Belt and Road country – Malaysia
Macro-economic trends
Malaysia’s real GDP is forecasted to grow at a rate of 4.8%, where real GDP per capita will reach c.USD 11k in 2022

Real GDP is expected to grow at 4.8% CAGR from 2017 onwards. As at Q2 2017, its quarter growth is > 5.6%, exceeding market forecasts.

Real GDP per capita is expected to grow at 3.6% CAGR, slower than real GDP, as Malaysia’s population is growing at 1.6% CAGR.

2017 GDP growth has outperformed initial forecast of 4.5% (Q1’17: 5.6%; Q2’17: 5.8%). Revised FY17 GDP growth forecasted to be 5.2%.

Source: Department of Statistics Malaysia, IMF
Manufacturing is one of the key industries with larger foreign direct investments, with China being the highest contributor for approved investments in 2016.

Foreign Direct Investment By Industry
USD bn

2016 Approved Investment In Manufacturing
USD bn

- China had the highest contribution (21%) towards 2016 approved investment in manufacturing.
- This is contributed by the Belt and Road initiative and Malaysia's initiative in establishing industrial trade zone.

Although there has been an increasing focus on becoming a service-based economy, manufacturing continues to be a key segment of the Malaysian economy.

Source: MIDA

NB: Assumed USD/MYR = 4.0
Since the announcement of the Belt and Road initiative in September 2013, there has been significant growth in foreign direct investments from China

Foreign Direct Investment by Region
USD bn

<table>
<thead>
<tr>
<th>Year</th>
<th>East Asia</th>
<th>Southeast Asia</th>
<th>Europe</th>
<th>Others</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>7.3</td>
<td>26%</td>
<td>46%</td>
<td>6%</td>
</tr>
<tr>
<td>2011</td>
<td>9.3</td>
<td>26%</td>
<td>32%</td>
<td>27%</td>
</tr>
<tr>
<td>2012</td>
<td>7.3</td>
<td>29%</td>
<td>21%</td>
<td>22%</td>
</tr>
<tr>
<td>2013</td>
<td>9.5</td>
<td>29%</td>
<td>21%</td>
<td>29%</td>
</tr>
<tr>
<td>2014</td>
<td>9.0</td>
<td>20%</td>
<td>33%</td>
<td>16%</td>
</tr>
<tr>
<td>2015</td>
<td>9.8</td>
<td>14%</td>
<td>30%</td>
<td>18%</td>
</tr>
<tr>
<td>2016</td>
<td>11.8</td>
<td>11%</td>
<td>56%</td>
<td>18%</td>
</tr>
</tbody>
</table>

8.3% CAGR

China Foreign Direct Investment
USD mil

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>USD mil</td>
<td>6</td>
<td>24</td>
<td>81</td>
<td>243</td>
<td>329</td>
<td>1,484</td>
<td></td>
</tr>
</tbody>
</table>


198% CAGR

Proportion of foreign direct investments (FDI) from East Asia has increased noticeably (2013: 32%; 2015: 56% of total FDI) since the announcement of the Belt and Road initiative.

Historically, China has very low foreign direct investment in Malaysia.

Chinese investment increased by 163% CAGR from 2013 to 2016 after the announcement of Belt and Road initiative in Sept’13.

*East Asia comprises China, Japan and South Korea.
*Others include America and Oceania, other countries.

Source: Bank Negara Malaysia’s monthly data

NB: Assumed USD/MYR = 4.0
China – Malaysia economic ties are institutionalised on strong bilateral relationship

**China-Malaysia bilateral economic relationship**

- **Exchange of goods between two countries** that facilitate trade and investment by reducing or eliminating tariffs, import quotas, export restraints and other trade barriers.

