

THEMATIC REPORT

Exploring Opportunities in the Land of Hornbills

Authors:

Zafri Zulkeffeli - Economist
muhammad.zafri@midf.com.my

Abdul Mu'izz Morhalim-Economist
abdul.muizz@midf.com.my

MIDF Team
research@midf.com.my

KEY HIGHLIGHTS

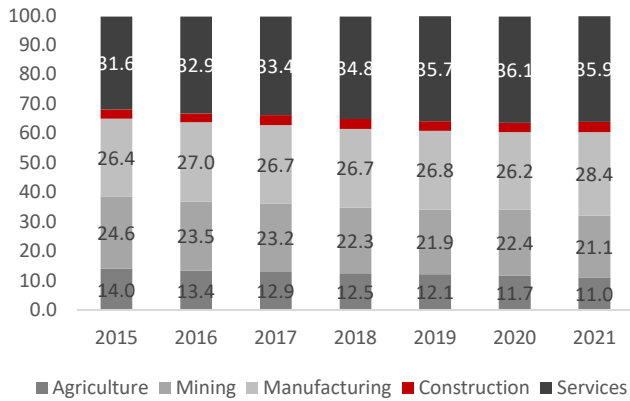
- **Sarawak the third highest economic contributor in Malaysia. In 2015, Sarawak contributed 10.3% to national GDP. After half of decade, the contribution rate has decreased to 9.5% by 2021.**
- **All eyes on construction sector. Sarawak ranked 3rd in national construction sector contributor at 8.9% in 2021. Basic infrastructure such as urban road, trunk road, coastal road, Pan-Borneo highway and expansion of ports boosts the construction activity in Sarawak.**
- **More than 70% of external trade activities occur in Bintulu. In terms of total trade, Sarawak contributes 5.8% to Malaysia's total trade flows. The contribution rate touched a new peak in 2022. More than 75% of total trade go thru Bintulu port, 11.2% via Sejingkat, 6.3% via Kuching and 3.8% via Miri.**
- **Sarawak aspires to be a developed state by 2030. Post Covid-19 Development Strategy 2030 (PCDS 2030) is a comprehensive long-term plan for the state of Sarawak to achieve its aspiration of becoming a developed state by establishing economic prosperity, social engagement, and a sustainable environment.**
- **Sarawak aims to grow its economy by +8% per annum in 2020-2030. Under the state's long-term blueprint, annual economic growth is forecasted at +8%pa with the aspiration of becoming high-income status by the next decade. Comparing to "business as usual", the state economy is expected to grow by +3.4%pa until 2030.**

ECONOMICS & POLICY

Sarawak the third highest economic contributor in Malaysia. In 2015, Sarawak contributed 10.3% to national GDP. After half of decade, the contribution rate has decreased to 9.5% by 2021. This was slightly lower than the 12th Malaysia Plan (12MP) target rate of 9.6% by 2025. The state economic structure is diverse across all sectors. Primary sectors namely agriculture contributes about 11% to the GDP while mining around 21.1%. As compared to overall Malaysia, less than 15% contribution by the primary sectors. Sarawak's manufacturing share is marginally higher than national average, which among others supported by petrochemical plants and construction-related factory output. Services sector share rose from 31.6% in 2015 to 36.1% in 2020. Plateaued global commodity prices during pre-pandemic and economic diversification efforts from primary sectors are among the factors for the structural change in the state economy.

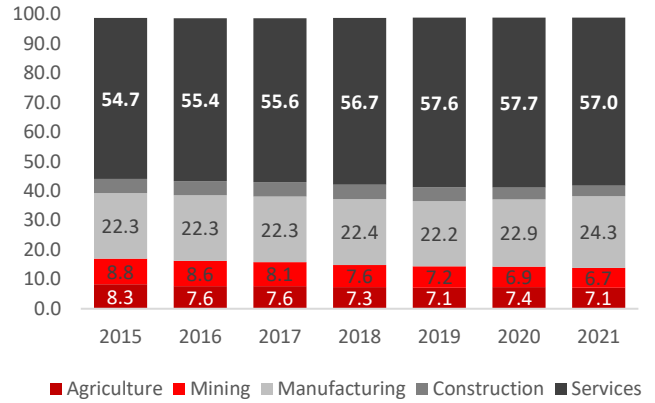
12MP aims Sarawak to expand by +5.2% per annum. Under the 12th Malaysia Plan (12MP) blueprint, Sarawak's GDP is forecasted to grow by +5.2%pa during the period 2021-2025. Malaysia's GDP growth target is +5% for the same period. However, both Sarawak and Malaysia registered lower growth rates +2.9% and +3.1% respectively in 2021. After including Covid-19 impacts, all sectors in Sarawak are expected to rebound strongly especially services sector +7.9%pa for 2021-25 (CAGR 2016-2020: +3.7%pa). In fact, the blueprint aims more than 40% of the Sarawakian economy to be driven by services sector as compared to 31.6% in 2015. Agriculture and mining sectors are predicted to have lower contribution in 2025 at 10.1% (2015: 14%) and 19.4% (2015: 24.6%). Moving forward, we foresee the state economy will shift towards sub-sector of services such as tourism, education, health, property, finance & insurance and business services in the future.

Chart 1: Sarawak GDP Structure by Sector (% of State GDP)



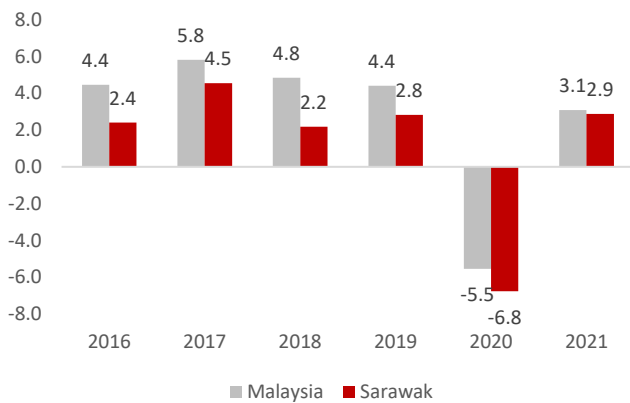
Source: DOSM, MIDFR

Chart 2: Malaysia GDP Structure by Sector (% GDP)



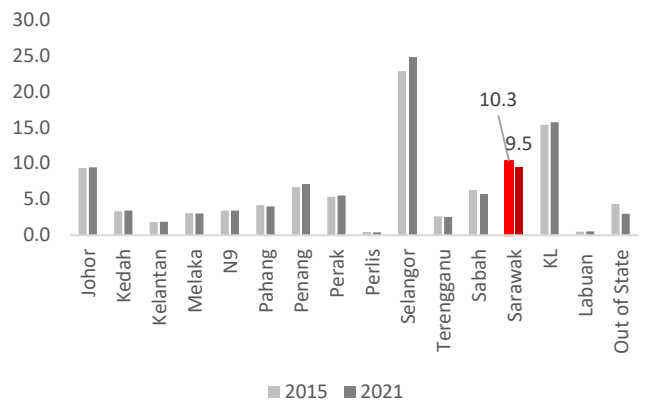
Source: DOSM, MIDFR

Chart 3: Sarawak vs. Malaysia GDP (YoY%)



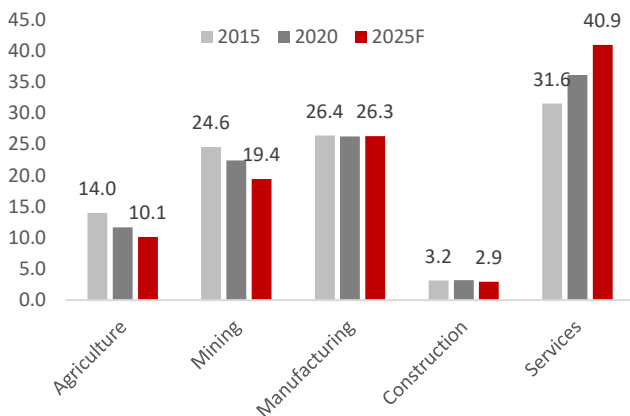
Source: DOSM, MIDFR

Chart 4: National GDP Contribution by State (% of GDP)



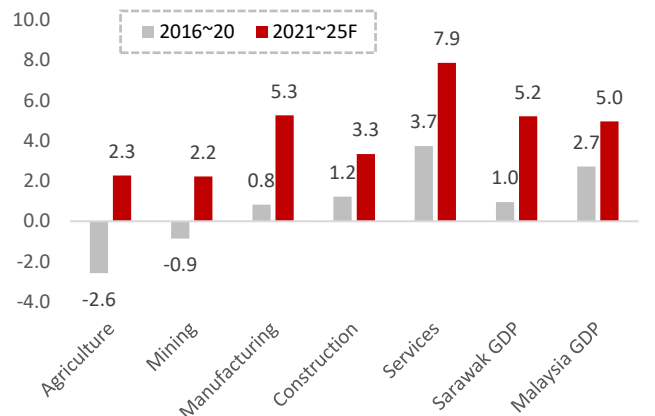
Source: DOSM, MIDFR

Chart 5: Sarawak GDP Structure under 12MP (% of State GDP)



