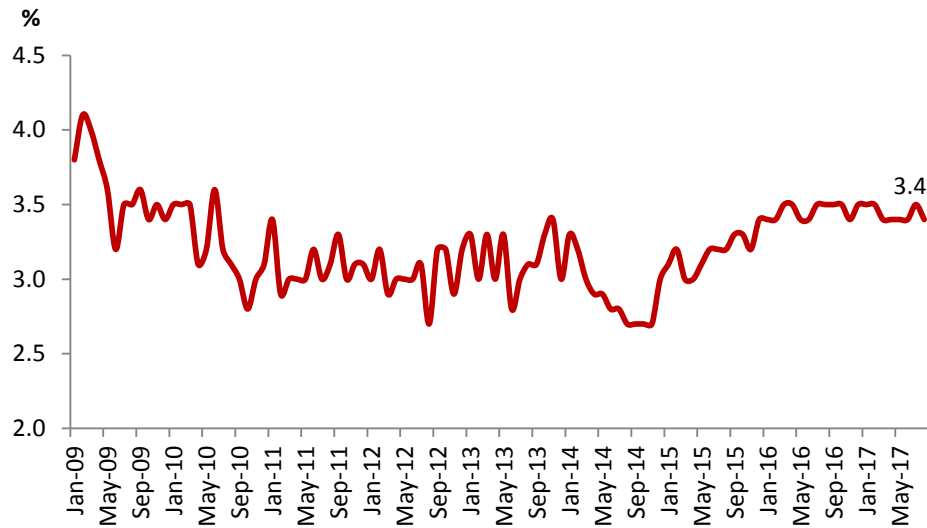
Unemployment rate at worrying levels

- YTD-August, unemployment rate averaged 3.4% – higher than the 2010-2015 average of 3.1%
- Trend average of unemployed is around 500,000 people per month since mid-2015, up from around 420,00 per month average in 2010-2014
- Manufacturing, wholesale and retail trade sector key employment sectors (cumulatively over 30% of total employment)

Employed labour force by sector composition (in 2016)

