Maybank Investment Bank

STRATEGY

Malaysia

Malaysia Thematic Research

New Industrial Master Plan (NIMP) 2030

"A rising tide that lifts all boats"

NIMP2030, to be unveiled towards this month-end, will be a key enabler to the MADANI Economy, in addition to the NETR launched on 26 July. The NIMP will drive manufacturing industry transformation through advancing economic complexity, among others. Efforts in restructuring the economy via the NETR and NIMP are positive in identifying new, long-term growth catalysts. We expect the NIMP's beneficiaries to be broad-based, including the Automotive, Aerospace, Technology, Petrochemical, Pharmaceutical, Plantation and Property sectors.

What we know thus far, of NIMP2030

NIMP2030 is expected to drive manufacturing industry transformation via four missions: 1) advancing economic complexity, 2) teching-up digitally, 3) pushing for net zero, 4) safeguarding economic security & inclusivity. NIMP2030 will move to a "mission-based approach" from "sector/industry-based approach", to ensure all sectors thrive, e.g. incentives that are based not on investment value per se, but also for investments that create high-income jobs and linkages with domestic industries; growth and financing of MSMEs. NIMP2030's net zero mission will be supported by green investments like carbon-capture, utilisation and storage (CCUS), renewable energy (RE), electric mobility (EV), hydrogen energy, and low-carbon transition technologies. Plans are also to move SMEs up the value supply chain, to raise the export of more complex products.

Complex products and economic complexity

NIMP2030's agenda will be in-line with the New Investment Policy that has identified 5 sectors to help lift future exports of more complex products: aerospace, chemicals & petrochemicals, digital economy, E&E (including medical devices) and pharmaceuticals. For E&E, one of NIMP2030's targets is for the industry to move beyond lower value outsourced semiconductor assembly and testing (OSAT) towards higher value integrated circuit (IC) design, among others. We view recently announced FDIs – from Geely, Tesla and Infineon – as key milestones in product - and thus economic - complexity transition in the areas of trade, technology and research. In the case of chemicals & petrochemicals, the future lies in "specialty chemicals" and we see RAPID in Pengerang. Johor to be the hub.

NIMP2030 as action plan to MADANI Economy targets

NIMP2030 will play a key implementation and execution role to realise MADANI Economy's targets, including strengthening Malaysia's attraction as an investment destination; top-12 in global competitiveness ranking (2022: #27); top-30 largest economy in the world (2022: #36); raising labour share of GDP to 40% by 2025 and 45% in 10 years (2022: 32.4%); and MSMEs as regional champions.

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Abbreviation

NETR = National Energy Transition Roadmap
MSME = micro, small medium sized enterprise
SME = small medium sized enterprise
FDI = foreign direct investments

Source

1. "Global Headwinds: Malaysia's industries must 'go big or go home'" – by Tengku Datuk Seri Zafrul Abdul Aziz, Edge Weekly, 10 Jul 2023
2. "Ekonomi Madani: Setting the stage for Malaysia's next industrial take-off" - by Tengku Datuk Seri Zafrul Abdul Aziz, Edge Weekly, 31 Jul 2023
3. "MITI's NIMP2030 being drafted to drive development, advance economy" - Bernama TV, Jul 2023

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Potential focus areas & industry players