Source: Ministry of Economy, MIDFR

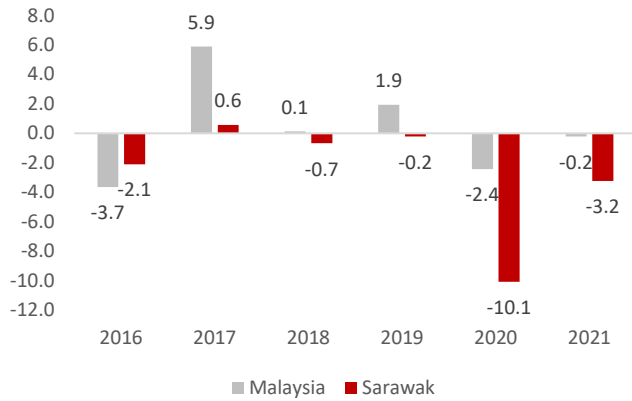
Chart 6: CAGR of Sarawak vs. Malaysia under 12MP (YoY%)



Source: Ministry of Economy, MIDFR

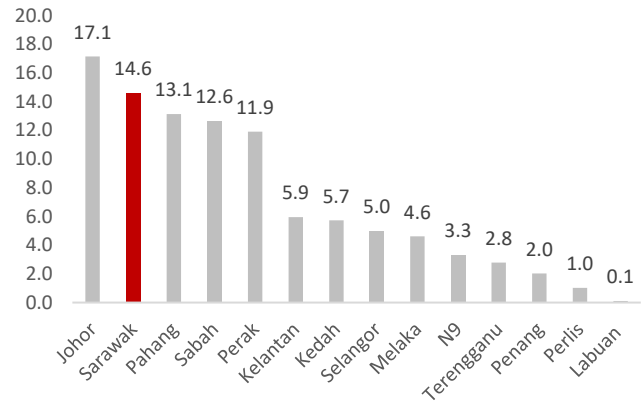
Global commodity price movements still pivotal to the state economy. Sarawak is the second largest national agriculture output contributor at 14.6% while almost one-third of Malaysia’s mining output are produced in the land of Hornbills. During 2015-2019, the average Brent crude oil price was USD58.5pbd while CPO at RM2,380 per tonne. In comparison, average price post-pandemic crisis roughly at USD84.7pbd and RM4,574 per tonne. The plateaued commodity prices were among the key downward pressure on Sarawak’s primary sectors prior to the pandemic. Looking ahead, we foresee solid pick-up in the agriculture and mining sectors amid the rosy price levels. Nevertheless, volatility of the global prices still a huge concern and can be a downside risk to the state economy.

Chart 7: Sarawak vs. Malaysia Agriculture GDP (YoY%)



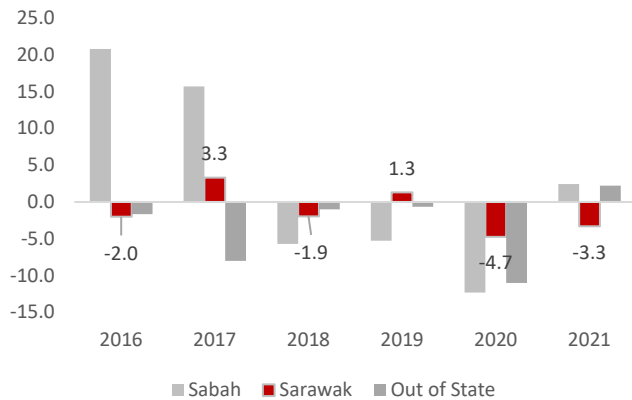
Source: DOSM, MIDFR

Chart 8: Contribution by State (% of Agriculture GDP)



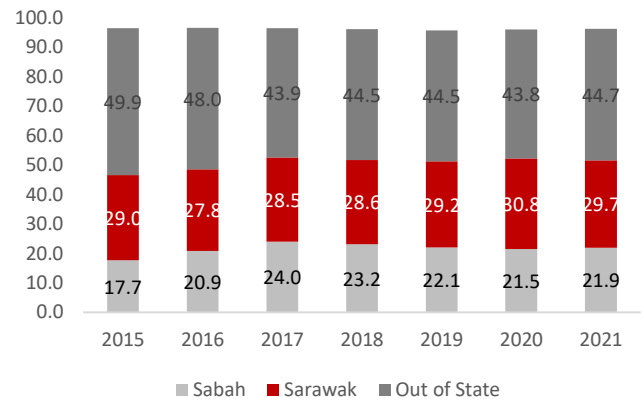
Source: DOSM, MIDFR

Chart 9: Sarawak Mining GDP (YoY%)



Source: DOSM, MIDFR

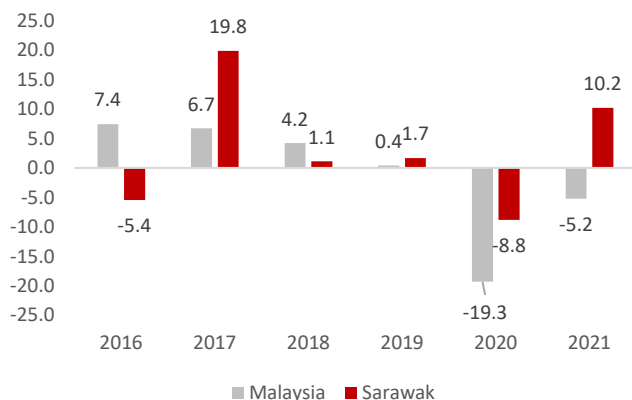
Chart 10: Contribution by State (% of Mining GDP)



Source: DOSM, MIDFR

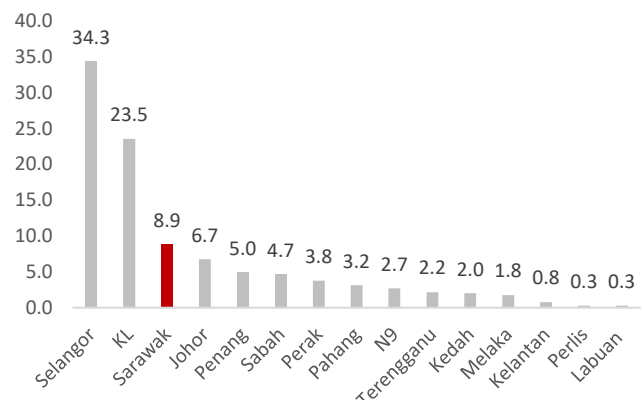
All eyes on construction sector. Sarawak ranked 3rd in national construction sector contributor at 8.9% in 2021. The construction growth in the state recorded higher at +10.2% in 2021. Basic infrastructure such as urban road, trunk road, coastal road, Pan-Borneo highway and expansion of ports boosts the construction activity in Sarawak. In addition, we view the relocation of Indonesia’s capital city to Kalimantan will boost Sarawak’s state economy as well as construction sector. As part of economic diversification efforts, we believe more downstream activities to take place in the near term especially manufacturing of petroleum products, cements, renewable energy and processed foods. In 2021, Sarawak was ranked 4th for manufacturing sector with 11% national contribution.

Chart 11: Sarawak vs. Malaysia Construction GDP (YoY%)

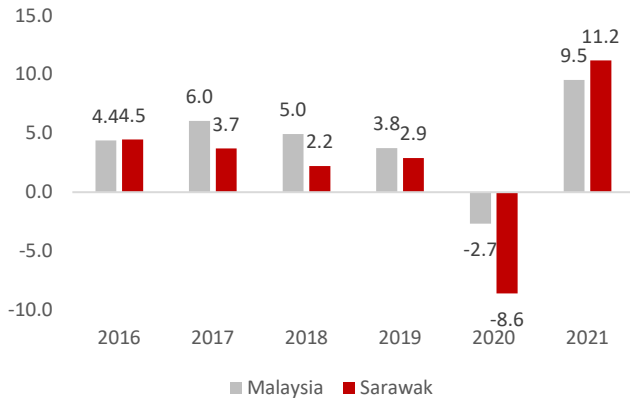


Source: DOSM, MIDFR

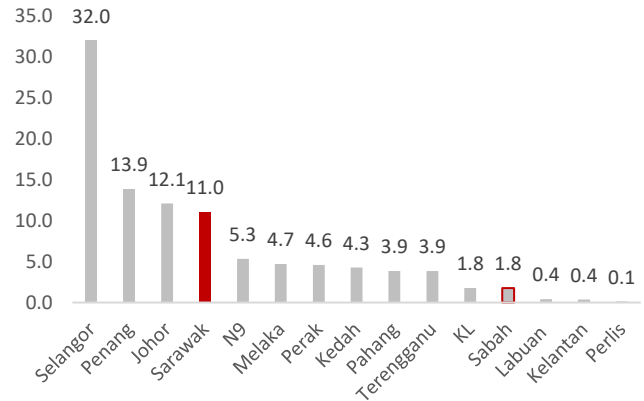
Chart 12: Contribution by State (% of Construction GDP)



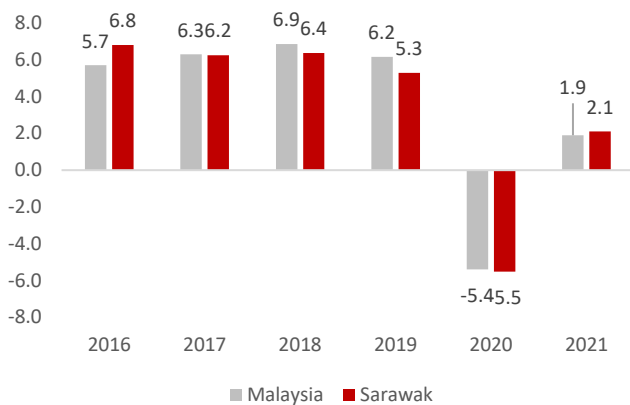
Source: DOSM, MIDFR

Chart 13: Sarawak vs. Malaysia Manufacturing GDP (YoY%)

