SME BANK GROUP

Industry Focus: ENVIRONMENTAL SCANNING

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KEMENTERIAN PEMBANGUNAN USAHAWAN DAN KOPERASI
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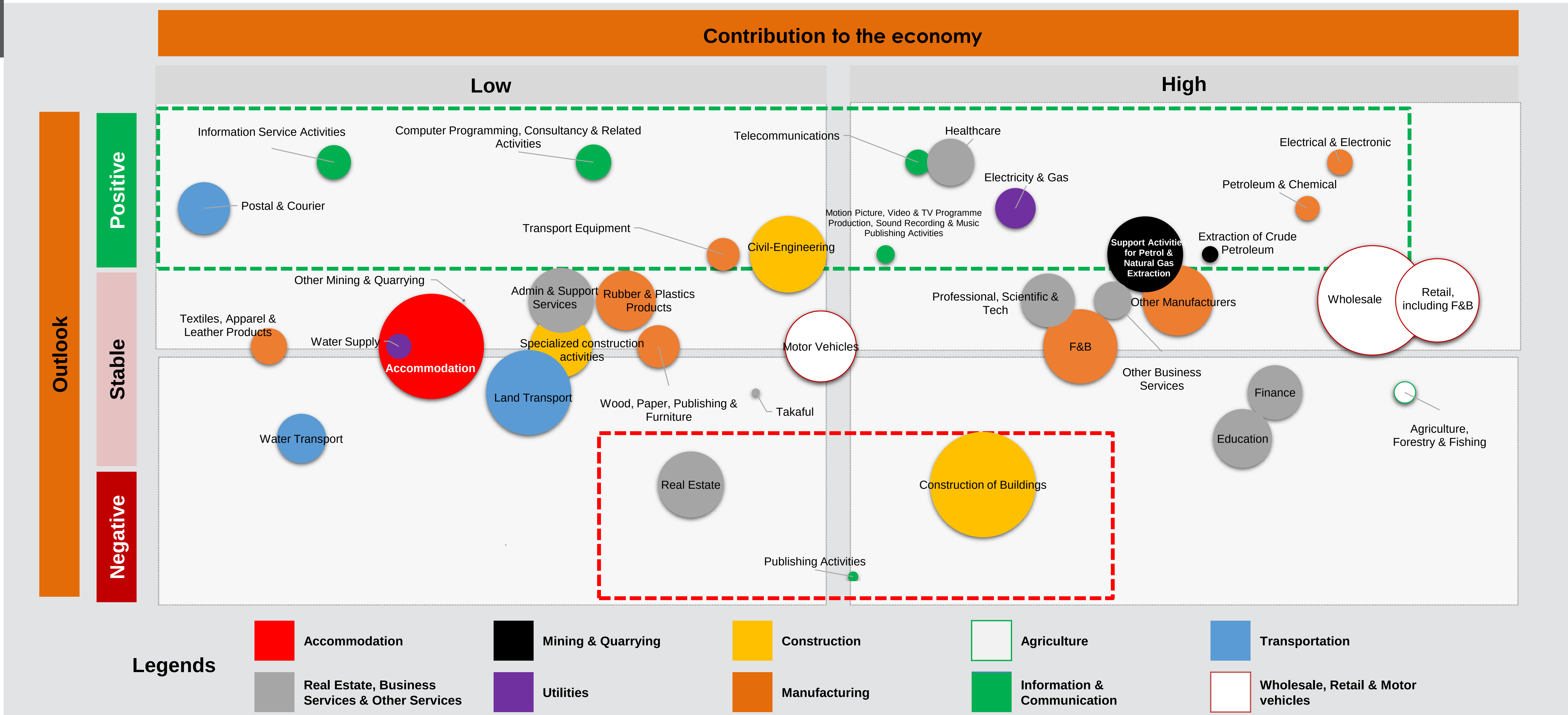
DKN 2030 Dasar Keusahawanan Nasional "Negara Keusahawanan Unggul 2030"

Environmental Scanning: Moving forward, which sectors to focus?