Figure 1: NIMP2030 - Potential focus areas

Sectors	Potential focus areas & listed industry players
Technology (semiconductor)	**"Moving up the value chain from back-end assembly & testing processes to front-end design & wafer fabrication, as well as 'complexifying' existing back-end processes"** ▪ Malaysia is home to c.2k E&E/semiconductor manufacturers and service providers, with the sector accounting for c.6-7% of the country's GDP and c.25%/40% of manufacturing/exports. A vast majority of these companies currently focuses on back-end assembly & test (OSAT/ATE) processes that are labour-intensive and at the lower-margin (c.15-25% GP) segments of the semiconductor value chain. ▪ Although the ecosystem is well established, previous efforts to move-up the value chain to higher-margin/complexity front-end processes have borne limited success. Today, local participation in wafer design & manufacturing is limited to a small number of key players: 1) Silterra, 60%-subsidiary of **Dagang NeXchange** (DNEX MK, Not Rated, CP: MYR0.46) and 2) SkyeChip (Not Listed)/**Oppstar** (OPPSTAR MK, Not Rated, CP: MYR1.76), both primarily involved in integrated circuit (IC) design. ▪ NIMP's focus on improving the complexity and margin profile of the indigenous semiconductor value chain could centre around three key areas: 1) chip/IC design, 2) wafer fabrication, and 3) advanced packaging solutions. ○ Chip/IC design – the highly technical process of designing the ICs on microchips requires niche specialisation and significant R&D expenditure. Key challenges include (i) talent shortage, (ii) lack of current R&D incentives, and (iii) better intellectual property (IP) protection. ○ Wafer fabrication – setting-up wafer foundries/fabs is highly capital-intensive (c.USD15-20b for modern fab producing leading-edge nodes of <7nm) and often requires significant monetary support from the government to be realised. Apart from Silterra, all other domestic M'sian fabs are currently MNC-owned/operated (X-Fab, Infineon, Osram, ON Semiconductors) with the parent company usually providing the financial backing for construction. In recent years, India, Singapore and Vietnam have all been more aggressive in providing foreign MNCs with subsidies, grants and tax breaks to encourage the setting-up of advanced wafer fabs domestically. ○ Advanced packaging solutions (APS) – refers to the OSAT process of using sophisticated technology & aggregate components from various wafers to create a single device with superior performance. APS is highly relevant for emerging applications (5G, EVs, IoT) that are now going mainstream, and it represents the lowest hanging fruit in the government's efforts to "complexify" the value chain. Some local listed players – **Inari** (INRI MK, HOLD, CP: MYR3.11, TP: MYR2.75), and **Malaysian Pacific Industries** (MPI MK, Not Rated, CP: MYR28.30) already offer APS albeit at limited scope/capacities as R&D and capital costs are substantially higher than existing processes. **Listed industry players:** Wafer foundry (**DNEX MK**), OSATs (various), ATE manufacturers (various) & IC Designers (**OPPSTAR MK**; **Key Asic** [KEYA MK, Not Rated, CP: MYR0.08]).

Source: Maybank IBG Research

Figure 1: NIMP2030 - Potential focus areas (continued)

Sectors	Potential focus areas & listed industry players
Petrochemicals	**"Moving towards ESG-friendly and higher value-add specialty chemicals"** ▪ Malaysia's chemicals & petrochemical industry is the third largest contributor to the country's trade of manufactured goods. It collectively accounted for c.6% of GDP in 2022, employs c.300k active workers (or 12.5% of total manufacturing employment) and has strong forward linkages to other core sectors such as agriculture, pharmaceutical, automotive and E&E. ▪ On 4 Aug 2023, MITI launched the Chemical Industry Roadmap 2030 (CIR2030) as a precursor to NIMP2030. With sustainability as its core focus, it outlines 22 strategic focus areas and 10 key enablers to help elevate the industry's specialisation/sophistication, with the aim of increasing the industry's gross value add (GVA) to 4.5% of the economy (from the current 3.4%, or MYR40b value creation). CIR2030 also targets for the industry to be ranked first in ASEAN for FDI inflow by 2030. NIMP2030 is expected to further complement and align the industry's priorities, with MITI explicitly stating it will include a specific focus on "deepening specialty chemical verticals" as one of its four missions. ▪ Specialty chemicals (specialties) differ from its commodity chemical (commodities) counterparts on the basis of its performance or function, rather than composition. Whilst commodities are homogenous chemicals traded globally with transparent pricing and are readily substituted with similar products from a different supplier, specialties are high-margin bespoke formulations that may be customised in batches to influence the performance/processing of the customers' end-product to varying degrees. ▪ **Petronas Chemical** (PCHEM MK, HOLD, CP: MYR6.85, TP: MYR6.85) first ventured into specialties via its 100% acquisition of silicone & lube oil manufacturer Da Vinci Group (now known as BRB International) in May 2019 for EUR163m. By Dec 2021, PCHEM had replicated BRB's technology and opened a new 8k mt p.a. silicone blending facility in Gebeng. In line with its own aspiration of deriving an additional 30% revenue from specialties by 2030 as well as that of its parent to achieve net zero carbon emission by 2050 (NZCE 2050), it bolstered the division via the acquisition of diversified Swedish specialties manufacturing, Perstorp Holdings for EUR2.3b last year. The acquisition included a diverse portfolio of patents and 130 products, of which 20+ are pro-environment. We believe PCHEM could start producing some of these locally, as it has done with BRB. **Listed industry players:** **PCHEM** is a strong candidate to benefit from forthcoming government policy to deepen specialty chemical verticals, in-line with its own portfolio diversification strategy and NZCE 2050 aspirations. We also highlight **Kelington Group** (KGRB MK, Not Rated, CP: MYR1.44) as a potential beneficiary, owing to its role as a supplier of specialty ultra high-purity (UHP) and industrial gases (65%/7% of 1Q23 revenue respectively) to the E&E sector.

