

Macro Note

Malaysia: 1Q22 Investment Approvals Normalised To MYR42.8bn

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- Total approved investments normalised to MYR42.8bn in 1Q22 (or -56.6% y/y from record MYR98.7bn in 1Q21) following a high base of comparison whereby a megaproject was approved in the same period last year. Bulk of 1Q22 approvals was channelled to the manufacturing sector (MYR30.0bn or 70.0% of total approved investment), with the electrical & electronics (E&E) sub-industry remaining the top beneficiary. The real estate and agriculture sub-sectors were the biggest recipients of approved investments in the services and primary sectors respectively.
- Foreign direct investment (FDI) remained a key source of overall committed investments, totalling MYR27.8bn or 65.0% of total approved investment. Top FDI sources in 1Q22 were Germany (MYR8.9bn or 32.0% of total approved FDI), Brunei (MYR5.1bn or 18.3%), the USA (MYR3.9bn or 14.0%), Hong Kong (MYR3.3bn or 11.9%), and Japan (MYR3.2bn or 11.5%), which collectively accounted for 87.7% of total FDI approved in the manufacturing, services and primary sectors.
- Going forward, the government's approach to managing endemic COVID, targeted trade and investment missions, and medium-term prospects are expected to support Malaysia's investment momentum amid multiple external headwinds on the horizon. MIDA has identified a pipeline of potential investments worth MYR150.4bn and proposed investments of MYR14.4bn. As such, we maintain our total approved investment projection at MYR200bn for 2022 (2021: MYR309.4bn, pre-pandemic five-year average: MYR204.5bn).

Total Of MYR42.8bn Investment Committed In 1Q22

Total approved investments normalised to MYR42.8bn in 1Q22 (or -56.6% y/y from record MYR98.7bn in 1Q21) following a high base of comparison whereby a megaproject was approved in the same period last year. Bulk of 1Q22 approvals was channelled to the manufacturing sector (MYR30.0bn or 70.0% of total approved investment), followed by the services (MYR12.7bn or 29.6%) and primary (MYR0.2bn or 0.4%) sectors. These committed investments involved 910 projects that would generate 24,906 jobs.

1Q22's overall investment approvals continued to be driven by foreign direct investment (FDI) totalling MYR27.8bn or 65.0% of total approved investment while domestic investment approvals amounted to MYR15.0bn or 35.0% last quarter. Key foreign sources were Germany (MYR8.9bn or 32.0% of total approved FDI), Brunei (MYR5.1bn or 18.3%), the USA (MYR3.9bn or 14.0%), Hong Kong (MYR3.3bn or 11.9%), and Japan (MYR3.2bn or 11.5%), which collectively accounted for 87.7% of total FDI approved in the manufacturing, services and primary sectors.

Top five states that attracted the most investments last quarter were Kedah, Penang, Selangor, Sabah and Johor. These five states drew MYR31.8bn worth of approved investments or 74.3% of the total investments approved in 1Q22.

Manufacturing Sector Continued To Garner The Highest Amount

Despite contracting 49.6% y/y to MYR30.0bn in 1Q22, manufacturing investment approvals remained the biggest contributor to overall committed investments during the quarter with 70.0% share. In addition, the 1Q22 approved manufacturing investment value is seen reverting back to the typical trend in the first quarters of 2019 and 2020, as the 1Q21 manufacturing approvals were boosted by a specific megaproject - China's solar energy project.

Approved manufacturing FDI reduced by 49.3% y/y to MYR26.8bn, accounting for 89.4% of overall manufacturing investment approvals. The balance of 10.6% or MYR3.2bn worth of manufacturing investments were approved for domestic investors, which declined 51.3% y/y.

More than 60% of the approved manufacturing investments (64.1%) were for expansion purposes (+106.8% y/y to MYR19.2bn), of which MYR17.4bn or 90.6% was from foreign investment sources. The remaining 35.9% were new investments (-78.5% y/y to MYR10.8bn). The electrical & electronics (E&E) sub-industry remained the top beneficiary (MYR18.6bn), followed by petroleum products including petrochemical (MYR5.1bn), non-metallic mineral products (MYR1.9bn), chemicals & chemical products

(MYR1.1bn), and machinery & equipment (RM0.7bn) sub-sectors. These sub-industries made up MYR27.6bn or 92.0% of total approved investments for the manufacturing sector.