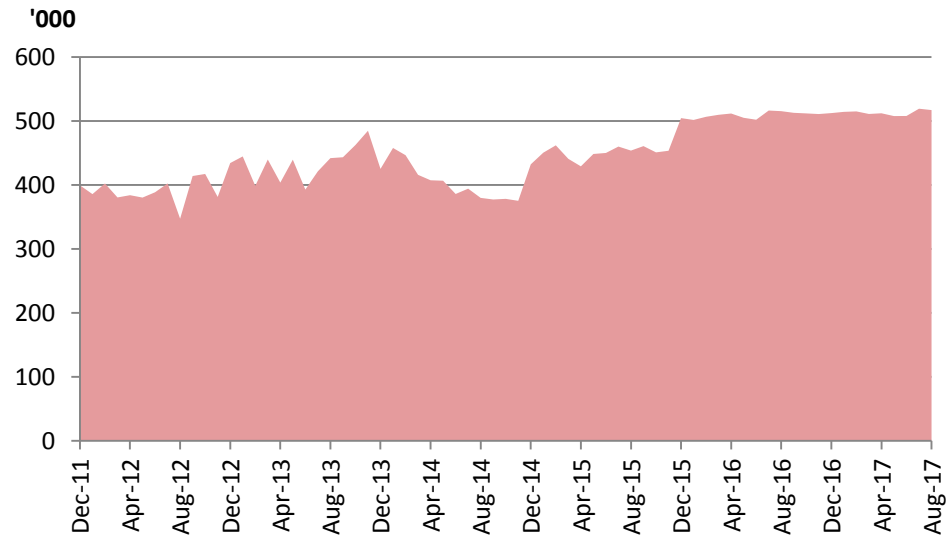


Unemployment rate



Source: Department of Statistics

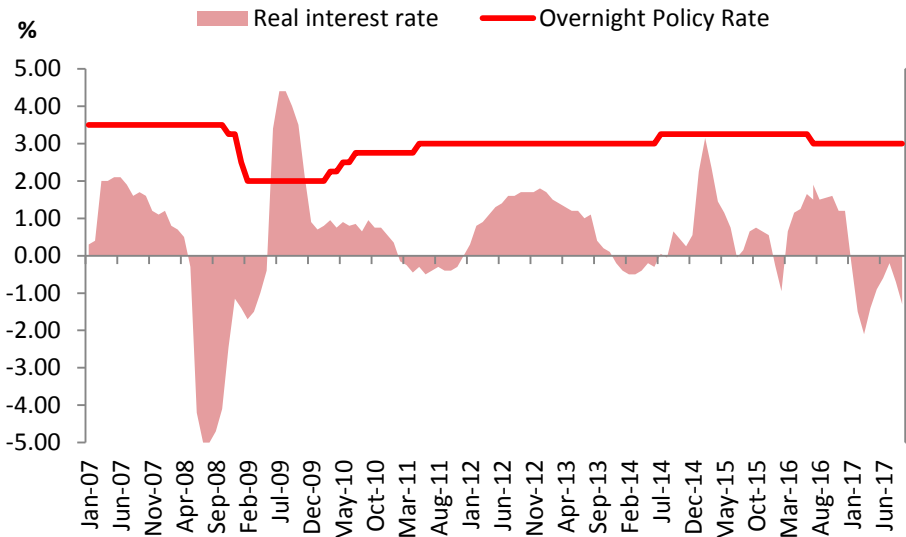
Number of unemployed person



No Overnight Policy Rate hike

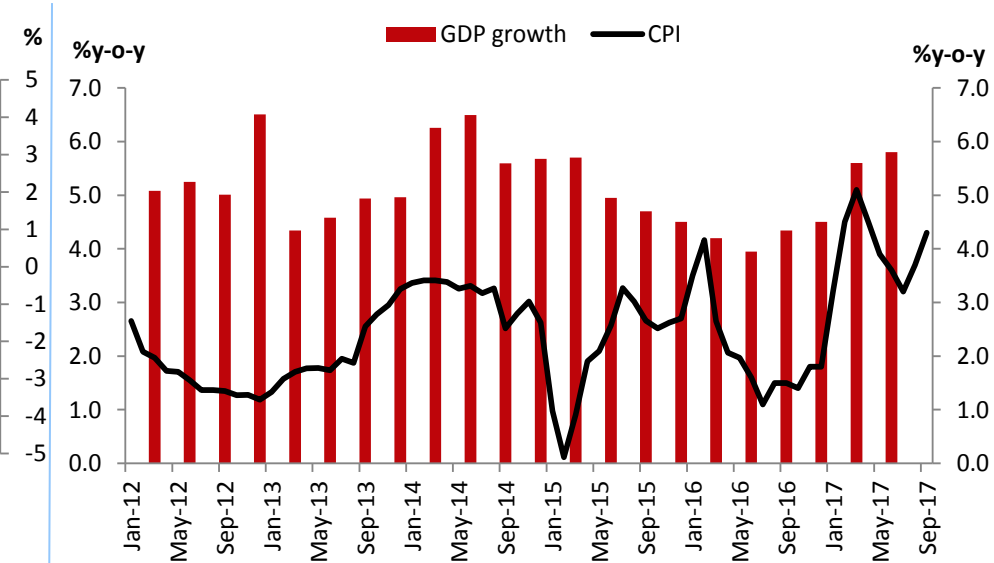
- Bank Negara maintained a neutral tone with an upside bias, regarding the economic outlook for the year
 - Despite elevated YTD-September inflation of 4.0%, the underlying core inflation (excluding food and transport) has remained steady at around 1.7%
 - Bank Negara expects private consumption growth to expand 6.9% this year, however, consumer sentiments (as measured by MIER) has been bearish since 3Q14
- Nevertheless, while the Ringgit exchange rate stabilises after heightened volatility early this year, it is not conducive for Bank Negara to deliver surprise interest rate cut/hike

Real interest rate and OPR



Source: Bank Negara, AllianceDBS

Malaysia GDP and inflation growth



CONSTRUCTION SECTOR OUTLOOK

Budget 2018: Construction Sector

Driving logistic sector

- ECRL project Port Klang – Pengkalan Kubor
- MRT2 project Sungai Buluh – Serdang – Putrajaya (52km: RM32bn)
- MRT3 (Circle Line)
- High Speed Rail Project KL – SG (350km)
- Central Spine Road project (RM230m)
- Upgrade of international and local airports

Schools development and improvement

- 14 new sports complexes nationwide: RM112m
- Construction of pre-schools, PERMATA centre, primary & secondary schools and vocational colleges as well as matriculation centres (RM654m)
- Rebuild and upgrade 2,000 dilapidated schools using IBS (RM2.5bn)

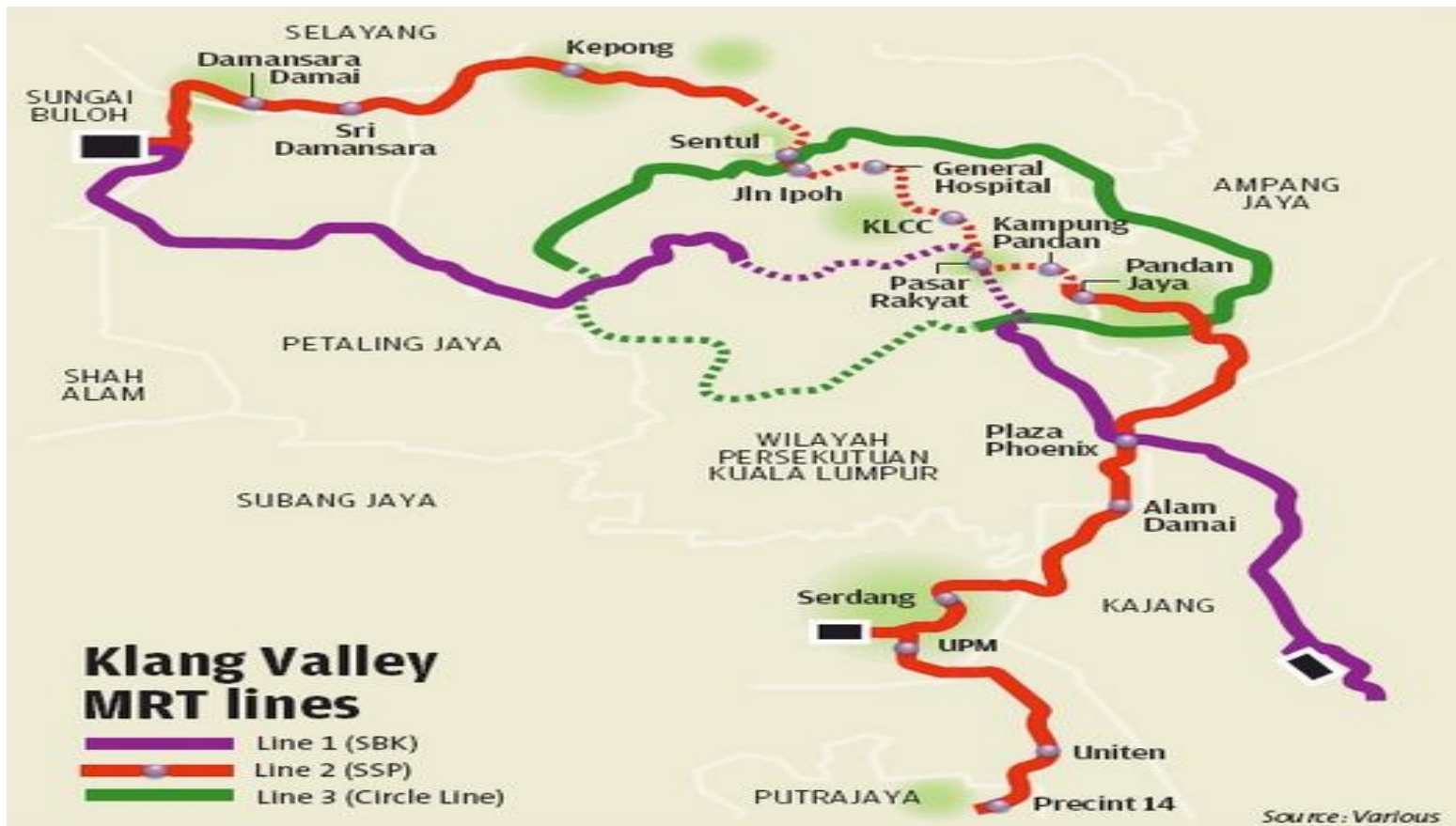
Providing quality infrastructure for the Rakyat