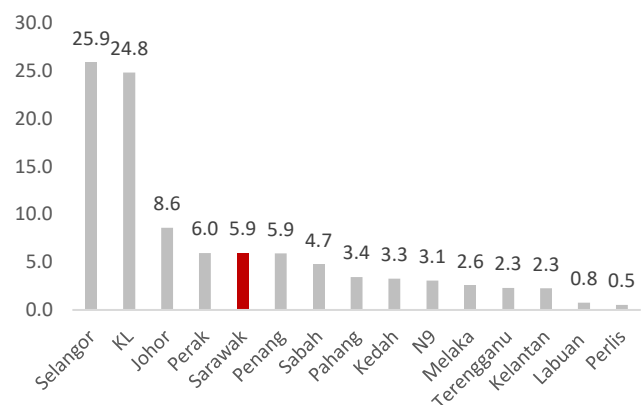
Source: DOSM, MIDFR

Chart 14: Contribution by State (% of Manufacturing GDP)

Source: DOSM, MIDFR

Chart 15: Sarawak vs. Malaysia Services GDP (YoY%)

Source: DOSM, MIDFR

Chart 16: Contribution by State (% of Services GDP)

Source: DOSM, MIDFR

Deepest population decline in 2020. Sarawak's population ratio exhibited a declining proportion, from 8.6% in 2019 to 7.6% in 2020, and this proportion remained in 2021. The contraction of the population in 2020 can be explained through a year-on-year analysis, as the population experienced a significant decline of -12.6%yoy, which was the largest decline among all states. During the Covid-19 pandemic, most states faced challenges in maintaining economic activity, leading many individuals to migrate in search of job opportunities amid the employment crisis. However, the population rebounded to +0.5%yoy in 2021, indicating a slow recovery in the state's economy and job market.

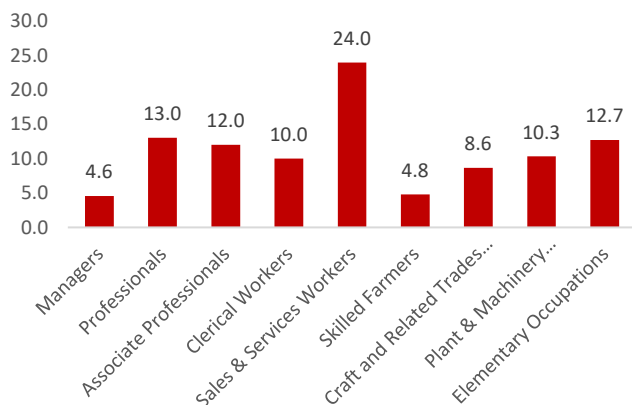
Table 1: Malaysian Population by State

	% of Total Population			YoY%		
	2019	2020	2021	2019	2020	2021
Malaysia	-	-	-	0.4	(0.2)	0.4
Johor	11.6	12.4	12.3	0.3	6.6	0.3
Kedah	6.7	6.6	6.6	0.5	(1.9)	1.0
Kelantan	5.8	5.5	5.6	1.3	(4.8)	1.1
Melaka	2.9	3.1	3.1	0.7	7.5	0.6
Negeri Sembilan	3.5	3.7	3.7	0.3	6.6	0.4
Pahang	5.1	4.9	4.9	0.4	(4.8)	0.6
Pulau Pinang	5.4	5.4	5.3	0.3	(1.6)	(0.0)
Perak	7.7	7.7	7.7	0.2	(0.5)	0.8
Perlis	0.8	0.9	0.9	0.2	12.2	0.9
Selangor	20.0	21.6	21.5	0.5	7.5	0.3
Terengganu	3.8	3.5	3.6	1.3	(7.6)	1.9

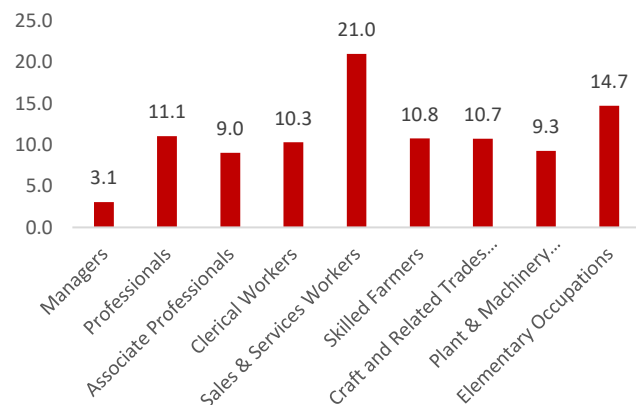
Sabah	12.0	10.5	10.5	0.2	(12.4)	(0.2)
Sarawak	8.6	7.6	7.6	0.5	(12.6)	0.5
Kuala Lumpur	5.5	6.1	6.0	(0.4)	11.2	(0.9)

Source: DOSM, MIDFR

Mid-skilled occupation dominant. The majority of individuals in Sarawak are inclined towards mid-skilled occupations, such as clerical workers and sales & service workers, comprising 31.3% of the workforce, which closely aligns with the national average of 34% in Malaysia. Notably, there is a relatively higher presence of skilled farmers, accounting for 10.8% of the employment, and a considerable portion of 10.7% engaged in craft and related trades. These figures surpass the corresponding fractions seen at the national level, reflecting the significant role of agriculture and manufacturing sectors in Sarawak's economy. Nevertheless, the share of high-skilled workers remains limited, prompting the government to introduce multiple initiatives aimed at promoting professional development through training and education.

Chart 17: Malaysia's Employment by Occupation (Share %)

Source: DOSM, MIDFR

Chart 18: Sarawak's Employment by Occupation (Share %)

Source: DOSM, MIDFR

After Selangor, Sarawak is the home for mining and construction workers. Sarawak has gained popularity among workers, comprising 14.2% of all mining workers and 11.9% of the construction workforce. Due to its richness in resources, the mining sector has experienced growth, offering ample job opportunities. The focus on improving infrastructure, including major roads, ports, and buildings, is intended to support employment in the construction sector. Notably, Sarawak ranked second in terms of agriculture workers, accounting for 13.8% of the workforce, followed by Sabah. This accomplishment aligns with its significant contribution of 14.6% to the national GDP, firmly establishing Sarawak as a key player in the agricultural landscape. The movement of crude oil and CPO prices have a significant impact on Sarawak's economy.

Table 2: Sectoral Employment Share by State in 2021 (%)

	Total	Agriculture	Mining	Construction	Manufacturing	Services
Malaysia ('000)	15,064	1,550	82	1,160	2,501	9,771
Johor	11.7	10.4	12.0	9.5	17.0	10.8
Kedah	6.2	6.4	1.6	6.4	6.9	6.0
Kelantan	4.6	4.7	3.1	7.0	2.6	4.8
Melaka	2.9	0.8	3.2	2.7	3.8	3.0
Negeri Sembilan	3.1	1.6	4.6	3.7	3.0	3.3
Pahang	4.7	8.7	6.0	4.3	2.6	4.6
Pulau Pinang	5.7	1.1	1.7	4.8	12.0	4.9
Perak	6.9	5.5	9.0	6.4	7.7	7.0
Perlis	0.7	0.8	0.2	0.8	0.3	0.8
Selangor	23.4	12.1	18.3	20.7	23.0	25.6
Terengganu	3.1	2.1	8.3	6.0	2.2	3.1

Sabah	12.3	31.1	11.2	9.9	9.3	10.4
Sarawak	8.5	13.8	14.2	11.9	6.7	7.7
Kuala Lumpur	5.7	0.8	1.1	5.5	2.7	7.3

Source: DOSM, MIDFR

Since 2016, Sarawak's jobless rate lower than national average. The unemployment rate in Sarawak has consistently been lower than the national average since 2016. Beginning in 2015, Sarawak successfully reduced the unemployment rate to 3.0% in 2017 and 3.1% in 2019. However, due to the challenges posed by the COVID-19 pandemic, the jobless rate experienced a surge, reaching 4.3% in 2020 and further increased to 4.5% in 2021. It is important to note that this trend was observed across the country, as the job market faced significant struggles during the pandemic.

