



Industry Focus: **TOURISM**

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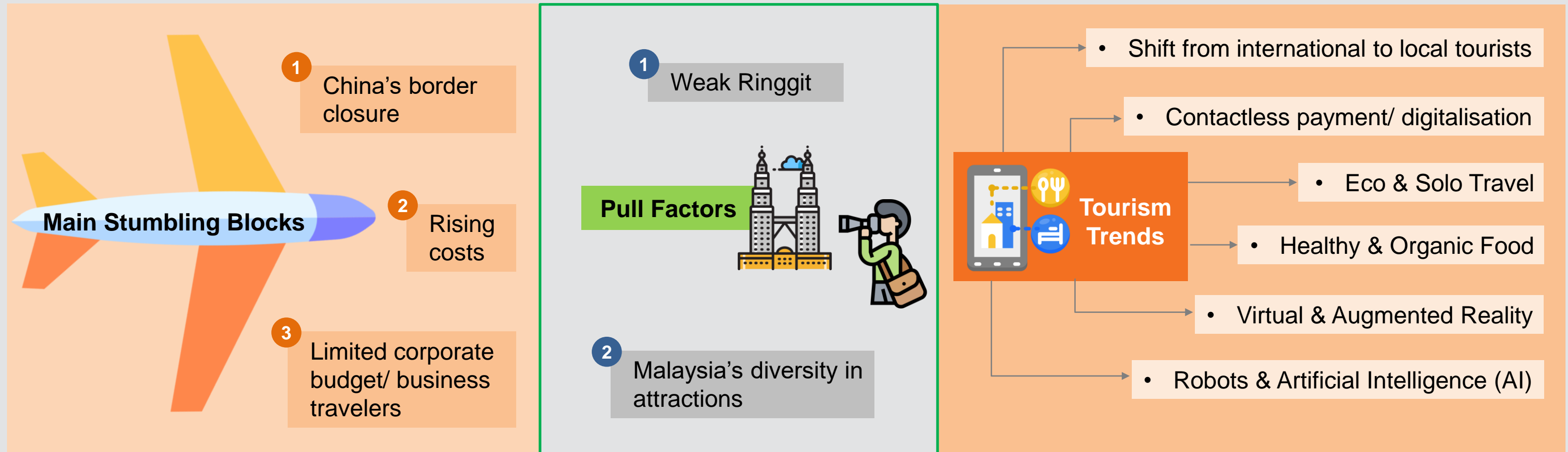
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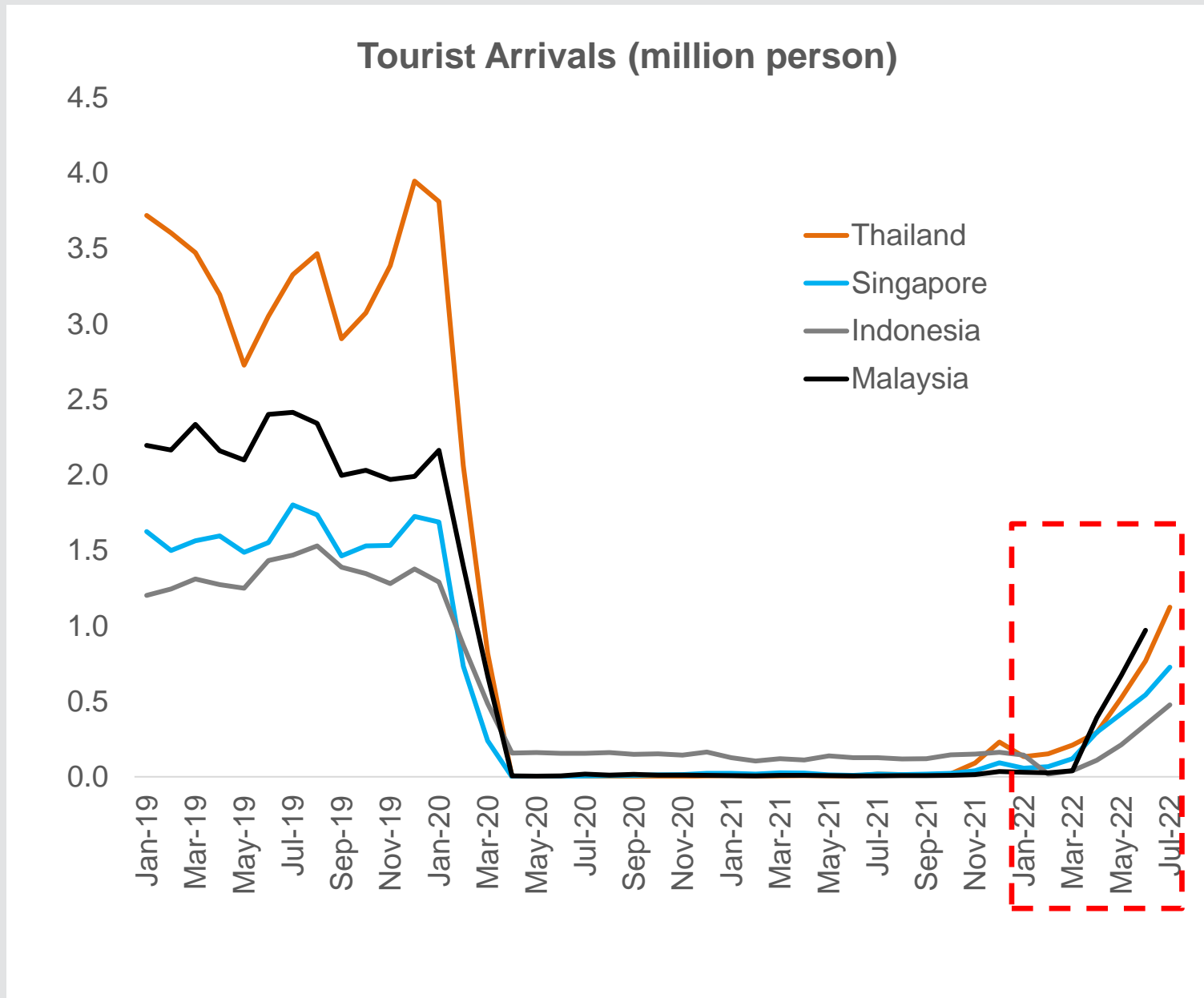
Industry Focus: Tourism – Accommodation and Food & Beverages (1/15)

Recovery in the Accommodation, Food and Beverages sub-sectors is on track and progressing well as the economy reopens and transitions into endemic phase. However, we opine that **a full recovery is only expected to happen in 2H 2023 (at the earliest)**, barring further shocks to the economy. We observed **changes in tourism trends** in recent years and the need for SME players in the tourism industry to digitalise and reinvent, especially post-pandemic.

Sub-Sector	Outlook
Accommodation	Stable
Food & beverages (F&B)	Stable



Tourist Arrivals in Key ASEAN Countries



- Regional countries are also experiencing an increase in tourist arrivals. However, recovery is still nascent and remain far below pre-pandemic levels.
- Malaysia had been quite late in joining the border reopening bandwagon. Nonetheless, we are catching up fast as our 1H performance (2.13 mil persons) fared better than Singapore (1.50 mil), Indonesia (872k) and Thailand (2.08 mil).
- Although the recovery is encouraging and expected to continue, it is **unlikely to revert to pre-pandemic levels** of international tourist arrivals this year and probably up until 1H of 2023 (at the earliest) **without the Chinese visitors** as they are the top 3 sources of tourists for these ASEAN countries.

According to **Knight Frank Research**, Thailand's tourism performance will still be far from pre-pandemic levels and is **not expected to fully recover before 2024** in its most optimistic scenario. **Thus, plans for new hotels are likely to be revised or postponed.** Existing hotels will continue to struggle in the short term which might force some hotel owners to put their properties up for sale.

Industry Focus: Tourism – Accommodation and Food & Beverages (3/15)

- 144 countries have fully reopened borders and allowed international travels which bodes well for the tourism industry. However, **severe staff shortages** and **overwhelmed airports** due to a surge in traveling activities have led to **more expensive flight fares**, to the frustration of many.
- Although most countries have loosed restrictions, some still require Covid-19 testing and quarantine upon arrival as well travel permit/visa prior to arrival which could add up to the costs of travelling.
- Moreover, **China, the main tourist arrivals to the ASEAN region** before the pandemic along with other countries such as Taiwan has **yet to open its borders**, preventing a full and quick recovery.