- Pan-Borneo highway (RM2bn)
- Development of communication infrastructure (RM1bn)
- Construction of roads in rural areas (RM934m)

Major Project Updates

Projects	Est amount (RM bn)	Est commencement date^	Est completion date*	Potential winners
MRT Line 2 and 3	60.0	Mid-2017 (Line 2); End-2018 (Line 3)	July 2022 (Line 2); 2025/2026 (Line 3)	Gamuda, MMC, IJM, Sunway, various
Gemas-JB double tracking	8.9	Mid-2017	End-2020	Gamuda, IJM, WCT
LRT 3	10.0	Mid-2017	2020	MRCB-George Kent and other local contractors
Pan Borneo Highway	27.0	End-2017	2022	CMS, Naim, HSL other West Malaysian players
East Coast Rail Link	55.0	2018	2022	China Communication Construction Company
Penang Integrated Transport	27.0	TBA	TBA	Gamuda, IJM likely to have subcon role
High Speed Rail	60.0	TBA	End-2026	Gamuda, YTL, various
Jalan Tun Razak traffic dispersal	0.9	TBA	TBA	Various
BRT KL to Klang	4.0	TBA	TBA	Various
Bandar Malaysia	64.0	2018	2037	Various
Tun Razak Exchange	16.0	Started	TBA	Various

MRT lines



High Speed Rail

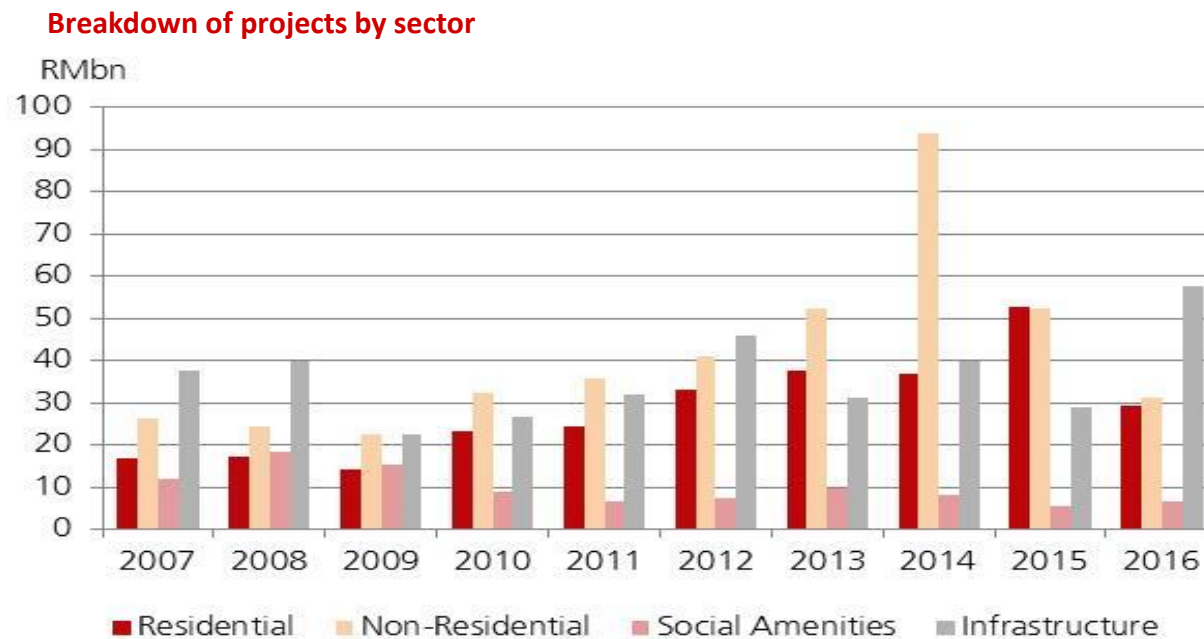
We have identified a preferred coastal alignment from Kuala Lumpur to Singapore

