

Macro Note

Malaysia: Investment Approvals Hit MYR107.6bn In 1H21

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- Malaysia attracted a total committed investment of MYR107.6bn in 1H21, 69.8% higher than the MYR63.3bn a year ago that was weighed by the first COVID-19 outbreak across the world. Manufacturing sector remained the most favourable industry with approved investments totalling MYR66.9bn (or 62.2% of total committed investments), followed by services (MYR34.1bn or 31.7%) and primary sectors (MYR6.5bn or 6.1%).
- Foreign interest in investing in Malaysia remained high with foreign direct investment (FDI) approvals making up more than 58% of total approved investment in 1H21 (at MYR62.5bn, +214.9% y/y). This compared to nearly 42% from domestic sources (at MYR45.1bn, +3.6% y/y). A large bulk of FDI approvals was channelled into the manufacturing sector (MYR58.2bn or 93.1% of total approved FDI), particularly for new projects. Top three leading sources of FDI in the manufacturing sector were Singapore, South Korea, and the Netherlands, accounting for a combined MYR53.0bn or 91.1% of total approved FDI in the sector during 1H21.
- We expect the investor sentiment to pick-up in 4Q21 in tandem with further reopening of the economy and progressive vaccination rates to reach 100% of adult population by year-end. The government will be tabling its 12th Malaysia Plan next Monday (27 Sep) and the national budget for 2022 (29 Oct), which are expected to paint a clearer picture of Malaysia's short-to-medium-term growth prospects and offer various investment opportunities to investors. We maintain our 2021 full-year investment approvals forecast of MYR185.0bn (2020: MYR167.4bn) with year-to-date total committed investments hitting 58.2% of our target.

Committed Investments Totalled MYR107.6bn In 1H21

Malaysia attracted a total committed investment of MYR107.6bn in 1H21, 69.8% higher than the MYR63.3bn a year ago that was weighed by the first COVID-19 outbreak across the world. This involved 2,110 projects with potential creation of 44,994 new jobs. Manufacturing sector remained the most favourable industry with approved investments totalling MYR66.9bn (or 62.2% of total committed investments), followed by services (MYR34.1bn or 31.7%) and primary sectors (MYR6.5bn or 6.1%).

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Manufacturing Investment Approvals Continued To Take The Lead

Manufacturing investment approvals jumped by 83.9% y/y to MYR66.9bn in 1H21, with FDI contributing 86.9% (or MYR58.2bn) while the remaining 13.1% (or MYR8.8bn) were from domestic sources. Majority of the overall committed investments in the manufacturing sectors were new investments, amounting to MYR55.4bn (or 82.8% share) initiated by foreign investors. Investment for expansion purposes made up just MYR11.5bn or 17.2% of total approved manufacturing investments. Top three leading sources of FDI in the manufacturing sector were Singapore, South Korea, and the Netherlands, accounting for a combined MYR53.0bn or 91.1% of total approved FDI in the sector during 1H21.

Some of the notable FDI projects approved in 1H21 included a South Korean renewable investment to produce copper foil for electric vehicles (battery manufacturing); a South Korean company's solar grade polysilicon plant expansion in Samalaju, Sarawak; China's solar energy project approved under the PENJANA scheme; and a MYR8.5bn investment from Austria headquartered company to

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produce high-end printed circuit boards and substrates for semiconductors in Kulim High-Tech Park that targets to begin construction of the plant in 2H21.

With that, the electrical & electronics (E&E) industry gained the highest approved investment value within the manufacturing sector in 1H21 (at MYR47.1bn). This was followed by fabricated metal products (MYR5.1bn), chemicals & chemical products (MYR3.8bn), food manufacturing (MYR3.7bn), and rubber products (MYR3.6bn). These five industries made up 94.6% of total committed investments in the manufacturing sector.