144 Travel is open >
Open for travel.
COVID-19 testing or
quarantine is not
required.

52 Test & travel >
Open for travel
with required
COVID-19 testing.

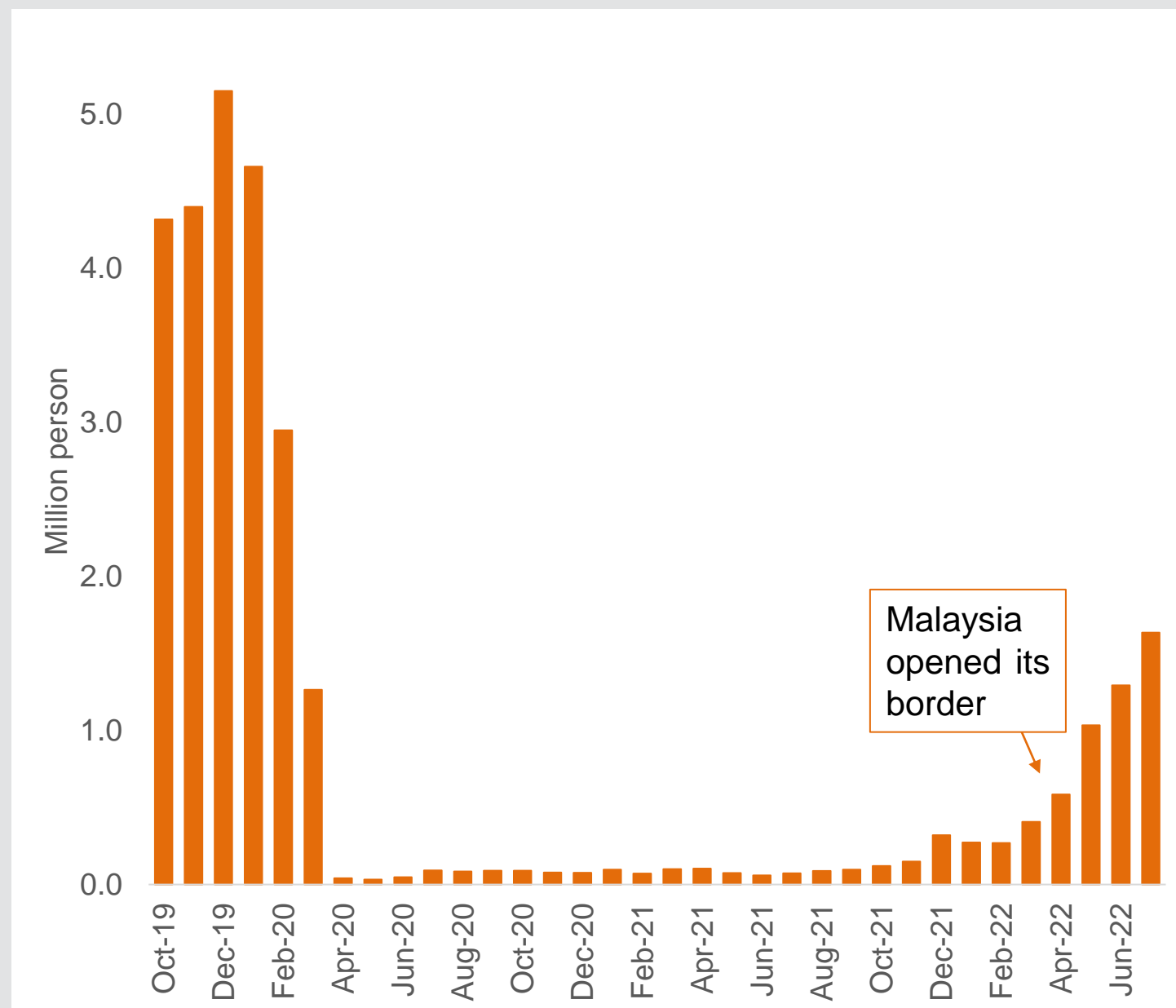
5 Testing & quarantine >
Open for travel with
required COVID-19 testing
and quarantine upon
arrival.

7 Entry is restricted >
Travel is only open for
returning citizens and
those meeting strict
requirements.

25 Unknown >
Travel restrictions
for this location
are unknown.

**China, Taiwan, Ukraine, Macau, Suriname,
Cameroon, American Samoa**

International Passenger Movements at Malaysia Airports

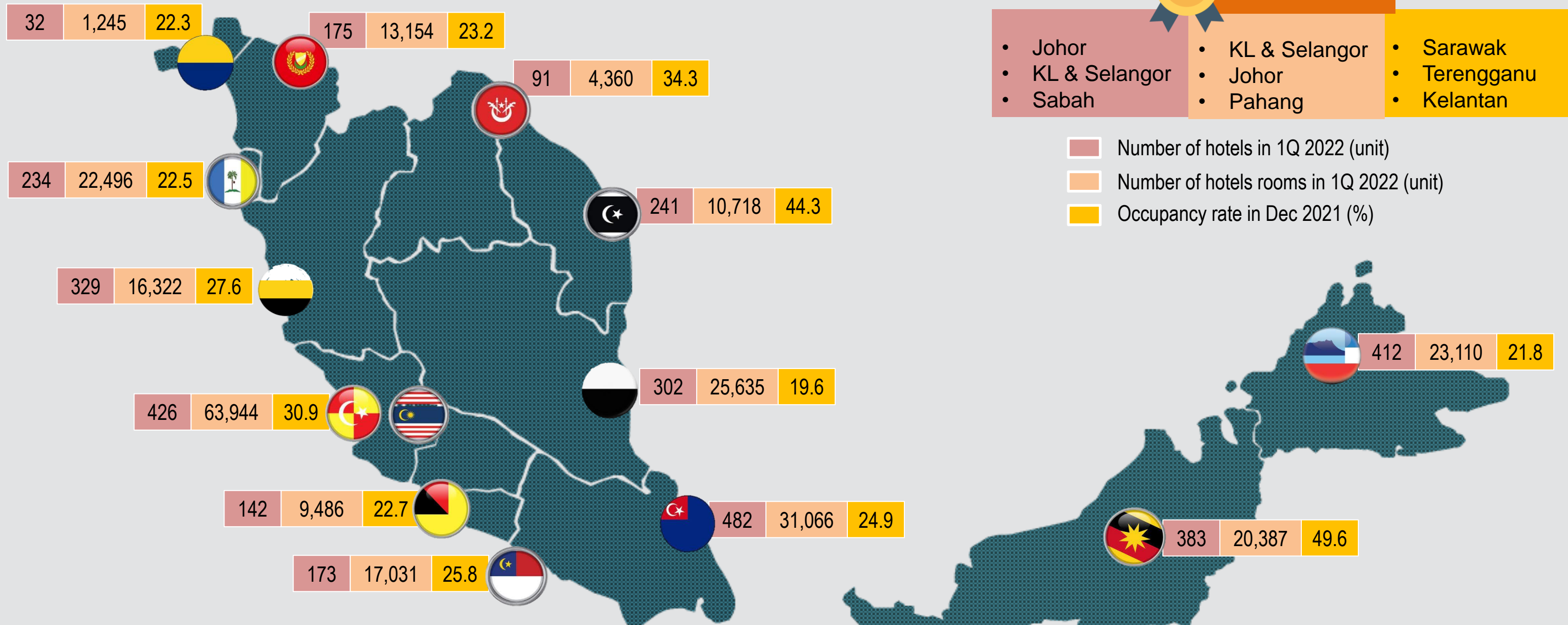


Key developments

- + Malaysia opened its borders to all international visitors on 1 April, 2022 after 2 years of closure. Regardless of vaccination status, foreign nationals can enter Malaysia without prior approval.
- + **A surge in international passenger movements** at Malaysia airports was observed since the border reopening (Apr – Jul average: 1492% YoY).
- + In Aug, Ministry of Tourism, Arts and Culture (MoTAC) **had revised their 4.5 mil target of international tourist arrivals in 2022 to 9.2 mil** as the arrivals had almost surpassed the initial target and they are optimistic given the vigorous initiatives and incentives, including by bringing in international delegates through business events.
- Nonetheless, **traffic volume in Jul represents only circa 37%** of the average monthly movements in 2019 and the **tourist arrivals target of 9.2 mil is only about 35%** of the total arrivals registered in 2019.
- While we agree that the recovery in tourism sector is on track and progressing well with the border reopening, we opine that a full recovery will only happen towards 2H 2023 (at the earliest), barring further shocks to the economy.

Industry Focus: Tourism – Accommodation and Food & Beverages (5/15)

Tourism Profile by States



TOP 3

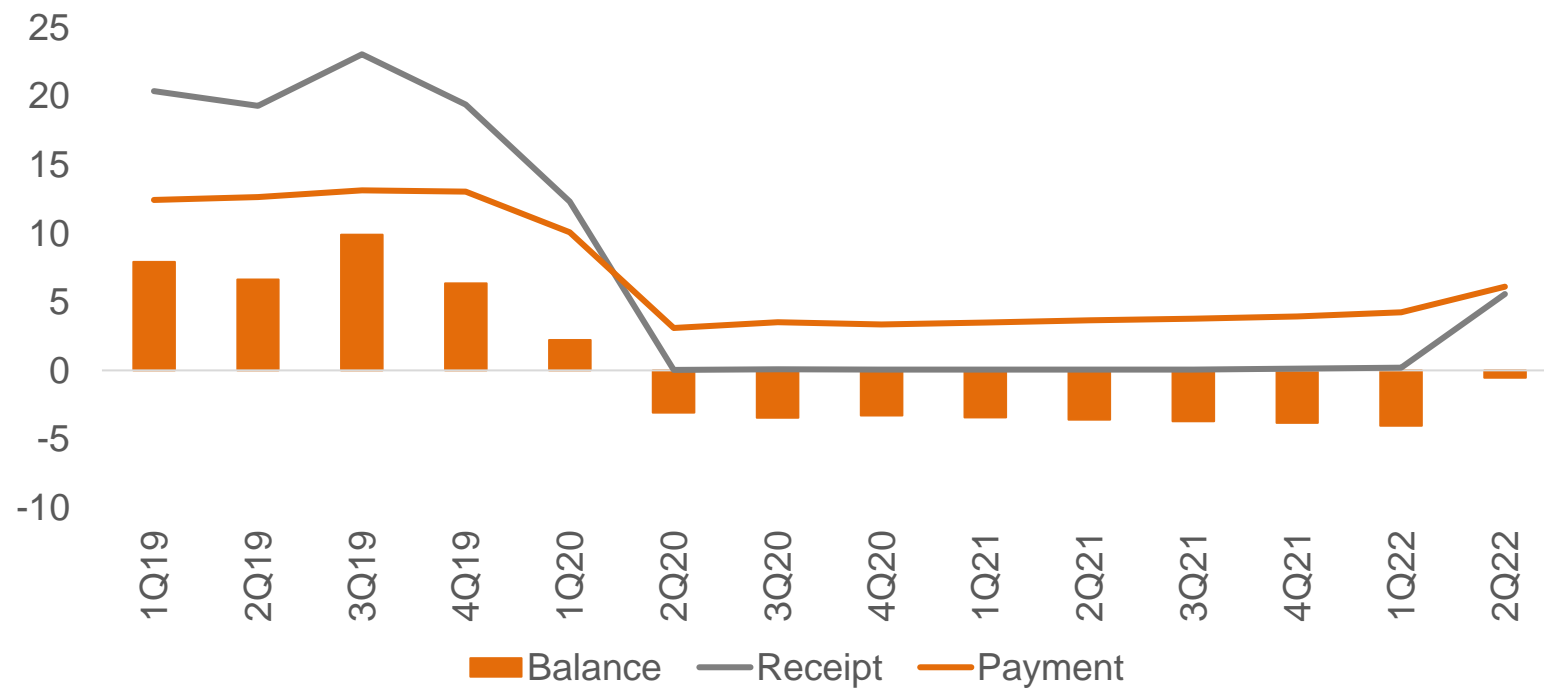
- Johor
- KL & Selangor
- Sarawak
- KL & Selangor
- Johor
- Terengganu
- Sabah
- Pahang
- Kelantan