- **RM144 billion (USD 36 billion)**
  MoUs signed between China and Malaysian companies [(Nov 2016)](https://example.com) and a further

- **RM31 billion (USD 8 billion)**
  Additional MoUs signed between China and Malaysian companies on [(May 2017)](https://example.com)

**RCEP* (Regional Comprehensive Economic Partnership)**

- **Free trade agreement (FTA)** between ASEAN and the six states with which ASEAN has existing FTAs. RCEP serves as a building block of the Belt and Road initiative, to promote trade and investment in Asia (7 out of 10 of ASEAN’s top 10 trade partners are covered in the RCEP)

- **Largest** trading partner for Malaysia for the 8th consecutive year
  Source: Xinhua

**Government-to-Government treaties**

- Focus on **power, energy & resources, transport infrastructure, telecommunication and water**

- China purchasing more Malaysian government bonds and allow local institutions to invest up to **RM33.4 billion (USD 8.4 billion)**
  Source: Malaysian Reserve

**US TPP withdrawal**

- RCEP to take precedence
The Belt and Road initiative has strong governmental support as it is expected to be mutually beneficial to both nations

“The Belt and Road network will definitely give a boost to the development of various sectors and industries, hence generate bigger growth through good infrastructure as the catalyst”

Datuk Seri Najib Tun Razak, Prime Minister of Malaysia

"The Belt and Road initiative by China will help Asean...especially in the transport sector...China’s participation in building new ports in Asean countries and railways could accelerate these developments”

Datuk Seri Dr Ahmad Zahid Hamidi, Deputy Prime Minister of Malaysia

"Malaysia is keen on fostering an economic partnership with China as it is prepared to enter into a win-win relationship”

Datuk Seri Liow Tiong Lai, Transport Minister of Malaysia
Overview of key industries
Leveraging on Malaysia’s competitive advantages, strategic Chinese investors can gain by participating in selected industries

Malaysia’s Competitive Advantage

Strategic Location

- Located within China’s Belt and Road (B&R) roadmap ensures it is well positioned to benefit from B&R initiatives
  - i. heart of Southeast Asia
  - ii. gateway to China and ASEAN

Supportive Government Policies

- A series of government policies to promote infrastructure development and manufacturing investment:
  - i. Economic Transformation Plan
  - ii. 11th Malaysia Plan
- Availability of tax incentives, i.e. 5 years partial tax exemption
- 100% foreign ownership for manufacturing industry
- Intellectual protection

Conducive Business Environment

- Ranks 19th for overall infrastructure quality in Deloitte Global Competitive Index 2016
- Well-developed industrial parks
- Availability of human capital with competitive minimum wages (from **USD248 per month**)

Benefiting Industries

- Transport infrastructure
- Logistics
- Manufacturing
Growth in the transport infrastructure market mainly driven by railways and road and bridges; with growth expected to outpace overall GDP growth rate by almost 2x

- Transport infrastructure in Malaysia is projected to grow > 10% per year from 2017 to 2020, with growth expected to stabilise at c.8% 2021 onwards.
- Strong market growth is primarily driven by developments in railways and roads and bridges.
- Construction of railways are aimed at increasing the connectivity between ports and manufacturing industrials.

Source: BMI Malaysia Infrastructure Report Q417

NB: Assumed USD/MYR = 4.0
Logistics
Growth in the Malaysian logistics sector is driven by demand for freight transportation – due to increasing levels of e-commerce activity and government facilitation initiatives

The logistics sector in Malaysia is poised for strong growth, with the recent increase in activity underpinned by evolving consumer behaviours, significant growth in e-commerce activity and supported by government initiatives.

- > 95% of logistic sector is dominated by port and road logistic players ranging from multinational companies to small domestic firms.
- The Malaysian Government has identified the logistics sector as a key area of growth for the nation, and has implemented a series of initiatives under Logistic and Trade Facilitation Masterplan (2015-2020) including:
  - Simplifying regulations to reduce red-tape/processes
  - Improving existing infrastructure and connectivity, i.e. new ports and roads within rural areas
  - Strengthening technology and human capital
- Malaysia Airports has set up a one-stop air freight service centre at KLIA Aeropolis to promote air freight services.
- Increasing demand for logistics services is resultant from evolving consumers behaviours, particularly with the e-commerce market expected to grow at 11% CAGR from 2017 to 2022.