By state, key recipients of approved manufacturing investments were Kedah, Selangor, Sabah, Perak, and Johor. These five states collectively contributed 88.7% or MYR59.4bn to overall manufacturing investment approvals.

Services And Primary Investment Approvals Remained Strong

Total investments approved in the services sector recorded a 28.9% y/y increase to MYR34.1bn in 1H21. It was still led by domestic investment worth MYR31.9bn (or 93.6% share), while the remaining MYR2.2bn or 6.4% were FDI. The real estate sub-sector remained the largest contributor with MYR14.9bn, recording a 20.6% y/y increase. Following the easing of restrictions on economic activities, financial services (+243.1% y/y to MYR6.4bn), support services (+3.4% y/y to MYR2.7bn), distributive trade (+395.2% y/y to MYR1.9bn), hotel and tourism (+191.5% y/y to MYR1.6bn), transport services (+351.7% y/y to MYR0.5bn), global establishments (+218.6% y/y to MYR0.3bn), and education services (+120.1% y/y to MYR0.09bn) sub-sectors also recorded positive improvement during the period.

Primary sector investment approvals improved by a sturdy 1,276.0% y/y to MYR6.5bn in 1H21. These investments were primarily driven by domestic sources with a total amount of MYR4.4bn or 66.9% of total, while foreign investments contributed MYR2.2bn or 33.1% of total. The mining sub-sector continued to lead with approved investments of MYR6.4bn, followed by plantation & commodities (MYR79.8m) and agriculture (MYR11.5m) sub-sectors.

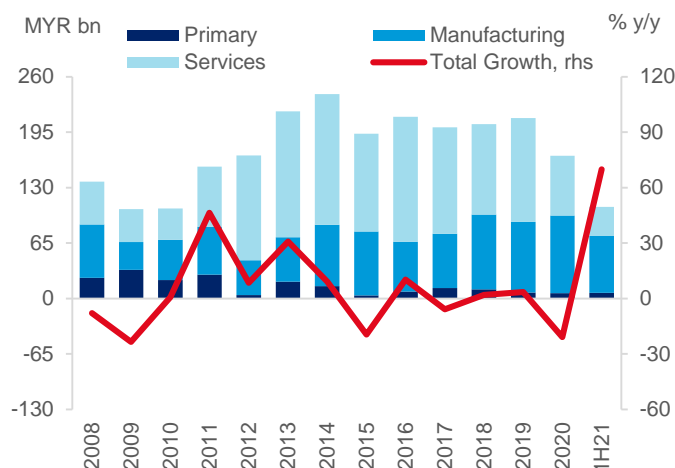
On Track To Reach Full-Year Target

Year-ago low base effects partly contributed to the strong y/y gain in total investment approvals. However, on a q/q basis, it contracted by 66.5% to MYR27.0bn in 2Q21 (initial 1Q21 data: +40.0% q/q to MYR80.6bn) which is likely due to the reintroduction of a nationwide lockdown in mid-May and the entire month of Jun. The containment measures were then gradually relaxed starting in July for several states but Malaysia's main economic activity hub - Klang Valley – remained under strict lockdown until 9 Sep.

We anticipate the investment sentiment to improve in 4Q21 in tandem with the further re-opening of economic sectors, progress in the national vaccination program towards vaccinating 100% of adult population, and entering endemic phase by year-end, more stable domestic politics with the Memorandum of Understanding (MOU) on bipartisan cooperation signed between the government and Pakatan Harapan (PH) opposition leaders, and continued expansion in the global economy. The government will also be tabling its 12th Malaysia Plan next Monday (27 Sep) and the national budget for 2022 (29 Oct), which are expected to paint a clearer picture of Malaysia's short-to-medium-term growth prospects and offer various investment opportunities to investors. We maintain our 2021 full-year investment approvals forecast of MYR185.0bn (2020: MYR167.4bn) with year-to-date total committed investments hitting 58.2% of our target.