■ Number of hotels in 1Q 2022 (unit)
■ Number of hotels rooms in 1Q 2022 (unit)
■ Occupancy rate in Dec 2021 (%)

Malaysia's **hotels occupancy rate improved to 39.8% in 1Q 2022** (4Q 2021: 28.2%) mainly contributed by domestic travellers. Malaysia Association of Hotels (MAH) expects the occupancy rate to reach **60% in 3Q 2022** following the reopening of the country's borders and international tourists starts trickling in. MAH opines that **occupancy rates will not increase immediately as locals have started to travel abroad.**

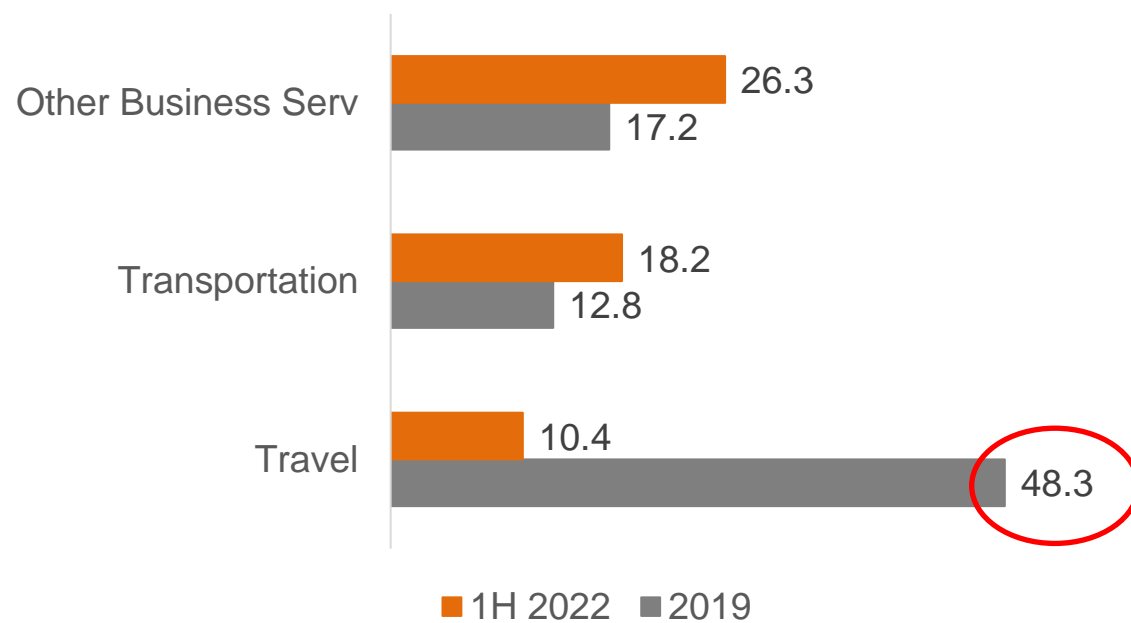
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Current Account (CA): Travel Services (RM bil)

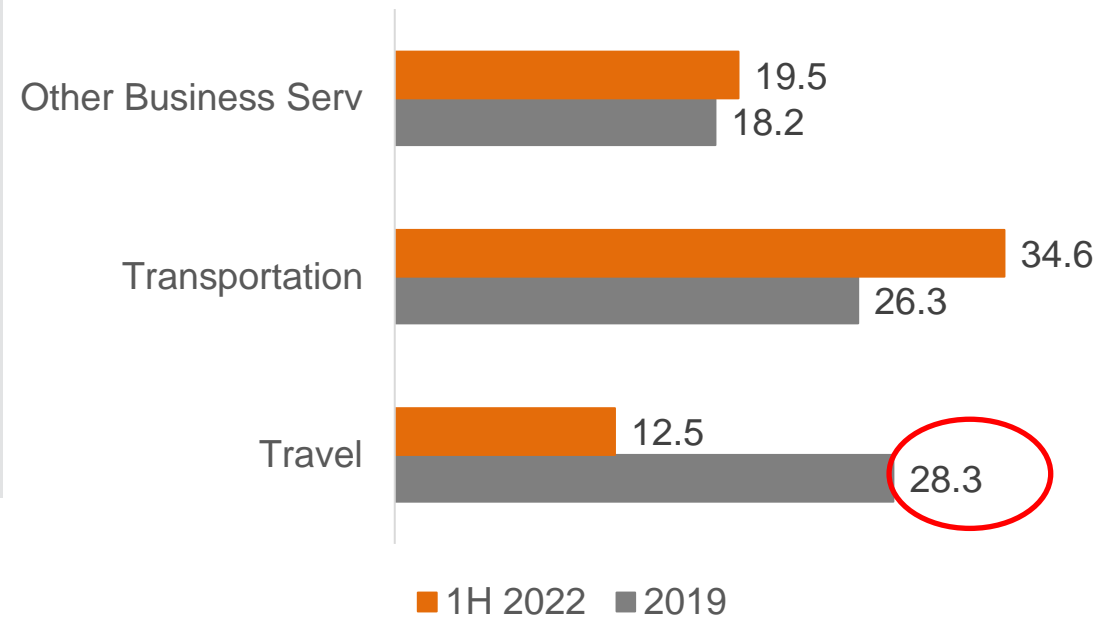


- Covid-19 pandemic had pushed receipts (credit/inbound) from travel services under current account (CA) to almost zero and below the payment (debit/outbound) made for the same purpose.
- The receipts had remained flat since then before experiencing a sharp uptick in 1Q22 attributed to international border reopening.
- Nonetheless, **receipt are still below payment** with a trivial deficit recorded at RM500 mil. **We foresee this trend to reverse in the 2H 2022.**
- Simultaneously, we are also witnessing **an uptick in payment for travel services** which suggests that **Malaysians are seizing this opportunity to travel abroad** amid excess savings and pent-up demand.

Top 3 Credit (Inbound) of CA: Services (% share)



Top 3 Debit (Outbound) of CA: Services (% share)



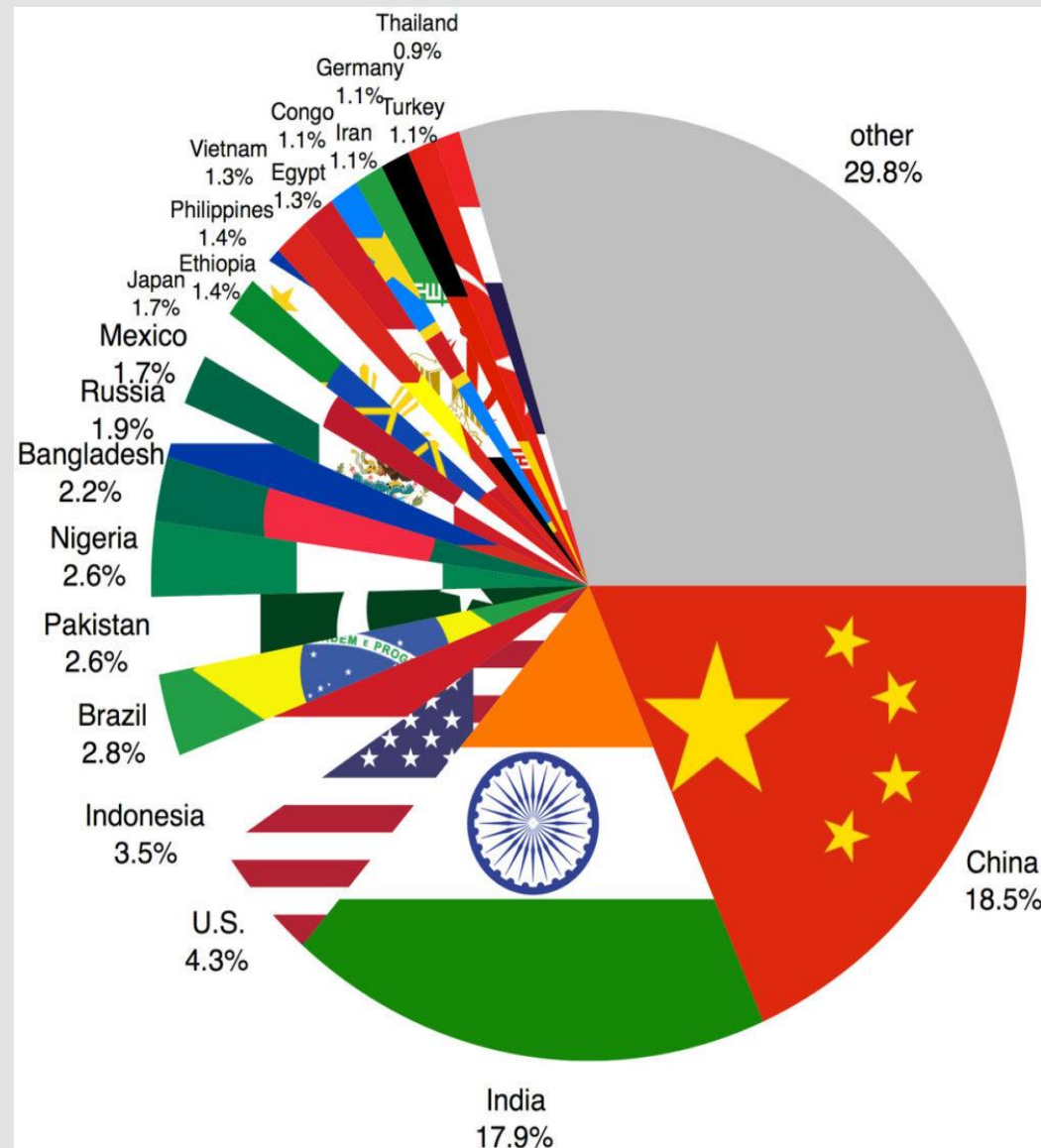
- Despite that, overall outbound travel activities remain low as reflected by its share to total services payment (12.5% vs 28.3%).
- **Prior to pandemic, travel held the largest share of payment for services under the CA but have yet to resumed that position in 1H 2022.**