Source: Ministry of Transportation, EMI, PwC analysis
Logistics opportunities lie within the courier, express, parcels (CEP) and last mile delivery segments

Value chain

**Business ("B") - suppliers**
- Departure Port (exports)
  - Custom & consolidation
- Transhipment
- Arrival Port (imports)
  - Custom & consolidation

**Consumer ("C")**
- Transportation
- Warehousing
- Local
- Transportation
- Warehousing & sorting
- Distribution
- Last mile delivery

Key types of players

- **Carriers**
  - Asset-based carriers
  - Freight logistic service provider

- **Third party logistics (3PL)**

- **Courier, express, parcels (CEP)**
  - Courier logistic service provider
  - *Most Malaysian 3PLs outsource this to carriers*

- **Last mile delivery (LMD)**

Note: 1. Warehousing solution is optional and can be customised to customer’s needs (i.e. temperature-controlled warehouse).
With the boom in e-commerce, huge potential lies within the CEP and LMD segments, with international players dominating the CEP segment.

**e-Commerce is projected to grow significantly, with CEP volume growing in tandem**

**Domestic players is catching up with international players in the CEP market**

- **Market FY17: $1 bil**
- **FY15 – FY20 CAGR: 11% p.a.**
- **80 mil deliveries: 15% p.a.**

**Number of CEP players in Malaysia**

<table>
<thead>
<tr>
<th>Year</th>
<th>Domestic</th>
<th>International</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY11</td>
<td>31%</td>
<td>69%</td>
</tr>
<tr>
<td>FY16</td>
<td>38%</td>
<td>62%</td>
</tr>
</tbody>
</table>

- **122 players**

- **CEP market has grown 14% CAGR since FY11**
  - FY11: ~USD 0.5bn
  - FY16: ~USD 0.9bn

- **CEP market has been dominated by international players since FY11**
- **Increasing no. of CEP players with domestic players growing faster its international peers**

---

PwC Capabilities

- Manufacturing
- Logistics
- Transport Infrastructure
- Macro-economic trends
Manufacturing
The manufacturing sector has experienced strong historical growth with potential for new opportunities within this sector.

Steady increase in exports of manufactured goods is indicative of the continued growth in the manufacturing sector:

- Manufactured goods have experienced steady growth over the past years in line with the growing exports.
- Export products mainly consists of electronic and electrical products, chemical and petroleum products, manufactures of metals, machinery equipment and parts.
- In line with Belt and Road initiatives, the Malaysian government has introduced multiple policies to further spur investments in the manufacturing sector, namely:
  - Allowing 100% foreign ownership in for manufacturing investments
  - Tax incentives for foreign investors

Source: Bank Negara Malaysia monthly data

NB: Assumed USD/MYR = 4.0
Investments in manufacturing could be targeted at sub-sectors that facilitate technological and knowledge transfer from China to spur growth industries in Malaysia

- **Electronic & electrical manufacturing**
  - Transfer of China’s advanced technological “know-how” in electronic and electrical manufacturing abroad is aligned with the Belt and Road core strategy
  - Largest export sector for both Malaysia (2016: 38% of total exports) and China (2016: 26% of total exports)

- **Renewable energy products manufacturing**
  - Relatively nascent industry in Malaysia
  - Malaysian government has expressed support for “Green Growth” and green technology as part of the 11th Malaysia plan.
  - Opportunity to leverage on China’s dominance and expertise in the renewable energy and technology sector

- **Construction / Infrastructure materials production**
  - Large-scale infrastructure development projects would necessitate increased demand for construction and infrastructure materials

**Key themes:**
- Facilitating technology and knowledge transfer from China - Malaysia
- Supporting growth industries in Malaysia

Source: Economic Transformation Programme and Eleventh Malaysia Plan Reports, PwC Analysis
Electrical and electronic manufacturing and exports is a growing market in Malaysia, primarily driven by favourable government policies and increasing global demand for semi-conductors.