Source: Maybank IBG Research

Figure 1: NIMP2030 - Potential focus areas (continued)

Sectors	Potential focus areas & listed industry players
Aerospace	**"Catalytic, high-impact industry to boost economic growth"** ▪ The 12th Malaysia Plan (12MP) has identified aerospace as a catalytic and high-impact industry to boost economic growth; industry transformation will be towards high-end technology driven manufacturing. ▪ In 2020, the industry generated a revenue of MYR11.6b and the target is MYR30b by 2025. Of the MYR11.6b, 49.9% was contributed by the aerospace manufacturing subsector, and 42.2% by maintenance, repair and overhaul (MRO). MRO activities have been concentrated on line and base maintenance with little involvement in high value-add activities like component and engine repair. ▪ We expect the NIMP to mirror the aspiration of the 12MP for the aerospace industry. **Listed industry players:** Asia Digital Engineering (ADE), a 100%-owned MRO arm of **Capital A** (CAPITALA MK, BUY, CP: MYR1.02, TP: MYR0.90), offers a range of aircraft services. It focuses on the Airbus A320, A321 and A330 for engineering maintenance services, component and warehouse services, and engineering support services. ADE operates in KL, Penang, Johor Bahru, Kota Kinabalu, Kuching and Langkawi. It is approved by the aviation authorities of Malaysia, India, Indonesia, Philippines, Cambodia, Singapore and Nepal. Other than the AirAsia Group, its external customers include Myanmar Airways International, China Airlines, Lanmei Airlines and Yuantong Airlines. ADE recently secured USD100m in financing to construct a 14-line hangar at KLIA. Other listed players in the aerospace industry are **SAM Engineering & Equipment (M)** (SEQB MK, Not Rated, CP: MYR4.85) and **T7 Global** (T7G MK, Not Rated, CP: MYR0.48).
Automotive	**"Building a production base for electric vehicles (EV)"** ▪ We expect the NIMP to focus on building a regional production base for Next Generation Vehicles (NxGV) and development of the country's homegrown EV brand via Proton. This would ride on Zhejiang Geely's USD10b investment commitment (in July 2023) to turn Tanjung Malim (Perak) into the region's largest auto city, under the Automotive High Tech Valley (AHTV) initiative, by 2030. ▪ Another focus could be on building Malaysia's EV ecosystem to support the future wide adoption of EV, including accelerating installation of charging facilities and establishing the local EV supply chain, spearheaded by recent Tesla's strategic expansion into the Malaysia market. Tesla is set to invest significantly in setting up a network of Supercharger fast-charging stations across Malaysia. **Listed industry players:** **DRB-Hicom** (DRB MK, Not Rated, CP: MYR1.48) via 51.1% owned Proton, is Geely's 49.9% partner. **EP Manufacturing**'s (EPMB MK, Not Rated, CP: MYR0.93) 100%-subsidiary had, in July 2023, received a conditional approval from MITI for a license to manufacture and assemble energy efficient vehicles (EEV), electric passenger vehicles and electric commercial vehicles. Other industry players who have a leg in the EV chain (but at early stage, we believe) are 1) **Sunsuria** (SSR MK, Not Rated, CP: MYR0.47) who inked a MOU with IAT Automobile Tech (from China) in Apr 2023 for R&D and manufacturing of Malaysia's own brand of EV; 2) **Ni Shin Group** (NHR MK, Not Rated, CP: MYR0.12) who signed a MOU with VMOTO Limited (Australia listed) in Jul 2023 to assemble and distribute VMOTO branded EV motorcycles; 3) **AHB Holdings** (AHBH MK, Not Rated, CP: MYR0.14) who is buying a stake in CAF Motors S/B, involved in the distribution and export of EVs and non-EVs.