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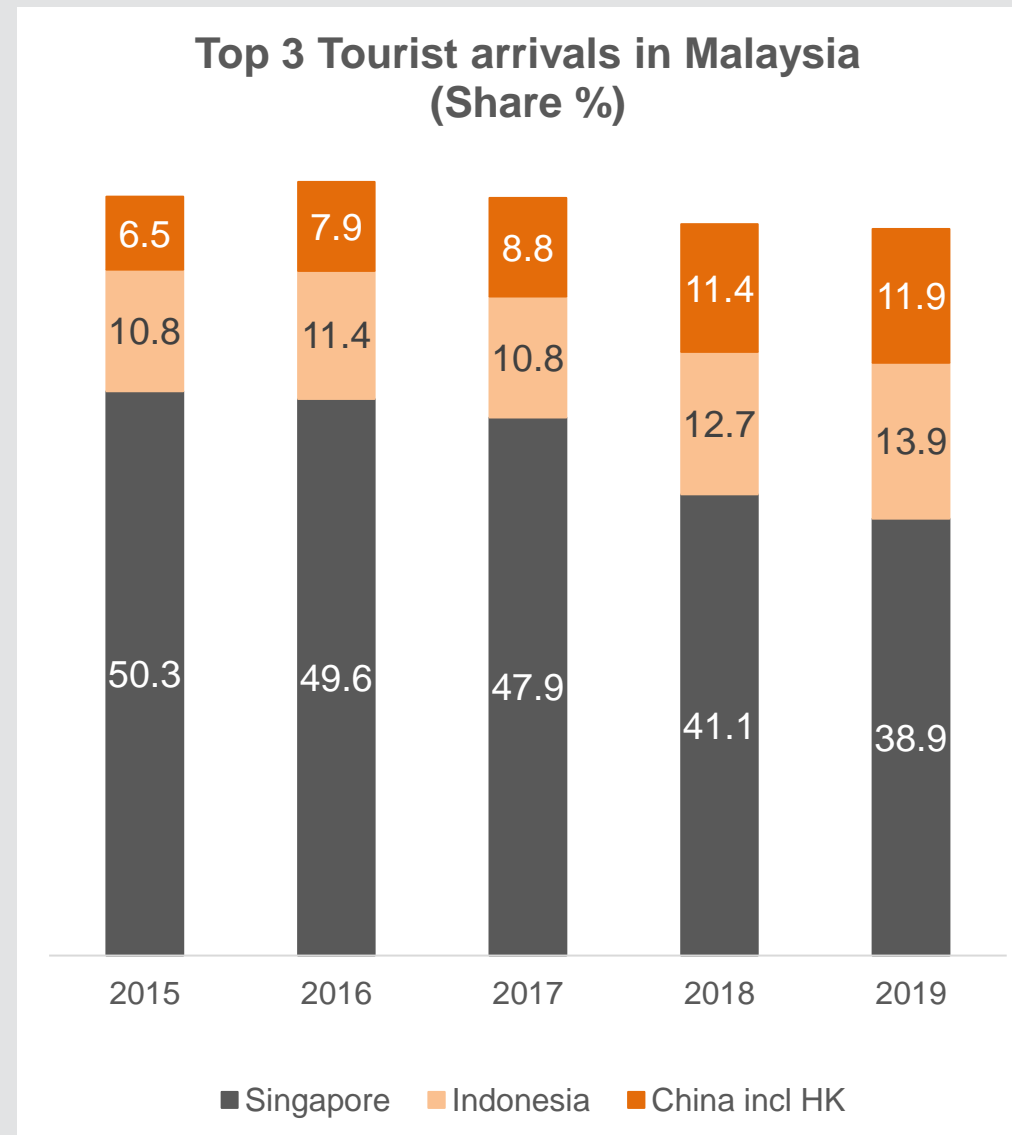
Why is China important to Malaysian tourism industry?



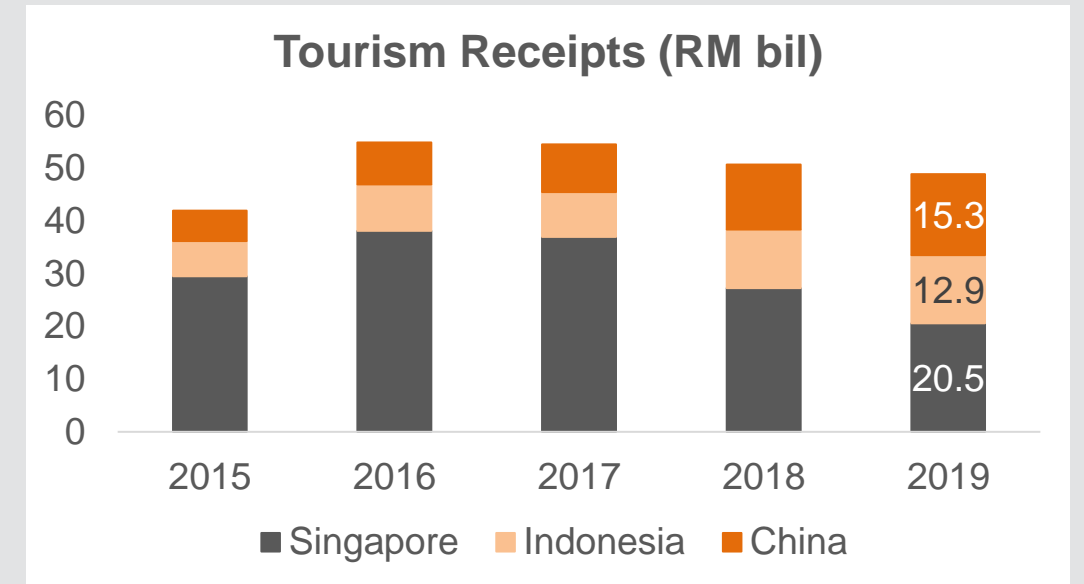
Huge market. China has the largest population in the world, making up 20% of total



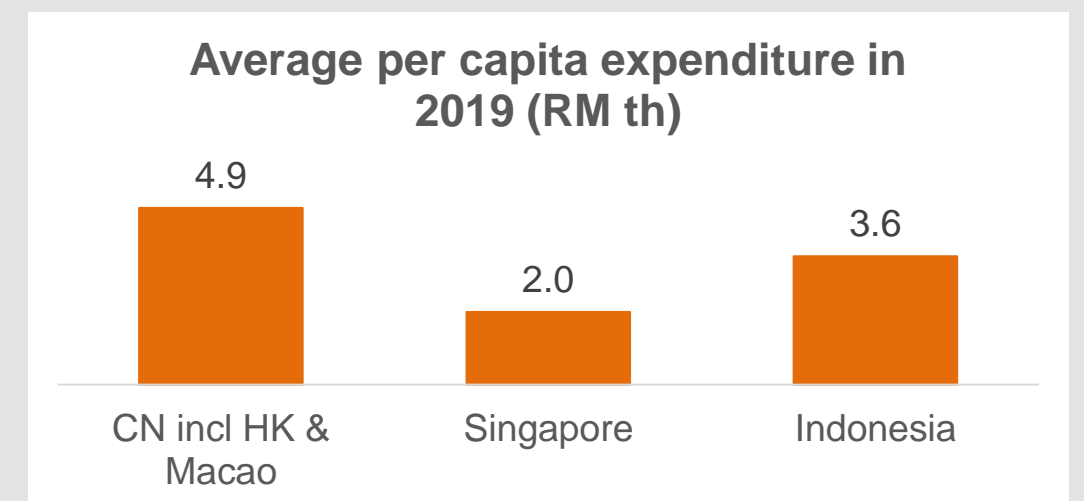
Consistent increase in the share of China's tourist arrivals to Malaysia's total arrivals