Sources: CEIC and SME Bank SCEA

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Sub-sectors: positive outlook; upside potential and downside risks

01 — Motion Picture, Video & Television Programme Production, Sound Recording and Music Publishing Activities

- FINAS has set aside RM38 mil as **Digital Content Grant** to assist small-scale filmmakers.
- Of the RM38 mil, RM10 mil is allocated for TV Programme, aimed at developing local creative content, given the rise in **video-on-demand services**.

- **Digital piracy costs** the Malaysian media and entertainment industry about **RM3 bil each year**.
- Malaysian entertainment industry is a **relatively small industry**, competing with the influx of films from Hollywood and South Korea.

02 — Telecommunications

- The government established Digital Nasional Berhad for deployment of the 5G technology. **It plans to spend RM16.5 bil over the next 10 years.**
- The JENDELA plan (2020-25) will focus on expanding **4G coverage to 96.8%** of populated areas by 2022.

- **Capital intensive industry**. It requires operators to have enough fund flows to support **escalating capital requirement.**
- **Price competition will continue.** Operators will focus on prepaid-to-postpaid migration. The merger of Celcom and Digi could, however, trigger further consolidation.

03 — ICT: Computer Programming, Consultancy & Related Activities

- The ICT sector is currently contributing about 19.1% of GDP and **is expected to reach 22.6%** by 2025.
- **By 2023, ICT spending in Malaysia could reach USD25.2 bil.** This spending will be supported by a growing rate of digital adoption and cloud computing.

- **Competitive market**. The IT services sector is transitioning from providing basic services (outsourcing) to delivering value-added services (analytics consulting) which has higher-margins**.**

04 — Electricity & Gas

- Electricity consumption's **CAGR is forecast to come in at 3.04% for 2022-2031**, due to robust demand arising from growing population & economic growth.
- The government aims to **increase the installed capacity for renewable energy (RE) to 31% by 2025** and 40% by 2035 (Oct 2021: 23%).

- **Intense competition for RE projects** may continue to push down bid rates, increasing earning risks.
- The construction of hydropower facilities requires **larger upfront investment** and there is **environmental opposition**.

Sources: EMIS, Various and SME Bank SCEA

Sub-sectors: positive outlook; upside potential and downside risks

05 Port/Airport

- By 2040, Port Klang's capacity will have increased by 60% to 32 mil twenty-foot equivalent units (TEUs). Meanwhile, Port of Tanjung Pelepas' capacity will be enhanced by 3.5 mil TEUs by 2025. They also stand **to gain from the RCEP trade deal.**
- The reopening of borders will **increase international passenger traffic movements**.

- Export expenses have escalated as a result of **rising freight rates, soaring commodity prices, and labour shortages**.
- **Shippers face difficult decisions** on whether to ship and bear high export costs.

06 Mfg: Petroleum & Chemical

- **Enjoys ready access to feedstock - **considerable crude oil & natural gas reserves.
- **Sarawak offers some USD25bil in investment opportunities** in downstream petrochemical industries.
- Petronas' Pengerang Integrated Complex will be operational in end-2Q22, adding 1.8 mil tonnes of chemicals.

- Indonesia will likely continue to expand its oil palm-based oleochemical production.
- The industry will continue to **face considerable competition.** The issue will probably persist for several years.

07 Mfg: Transport Equipment

- This industry will benefit from the National Automotive Policies 2020, which promotes **energy efficient vehicles** and support production through 4IR technologies.
- For 2022, **Malaysian Automotive Association projects an 18% y-o-y growth** (600,000 units) given outstanding bookings amid the tax holiday extension until June.

- The relatively high level of **dependence on domestic market** unveils two structural weaknesses, which are **high vulnerability to the Malaysian economic cycle** and considerably **low international competitiveness.**

08 Mfg: Electrical & Electronic

- The World Semiconductor Trade Statistics projects **global semiconductors sales in 2022 to climb a further 8.2%** to reach a new high of USD601.5 bil.
- Key drivers include global **5G, AI, cloud computing, IoT, robotics and vehicle electrification.**
- Local players have been getting requests for quotations due to trade diversion amid the frosty US-China relations.

- Key downside risks include a prolonged pandemic weighing on economic growth and disrupting supply chains, weaker-than-expected sales, and stronger Ringgit against the USD.