— Preferred HSR Corridor
— KTM — NS Highway



Budget 2018: Construction Sector

- For 2011-2015, residential projects contributed 20-38% of the total construction value
- 2016 saw a doubling in infrastructure-related projects to RM58bn
- As the Budget 2018 focuses more on transportation-led projects, the trend should continue to show positive growth moving forward
- In line with a softer property market where developers have been holding back launches, construction related activities for residential and non-residential fell 45% and 40% y-o-y respectively

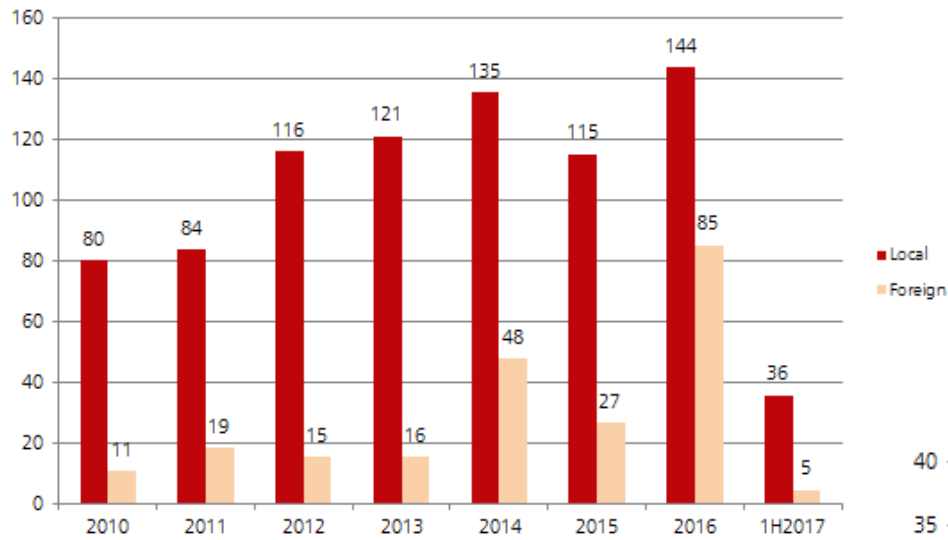


Chinese presence in infrastructure space growing

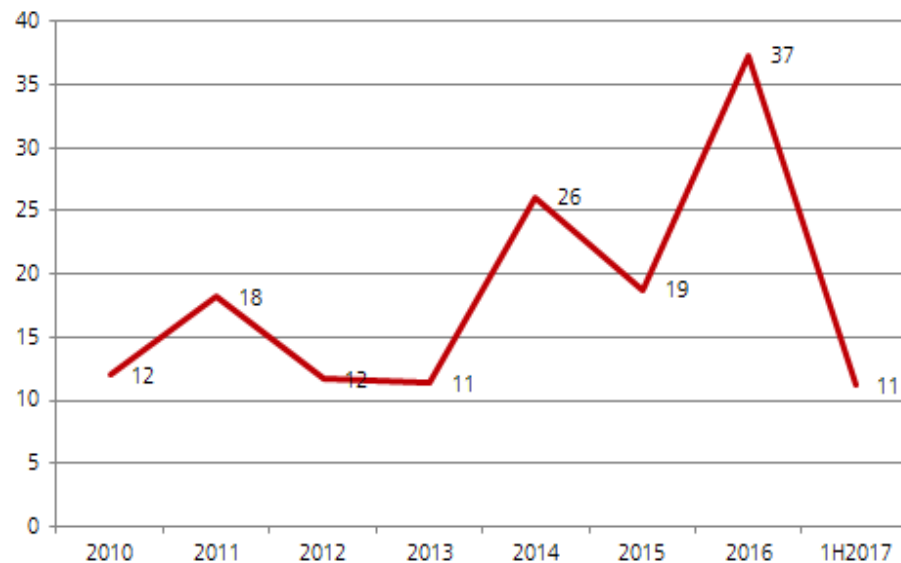
- Within ASEAN, Malaysia is one of the largest beneficiary country from the One Belt, One Road initiative by China
- More participation from Chinese contractors in Malaysia - Directly or through JV with local contractors
- Driven by the Chinese government via G-to-G or Private Sector initiatives. Generally, the government will appoint the contractors according to the types of projects.
- Backed by Chinese government – enjoy strong support from the Chinese government via cheaper source of funding (Mainland China lenders and the Export-Import Bank of China)
- Construction companies which are dependent on contract awards will be directly impacted by the influx of Chinese contractors

Foreign Contractors' Contribution

Projects undertaken by foreign contractors (RMbn)



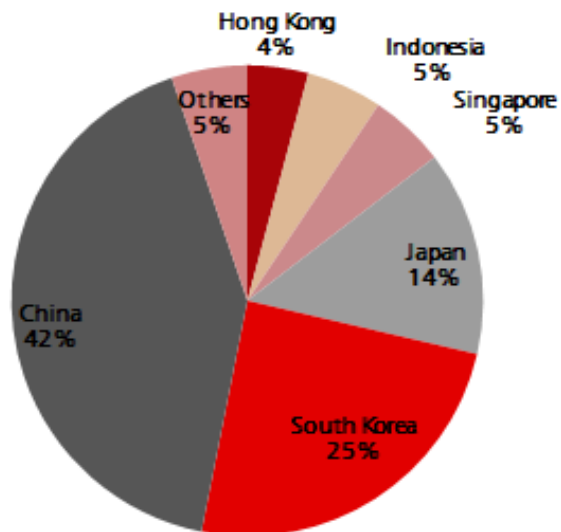
Foreign contractors contribution to total project value (%)