Source: Maybank IBG Research

Figure 1: NIMP2030 - Potential focus areas (continued)

Sectors	Potential focus areas & listed industry players
Pharmaceuticals	**"ST & LT opportunities under the New Investment Policy"** ▪ The New Investment Policy (Oct 2022) has outlined several growth opportunities for the pharmaceuticals industry: 1) short-term opportunities (next 5 years) – generics hub, clinical research hub with focus on early-stage trials, manufacturing of biologics, API manufacturing of high-demand niche botanicals (traditional medicines); and 2) long-term opportunities (beyond 5 years) – development of biologics, digital-pharmaceutical services, halal medicines. **Listed industry players:** **UMedic Group** (UMC MK, Not Rated, CP: MYR0.715) develops and manufactures medical consumables such as HydroX series prefilled humidifiers and AirdroX series inhaler spacers. Other industry players include **Duopharma** (DBB MK, Not Rated, CP: MYR1.23) and **Pharmaniaga** (PHRM MK, Not Rated, CP: MYR0.42).
Plantation	**"Bio-mass and biogas: Turning waste to energy"** ▪ The plantation sector will play an important role in helping Malaysia achieve its net zero target by 2050 via a two-pronged strategy. **The first strategy involves accelerating the industry-wide capture of methane gas** (a harmful gas to the environment) released by the POME (palm oil mill effluent) waste at the mill. The captured methane gas can either be flared (which sharply reduces GHG emissions), or be converted into electricity (via biogas power plant) for either own use (for the mill's operation or power-up staff housing quarters) or sold to the national grid as renewable energy (RE). Although details remain sketchy at the moment, there is potential for these RE to be sold under a new programme termed as CGPP (Corporate Green Power Programme) whereby the RE produced at the mills (ie. upstream operation) can be utilised by their downstream operations (in the case of integrated players) which are typically located at the ports or within the cities (which currently tap electricity from the national grid), or the RE may be sold to another corporate consumer under a CGPA (Corporate Green Power Agreement) arrangement between a RE producer, a corporate consumer and the electricity utility company. ▪ **The second strategy as highlighted in the NETR involves turning waste or selling biomass (like EFB or empty fruit bunches) to power plants (that are owned and operated by Tenaga or IPPs) to be co-fired with coal (ie. biomass co-firing).** The concept may seem new to the market but in reality, this has been practised by most mill operators for over 30 years as oil palm estates and mills are generally located far away from the national grid in the past, and hence EFB has been a key source of renewable energy as it is burnt to produce energy to run the mills as well as provide electricity supply for staff quarters (and neighbouring community if needed or if there is excess supply). ▪ As many oil palm trees are due for replanting (ie. trees older than 25 years) in Malaysia, the industry has lots of biomass potential that can be tapped onto (besides leaving them on the field to mulch and enrich the soil). While plantation companies explore various ways to extract value from waste, one company - **IOI Corp** (IOI MK, HOLD, CP: MYR4.17, TP: MYR3.86) - has recently invested about MYR100m in capital expenditure on a 20-acre manufacturing plant in Segamat, Johor to transform oil palm trunks (ie. waste product from replanting exercise) into eco-friendly sustainable and high-performance palm wood panels for the furniture, building and joinery industries. The plant commences operation in 2023. **Listed industry players:** All palm oil listed players with mills are potential beneficiaries of the waste-to-energy initiatives, more so for those mills located near the national grid in Peninsular Malaysia.