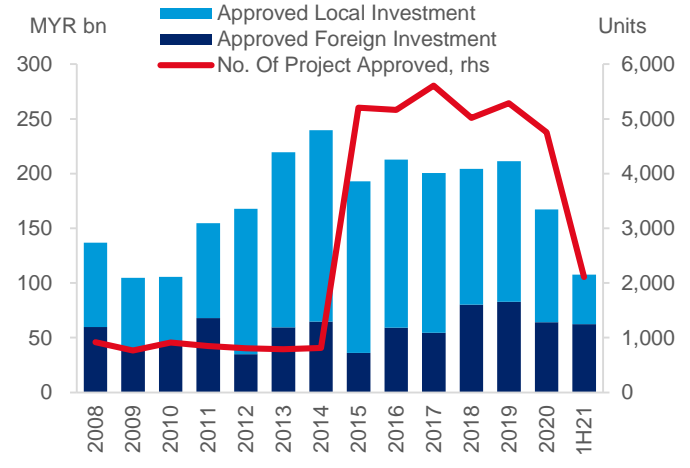
Overall Investment Approvals Rose 69.8% Y/Y In 1H21

Source: MIDA, CEIC, UOB Global Economics & Markets Research



Robust Foreign Investments

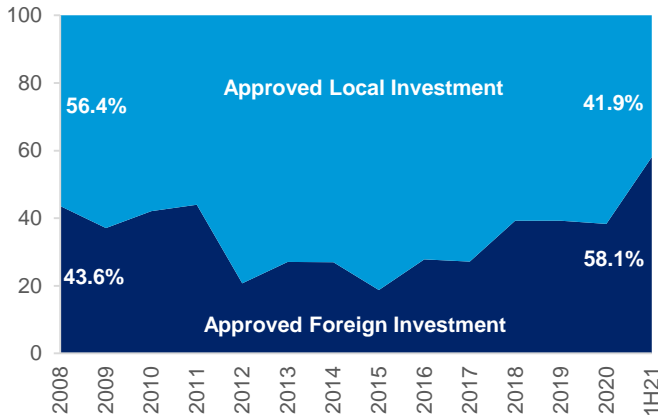
Source: MIDA, CEIC, UOB Global Economics & Markets Research



Share of Foreign Investment Approvals Surpassed 58%

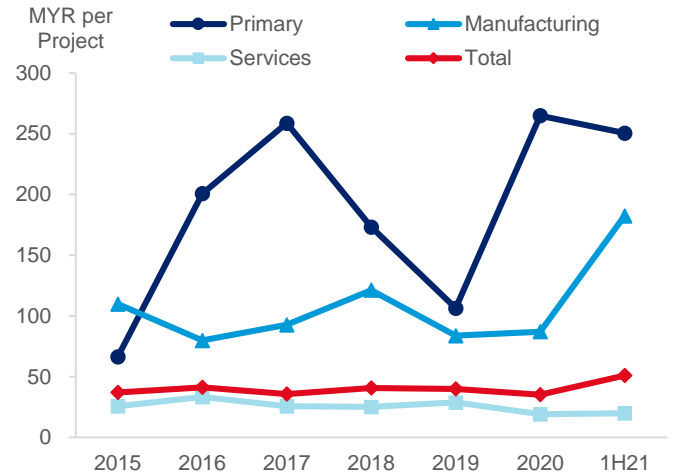
Source: MIDA, CEIC, UOB Global Economics & Markets Research