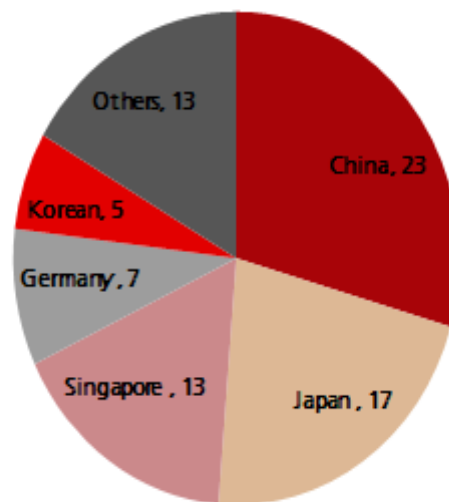
Chinese Contractors Largest Presence

- CIDB statistics show that in 2016 foreign contractors clinched 37% of the total construction project value
- In terms of value, the Chinese contractors lead the way with 42% of the total value comprising 25 projects
- Largest amount of foreign contractors are from China with 23

Value of projects by foreign contractors (%)

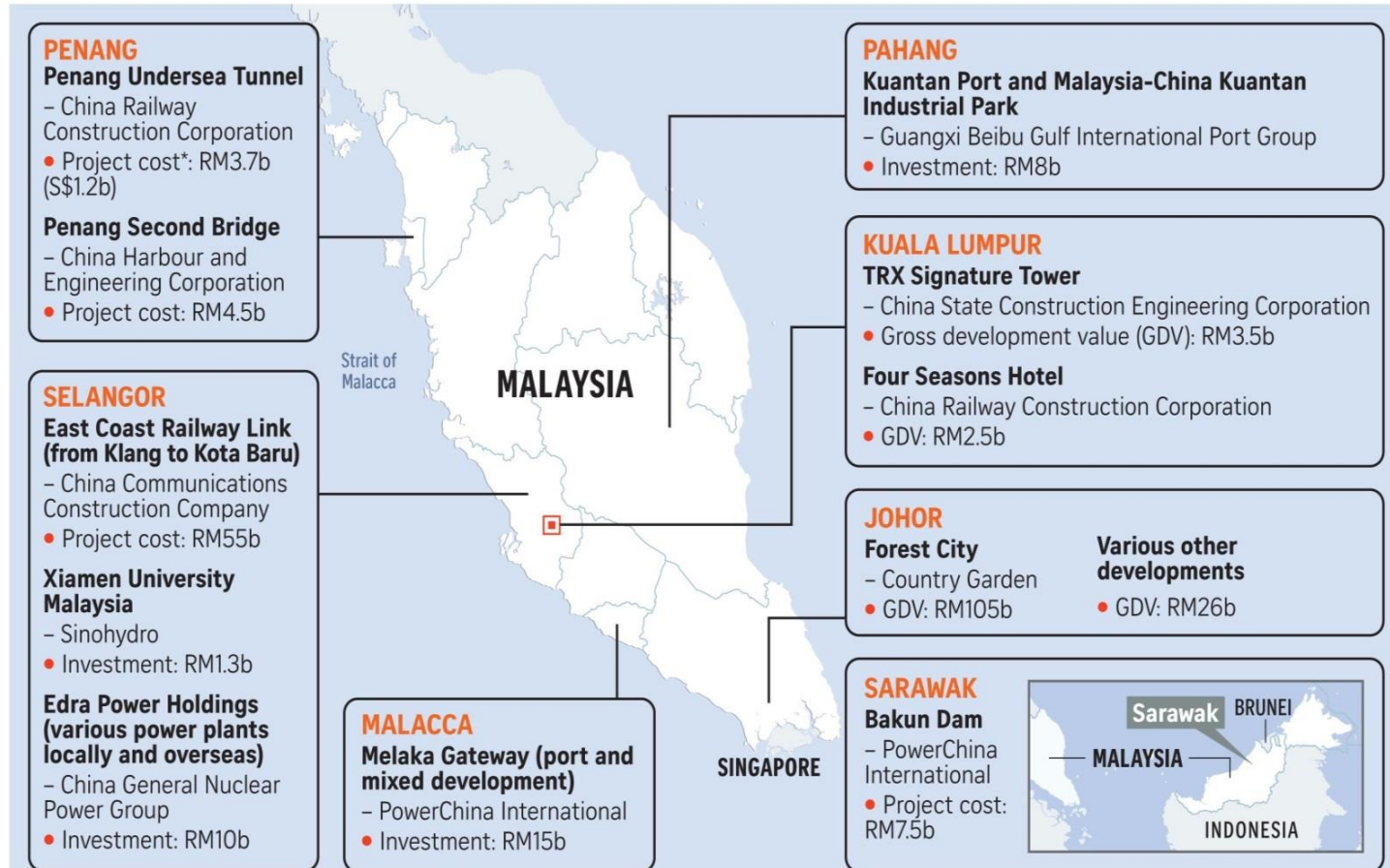


Number of foreign contractors by country



China's infrastructure investments

Some China projects and investments



NOTE: *Values list the project cost or investment, but some use gross development value (GDV)