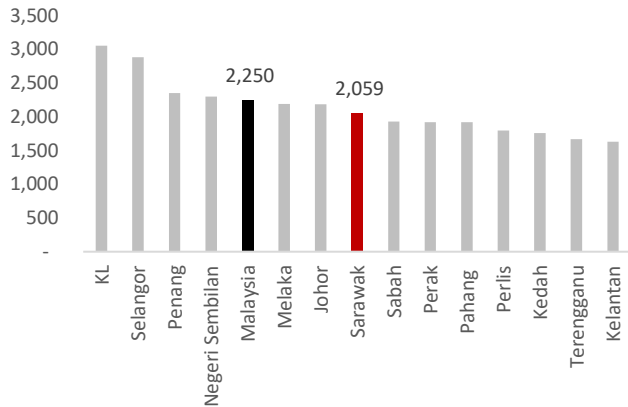
Table 3: Unemployment Rate by State (%)

	2015	2016	2017	2018	2019	2020	2021
Malaysia	3.1	3.4	3.4	3.3	3.3	4.5	4.6
Johor	3.1	3.6	3.4	3.0	2.7	3.5	3.8
Kedah	2.6	2.9	2.8	2.9	2.8	4.2	3.9
Kelantan	3.6	3.8	3.6	4.0	4.0	4.3	4.2
Melaka	1.0	0.9	1.0	1.1	1.1	2.2	2.0
Negeri Sembilan	3.1	2.7	2.8	3.0	3.1	3.8	4.2
Pahang	2.9	2.6	2.9	2.6	2.9	3.1	3.3
Pulau Pinang	1.6	2.1	2.1	2.2	2.0	3.5	3.6
Perak	3.2	3.4	3.7	3.3	3.4	4.8	5.3
Perlis	2.9	2.9	3.4	3.4	3.3	4.3	4.3
Selangor	2.4	3.2	2.8	2.8	2.9	4.3	4.3
Terengganu	4.0	4.2	4.5	4.8	3.5	4.1	4.0
Sabah	5.0	5.4	5.6	5.8	5.8	8.0	8.2
Sarawak	3.5	3.3	3.0	3.2	3.1	4.3	4.5
Kuala Lumpur	3.3	3.3	3.1	2.4	2.6	4.0	4.2

Source: DOSM, MIDFR

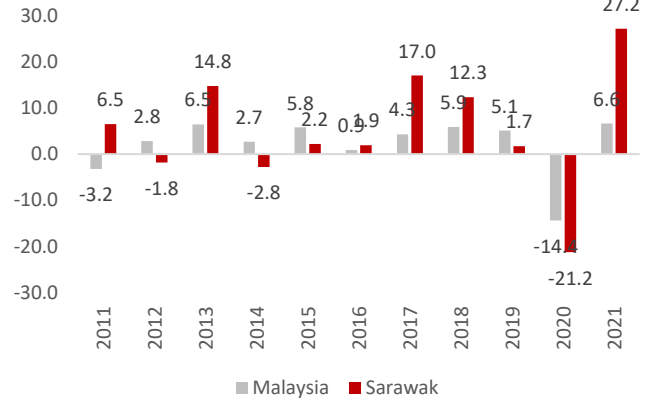
Sarawak's median wage RM11 short to 2019's level. Median wage & salary for Sarawak rebounded to RM2,059 per month in 2021 (2020: RM1,593), only slightly lower or -0.5% less than pre-pandemic level of RM2,070 in 2019. As comparison, although national median wage & salary improved and rose to RM2,250 (2020: RM2,062), it was still -7.9% lower than RM2,442 in 2019. As inflation rate in Sarawak lower than national average, real wage growth rate hit +27.2% as compared to +6.6% for Malaysia in 2021. In addition, nominal wage growth in Sarawak recorded at robust speed of +29.3% as compared to national average +9.1% in 2021. We believe the strong wage growth will translate into better local demand which to benefit services sector mostly in the state.

Chart 19: Median Salary by State in 2021 (RM per month)



Source: DOSM, MIDFR

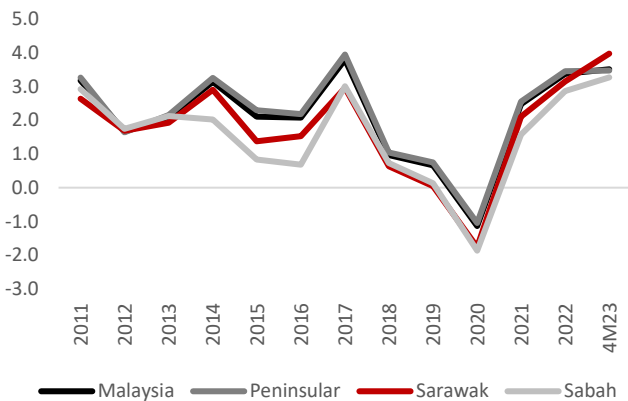
Chart 20: Real Wage Growth Sarawak vs. Malaysia (YoY%)



Source: DOSM, MIDFR

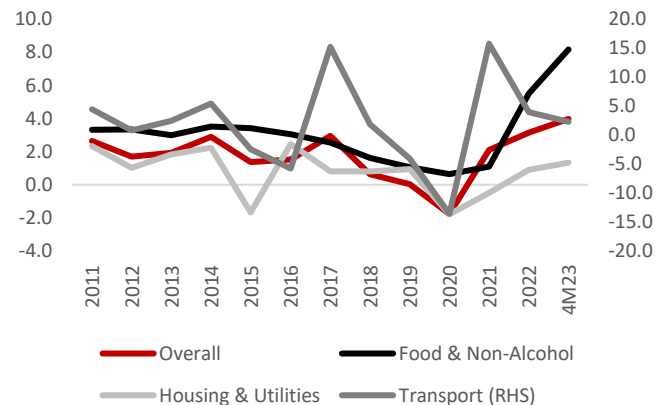
Low inflationary pressure in the state. Sarawak’s inflation rate has been below national average and Peninsular Malaysia’s. Average annual inflation rate for the period of 2011-2019 for Sarawak is +1.7% compared to Malaysia’s +2.2%, Peninsular’s +2.3% and Sabah’s +1.6%. Food inflation factor is one of the factors causing the differences. Agriculture sector covers a larger share in Sarawak’s economy at 11%, Sabah at 15.9% while 7.1% of Malaysia’s GDP in 2021. However, we observe food inflation rate is much higher in Sarawak than other states in post-pandemic period. Since 2021 to Apr-23, average food inflation in Sarawak is at +4.9%yoy while Malaysia and Sabah are at +4.8%yoy and +4%yoy respectively. In fact, the average inflation rate for 4MCY23 is +8.2%yoy in Sarawak against Malaysia’s +6.7%yoy. We opine the high food inflation among others is due to increasing imported-inflation via depreciation of MYR and steady local demand.

Chart 21: Sarawak vs. Malaysia CPI (YoY%)



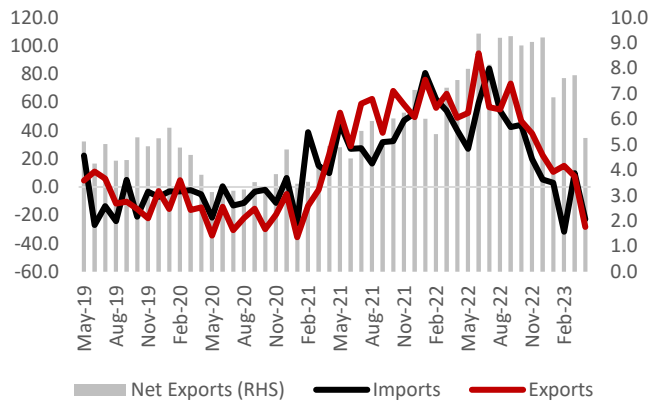
Source: DOSM, MIDFR

Chart 22: Key CPI Components in Sarawak (YoY%)

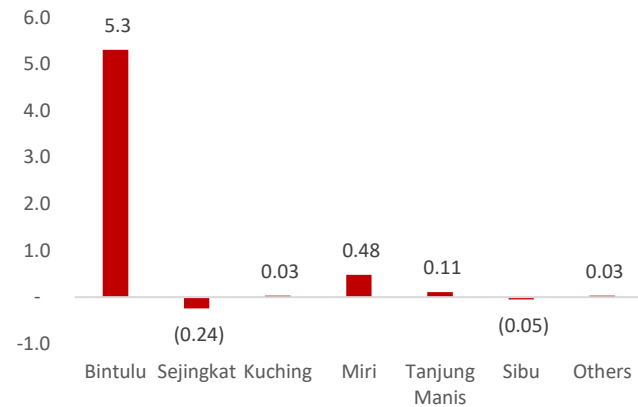


Source: DOSM, MIDFR

More than 70% of external trade activities occur in Bintulu. In terms of total trade, Sarawak contributes 5.8% to Malaysia’s total trade flows. It is the 4th contributor after Johor, Selangor and Penang. The contribution rate touched a new peak in 2022. More than 75% of total trade go thru Bintulu port, 11.2% via Sejingkat, 6.3% via Kuching and 3.8% via Miri. Total trade growth in the state touched double-digit rate +52.6% in 2022. By port, Bintulu saw +62.5% while Sejingkat by +65.1% and Miri by +54.2% respectively. Moving forward, we opine Sarawak’s external trade performances to continue benefiting from the elevated global commodity prices and China’s reopening effects in the near term. Nevertheless, 2023 will be a challenging year for external trade activities for Malaysia due to the weaker than expected global economic growth.