% Of Total Approved Investment



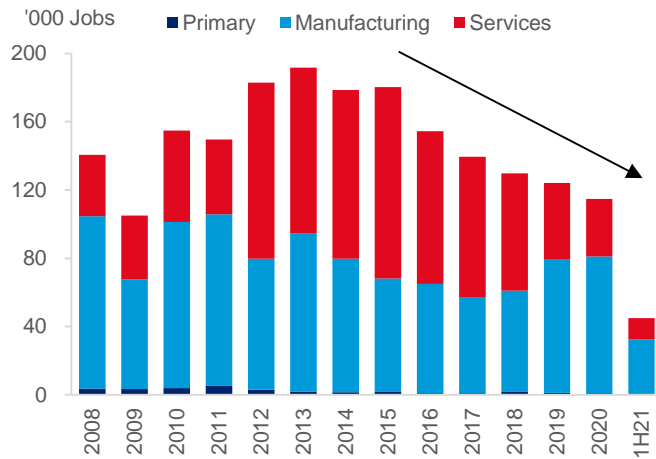
Investment Value Per Project

Source: MIDA, CEIC, UOB Global Economics & Markets Research



Potential Employment From Projects Approved By Sector

Source: MIDA, CEIC, UOB Global Economics & Markets Research



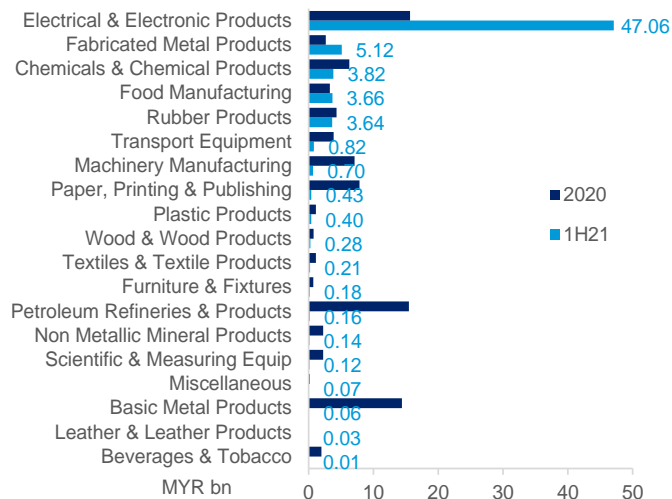
Approved Manufacturing Investments Surged 83.9% Y/Y

Source: MIDA, CEIC, UOB Global Economics & Markets Research



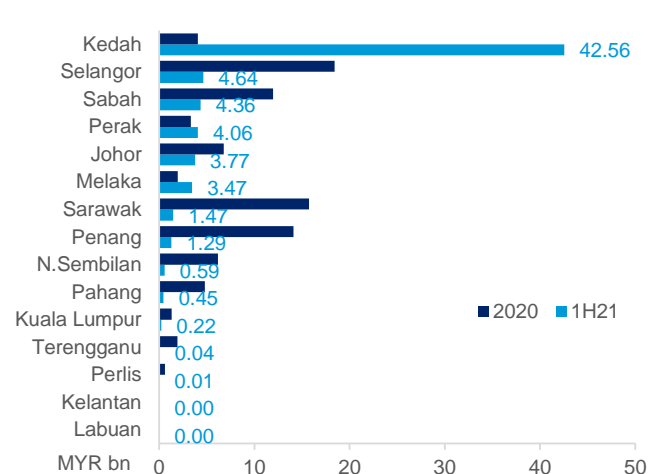
Manufacturing Investment By Sub-Sector

Source: MIDA, CEIC, UOB Global Economics & Markets Research



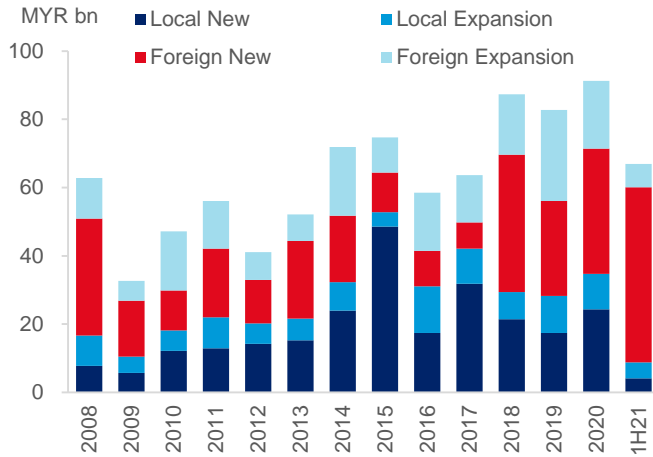
Kedah Attracted The Highest Manufacturing Investment