Sources: EMIS, Various and SME Bank SCEA

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Sub-sectors: positive outlook; upside potential and downside risks

09 Healthcare

- **Pharmaceutical spending will expand at a CAGR of 5.1%** in 2022-2026. The mySalam scheme will be a crucial pillar.
- Demographic ageing is beginning to drive demand. The percentage of **the population > 65 years was 7.2% in 2021,** and is expected to rise to 8.8% by 2026.

- Malaysia will have to continue **importing patented drugs** from other countries to treat chronic diseases such as cardiovascular disease and cancer, pushing up medical costs.
- The latest available data in 2020 showed that **pharmaceutical imports totaled USD1.7 bil.**

10 Postal & Courier

- The courier sector has **spiked in demand due to the e-commerce boom**, thanks to digitalisation and busy lifestyles.
- MCMC projects e-commerce revenue to increase to USD5.75 bil in 2023, while **the number of users will increase 10.7% to 21.6 mil by 2023.** Courier industry is expected to grow at a rate of 6% by 2025.

- **Competition is stiff** given high number of players, which results in price wars and small margins.
- **Low entry barrier.** There were 109 courier service license holders in the country as at Oct 2020. The issuance has been froze till Sep 2022.

11 Civil Engineering

- The **resumptions and commencement of infrastructure projects**, such as LRT3, Johor-Singapore Rapid Transit System, the Pan Borneo highways, MRT3 and the upgrading of Klang Valley Double Track Phase 2 as well as digital infrastructure for the 5G rollout, will support the sector.

- Key downside risks for the construction sector are **delays in the implementation** of mega infrastructure projects, **high building material prices and political uncertainties.**

12 Oil & Gas

- The Russia-Ukraine tensions and demand spike due to the reopening of economies have **driven up global crude oil prices**.
- **Increased capital expenditures by Petronas** at RM40-45 bil each year over the next 5 years (2020: RM33.4 bil; 2019: RM47.8 bil) implies a brighter outlook.

- A **prolonged geopolitical** standoff and **slowdown in China's economy** following widespread lockdowns disrupting supply & demand, respectively.
- **Petronas' decision to slow down capex spending** & slower than expected contract rollouts.

Sources: Malaysian Communications & Multimedia Commission (MCMC), EMIS, Various and SME Bank SCEA

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Sub-sectors: negative outlook; upside potential and downside risks

01 Construction of Buildings

- The reopening of boarder should ease labour shortages and speed up current projects.
- The sector is expected to somewhat regain some momentum, in line with the recovery of economic activities.

- Projects flow is expected to be less on **reduced office space demand** and **oversupply of residential high rises**.
- Outlook remains dim due to **dwindling outstanding order-book, elevated building material costs & labour constraints.**

02 Publishing Activities

- Newspaper circulation is considerably large. Some Malaysians still have **reliance on newspapers as a source of information**.

- Rivalry is intensified by **the availability of substitutes and the shrinking revenues from advertising.**
- Low recovery in print sales and high print costs erode profitability.

03 Real Estate

- **The reopening of the economy and improved labour market conditions** would buoy property market sentiment, driving pent-up demand for residential properties.
- The unaffordability of new houses due to their high prices could lend support to **rental or secondary real estate market.**

- The **high overhang of properties** remain a concern.
- The expectations of **upward trending interest rates** and **weak property market sentiment** would drag on sales.

Sources: EMIS, Various and SME Bank SCEA

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MINISTRY OF ENTREPRENEUR DEVELOPMENT AND COOPERATIVES

Appendices

Appendix 1: Petronas’ Net Zero Carbon Emission 2050

Appendix 2: Regional Comprehensive Economic Partnership (RCEP)

Appendix 1:

Petronas’ Net Zero Carbon Emission 2050

Petronas' Net Zero Carbon Emissions by 2050 (1/5)

PETRONAS' Sustainability Agenda

To balance economic ambition with positive social & environmental considerations.

ASPIRATION:

Amid the ongoing global push towards the transition to cleaner energy, PETRONAS aspires to **achieve net zero carbon emissions (NZCE) by 2050**, capitalizing on the maturity of the **Environmental, Social and Governance (ESG)** practices while securing long-term value for the Company.