Chart 23: Sarawak External Trade Performances (YoY%) & Trade Balance (RMB)

Source: DOSM, MIDFR

Chart 24: Sarawak's Trade Balance by Port (RMB)

Source: DOSM, MIDFR

Table 4: Total Trade Performances by State

	% Total Trade			YoY%		
	2020	2021	2022	2020	2021	2022
Johor	25.4	26.0	28.4	(4.9)	27.4	41.0
Kedah	1.8	2.0	1.6	(13.5)	40.0	0.5
Kelantan	0.1	0.1	0.2	(30.2)	16.4	149.9
Melaka	1.2	0.9	1.2	(5.7)	(11.1)	83.6
Negeri Sembilan	0.5	0.6	0.8	(30.6)	60.9	67.6
Pahang	2.1	2.1	1.9	30.6	25.3	15.3
Perak	0.6	0.8	0.8	(17.7)	61.2	27.3
Perlis	0.3	0.4	0.3	(28.6)	45.7	16.6
Penang	28.5	27.3	27.4	7.6	19.3	28.0
Sabah	2.8	2.2	2.3	4.6	1.6	28.2
Sarawak	4.8	4.9	5.8	(15.5)	27.7	52.6
Selangor	30.5	31.7	28.3	(7.6)	29.5	13.8
Terengganu	0.9	1.1	0.9	(26.0)	52.6	7.9

Source: DOSM, MIDFR

Sarawak aspires to be a developed state by 2030. Post Covid-19 Development Strategy 2030 (PCDS 2030) is a comprehensive long-term plan for the state of Sarawak to achieve its aspiration of becoming a developed state by establishing economic prosperity, social engagement, and a sustainable environment. The strategy is anchored by six main economic sectors: (1) Manufacturing, (2) Agriculture, (3) Tourism, (4) Forestry, (5) Mining, and (6) Social Services. It will be supported by seven enablers, totaling 55 catalytic initiatives. The seven enablers are digital transformation, innovation, education & human capital, basic infrastructure, utilities, transport, and renewable energy. To drive economic prosperity, the state government is dedicated to increasing the level of production and attracting more investments. One of the highlights is Sarawak's aim to become a net food exporter by 2030, as well as its aspiration to be a leading destination for eco-tourism and business events in the ASEAN Region. Additionally, the welfare of all Sarawakians will be a focus, with access to economic opportunities and social services provided. Lastly, in order to lead Sarawak towards environmental sustainability, the government is determined to focus on the development of renewable energy and enhance environmentally friendly ecosystems across all industries, including mining, agriculture, and manufacturing.

Chart 25: Sarawak Post COVID-19 Development Strategy 2030

KEY ECONOMIC SECTORS AND ENABLERS

The Plan will anchor on 6 Economic Sectors and 7 enablers

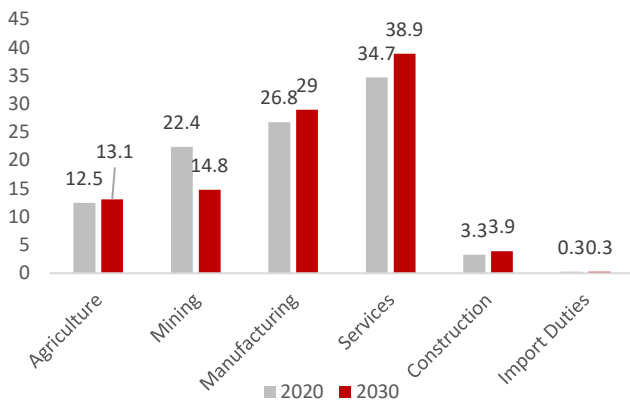


Source: EPU Sarawak, MIDFR

Sarawak aims to grow its economy by +8% per annum in 2020-2030. Under the state's long-term blueprint, annual economic growth is forecasted at +8%pa with the aspiration of becoming high-income status by the next decade. Comparing to "business as usual", the state economy is expected to grow by +3.4%pa until 2030. Apart from state GDP growth target, PCDS 2030 anticipates all sectors expect mining to expand by more than +8%pa. In line with 12MP, the state government foresee lower contribution from the mining sector, 19.4% by 2025 and 14.8% by 2030. We expect there will be a gradual shift from non-RE to RE industries namely hydrogen, solar and oil palm biomass in the next decade. However, agriculture sector is set to have a bigger role in Sarawak as its contribution rate is set to touch higher at 13.1% by 2030, opposite to 12MP's lower target rate of 10.1% by 2025. We believe diversification of agriculture products and less dependence on palm oil would be the main strategies to support the sector's growth. As for construction sector, the contribution rate is targeted to stay within 3~4% in both documents. PCDS 2030 foresee continuous pick-up in manufacturing share from 26.8% in 2020 to 29% in 2030. Greater downstream activities across refined petroleum, chemicals, metals, cements, E&E, processed foods and woods products. As for Services sector, the state government set a lower contribution of 38.9% by 2030 while 12MP foresees at 40.9% by 2025. Tourism is one of enablers in PCDS 2030 which to boost the services sector. Increase number of flights into Sarawak, build and deep-sea port for cruise are among initiatives to attract local and foreign tourists. Digital Transformation and Innovation are another two enablers which to encourage digital economy and also creating a bigger path for start-ups. Looking ahead, it is challenging for Sarawak to grow at +8%pa given that exposure of primary sectors to

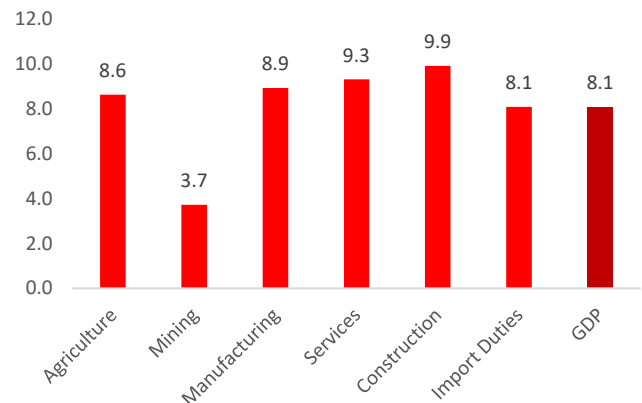
the state economy remains significant. Volatility of global commodity prices will drag the GDP growth particularly when on the downside. However, the development plan and enablers are seen capable to drive up the Sarawakian economy to a higher level especially with the diversification of sectors and industries.

Chart 26: Sarawak GDP Structure by 2030 (%)



Source: EPU Sarawak, MIDFR

Chart 27: CAGR of Sarawak GDP 2020-2030 (YoY%)



Source: EPU Sarawak, MIDFR

Table 5: Sarawak Post Covid-19 Development Strategy 2030 – Key Sectors & Enablers

Economic Sector/ Enabler	Catalytic Initiatives
Manufacturing	<ol style="list-style-type: none"> Grow high value manufacturing and enhance local industry ecosystems <ul style="list-style-type: none"> Develop Sama Jaya Industrial Park Phase 2 area of 1,000 acres to drive industry growth Attract investments along the value chain driven by existing anchor Multinational Corporation presence Develop industry ecosystem along the value chain to build and grow local vendors Empower and growing SME via specialised development programs and infrastructure support
Agriculture	<ol style="list-style-type: none"> Fast-track production of high value commodities crops, fisheries and livestock <ul style="list-style-type: none"> Agro Park Swiftlet Cultivation Livestock Area Smart Farming Aquaculture Zone High value-added downstream agro-based products <ul style="list-style-type: none"> Palm oil based oleochemical plant Revitalise Global Partnerships <ul style="list-style-type: none"> Setting up Sarawak Trade and Tourism Office Singapore (STATOS) equivalent/ Invest Sarawak
Tourism	<ol style="list-style-type: none"> Increase accessibility and connectivity <ul style="list-style-type: none"> Increase number of direct domestics, regional and international flights Develop new and upgrade existing checkpoints Build deep sea port for passenger cruise Develop ecotourism attractions within Sarawak's rich natural environment <ul style="list-style-type: none"> Digital Interpretation Centre Tourism facilities and safety Monitoring and Tracking System in National Park Develop events, festivals and business events unique to Sarawak <ul style="list-style-type: none"> Financial assistance to support tourism Meeting, Incentives, Conferences and Exhibitions (MICE) related activities in Sarawak Joint committee for global promotion Culture, Adventure, Nature, Food and Festivals (CANFF) Develop signature museum and cultural products <ul style="list-style-type: none"> Brooke Dockyard Maritime Museum Performing Arts Centre Arts & Handicraft Centre Sarawak Museum Campus Provide training to tourism workforce and local communities