In terms of job opportunities, these investments will increase management, technical and professional employment opportunities by 36.9% compared to 28.9% for the same period in 2021, reflecting the manufacturing sector's higher value chain transition. The ratio of employment opportunities for Malaysians to foreigners is 88:12, meeting the investment criteria set by MITI/MIDA to create more employment opportunities for Malaysians and reduce the dependency on foreign workers. The capital investment per employee (CIPE) ratio of the projects approved in 1Q22 was MYR1,382,764, lower than the MYR2,089,348 reported in 1Q21 but higher than the long-term average since 2010 of MYR1,249,431.

Notable projects approved during the period include: (i) an investment worth MYR500mn to manufacture printed circuit boards (PCBs) and printed circuit boards assembly (PCBA) in Penang by a leading US based global manufacturer; and (ii) a foreign majority owned company from Brunei will be manufacturing petroleum products in Sabah, including gasoline, kerosene, benzene, liquefied petroleum gas, acrylic, sulphur, slurry, fuel oil and diesel.

Mixed Investment Performance In Services and Primary Sectors

Investments approved in the services sector reduced by 61.7% y/y to MYR12.7bn in 1Q22, with domestic investments making up the largest portion (MYR11.7bn or 92.1% of total services investment approvals). The remaining MYR1.0bn or 7.9% were from foreign sources. Majority of the overall committed services investments were channelled into the real estate (MYR5.9bn or 46.6%), utilities (MYR2.0bn or 15.6%), hotel & tourism (MYR1.5bn or 11.5%), financial services (MYR0.9bn or 7.5%), and global establishments (MYR0.9bn or 7.4%) sub-sectors. Higher investments into hotel & tourism and health services sub-sectors reflected the positive impact of the reopening and relaxation of restrictions including the domestic travel bubble during the quarter, prior to opening of the country's borders on 1 Apr.

The primary sector recorded approved investments of MYR169.5mn in 1Q22, mainly into the agriculture sub-sector (+1,327.8% y/y to MYR164.2mn or 96.9% share) with support from the Securities Policy Action Plan Food 2021-2025, which was developed to strengthen the country's supply chain and food security. This was followed by plantation & commodity sub-sector (-93.1% y/y to MYR5.3mn or 3.1% share). The MYR169.5mn worth of approved investment in the primary sector was led by domestic investment totalling MYR151.6mn or 89.5% of total approvals in the sector. Foreign investments contributed MYR17.8mn or 10.5%.

Investment Momentum To Hold Up Amid Rising Challenges

Going forward, the government's approach to managing endemic COVID, namely uplifting almost all containment measures from mid-May 2022 and keeping borders open since 1 Apr 2022, along with ongoing efforts in maintaining external connectivity and ensuring business continuity are expected to uphold Malaysia's investment momentum. The government aims to ratify the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) by 3Q22. This together with the Regional Comprehensive Economic Partnership Agreement (RCEP) will provide greater market access.

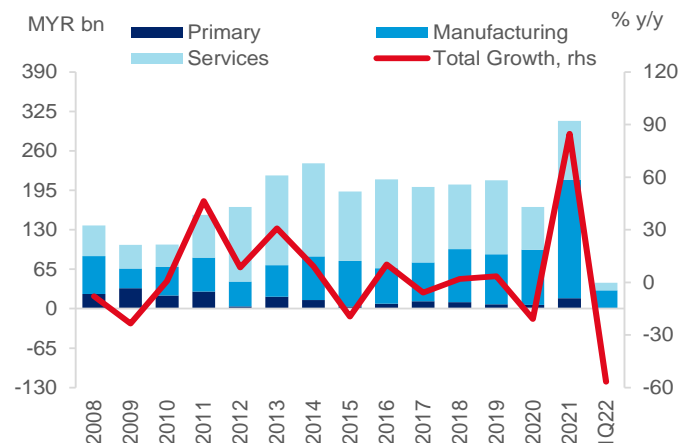
Several trade and investment missions (TIM) have helped to attract more FDIs into Malaysia. This was evident by the recent TIM to US in May, which had secured MYR16.5bn or USD3.8bn in committed investments for this year. The country's National Investment Aspirations (NIA) and Environmental, Social and Governance (ESG) principles are expected to draw more new investments into green sectors.