NZCE by 2050:

- Reduce carbon emissions to net zero to combat climate change
- Generate near-term macroeconomic payback for the Malaysian economy
- Create new and inclusive opportunities that contribute towards a more sustainable future for the world, its people and the business

To achieve NZCE, PETRONAS has identified **4** building blocks to balance the energy trilemma – energy security (supply), energy equity (affordability) and environmental sustainability.

1. **Building Operational Excellence**
2. **Making Cleaner Energy More Accessible**
3. **Accelerating Technology and Innovation Stewardship**
4. **Investing In Nature-based Solutions**

Sources: Petronas and SME Bank SCEA

Short Term and Long Term Targets (2/5)

In 2020, PETRONAS set in motion their long-term aspiration of achieving NZCE 2050. With this landmark move, **PETRONAS became the first oil and gas company in Southeast Asia to adopt this goal.**

Besides the aim to meet sustainability goals for the longer term in support of the Paris Agreement, the NZCE 2050 also ensures that PETRONAS' businesses remain resilient by pursuing more climate-friendly solutions and opportunities in the broader energy space that will create sustainable new values for the organization.

<table>
<tr><th>Short-Term Targets</th><th>Long-Term Aspiration</th></tr>
<tr><td><u>Manage Greenhouse Gas (GHG)</u>
Cap GHG emissions at 49.5 mil tonnes of carbon dioxide equivalent (MtCO2e) for the Malaysian operations by 2024.</td><td rowspan="3">NET ZERO 2050

Aspiration is defined as "balancing the remaining Scope 1 & 2 GHG emissions from its assets under operational control with carbon offsets.

These carbon offsets can take the form of energy-based offsets or forest-based offsets.

Refer next slide for more info</td></tr>
<tr><td><u>Step up on Clean Energy</u>
Increase renewable energy capacity to 3,000 MW by 2024.</td></tr>
<tr><td><u>Increase the Number of Education Beneficiaries</u>
Reach over 24,000 beneficiaries through education programmes cumulatively between 2020 to 2024.</td></tr>
</table>

4 LEVERS TOWARDS NZCE 2050

Operational Excellence

Grow value potential & continuously optimize operations for efficiency gains & compliance with legislation.

Technology & Innovation

Stewardship of economically feasible decarbonizing technology & innovation in line with business priorities.

Low Carbon Energy & Solutions

Influence energy transition by use of low carbon fuel, scaled-up renewables, bioenergy, hydrogen, as well as low carbon products & solutions that support a circular economy.

Carbon Offset

Enabling carbon offsetting across businesses that capitalize on technology deployment