Chinese tourists spends substantial amount in Malaysia, second to Singapore



In per capita terms, Chinese tourists' expenditure in Malaysia is higher than those of Singaporean and Indonesian

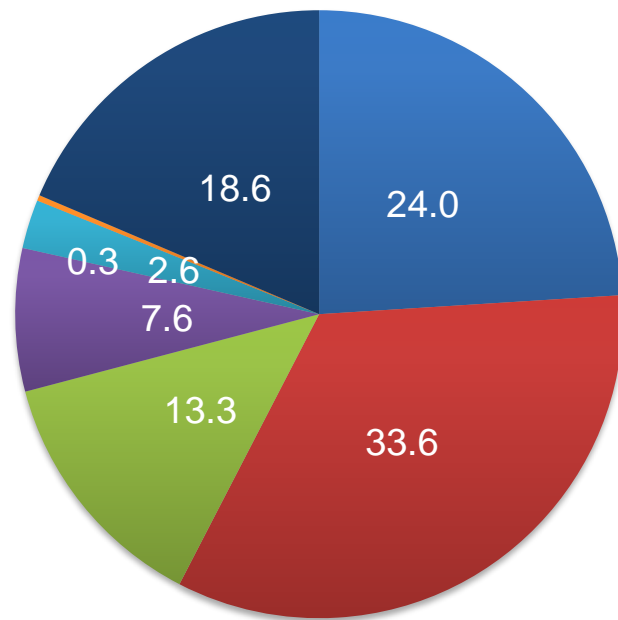


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Deterrence due to rising costs

Shopping, accommodation, F&B and transportation accounts for >70% of the total tourist spending in Malaysia in 2019.

Tourists Receipts by Purpose (% share)

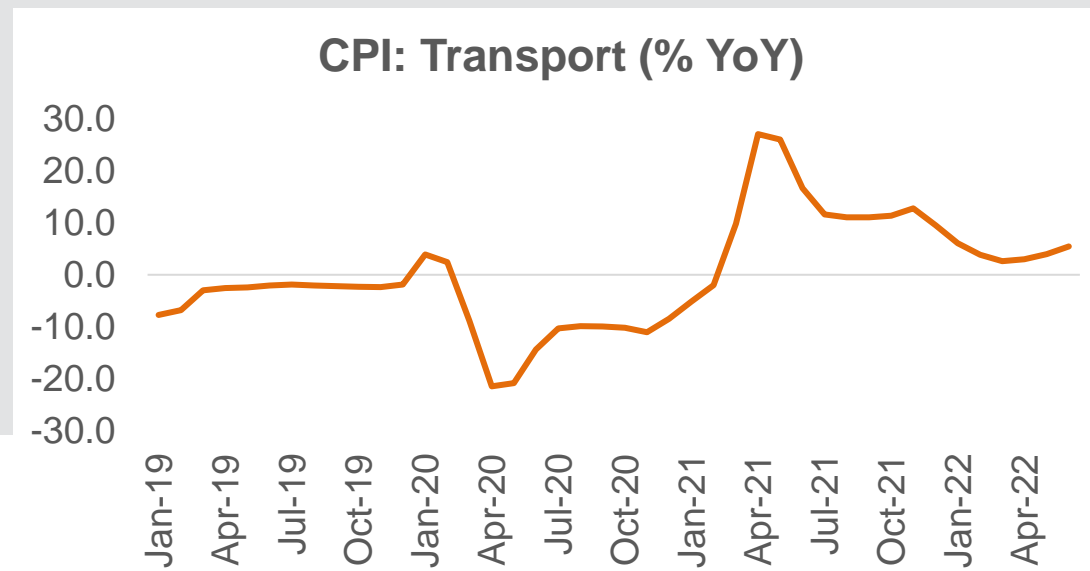
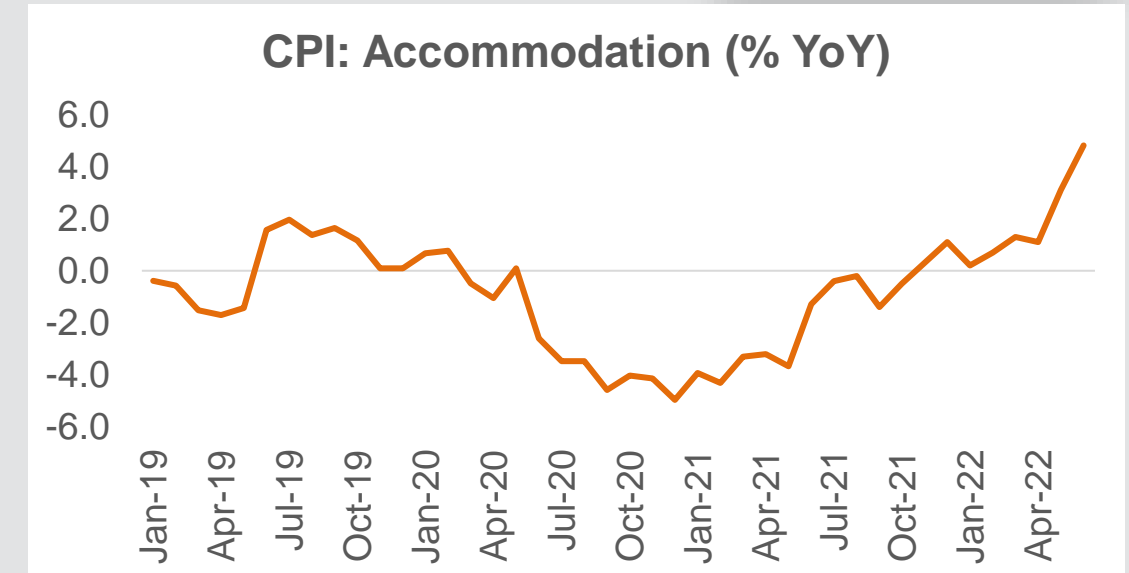
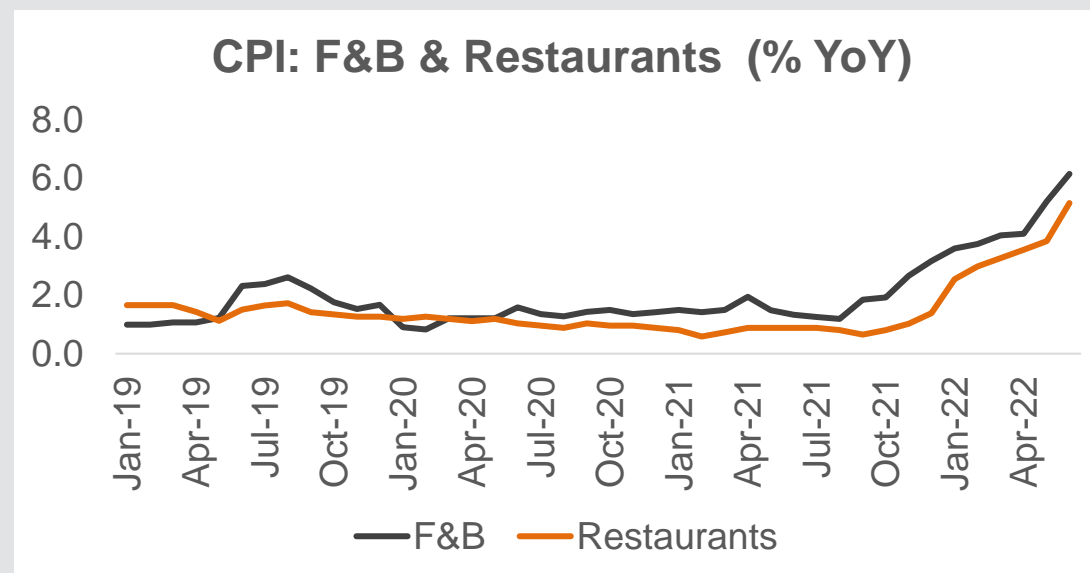


- Accommodation
- Shopping
- Food & Beverages
- Local Transportation
- Domestic Airfares
- Fuel
- Others

- **Prices have been trending upward** recently, evidently in F&B, restaurants and accommodation following the reopening of economy which boost demand, coupled up with supply-side constraints such as high commodities/raw material prices and labor shortages.
- While there's no significant uptrend observed in transport prices as it's being partially cushioned by Government fuel subsidies, **airlines** for instance are **reintroducing fuel surcharges due to soaring fuel prices**.