As of 1 Jun this year, MIDA has identified 446 high-profile investment prospects including Fortune 500 companies in the manufacturing and services sectors with a combined potential investment value of MYR150.4bn. There are 268 projects with proposed investments of MYR14.4bn in the manufacturing and services sectors that are within MIDA's pipeline as of 7 Jun 2022. Taking these and the reported MYR42.8bn of total investment approvals for 1Q22 into account, we maintain our total approved investment projection at MYR200bn for this year (2021: MYR309.4bn), which is around pre-pandemic's five-year average level of MYR204.5bn.

There are multiple external headwinds on the horizon including global recession risks. Malaysia has to also contend with more reshoring activity back to home countries and regional competition for new high-value added investments. Our channel checks suggest that some of the key investor concerns include labour shortages, slow approval of work permits for skilled workers/expatriates, lack of domestic skilled labour, supply chain constraints and travel connectivity issues that affect capacity, lack of execution and implementation of policies, need for more conducive tax policies with lesser tax burdens, and continuity of business friendly policies. A key strength for Malaysia that was highlighted is the wide usage of English that is helpful for foreign investors. Nevertheless, we think Malaysia's investment position will benefit from its stable economic and financial fundamentals, diversified economic base, proven resilience, strategic geographical location, own natural resources, and supportive medium-term policies.

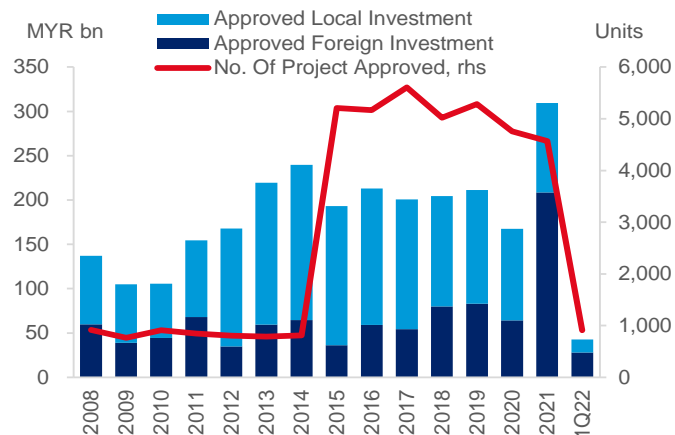
Investment Approvals Totalled MYR42.8bn In 1Q22...

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



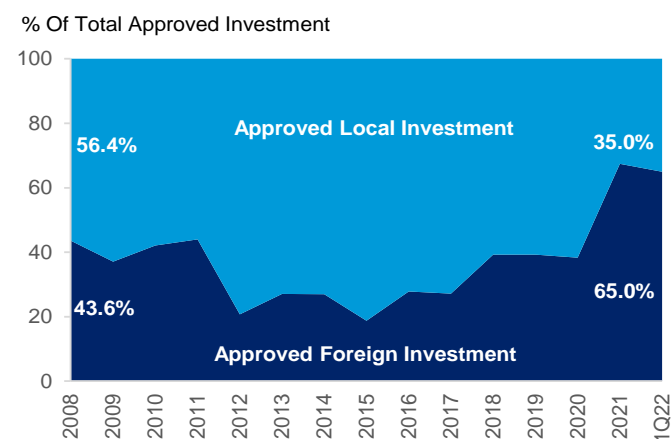
... Largely Driven By Foreign Investment Approvals

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



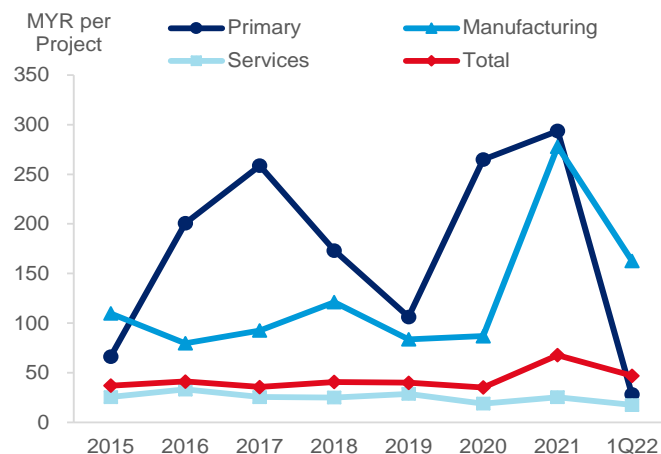
Share of Foreign Investment Approvals Held Above 60%