Source: MIDA, CEIC, BNM, UOB Global Economics & Markets Research

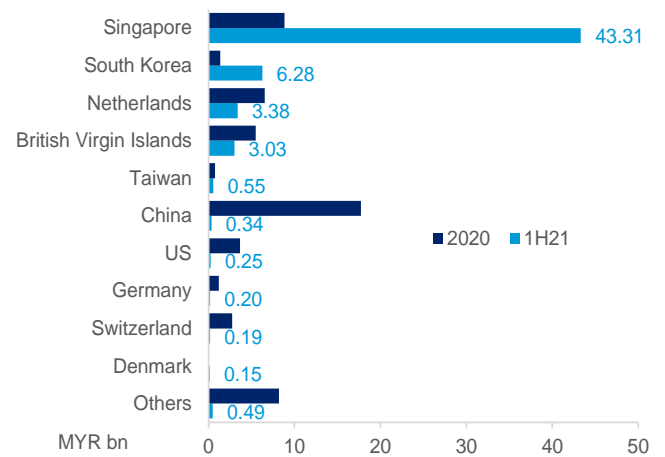


Foreign Manufacturing Approvals Largely For New Projects ... Led By Singapore, South Korea And Netherlands In 1H21

Source: MIDA, CEIC, UOB Global Economics & Markets Research

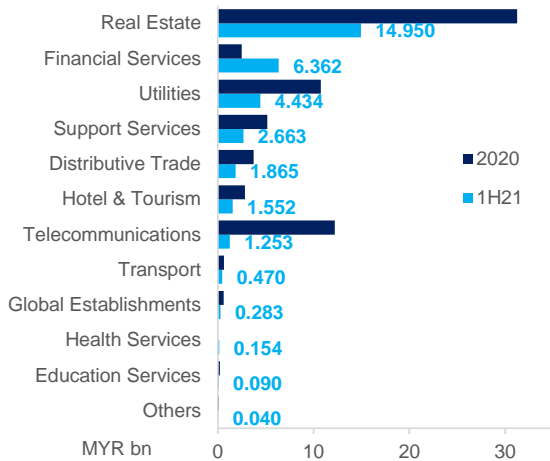


Source: MIDA, CEIC, UOB Global Economics & Markets Research



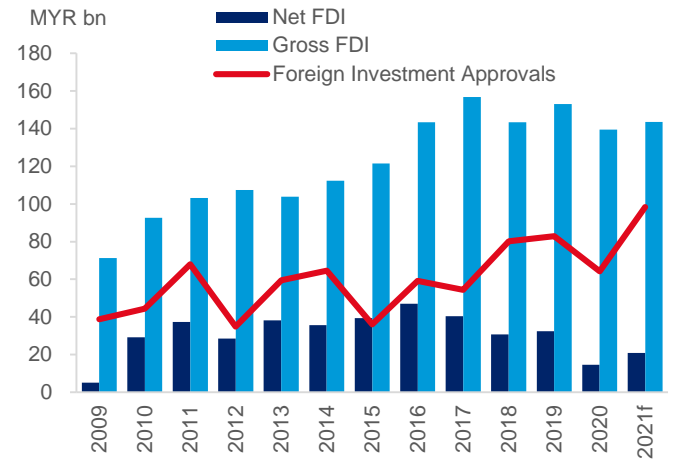
Services Investment By Sub-Sector

Source: MIDA, CEIC, UOB Global Economics & Markets Research



Projected FDI Based On Investment Approvals

Source: MIDA, CEIC, BNM, UOB Global Economics & Markets Research



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