AirAsia Malaysia brings back fuel surcharges due to escalating fuel prices

Saturday, 05 Mar 2022 12:10 PM MYT



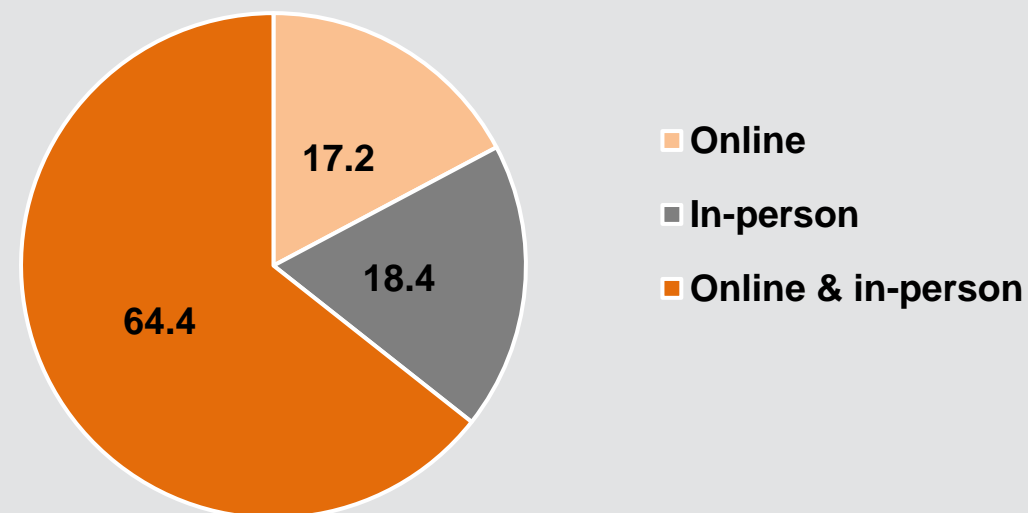
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Lack of impetus from business travel

Tourist Arrival by Purpose



Conferences & events options in Malaysia
Jun – Dec 2022 (% share)



- Arrivals for **business/ conferences** make up **14% share of tourists** into Malaysia.
- According to MoTAC, **business travelers spent 3 times more** than the average tourist and have a **large multiplier effect**, as 40% of them travels with spouses and 60% return as tourists later.
- Nonetheless, **growth in this Meetings, Incentives, Conventions & Exhibitions (MICE) industry likely to be sub-par** as social distancing has become the new norm.
- Besides that, Malaysia was named as one of the most expected MICE destination at the 13th China MICE Industry Golden Chair Awards but again, Chinese visitors are currently absent.
- Other factors limiting business travel includes companies' budgetary savings.

Govt asks employees to opt for lowest air fare, book tickets 21-days before travel

BUSINESS / Jun 19, 2022, 11:38 IST

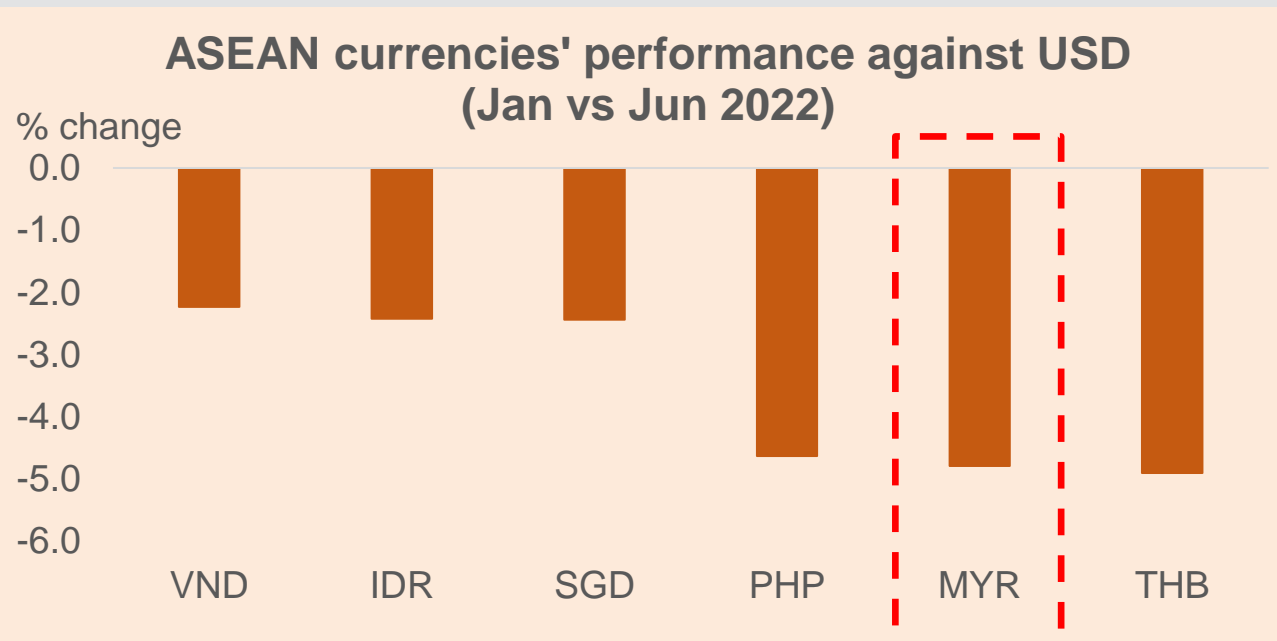
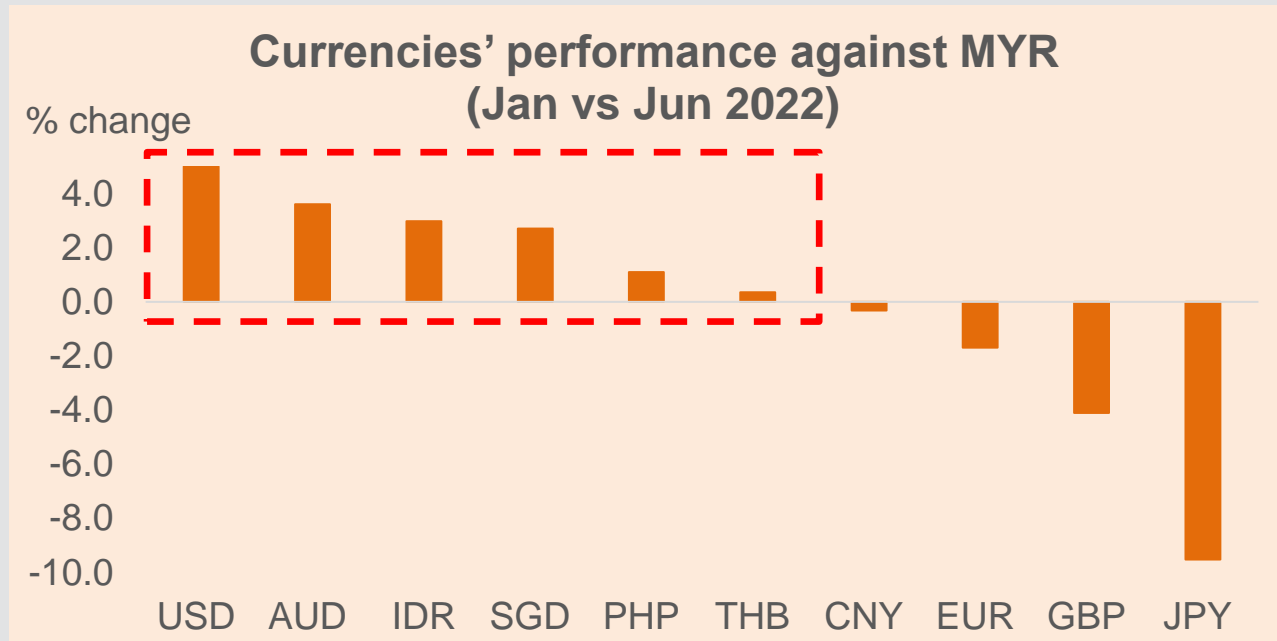
NEWS

Twitter cancels its company retreat at Disneyland, citing costs

- While innate needs for socialising will never be replaced by technology, some people would still prefer to avoid social contact.
- A good mixture of hybrid meetings (virtual and live) is the future of MICE. **Business hotels targeting/servicing this market segment should invest in their WiFi/ digital/ conferencing infrastructure to remain relevant.** Services like live/ video streaming and high-speed internet connectivity is expected.

PULL FACTOR

Strengthening currencies of other countries/ weakening ringgit



- Performance of **IDR, SGD and THB** against Malaysia has **strengthened** compared to early part of this year.
- This **trio of economies account for 60%** of Malaysia's tourist arrivals in 2019.
- If the trend persists, we could see stronger interest in arrivals from these economies.

- Ringgit Malaysia is one of the worst performers (highest depreciation) against USD which could makes Malaysia more attractive in term of costs compared to regional peers.

Malaysia's attractiveness

Malaysia ranks 27th out of 50
"Best Places to Travel in the World in 2022"

Based on:

- Natural wonders (beaches, caves, jungles etc)
- Historical sites
- Diverse culture and cuisine