Sources: Petronas and SME Bank SCEA

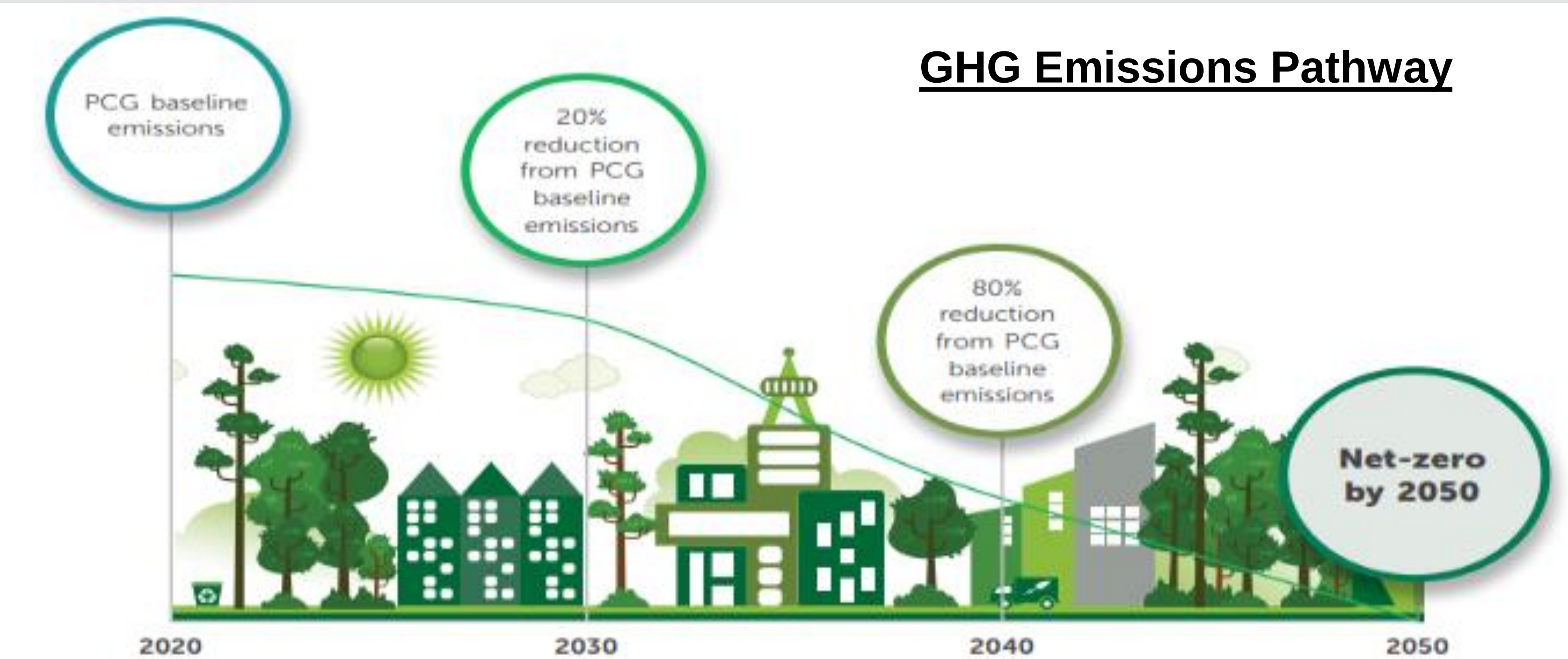
Net Zero Carbon Emissions by 2050 (3/5)

Balancing the remaining Scope 1 and Scope 2 GHG emissions from PETRONAS' assets under operational control with carbon offsets.

GHG Emissions	GHG Reduction	Carbon Offsets
SCOPE 1 - DIRECT EMISSIONS • Mobile Combustion • Stationary Combustion • Flaring and Venting • Process Combustion • Fugitive Combustion	• Energy Efficiency • Carbon Capture, Utilisation & Storage • Flaring & Venting Reduction • Renewable Electricity	**ENERGY-BASED OFFSETS** • Other Renewable Energy • Hydrogen • New Plastic Economy • Bio-Agenda
SCOPE 2 - INDIRECT EMISSIONS • Purchased Electricity from 3rd Party • Purchased Steam/ Chilled Water from 3rd Party	ZERO EMISSION	**FOREST-BASED OFFSETS**

= NET ZERO 2050

GHG Emissions Pathway



Note : Petronas Chemical Group (PCG)

PETRONAS' extensive management have resulted in a continued downtrend of GHG emissions since 2017.

In 2020, they recorded a reduction of **0.6 mil tCO2e**. Combined with their records since 2013, PETRONAS has achieved a total reduction of **13.4 mil tCO2e**. This represents an approximate **20%** reduction of its current carbon footprint. This bodes well in their journey towards capping the overall emissions at **49.5 mil tCO2e** by 2024.

 Sources: Petronas and SME Bank SCEA

Initiatives undertaken by Petronas to reduce the carbon footprint (4/5)

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PETRONAS' **NZCE 2050** aspiration and roadmap are anchored on a high-level strategy with the principles of **MEASURE, REDUCE AND OFFSET**

MEASURE

Scope 1 & 2 carbon emissions (CO_2e) to meet capping at 49.5 mil tCO_2e by 2024, and in determining an optimal reduction based on planned production

OFFSET

The remaining Scope 1 & 2 GHG emissions after optimizing reduction efforts by securing carbon credits registered under internationally recognized schemes to achieve NZCE 2050

REDUCE

Carbon emissions through operational excellence efforts that generate value from monetised hydrocarbon (flaring/venting/fuel gas) and deployment of Carbon Capture, Utilisation & Storage (CCUS) technologies

The NZCE by 2050 pathway could generate 11%-16% additional growth in GDP and a net benefit of 140,000-240,000 new jobs.