Economic Sector/ Enabler	Catalytic Initiatives
	<ul style="list-style-type: none"> • Park Guide Training • Akademi Seni Sarawak Training and Development Programme • Sarawak Craft Council Development Programme
Forestry	<ol style="list-style-type: none"> 1. Generate revenue from payment for ecosystem services <ul style="list-style-type: none"> • Forest Landscape Restoration Program • The Wetland and Watershed Conservation and Protection Project • Sarawak GHG Policy and Low Carbon Society Blueprints • Conserve, manage, and develop Mangrove-Nipah Forest 2. Increase value added processing activities to accelerate growth in forest earnings <ul style="list-style-type: none"> • Utilise local plywood as one of the key components to manufacture value added products such as furniture, flooring and doors • Establish bamboo plantation and develop bamboo-based industry 3. Grow high value manufacturing and enhance local industry ecosystem <ul style="list-style-type: none"> • Infrastructure and Facilities at TPAs, National Parks and Wildlife Sanctuary • Integrated Wildlife Conservation and Management • Forest One Stop Compliance Centre • Central Depo for seized items • Sustainable Forest Management Administrative Centre
Mining	<ol style="list-style-type: none"> 1. Strengthening State Minerals Management Authority (SMMA) and reform of mining policy and regulatory framework <ul style="list-style-type: none"> • Mining Policy and Regulatory Framework Reform to create the right ecosystem to drive exploration and attract quality investments in the mining industry • Increase geological and financial experts in SMMA to enable better evaluation of all business plans by investors 2. Develop geological mapping, design business models to drive mining and streamline mining activities/ intensify downstream activities <ul style="list-style-type: none"> • Develop Geological Mapping and Mining Business Models • Create Mining Business Models for current and potential mining operators to develop entire value chain
Social Services	<ol style="list-style-type: none"> 1. Medical and Health Services <ul style="list-style-type: none"> • General Practitioners (GP) Medical equipment assistance for non-urban area • Construction of State Research and Test Lab • New Normah Medical Specialist 2. Social Intervention Program and Community Support <ul style="list-style-type: none"> • One-Stop Community Social Intervention Centres Special Needs Community Centres • Aged Care Centres 3. Sarawak Care State Insurance <ul style="list-style-type: none"> • Sarawak Care State Health Insurance for B40 youth not covered under Federal's MySalam Programme 4. Housing Voucher Programme for first time home buyers <ul style="list-style-type: none"> • Housing Subsidy for eligible M40 and B40 5. Poverty Alleviation Programme <ul style="list-style-type: none"> • Shelter for the poor
Digital Transformation	<ol style="list-style-type: none"> 1. Digitalisation of the private sector economy <ul style="list-style-type: none"> • Big Data, IoT and Blockchain capability • eCommerce platform • Cybersecurity capacity • Spatial, geographical information system and building information modelling (BIM) platform • Private sector Digital Economy 2. Digitalisation to drive ease of doing business <ul style="list-style-type: none"> • Digital Government services • Open services platform • Smart City infrastructure • Policy framework 3. Growing the Digital & ICT industry <ul style="list-style-type: none"> • Data Centres • Digital & Innovation ecosystem • Digital content creation

Economic Sector/ Enabler	Catalytic Initiatives
	<ol style="list-style-type: none"> 4. Upgrade digital connectivity infrastructure <ul style="list-style-type: none"> • High speed connectivity • Rural connectivity 5. Develop digital talent <ul style="list-style-type: none"> • Digital Academy • Digital ICT Centres upskilling programmes
Innovation	<ol style="list-style-type: none"> 1. Biotechnology Innovation Cluster <ul style="list-style-type: none"> • Sarawak Bio Industrial Park 2. Digital R&D Innovation Cluster <ul style="list-style-type: none"> • Digital Test-bed & Living Labs 3. Renewable Energy Innovation Cluster <ul style="list-style-type: none"> • Bio Hub Port 4. Venture Capital Fund <ul style="list-style-type: none"> • Venture Capital Fund operationalisation 5. Sarawak Digital & Innovation Ecosystem <ul style="list-style-type: none"> • Start-up ecosystem development • Start-up growth development • STEM & Digital up skilling • Digital Innovation Hub & Digital Village
Basic Infrastructure	<ol style="list-style-type: none"> 1. Efficient port services <ul style="list-style-type: none"> • Masterplan study for all ports in Sarawak • Ease of doing business for ports through e-community application • Safety and efficiency improvements 2. Major Roads <ul style="list-style-type: none"> • Second Trunk Road • Coastal Road Network 3. Free Zone at Senari <ul style="list-style-type: none"> • Develop 133 hectares industrial park next to Senari Terminal 4. Southern Terminal <ul style="list-style-type: none"> • A deep-sea port in the Southern Region 5. Reinvigorate Miri Port as the Northern Gateway to Sarawak 6. Green infrastructure <ul style="list-style-type: none"> • Sustainability practices in ports 7. Urban transport network <ul style="list-style-type: none"> • To develop and / or update urban road network • To develop urban road master plan • Establish road quality index (ROI) 8. Sustainable Building development <ul style="list-style-type: none"> • Integrated Administrative Centers (IAC) • Adoption of Industrialised Building System, Green Building Index (GBI) and BIM
Transport	<ol style="list-style-type: none"> 1. River Economy <ul style="list-style-type: none"> • Installation of Aids to Navigation (ATON) • Salvaging and removal of shipwrecks • Hydrographical studies • River dredging 2. Land Public Transport <ul style="list-style-type: none"> • Establish an agency under Ministry to handle issues related to public transport • Transport master plan for all major cities in Sarawak • Kuching Urban Transportation System 3. Grow the Aviation Industry <ul style="list-style-type: none"> • Establish Aircraft Maintenance, Repair and Overhaul (MRO) facilities in Miri to supplement the needs of aircraft repair on the Borneo Island and around the BIMP EAGA region 4. Intermodal Transport <ul style="list-style-type: none"> • Establish intermodal transport at selected locations (from ports to industrial or economic hub and vice versa) to provide seamless logistics services to support growth in the economic sectors
Utility	<ol style="list-style-type: none"> 1. Sarawak Water Supply Grid <ul style="list-style-type: none"> • Statewide Water Grid for the purpose of providing reliable, sustainable and resilient water supply

Economic Sector/ Enabler	Catalytic Initiatives
	<ol style="list-style-type: none"> 2. Single Water Entity <ul style="list-style-type: none"> • Establish a single entity for the of strengthening planning, operation, regulatory and enforcement functions of the water supply services 3. Utility Corridor <ul style="list-style-type: none"> • Facilitate better planning by providing a corridor for utilities in terms of time and cost effectiveness for installation of utility services 4. Smart Meter System Integrated with Renewable Energy (RE) Source <ul style="list-style-type: none"> • Innovative digitalisation in electricity metering & billing system • Integration of solar photovoltaic (PV) generation for self-consumption and export to the grid 5. Gas Pipeline <ul style="list-style-type: none"> • Bintulu-Samalaju Gas Pipeline • Pan Sarawak Virtual Gas Pipeline (Study)
Renewable Energy	<ol style="list-style-type: none"> 1. Promote and Increase private sector participation <ul style="list-style-type: none"> • Solar projects • Mini-hydro • Oil Palm Biomass 2. Stimulate Sarawak hydrogen economy <ul style="list-style-type: none"> • Attract investments for hydrogen production and value chain • Establish hydrogen refuelling station network • Hydrogen to power Automated Rapid Transit (ART) 3. Export Sarawak Renewable Energy <ul style="list-style-type: none"> • Increasing interconnectivity with other regions • 1,400km of new transmission line of 500kV, inclusive of 600km of undersea cable across the South China Sea 4. Net Energy Metering (NEM) <ul style="list-style-type: none"> • Introduce Renewable Energy Supply Act • Incentivise first 500 domestic customers with solar photovoltaics installation • Public - Participation of government buildings in the Net Metering programs 5. Promote Electric Vehicles (EV) <ul style="list-style-type: none"> • 100MW renewable energy generation capacity • 3 in 1 multi-fuel charging stations hydrogen, electric and conventional fuel • Attract and establish EV value chain
Education and Human Capital Development	<ol style="list-style-type: none"> 1. Strategic Partnership with Industries and Stakeholders <ul style="list-style-type: none"> • Human Capital Development Council • Sarawak Workforce Information System 2. Science Literate Workforce and Society <ul style="list-style-type: none"> • Teaching of Science and Mathematics in English • Sarawak Science Centre • Sarawak Technical and Vocational Education and Training Scholarship Fund 3. Address Disparity in Quality Education <ul style="list-style-type: none"> • Yayasan Sarawak International School • Developing Teachers and School Leaders • Upgrade/rebuild schools and provide access to basic

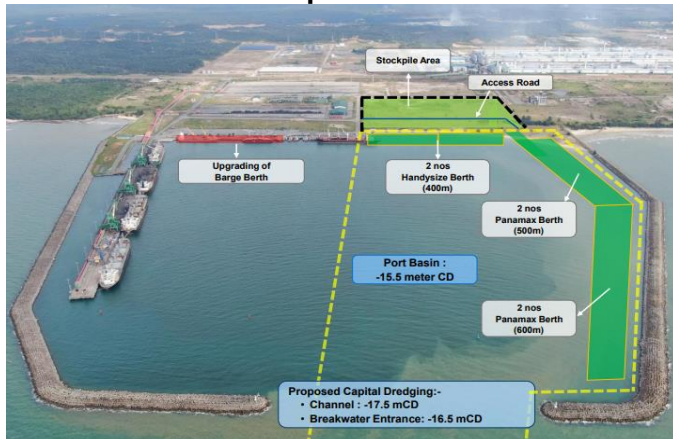
Source: EPU Sarawak, MIDFR

EQUITY**TRANSPORTATION.....Maintain NEUTRAL****PORTS & LOGISTICS**

Samalaju Industrial Port (SIP) is one of the two ports operated by **Bintulu Port Holdings Berhad (Unrated)** via its wholly owned Samalaju Industrial Port Sdn Bhd (SIPSB). In contrast to Bintulu Port, which primarily handles the shipment of Liquefied Natural Gas (LNG) for exports, SIP is a specially designed port spanning 347 hectares. It handles the incoming and outgoing cargoes for the Samalaju Industrial Park, which caters primarily to energy intensive industries such as aluminum