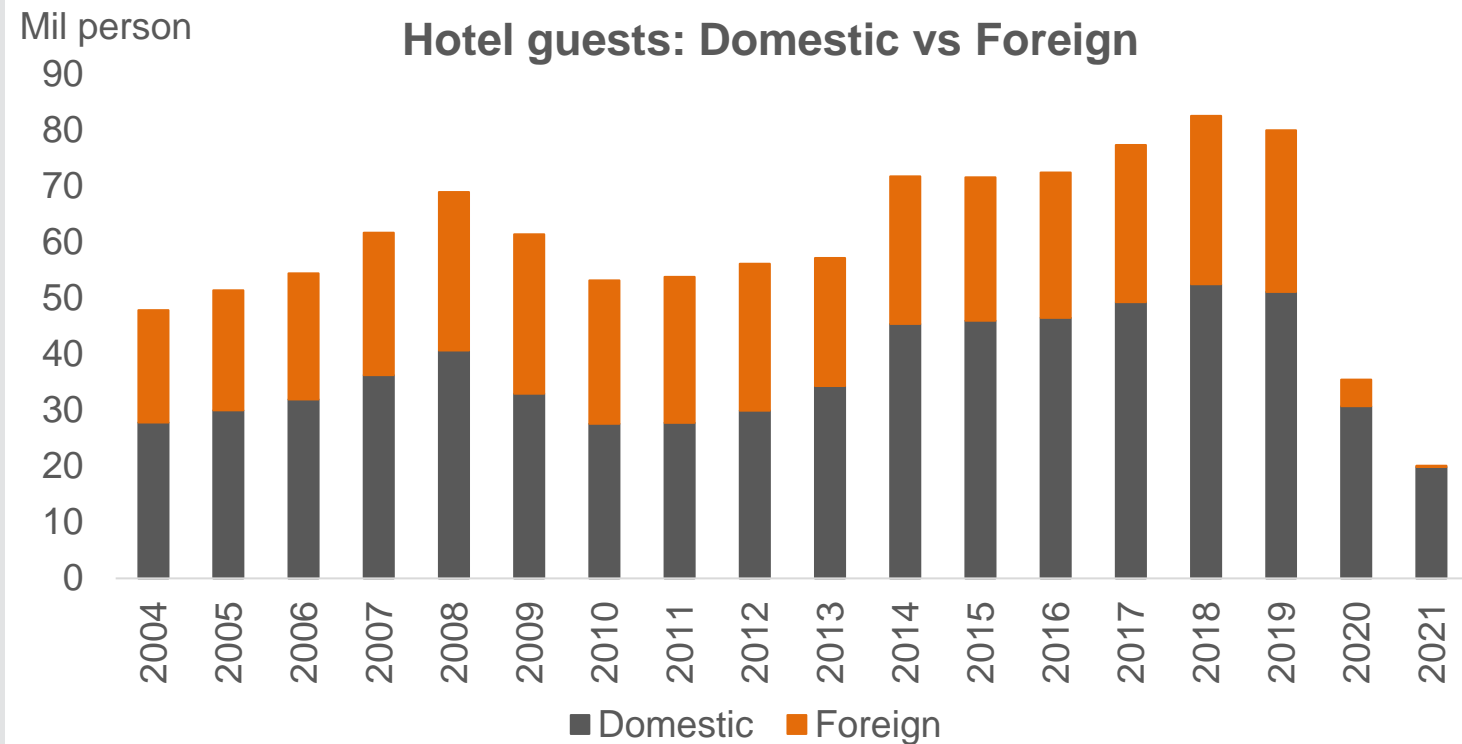


Preferred destinations:

- Kuala Lumpur
- Georgetown, Penang
- Langkawi, Kedah
- Borneo

Industry Focus: Tourism – Accommodation and Food & Beverages (11/15)

Tourism Trends “Related” with Covid-19

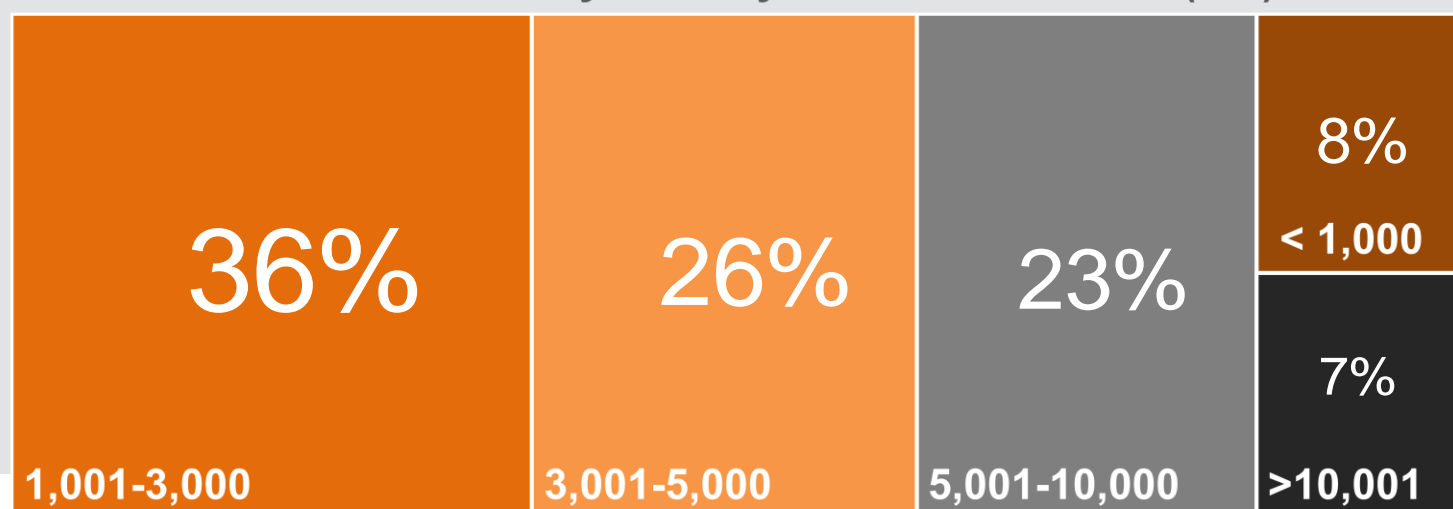


Shift from international to local tourists

- Due to pandemic-driven international border closure, Malaysia tourism industry **relied almost entirely on domestic travellers**.
- The accommodation sub-sector has been largely supported by local travelers and were also **used as quarantine centres**.
- While this trend may not last in 5-10 years down the road, it is still expected to stay here for a while and should be taken as a good opportunity to find balance and reduce the risks from any unprecedented crisis in the future.

- Hotels may need to invest and highlight the types of facilities that may **appeal to the local market**, such as the restaurant, gym facilities, internet connection and hotel rooms that are **ideal for remote work or staycation**.
- Similarly, airlines and tourism management companies may also need to **shift gears** by providing **more affordable fares and packages** that are more **tailored to domestic tourists**.

Domestic tourist by monthly household income (RM)



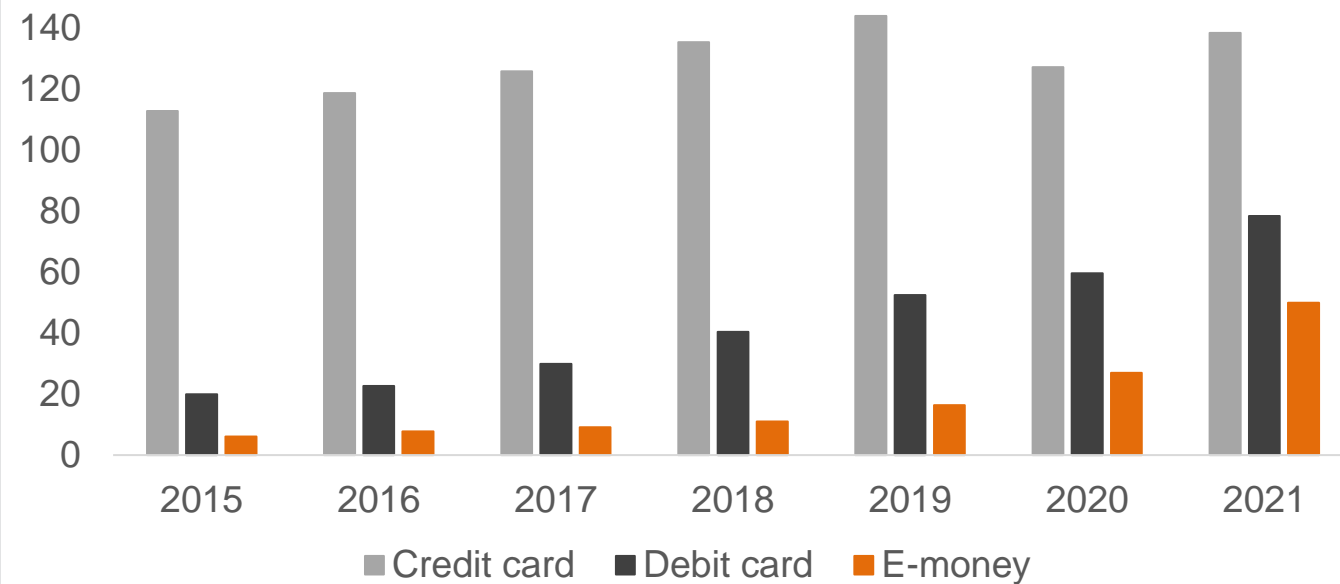
Household Group	Median Income (RM)	Income Range (RM)
B40	B1	1,929
	B2	2,786
	B3	3,556
	B4	4,387
M40	M1	5,336
	M2	6,471
	M3	7,828
	M4	9,695
T20	T1	12,586
	T2	19,781

The offerings including hotel rooms charges, transportations fares and F&B prices need to be affordable and appeal to the **M40 and upper B40** target market as these group makes up **49% share of domestic tourism**.

Industry Focus: Tourism – Accommodation and Food & Beverages (12/15)

A rise in contactless payment/ online marketing

Electronic payments by instrument (RM bil)



- Contactless payments - reduces friction and improves the speed of check-ins & -outs as well as encourage spontaneous purchases.
- Covid-19 had resulted in a greater demand for contactless payment as both staff and consumers often prefer to avoid handling cash.
- The trend was observed by the **consistent rise in electronic payments via debit card and e-money in 2020**, which continued into 2021 and is expected to be the trend moving forward in line with national agenda of digitalisation.
- Moreover, **online platforms are becoming more important as a distribution channel for hotels. Vouchers/discounts** from tourists attraction providers are being distributed via online for **promotional purposes** to increase occupancy/take up rate.
- In fact, MoTAC provide e-vouchers for hotel bookings (initiatives under the Tourism Recovery Plan 2022) via Shopee.



Survey by SYNC Southeast Asia

1. **88% of the total Malaysian population are digital consumers**, above Southeast Asian (SEA) average of 78%.
2. **Online channels now play a four times larger role** than offline channels.
3. By end-2021, 9/10 Malaysians are expected to shop online.
4. These are attributed to the adoption of e-payment, among others.