EMISSIONS REDUCTIONS

- Replaced high-intensity discharge lighting to **LED lighting** at one of their plants in Terengganu. LED lighting is more carbon-friendly as it consumes less electricity and has high efficacy (due to a higher lumens/watt ratio)
- Implemented **Cleaner Air through Process Control Advancement** project at the Kedah facility, which resulted in the modification of plant equipment for greater emissions reduction.

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 Sources: Petronas and SME Bank SCEA

Peer Comparison: PETRONAS, Pertamina and PTTEP (5/5)

Malaysia's PETRONAS, Indonesia's PERTAMINA, and Thailand's PTT Exploration and Production (PTTEP) all aims to become carbon neutral or have plans to set such targets in the near future, in alignment with their governments. **PETRONAS is the most advanced** as it is currently developing its roadmap to meet its target for operational (Scope 1 & 2) net-zero emissions by 2050 while PERTAMINA and PTTEP are still formulating targets.

	PETRONAS	PTTEP	PERTAMINA
TOTAL EMISSIONS	**47.9 mil** carbon dioxide in 2019.	-	**21.3 mil** tons carbon dioxide in 2020.
EMISSIONS REDUCE TARGET	❑ Achieve net zero operation emission by 2050. ❑ Cap GHG emissions at **49.5 mil** tons of carbon by 2024.	GHG emissions intensity reduction at least **25%** by 2030 compared to 2021.	GHG emissions reduction by **30%** by 2030 against a 2020 baseline of 21.3 mil tons of carbon dioxide.
GREEN CAPEX	Allocated approximately **9%** of its total capital spending in 2021 to the development of renewable energies.	Operational expenditures of **USD4.4 bil** on new energies.	Allocated **USD700 mil** for the development of renewable energy.
RENEWABLE ENERGY	Solar energy, Hydrogen, Ammonia	Hydrogen, Solar energy, Wind energy	Biofuels, Geothermal energy

USD1 = RM4.22

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Sources: Petronas, PTTEP, Pertamina and SME Bank SCEA

Appendix 2:

Regional Comprehensive Economic Partnership (RCEP)

Regional Comprehensive Economic Partnership (RCEP) (1/2)

- **The RCEP agreement comes into force for Malaysia on March 18**.
- Malaysia is the 12th signatory country, joining 11 others namely ASEAN (Brunei, Cambodia, Laos, Thailand, Vietnam, Singapore), China, Japan, Australia, New Zealand and South Korea that have completed the ratification process.
- By 2030, RCEP is expected to increase **member states' income by 0.6% while adding USD245 bil and 2.8 mil jobs** to the regional economy. Malaysia would see its revenue rising 1.03% or USD7 bil.
- The **Malaysian government forecasted a USD200 mil gain in exports (59% of GDP),** thanks to **tariff elimination and tariff reduction** for merchandise goods, including the facilitation of export and import of goods.
- The RCEP pledges to reduce tariffs significantly across all members, although agriculture products, metals, automobiles, and petroleum remain relatively protected.

% of tariff lines with zero tariff	Pre-RCEP	RCEP (in 20 years)
Agriculture	75%	83.2%
Mining & Quarrying	90%	94.5%
Oil, Gas, Coal	95%	98.3%
Petroleum Products	81%	86.8%
Manufacturing	91%	96.1%
Motor Vehicles	74%	82.9%
Electrical Machinery	92%	97.4%