SUNDAY TIMES GRAPHICS

PROPERTY SECTOR OUTLOOK

Budget 2018: Property Sector

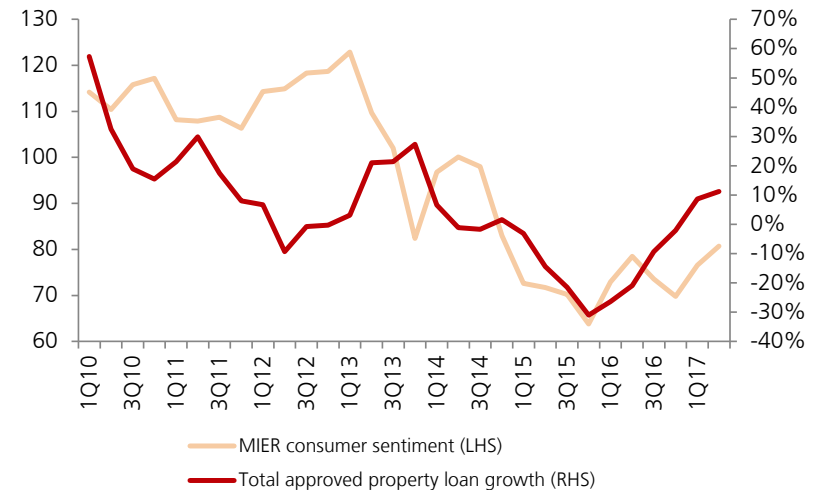
- Allocation of RM2.2bn for affordable housing schemes
- Stamp duty exemption for loan agreement and letter of consent to transfer
- 50% tax exemption on rental income for rent up to RM2,000
- Maintenance and refurbishment of houses including 1Malaysia Maintenance Fund (RM200m)

Projects	Additional Units	Agencies
People's Housing Programme (PPR)	17300	JPN
Rumah Mesra Rakyat	3000	SPNB
Perumahan Rakyat 1Malaysia (PR1MA)	210,000	PR1MA
PPA1M	25000	JPN
MyBeautiful New Homes (MyBNHomes)	600	NSU
MyDeposit & MyHomes	2000	JPN
FELDA Second Generation home	5000	FELDA

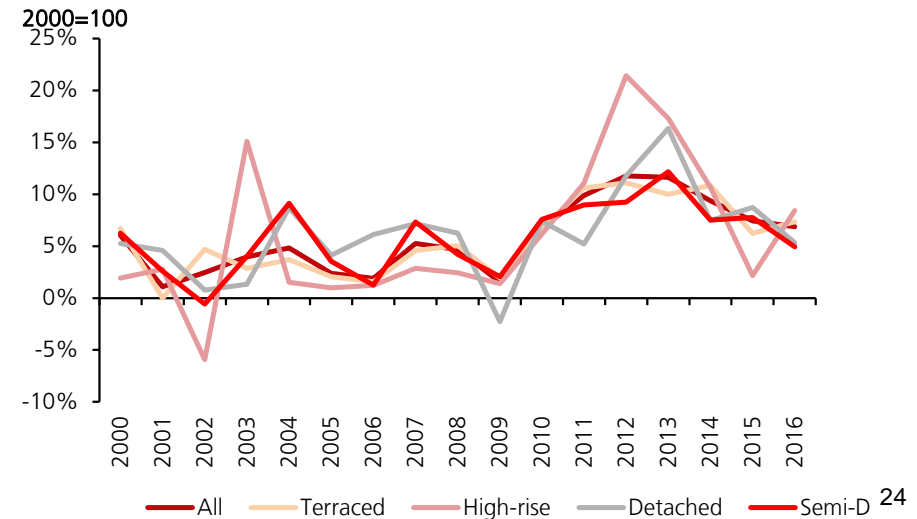
Malaysia Property – Looking forward to 2H18

- No respite from relatively weaker property market, but not all doom and gloom
- Second-tier cities offer opportunities
- Sustaining new property sales is a challenge for developers
- Affordable homes to dominate in 2017/2018
- Keen competition to cap price hike growth, pressuring margins
- Sub-sales may gain traction; demand supported by rising affluence