**Key Drivers and Opportunities**

**Drivers**

- **Favourable government policies**
  - Malaysia is the world’s 7th largest exporter of electrical and electronic (E&E) products
  - The government has implemented a series of initiatives to drive E&E industry growth under the Economic Transformation Programme
  - Up to 100% foreign ownership for manufacturing industry

- **Increasing global demand for semi-conductors**
  - Gartner has raised its forecast for 2017 global semi-conductor revenue growth to 12.3%, attributable to the increase in production of and demand for smartphones, graphic designs and automotive appliances
  - Semi-conductors make up c.50% of Malaysia’s E&E export products, with this proportion expected to continue to increase over the years years.

**Opportunities**

- **Complete E&E ecosystem for scalable productions**
  - Presence of multinational E&E players
  - Experienced local E&E players to facilitate production needs along the value chain

**Electrical and Electronic Market Landscape**

*Electrical and electronic exports USD bn*

<table>
<thead>
<tr>
<th>Year</th>
<th>Telecommunications, sound recording &amp; reproducing</th>
<th>Office machines and automatic data processing</th>
<th>Electrical Machinery, apparatus and appliances, parts</th>
<th>Semi-Condutors</th>
<th>CAGR 2010-2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>17%</td>
<td>30%</td>
<td>39%</td>
<td></td>
<td>2.4%</td>
</tr>
<tr>
<td>2011</td>
<td>18%</td>
<td>23%</td>
<td>45%</td>
<td></td>
<td>-0.9%</td>
</tr>
<tr>
<td>2012</td>
<td>17%</td>
<td>22%</td>
<td>44%</td>
<td></td>
<td>-5.1%</td>
</tr>
<tr>
<td>2013</td>
<td>16%</td>
<td>21%</td>
<td>47%</td>
<td></td>
<td>7.1%</td>
</tr>
<tr>
<td>2014</td>
<td>16%</td>
<td>18%</td>
<td>50%</td>
<td></td>
<td>6.7%</td>
</tr>
<tr>
<td>2015</td>
<td>15%</td>
<td>19%</td>
<td>49%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>14%</td>
<td>19%</td>
<td>50%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

*NB: Assumed USD/MYR = 4.0*
Growth in the renewable energy market is fuelled by the government’s intentions to increase RE capacities and increasing international demands for solar PV

Renewable Energy Market Landscape

Total installed renewable energy capacity
Megawatt (MW)

The renewable energy capacities need to grow by 49% CAGR to reach government’s 2020 target

Key Drivers and Opportunity

Drivers

11th Malaysia Plan
- Government aims to increase installed renewable energy (“RE”) capacities to 2080MW by 2020, implying a 49% CAGR from 2016
- A series of initiatives have been implemented to encourage renewable energy investments and the development of regulatory framework for the feed-in-tariff mechanisms
- There is a demand gap for renewable energy products as the market is relatively nascent compared to its projected demands

Growing demands in solar photovoltaic (“solar PV”)
- Malaysia is currently the 3rd largest producer of solar PV cells and modules
- Growing demands for solar PV from both Malaysia and worldwide in support of “Green Growth”

Opportunities

Engineering and manufacturing companies for renewable energy products
- Potential collaborations/JVs between China and existing solar PV players
- Renewable energy power plant components manufacturing
- Design and construction of power plants

Source: 11th Malaysia Plan, SEDA and KeTTHA information
Production of construction related material will have to increase to meet demand from the various large-scale construction and infrastructure projects in Malaysia

Construction Market Landscape

Key Drivers and Opportunity

Growing demand for residential and non-residential buildings
- Development of residential and non-residential properties along the route of new infrastructure projects
- Government’s initiatives to increase house ownership by offering affordability housing scheme in Malaysia will spur demand for residential properties