Source: Maybank IBG Research

Figure 1: NIMP2030 - Potential focus areas (continued)

Sectors	Potential focus areas & listed industry players
Property	**"Special industrial zones?"** ▪ Drawing from UEM Group's recent collaboration with INTRAMAS to develop 1GW of hybrid solar photovoltaic power integrated with a renewable energy (RE) industrial park in Malaysia, more special/ dedicated industrial zones could be set up in the country, with dedicated incentives for promoted high-value industries. ▪ Nurturing Penang's E&E industry beyond lower value outsourced semiconductor assembly and test (OSAT), towards high-value integrated circuit (IC) design, is one of the MADANI Economy measures. ▪ Demand on industrial properties have been strong especially after the re-opening of national borders in Apr 2022 due to rising demand from logistics and for warehouses as well as trade and investment diversion from China. Property developers have been actively looking for land for industrial park use. **Listed industry players:** **Gamuda**'s (GAM MK, BUY, CP: MYR4.40, TP: MYR4.80) 700-acre Green Tech Park in the Penang South Island - Island A development, is 100% RE-powered and it is dedicated to attracting high-value E&E companies to complement the industrial ecosystem of Bayan Lepas, Penang. **Sime Darby Property** (SDPR MK, BUY, CP: MYR0.585, TP: MYR0.67) has 3,012 acres of industrial land located in Labu (c.2,800 acres), Sepang (66 acres), Klang (1,006 acres), Pagoh (293 acres), Sungai Buloh (758 acres) and Bukit Lagong (317 acres). **UEM Sunrise** (UEMS MK, HOLD, CP: MYR0.525, TP:MYR0.27) has a JV industrial project with Ascendas in Iskandar Puteri. It is currently converting part of its 2,461 acres of land in Gerbang Nusajaya into industrial title. **Eco World Development** (ECW MK, BUY. CP: MYR0.935, TP: MYR1.02) has industrial parks in Puncak Alam (399 acres) and Senai (395 acreS). **Ame Elite** (AME MK, Not Rated, CP: MYR1.39) has industrial parks at Senai and Gelang Patah (170 acres). **SP Setia** (SPSB MK, BUY, CP: MYR0.695, TP: MYR0.72) is converting its land in Klang (399 acres), Bertam (260 acres) and Port of Tanjung Perlepas (308 acres) into industrial parks. It intends to launch its industrial park in Klang by end-2023. **Sunway** (SWB MK, HOLD, CP: MYR1.80, TP: 1.72) has recently purchased 245 acres of land in Rawang. The land will be converted into an industrial park worth MYR2b in GDV under a 70:30 JV structure between Sunway and Amal Resources S/B.

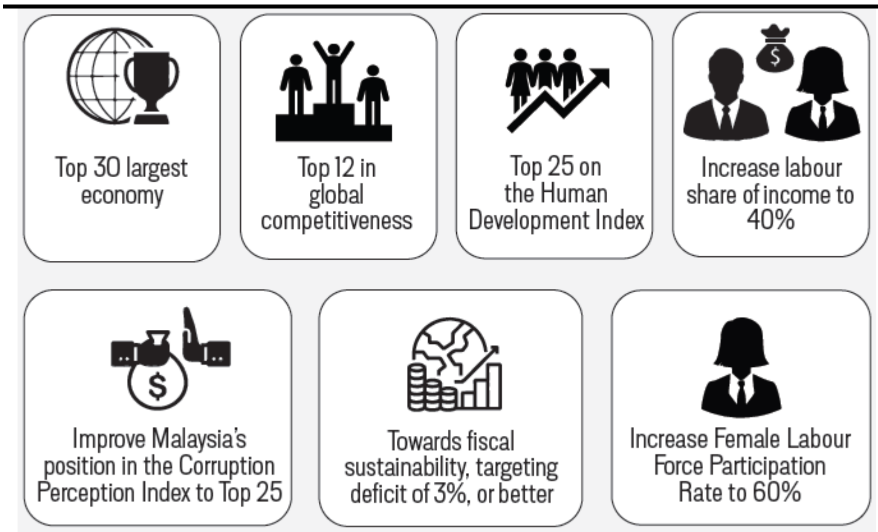
Source: Maybank IBG Research

MADANI Economy framework

Figure 2: MADANI Economy - Mission

Source: MADANI Economy

Figure 3: MADANI Economy - Targets



Source: MADANI Economy

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