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



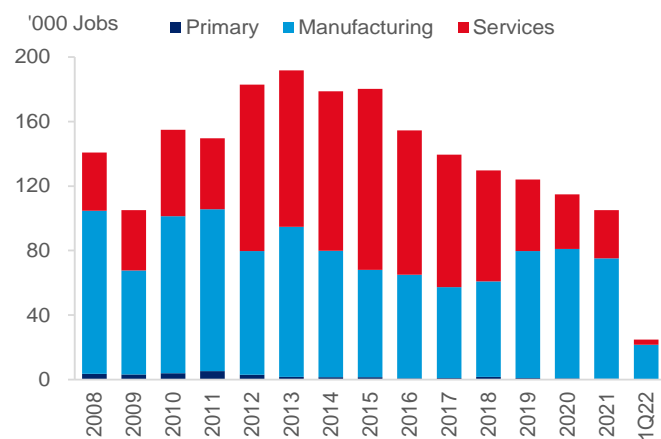
Investment Value Per Project

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



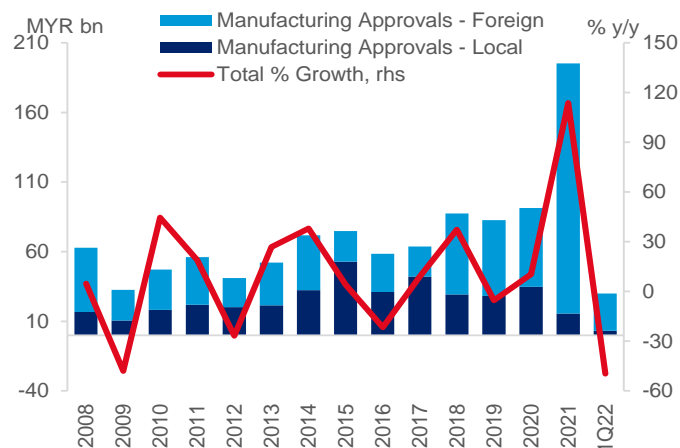
Potential Employment From Projects Approved By Sector

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



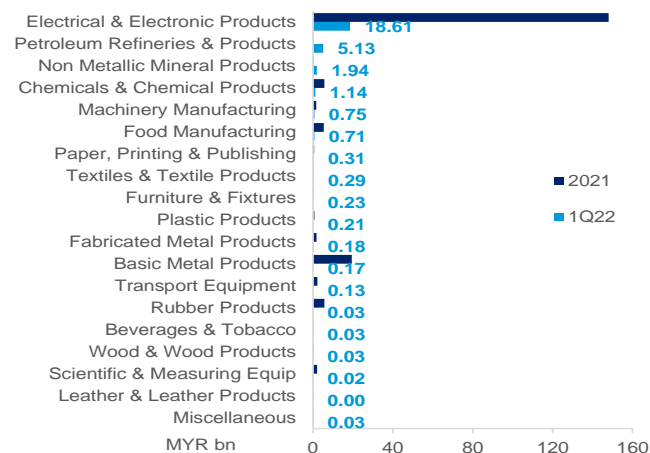
Approved Manufacturing Investments Worth MYR30.0bn