Sentiment is recovering



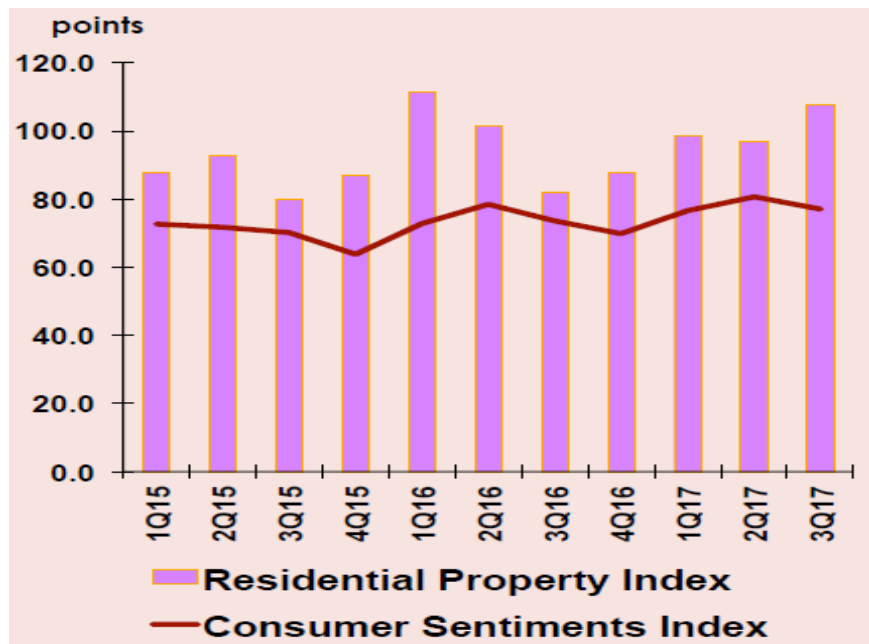
Slower growth of house price index



Cont – Outlook in the near term

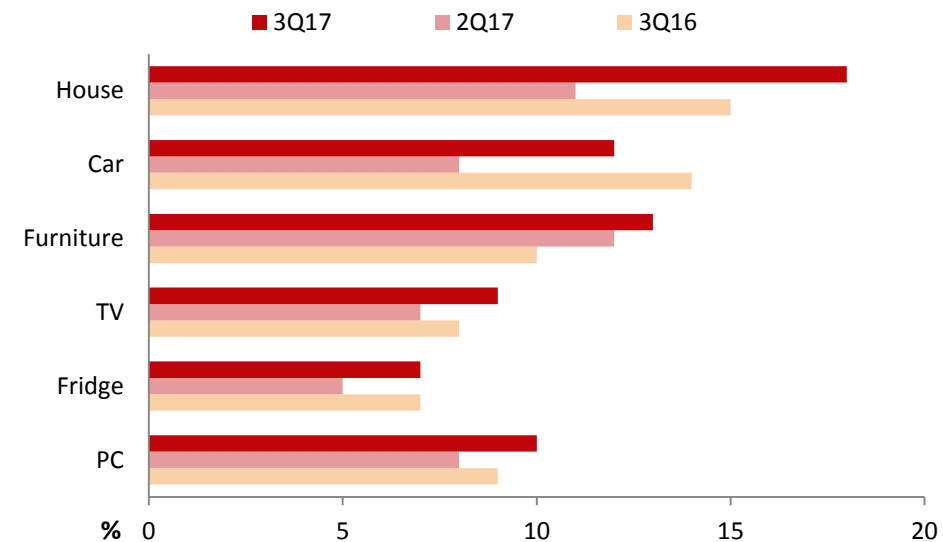
- In the latest 3Q17 MIER survey, residential property index (RPI) rose to 107.8 moving into positive territory (2Q17: 76.6)
 - Residential sales were steady with new bookings picking up
- Within future spending plans, housing plans were the most ambitious among consumers with 18% (2Q17: 11%) in urban areas and south

Residential property index



Source: MIER

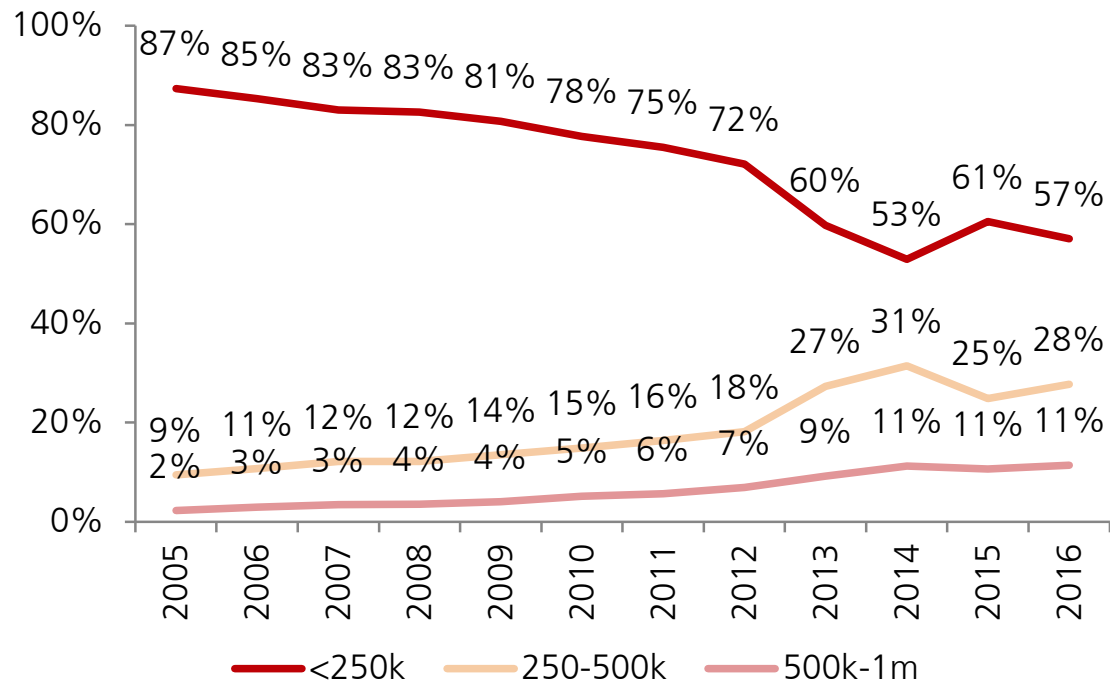
Consumer spending plans



Overview of Malaysia property market

- Properties priced RM250k-500k gained significant market share
- Buyers increasingly upgrading properties even before 2011
- Affordably-priced properties with lifestyle amenities in demand

Market share of property transaction volume by price range



Overview of Malaysia property market

Government schemes and incentives

Policy	Details	Property value	Moratorium
<u>Financing scheme</u>			
My First Home Scheme	up to 100% financing for young adults below 40 years old earning <RM5k/month	<500k	
Private Affordable Ownership Housing Scheme (MyHome)	developers' subsidy of up to RM30k/ low-cost house for first-time homebuyers earning RM3k-6k/month	<45k low cost, <170k medium cost	
Stamp duty exemption	100% stamp duty exemption for first residential property	<300k	
Youth Housing Scheme	Full financing for first home for married youth aged between 25 and 40 years with household income <RM10k/month. RM200 monthly assistance for first 2 years	<500k	
First House Deposit Financing Scheme (MyDeposit)	RM10k deposit contribution (max RM30k) for first homebuyers with household income <RM10k/month	<500k	
<u>Housing scheme</u>			
1Malaysia People's Housing Programme (PR1MA)	Malaysians above 21 years old with individual/household income <RM10k and own no more than 1 property	100k-400k	10 years
1Malaysia Civil Servants Housing Programme (PPA1M)	Affordable homes for civil servants with individual income <RM10k/month	90k-300k	10 years
Rumah Selangorku	Affordable homes for Selangor first-time homebuyers with household income <RM8k/month	42k-250k	5 years
RUMAWIP	Affordable homes for KL/Putrajaya/Labuan first-time homebuyers with household income <RM15k/month	52k-300k	10 years