Implementation of new infrastructure projects
- > RM100bn of infrastructure projects to be carried out in Malaysia*
- Increasing demands of construction materials

High volume of construction materials imports
- Manufacture of metal and iron & steel products contributed to 9% of total Malaysia’s 2016 imports

Manufacture of construction material
- Production of steel and other construction related materials
- Potential collaborations with existing Chinese construction companies in Malaysia

Source: BMI and PwC analysis

*NB: Assumed USD/MYR = 4.0
## Overview of market entry considerations and incentives in Malaysia

<table>
<thead>
<tr>
<th></th>
<th>General</th>
<th>Infrastructure</th>
<th>Manufacturing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business structure</strong></td>
<td>• Limited company *</td>
<td>• Limited company</td>
<td>• Limited company *</td>
</tr>
<tr>
<td></td>
<td>• Limited liability partnership</td>
<td>• JV / partner with local company *</td>
<td>• Limited liability partnership</td>
</tr>
<tr>
<td></td>
<td>• Sole-proprietorship/ partnership</td>
<td>• Public-private partnership</td>
<td></td>
</tr>
<tr>
<td><strong>Foreign equity ownership</strong></td>
<td>Up to 100% depending on sector</td>
<td>Potential restriction of 49% (case-by-case basis)</td>
<td>Up to 100%</td>
</tr>
<tr>
<td><strong>Mandatory licensing</strong></td>
<td>Licenses vary by industry</td>
<td>Construction Industry Development Board (CIDB) license</td>
<td>Manufacturing license required if company has:</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• &gt;RM2.5m shareholder funds; or</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• &gt; 75 full-time employees</td>
</tr>
<tr>
<td><strong>Tax incentive</strong></td>
<td>Up to 70% tax exemption on income for 5 years</td>
<td>Case-by-case basis</td>
<td>• Pioneer Status: Up to 70% tax exemption on income for 5 years</td>
</tr>
<tr>
<td>(subject to conditions)</td>
<td></td>
<td></td>
<td>• Investment Tax Allowance (ITA): 60% allowance on qualifying capital expenditure incurred within 5 years</td>
</tr>
<tr>
<td><strong>Corporate tax rate</strong></td>
<td></td>
<td></td>
<td>24%</td>
</tr>
<tr>
<td><strong>Governance Law</strong></td>
<td></td>
<td>Companies Act of 1965</td>
<td></td>
</tr>
<tr>
<td><strong>Repatriation of profit</strong></td>
<td></td>
<td>No restrictions on remittance</td>
<td></td>
</tr>
<tr>
<td><strong>Market entry strategy</strong></td>
<td></td>
<td>Establish partnerships with local “bumiputera” (Indigenous /Malay-owned) companies</td>
<td></td>
</tr>
</tbody>
</table>

* indicates the common business structures used by foreign company when investing in Malaysia

Source: MIDA website and PwC research
PwC local capabilities
We are recognised leaders in our field and have been honoured with a range of awards and accolades.

PwC Malaysia has been honoured with a range of awards and accolades recognising our achievements in professional services, client relationships and as an employer.

- No. 1 in the Accounting and Professional Services Sector
- No. 1 in the Consulting Sector
  - Malaysia’s 100 Leading Graduate Employers (2013, 2011)
- Top graduate employer of the Year
- Best Service Provider for Business Continuity Management
- M&A Transaction Support Firm of the Year

PwC firms provide industry-focused assurance, tax & advisory services to enhance the value of our clients.