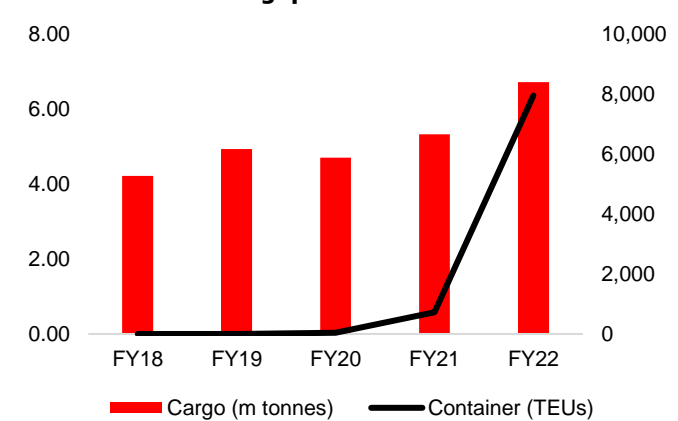
smelters and ferroalloys. Some of the major cargoes handled by SIP based on FY22 figures include alumina (31%), manganese ore (19%) and quartz (10%). Below are the key highlights from the site visit:

Chart 28: SIP Phase 2 Expansion Plan



Source: BiPort, MIDFR

Chart 29: Port Throughput at SIP



Source: BiPort, MIDFR

Growing opportunities at Samalaju Industrial Park. The SIP currently has a total design capacity of 18.0m tonnes per annum but current operational capacity is limited to 12.0m tonnes per annum due to its existing equipment. It handled 4.7m tonnes of cargoes last year, utilising 56% of its capacity. With the excess port capacity at SIP, it is well positioned to meet the rising production demands of its existing customers as well as accommodate the requirements of newly secured projects. One of the existing investors in the industrial park, Pertama Ferroalloys Sdn Bhd (Pertama Ferroalloy), has signed a memorandum of understanding (MoU) with the state government in 4QCY22 for it to invest approximately RM2.81b for the second phase expansion project of its ferroalloy smelting plant. Additionally, another MoU between SIPSB and ZR Industrial Group Sdn Bhd (ZR Industrial) was signed in Sep-22 as the latter is currently in the process of developing an integrated steel plant in the area. However, specific details regarding these projects are currently limited. Furthermore, Latrobe Magnesium Limited (Latrobe), an Australian-listed company, has recently announced its intentions to construct a new manufacturing plant in the industrial park. The plant is projected to have an annual production capacity of 100,000 tonnes. Latrobe has identified a 40-hectare site location and plans to initiate the land application process once the feasibility study has been completed.

Expanding container operations. The introduction of container handling services at SIP in Dec-21 resulted in a significant tenfold increase in container throughput at SIP in FY22, reaching nearly 8,000 TEUs. A major driving factor for the growth of container cargo volume at SIP is the upcoming establishment of the first integrated low carbon silicon-based materials plant in the Samalaju Industrial Park. The project is estimated to cost RM6.76b and involves a consortium consisting of Haitai Solar (one of the world's largest photovoltaic companies), China Machinery Engineering Corp (CMEC), Adam Digital Assets Sdn Bhd, and Solar Pulse Sdn Bhd. The consortium members signed a cooperative agreement for the plant project in Mar-23. However, this project is considered a longer-term catalyst as it is only expected to become fully operational in CY26.

Wenan Steel to determine whether port capacity expansion is necessary. SIP's expansion plans will heavily rely on the commissioning of Wenan Steel's plant, which has the potential for a substantial investment of RM13.8b. This proposed plant, set to be the largest steel manufacturing plant in Southeast Asia once completed, is expected to have a production capacity of 10.0m tonnes per annum. It is worth noting that the site preparation and land clearing for Phase 1 of the project, covering 700 acres of land, have already been completed. Therefore, any further expansion of port capacity will be undertaken as and when required by this customer.

CONSTRUCTION.....Maintain POSITIVE

Fresh opportunities for the sector. One of the main enablers for the economic growth of Sarawak is definitely basic infrastructure. The development of basic infrastructure in the state is poised to serve as a catalyst for socio-economic expansion. This is also expected to generate fresh opportunities and to stimulate the economy of the largest state in Malaysia, particularly in the rural regions, thereby fostering a more inclusive development. The plans in store as stated in Sarawak's Post Covid-19 Development Strategy (PCDS) 2030 are as follows:

Table 6: Development Projects and Plans for Sarawak

Projects	Description	Value
Second Trunk Road Network	242km of roads and bridges	RM5.58b
Coastal Road Network	896km of roads and bridges	RM5.00b
Miri-Limbang Lawas Road	509km	RM3.20b
Pan Borneo Highway Phase 1	786km (94% completed)	RM16.10b
Proposed new border security road	1,032km	RM24.00b
Feeder road	610km	
Deep sea ports in Kuching and Bintulu	-	-
Free (Industrial) Zones around Deep-Sea Ports	-	-

Sources: EPU Sarawak, MIDFR

Job flows expected to improve. Other than the plans stated above, the state government is also aiming to construct about 5,000km of new roads before 2030, the year that the state targets to achieve a high-income status. This is a strong commitment towards the improvement of connectivity within Sarawak, which becomes increasingly important moving forward, as it neighbours Indonesia's new administrative capital Nusantara, in East Kalimantan. Previous news reports have it that Sarawak needs about 7,530km of new roads to be built in order to connect all the rural areas in the state. Recently, the state government had also targeted zero "sick projects" in 2023 as it sought to appoint rescue contractors to replace those who failed to complete their respective projects. Collectively, all these would translate into stronger construction job flows moving forward.

Sarawak, the gateway to Nusantara. The shifting of Indonesia's capital to Kalimantan remains an important agenda that the administration in Kuching is keeping its tabs on as it has identified the construction sector as one of the main beneficiaries, with opportunities in terms of rail, ports, airports and government buildings. Sarawak's Economic Planning Unit (EPU) remarked during our meeting with them that construction players in the peninsula are also expected to benefit from this, apart from Sarawak-based companies. This is in line with the direction that many of the larger Malaysian players are heading towards. Recall that **IJM Corp (BUY, TP: RM1.93)** and **WCT Holdings (BUY, TP: RM0.52)** have indicated its interest of exploring more opportunities in East Malaysia especially Sarawak and also in Nusantara. We view that this would be a win-win strategy that many industry players will adopt, by increasing its presence in Sarawak through the undertaking of development projects in the state. This would also provide them with the geographical advantage to undertake development projects in Kalimantan.

Cement supply to remain strong. As the sole cement manufacturer in the state, **Cahya Mata Sarawak Berhad (CMSB)** has the capacity to produce 2.75m metric tonnes of cement per year. For 2022, the overall cement plant utilisation was only 54.5%, meaning that the group has plenty of headroom to ramp up its production when it penetrates new markets. Currently, Sarawak's cement demand is about 1.5m to 1.6m metric tonnes per year. During our visit to CMSB's integrated cement plant in Mambong, management guided that part of their plans was also to push their products to new markets, such as Brunei

and Indonesia. We view that the development of Nusantara could provide vast opportunities for CMSB to supply its cement to either Indonesian or Malaysian construction players undertaking projects there. While CMSB has since engaged companies in Indonesia, the progress is still in the infancy stage. Within Kalimantan, the annual cement production is about 9m metric tonnes with some spare capacity. The Bandung Institute of Technology projected a demand of 21m tonnes per annum over the next 20 years for the construction of Nusantara as the new capital. While Indonesia has an excess capacity of more than 50m metric tonnes per annum, we note that most of the production facilities are concentrated in Java. The geographical advantage is definitely present for CMSB to tap and the other hurdles it has to face, if any, are regulatory factors or tariffs from Indonesia. We remain optimistic on the outlook of CMSB, which we expect to be among the main beneficiaries of the improving job flows in Sarawak with the gradual roll out of infrastructure projects. We are also optimistic on management's commitment in controlling costs, which will come from increased clinker production in order to reduce reliance on imported clinker. The group is also better prepared this year ahead of planned maintenance and plant shutdowns as they actively stockpile their cement. All factors considered, we maintain our **BUY** recommendation on **CMSB** with a **TP** of **RM1.50**.

OM Holdings. Our trip to Sarawak also brought us to the Samalaju Industrial Park where we visited OM Materials (Sarawak) Sdn Bhd, a flagship smelter complex which is 100% owned by dual-listed **OM Holdings Ltd (not rated)**. The group is involved in the niche production of ferroalloys, one of the main ingredients for the production of steel to improve its strength and resistance. The group completed its conversion of two ferrosilicon furnaces to produce manganese alloys as of July last year, which brings the total manganese alloy furnaces from six to eight units, with a production capacity of 400,000 tonnes. Meanwhile, the group had temporarily suspended the production from its first silicon metal furnace as it was not functioning as anticipated with the framework of the engineering, procurement and construction (EPC) contract. Management guided that they were still reconditioning the furnace. The group's future plans are to add two larger furnaces for manganese alloy to improve its production efficiency and also to double its production levels in Sarawak to between 630,000 and 725,000 tonnes per annum.

OIL & GAS..... Maintain POSITIVE

Enhancing the Sector by 2030. Sarawak holds a unique position in the oil and gas sector, having a total of 2.2tbl of oil reserves and 800mboe of gas reserves, onshore and offshore. The establishment of Petroleum Sarawak (PETROS) in 2017 as the regulatory body overseeing onshore petroleum and gas operations in Sarawak, while collaboratively managing offshore resources with Petroliaam Nasional (Petronas), has further enhanced upstream and downstream activities in the state. Aligned with the Sarawak Economic Development's aspirations for 2030, which focused on economic prosperity, social inclusivity, and a sustainable environment, the sector in Sarawak aims to achieve the following objectives:

- Improving profitability in the upstream sector.
- Commercializing onshore exploration activities.
- Providing access to resources.
- Enhancing the value of resources.
- Establishing sustainable and equitable resource management practices.
- Following the guidelines of the 10-Year Sarawak Gas Roadmap.