Challenging market in 2017

- Property prices remain stubbornly high
- Strict bank lending policies lead to high loan rejection rates
- Macro-prudential measures over the years:
 - 2010: 70% loan-to-value cap for 3rd property onwards
 - 2013: Mortgage financing tenure reduced to a maximum of 35 years
 - 2014: Removal of DIBS incentive, higher threshold for foreigners to buy property at RM1m from RM500k

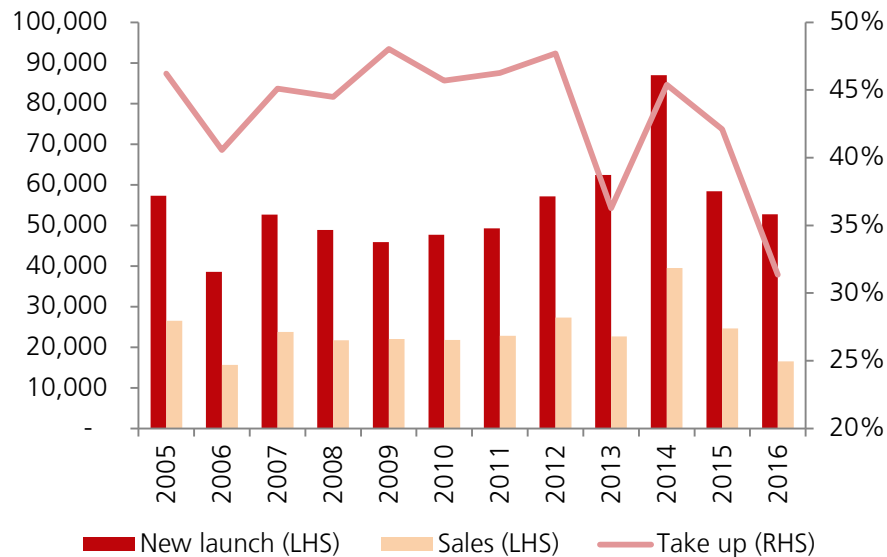
Real Property Gains Tax (RPGT) rates in Malaysia

Holding period (yr)	2014	2013	2012	2011	2010	2008-09	1995-2007
1	30%	15%	10%	10%	5%	-	30%
2	30%	15%	10%	10%	5%	-	30%
3	30%	10%	5%	5%	5%	-	20%
4	20%	10%	5%	5%	5%	-	15%
5	15%	10%	5%	5%	5%	-	5%
>5	0%	0%	0%	0%	0%	-	0%

Cautious outlook

- Lowest take-up in 2016 over the past 10 years
- Property buyers turn cautious; no more sold-out-upon-launch
- Key-events
 - Property market remains strong till 2012, as macro-prudential measures introduced negatively impacted the market
 - Developer Interest Bearing Scheme (DIBS) was banned in 2014
 - GST introduced in 2015, while the Ringgit weakened against the USD in 2016

Property sales suffer in 2016



Too much supply?

- Incoming supply is the largest in recent years
- 2017-2018 should see higher completions especially high-rises
- Large incoming supply to cap house price growth

New residential supply to accelerate in 2017-2018

	Completions	% of stock	Incoming supply	% of stock	Existing stock	HPI	HPI growth
2002	156,042	5.1%	605,566	19.9%	3,050,421	104	
2003	192,490	5.9%	627,028	19.1%	3,287,733	108	4.0%
2004	165,964	4.8%	641,771	18.5%	3,467,812	113	4.8%
2005	180,600	4.9%	637,208	17.3%	3,680,462	116	2.4%
2006	171,448	4.4%	619,583	16.0%	3,864,432	118	1.9%
2007	181,123	4.5%	573,716	14.1%	4,063,167	124	5.3%
2008	136,881	3.2%	557,502	13.2%	4,220,510	130	4.7%
2009	103,335	2.4%	538,894	12.4%	4,338,609	132	1.5%
2010	99,866	2.2%	533,605	12.0%	4,446,085	141	6.8%
2011	65,866	1.4%	533,844	11.7%	4,547,971	155	9.9%
2012	72,247	1.6%	628,655	13.5%	4,640,269	173	11.8%
2013	78,265	1.7%	696,557	14.8%	4,718,534	193	11.6%
2014	107,747	2.2%	769,788	15.9%	4,848,030	211	9.4%
2015	71,591	1.5%	766,582	15.8%	4,852,986	227	7.4%
2016	78,216	1.6%	829,687	16.8%	4,945,140	242	6.9%
1Q17*	20,325	0.4%	494,319	9.3%	5,300,429	n.a.	n.a.

* Adjustment made for completed projects issued with CCC for incoming supply and existing stock

Game changer is needed..

- Introduction of a single entity governing matters relating to affordable housing, consolidating all current affordable housing agencies – Malaysian Affordable Housing Agency
- Negotiation with state governments to fully-utilise parcels of undeveloped government lands
- Enforce a higher percentage of total developments by developers – reserving for affordable housing projects while offering tax reductions as incentives
- Transit rental homes with rent-to-own clause – support lower income or fresh graduates while easing their burden of rising cost of living

THANK YOU