- ~2,600 staff strength
- 72 partners
- 6 offices
PwC Malaysia: Deals service offerings

Advisory Deals

Origination
- Corporate Finance
- Economics & Policy
- Deals Strategy

Deals Execution
- Transaction Services
- Valuations
- Capital Projects and Infrastructure
- Business Recovery

Value Creation
- Delivering Deal Value
- Working Capital Management
- Restructuring

Our Extensive Experiences
- Over 600 due diligence for multinationals, Malaysia and Singapore clients in the last four years
- Involved in most number of headline deals
- Significant experience in managing large and complex cross border due diligence projects for various types of clients

Note: Ranking based on M&A Asia Pacific League Table (exc. Japan) (Q1-3 2014)
Source: Mergermarket
PwC Malaysia Deals Strategy – 3 key areas

Market entry

- Market assessment
- Market entry strategy
- Benchmarking
- Industry feasibility assessment

M&A Strategy

- Target search & screen
- Commercial due diligence
- Business plan validation

Corporate Strategy

- Business planning
- Strategic roadmaps
- Financial modelling

Deals and investments focus
Deals Strategy services across the Deals lifecycle

Pre deal

- M&A strategy
- Portfolio strategy
- Sector insights & market reviews
- Target search and screen

Deal execution

- Commercial & strategic due diligence
- Voice of the Customer interview programs

Post deal

- Portfolio company value creation
  - Growth strategy
  - International growth & market entry strategy
- Exit planning

Create a ‘Distinctive’ Deals proposition

Positioning as Strategy Deal advisors providing end-to-end transaction support throughout the Deals lifecycle
**Our team**

**Yennie Tan**  
Senior Executive Director – Deals Strategy, PwC Malaysia

*Get in touch*  
(+60) 12 305 5162  
yennie.tan@my.pwc.com

**Introduction**  
Yennie leads the PwC Deals Strategy practice in Malaysia and has 19 years experience as a Deals specialist. She has extensive experience in conducting market feasibility studies, developing market entry strategy, commercial due diligence, business planning and advisory support. She has worked with Strategic Investors, Investment Funds, Pension Funds and Private Equity firms, to evaluate numerous investment opportunities regionally & internationally.

**Patrick Tay**  
Senior Executive Director – Economics & Policy, PwC Malaysia

*Get in touch*  
(+60) 12 388 7038  
patrick.se.tay@my.pwc.com

**Introduction**  
Patrick has over 20 years of experience advising senior Government ministers and councillors, and senior management of both public sector and private sector entities on economic and strategic matters. Patrick has worked for member firms of the PwC network for 9 years. He joined PwC Malaysia in 2010 after returning from New Zealand where he worked for PwC New Zealand, Auckland City Council and New Zealand Treasury in various economic roles. Patrick led the Greater Kuala Lumpur NKEA lab in 2010. He has a strong background in economic analysis with detailed knowledge of economic analytical methods and studies. He specialises in applied economics, business strategy and economic development with detailed knowledge of the transport-urban planning nexus, critical city capitals and elements.

**Lee Yuien Siang**  
Executive Director – Capital Projects & Infrastructure, PwC Malaysia

*Get in touch*  
(+60) 12 3821875  
yuien.siang.lee@my.pwc.com

**Introduction**  
Yuien Siang is Executive Director with over 18 years experience specialising in infrastructure advisory. He advises government agencies and private investors mainly in power, utilities, rail and port sectors, in areas including business case developments, M&A, feasibility studies, providing bid related financial advisory services.

**Albert Lee**  
Senior Executive Director – Transaction Services, PwC Malaysia

*Get in touch*  
(+60) 12 2216 7947  
lee.a@my.pwc.com

**Introduction**  
Albert Lee is a Senior Executive Director in Transaction Services. He has over 16 years experience spanning assurance and transaction services. He spent 2 years in PwC New York assisting top-tier buyout funds in their acquisitions, including Apollo Management, Permira Advisors and Cerberus Capital. Albert’s Transaction Services experiences are mainly performing financial due diligence (deal size ranges from USD10m to 11b) in wide range of industries. Albert has significant experience in extensive range of industries such as telecommunications, shipping, oil & gas support services, upstream oil & gas, logistics, construction & development, pharmaceutical, power plant, food & beverages and retail. His clients comprise both financial and corporate clients.
Thank you