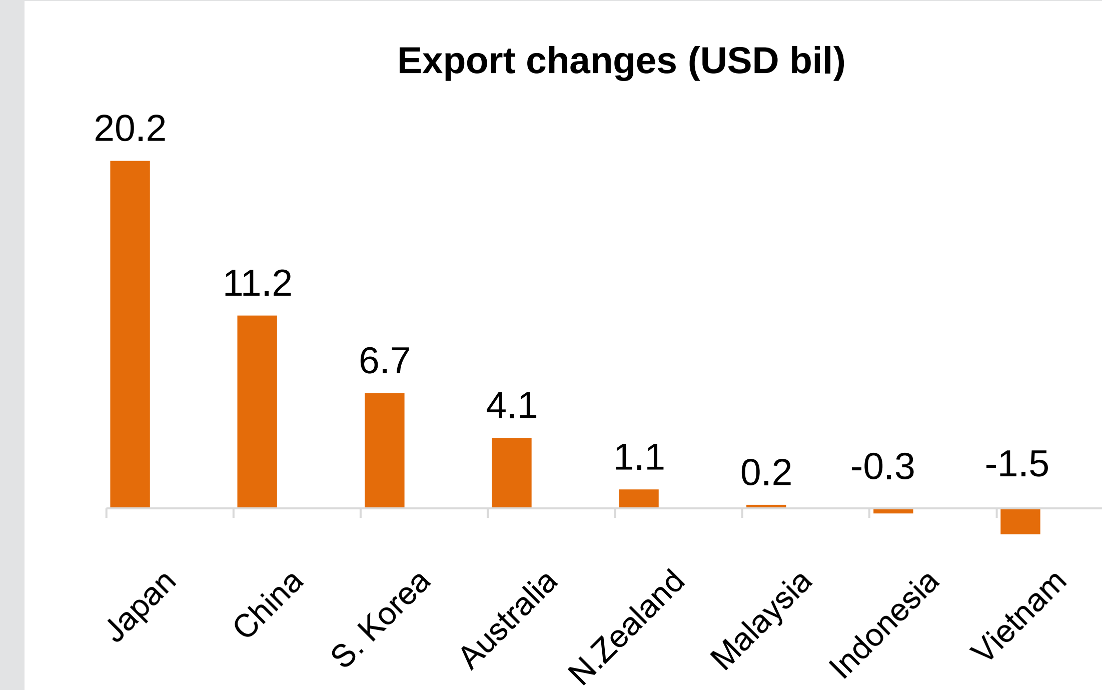
RCEP key scopes

Reduction of import duties
Phase out up to 90%-93% of the tariff barriers, with the exception of tariffs on agricultural products.

Economic and technical cooperation

Investment promotion, facilitation
The creation of a non tariff barrier via a common Common Rules of Origin

Protection of intellectual property rights



Sources: UNCTAD, Asian Development Bank, MITI, BNM and SME Bank SCEA

Regional Comprehensive Economic Partnership (RCEP) (2/2)

Opportunities

1. **World's largest free-trade bloc**

   15 countries (ASEAN + 5 regional economies) with 2.2 bil or 29.5% of the world's population, representing USD25.8 tril or 29.4% of the world's GDP
2. **Access to China market**
3. **Digital economy**

   More transparent information exchange and better compliance for technical regulations and standards surrounding e-commerce and intellectual property rights
4. **Regional trade facilitation and opportunities for SMEs**

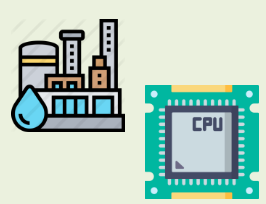
   Strengthen regional value chain, particularly the SMEs, by providing a more level playing field for SMEs and open up new markets to be accessed by the businesses

SMEs that are not competitive (price & quality), and have heavily relied on government support in the form of duty and tariffs imposed on its competitors, would find it hard to compete in an open and free market with its regional peers.

Beneficiary sectors

Manufacturing (export oriented)

- F&B
- Chemical
- Rubber & plastic products
- Machinery and equipment
- E&E
- Iron & Steel



Services

- Telecommunication
- Healthcare
- E-commerce and service
- Finance -> relaxed entry requirement for payments, lending and insurance

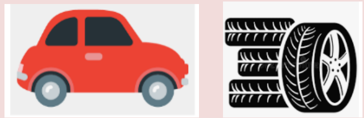
Natural Resource based industries

- Palm Oil
- Rubber
- Oil & Gas
- Tin
- Timber

Impacted sectors

- Textiles and garment sectors will be dampened as Vietnam and Cambodia has higher comparative advantage in this sector.

- Automotive, parts & components and rubber tyres for export purposes as Thailand has higher comparative advantage.



 Sources: EY, Asian Development Bank, MITI, BNM and SME Bank SCEA

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