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



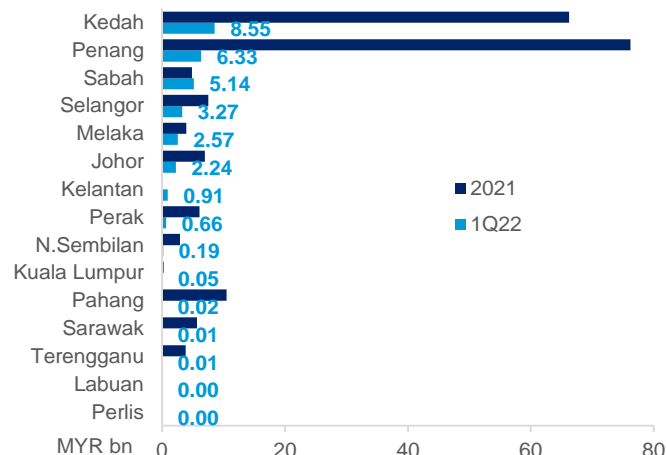
Manufacturing Investment By Sub-Sector

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



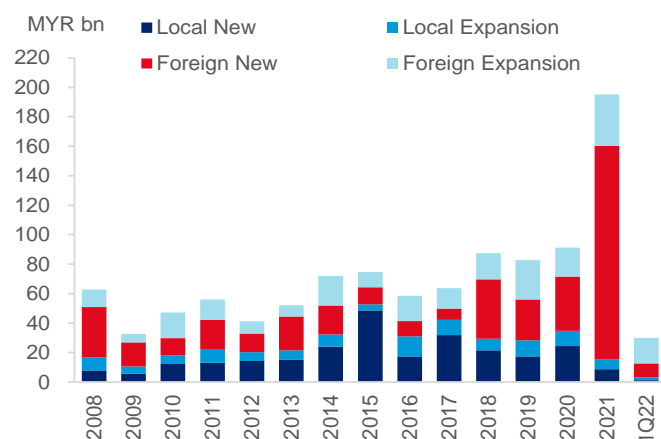
Manufacturing Investment By State

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



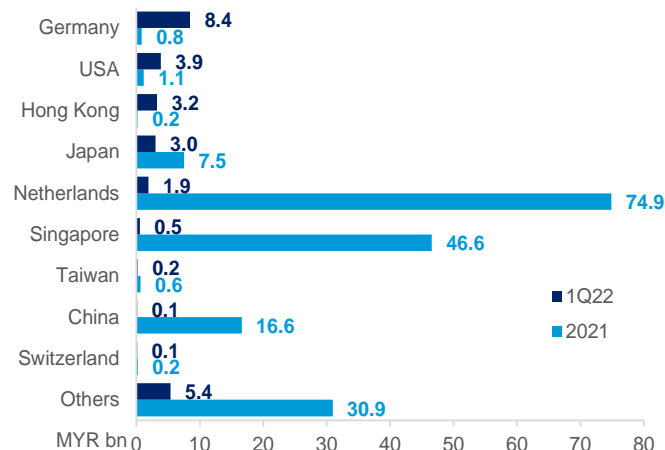
Foreign Manufacturing Expansion Key Driver In 1Q22...

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



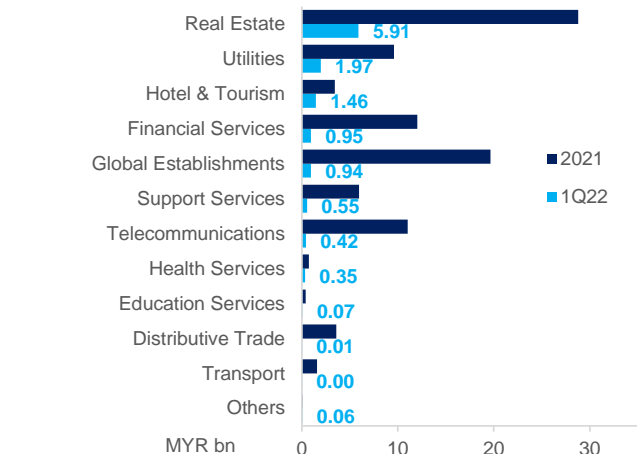
... Led By Germany, USA And Hong Kong

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



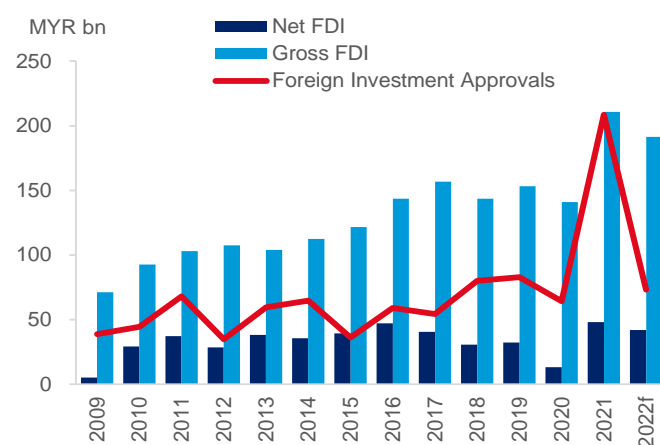
Services Investment By Sub-Sector

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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