The screenshot displays several promotional offers on the Agoda app interface:

- Langkawi Island Hopping (Pakej MURAH):** Local Seller, RM30.00 - RM40.00, 4 sold.
- [QR Code Direct Entry] Genting SkyWorlds Outdoor Theme...:** Local Seller, RM62.00 - RM151.00, 2.1k sold.
- AVANI GOLD COAST SEPANG RESORT FAMILY VILLA:** Local Seller, RM729.00, 17 sold.
- [DISCOUNT 2022] Langkawi Mangrove Tour Kilim Geofore...:** Local Seller, RM131.00 - RM288.00, 35 sold.
- [CLEARANCE] 10% OFF Agoda Discount Voucher:** Local Seller, RM1.88, 4k sold.
- 2D1N GRAND LEXIS PORT DICKSON DELUXE SUITE (With...):** Local Seller, RM550.00 - RM688.00, 128 sold.
- !!LOWEST!! 2D1N at Golden Hills Cameron...:** Local Seller, RM130.00 - RM220.00, 138 sold.
- Agoda e-voucher RM60 off RM50,40,30 off 8% off:** Local Seller, RM8.99 - RM20.99, 1k sold.

General Upcoming Tourism Trends

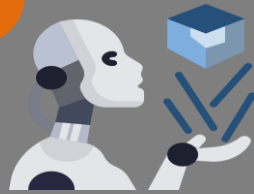
1



Virtual & Augmented Reality

- Trend that capitalise on the technology by bringing together a **virtual world** and the real one with enhanced, 3-D visuals.
- This has become increasingly crucial at customers' decision-making phase.

2



Robots & Artificial Intelligence (AI)

- Increasingly valuable in **smart hotel rooms**, identifying the likely needs of guests and fine-tuning the environment and services to fit the guest's needs and preferences.
- Future AI tourism trends may include self-driving vehicles and virtual guides for tourism.

3



Healthy & Organic Food

- Modern tourist demands healthy food that are delicious at the same time.
- More eateries and hotels are offering **organic** options and **healthy local delights**.

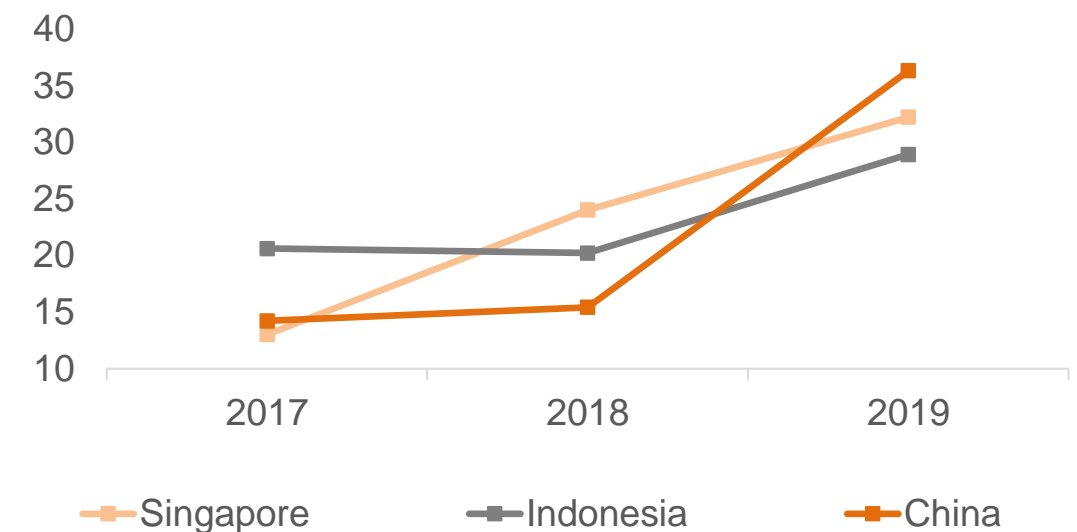
4



Eco & Solo Travel

- Eco travel reflects growing concern for ethical and sustainable tourism options which include simple changes such as option to **rent an electric vehicle** or include **volunteer element**.
- Solo trip is trending upward as reflected by the data. Accommodating this group may need more effort as their needs are diverse.

Single Tourist Arrivals (% share)



Government support/ programmes to revive Malaysia's tourism industry

1 Tourism Recovery Plan 2022

- Kicked off on April 29, 2022.
- A follow-up to the Economic Stimulus Package (PRE 1.0) launched in 2021.
- Focuses on **2 clusters**:
 - 1) The Tourism Association
 - 2) The Land Transport
- Will gradually expand to include **Air and Accommodation and Special Interest Tourism Clusters** for scuba diving, lodges, shopping, and theme parks segments.
- Collaborating with Malaysia Airlines Bhd, Capital A Bhd (AirAsia), Firefly, Batik Air Malaysia (Malindo Air), MASwings Sdn Bhd, KLIA Ekspres and Keretapi Tanah Melayu Berhad (KTMB).
- Initiatives include:
 - ❑ **Discount of RM100 for a travel package purchase transaction worth RM200 and above from April 29 to October 31, 2022, for the travel period until December 31, 2022.**
 - ❑ Roped in 11 local media outlets to produce a series of branded content and niche programmes.
 - ❑ Marketing deal with Expedia Group to amplify inbound tourists from the UK, the US and Australia into the country.
 - ❑ Launched Tourism Malaysia's new digital brochures app, available on Google Play and App Store.
 - ❑ Launched 2nd version of the Cuti-Cuti Malaysia song.

2 Promotion tour globally

- Actively participate in promotion tour to other countries e.g. India, South Korea, Philippines, Kazakhstan.

3 Fee, duty & tax exemption

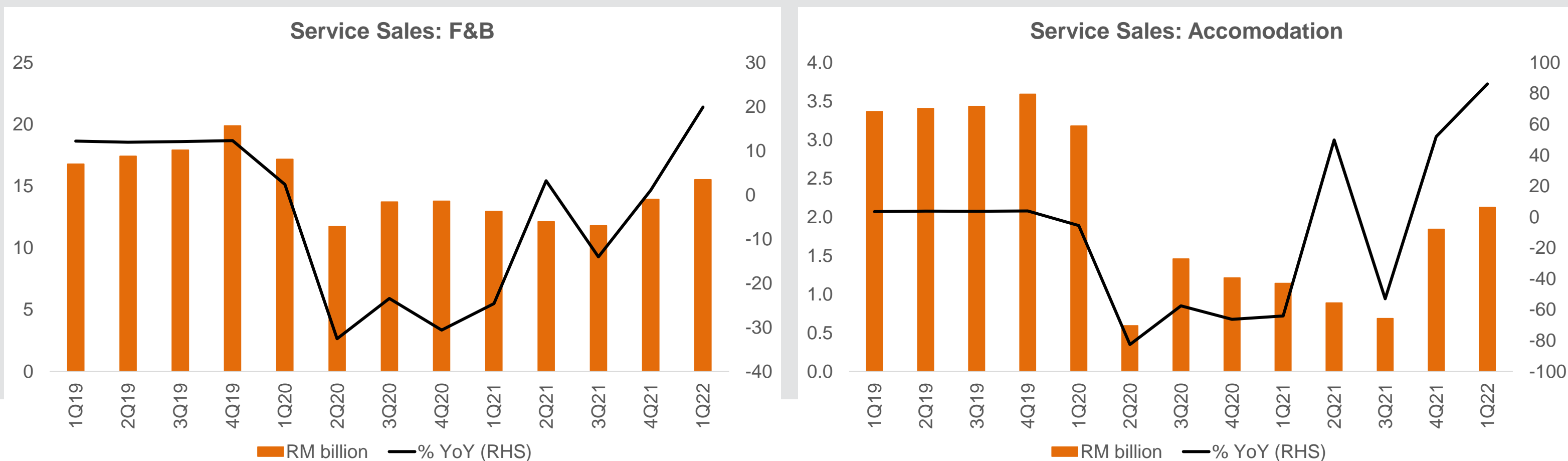
- License fee exemption period for tourism operators, tour guides extended till Dec 31. This involved 3,419 tour companies, totalling RM5.68 mil.
- **Exemption on entertainment duty**, including for **theme parks** and **cinemas** in all federal territories, and the tourism tax exemption would also be extended till Dec 31.

4 PENJANA Tourism Financing

- Allocation of **RM600 mil for SMEs and Micro SMEs** mainly for the tourism sector that are still affected by the pandemic.
- Application has been closed but disbursement is ongoing. As of 22 Jul 2022, **RM215.4 mil was distributed to 7,999 employers** to continue operating and maintaining employment for 106,404 employees.

Industry Focus: Tourism – Accommodation and Food & Beverages (15/15)

- Malaysia's **services sales** for both **F&B and accommodation** have been **trending upwards** over the last few quarters after some fluctuations during lockdowns.
- While sales performance is still below pre-pandemic levels as at 1Q 2022, the **recovery in the F&B sector seems to be faring better** than that of accommodation probably because F&B sector were allowed to operate during lockdowns. The F&B industry had the opportunity to **adjusted their business models** earlier than those in accommodation industry, by **moving online, providing options to takeaway and delivery**.
- Whereas, these options are not viable in the accommodation sector and it may take awhile to relook and readjust the business models for a significant recovery to take place. Nonetheless, since the data is in value, the F&B performance could have been influenced by higher cost of raw materials and labour due to shortages.
- As Malaysia only fully reopened its borders in Apr 2022, the latest available data up to 1Q 2022 suggests that recovery is mostly driven by domestic users rather than international's. We expect sales performance to be better with border reopening from Apr 2022 onwards in line with the expectation of MoTAC along with MATTA , but remain doubtful that recovery will revert to pre-pandemic levels in the near term.



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