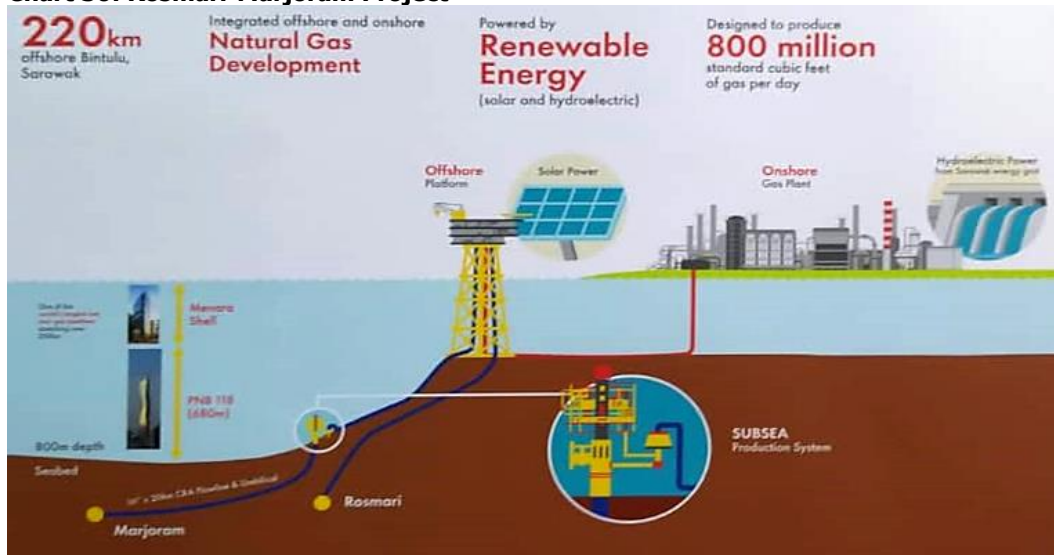
During our visit to Sarawak, we had the opportunity to engage with three oil and gas-related companies. This allowed us to gain insights into the sector's outlook, both upstream and downstream, as well as obtain a glimpse of Sarawak's initiatives in renewables, energy transition, and climate initiatives within the oil and gas, utilities, and chemicals industries.

UPSTREAM

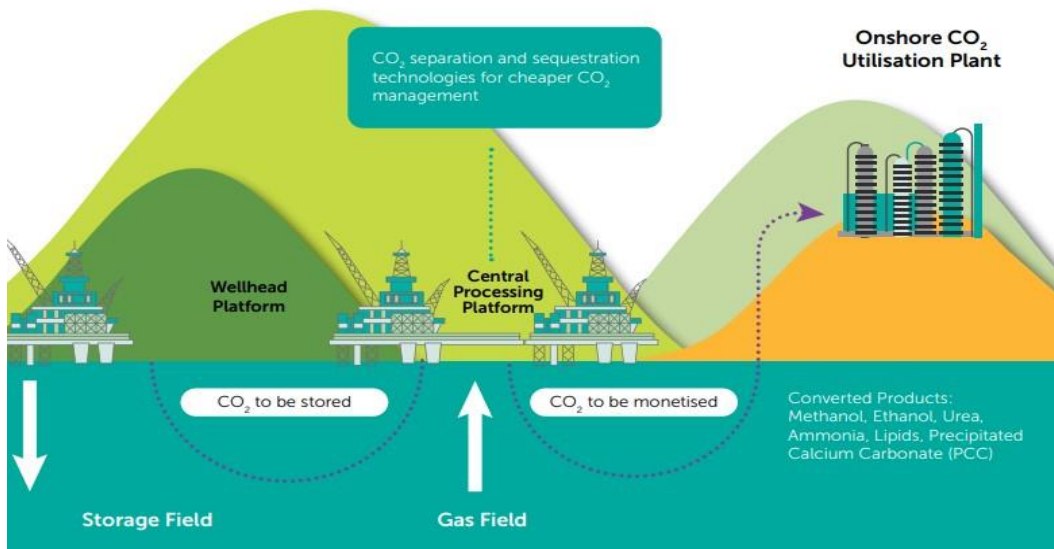
Proactivity in Upstream operations. Sarawak aimed to further regulate its fossil fuels through joint agreements through PETROS, most notably with Petronas Carigali (Carigali) and Shell Sarawak (Shell). The upcoming major upstream project is the Rosmari-Marjoram deepwater gas exploration project in the offshores of Bintulu. The project is overseen by Shell, which is expected to commence in 2026. The Rosmari-Marjoram is anticipated to recover 444mboe of resources, which estimates to 61mbl of crude oil and condensates, and 2.3tcf of natural gas. The project will also be one of its kind, with high-tech, remote integration of both offshore platform and onshore gas plant, as well as solar and hydroelectric expected to power the infrastructures. Recently, PETROS also won oil exploration rights from Petronas in Baram Junior Cluster within the Baram Delta Province in Miri. We believe this is a stepping stone for PETROS to establish its own Exploration and Production (E&P) unit in the future.

Balancing the upstream with climate solutions. As part of ensuring a clean management of its oil and gas E&P projects, Sarawak alongside Petronas, had invested in the Kasawari carbon capture, utilization and storage (CCUS) project. This is Malaysia's first CCUS project, to be operated in line with the Kasawari gas field E&P platform. The project is expected to be able to store 9BT of carbon dioxide (CO₂) underground. We believe this is necessary due to the natural gas in Sarawak is high in CO₂, and CCUS will ensure the reduction of flaring in the gas processing plants.

Chart 30: Rosmari-Marjoram Project



Source: Company, MIDFR

Chart 31: Kasawari CCS Project (Concept)


Source: Company, MIDFR

DOWNSTREAM

Leveraging on the abundant gas resources. Under PETROS Niaga, PETROS launched its own LPG gas cylinder in 2020, of which sales made up about 51% of market share in Sarawak to date. Additionally, via PETROS Gas, Sarawak is one of the only states with pipelined gas infrastructure for direct use to 26,000 residentials, 1,490 commercial premises and 5 industrials which were distributed in Miri and Bintulu. Moving forward, under the Post Covid-19 Development Strategy 2030, the state is planning to establish a power generation company under PETROS Power, to manage the power grid in the state using clean natural gas.

Bintulu's potential as petrochemical hub. For petrochemicals, PETROS indicated that Bintulu is set to be a petrochemical hub in the state, considering the proximity to the Bintulu Port and Bintulu MLNG Complex. Moving forward, distribution of petrochemical products to local and international buyers - most notably urea and ammonia - will be easily managed with the increased capacity, improved technology and one-stop access in Bintulu.

While we are positive on the LPG distribution and gas distribution for Sarawak, petrochemicals still posed a downside risk of the pricing of fertilisers, although at the point of writing the price movement for urea and ammonia had sobered.

RENEWABLES

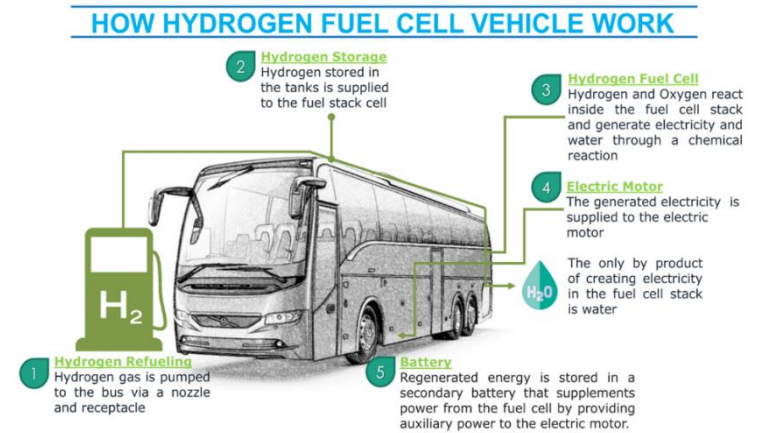
Tapping into Hydrogen Fuel potential. In 2017, the state government granted authorization to Sarawak Energy to conduct research into the commercial applications of hydrogen fuel technology. In 2019, the first integrated hydrogen production and refueling plant in Southeast Asia was inaugurated in Kuching. Additionally, a number of hydrogen-powered buses were introduced in the city. As of 2022, the Sarawak Economic Development Corporation (SEDC) had formed partnerships with various companies to further develop hydrogen technology; including Petronas, Japanese Eneos Corporation, Australian H2X Global, French group Thales New Energy, and South Korean companies Samsung Engineering, POSCO, and Lotte Chemical. PETROS, the state-owned oil and gas company, has recently established six petrol stations equipped with hydrogen refueling pumps and EV charging station.

Chart 32: PETROS fuel station in Kuching, Sarawak



Source: Company, MIDFR

Chart 33: How Hydrogen Fuel Cell Vehicle Work



Source: H2Sarawak, Company, MIDFR

Utilising Sarawak’s natural resources. Sarawak currently possesses three hydroelectric dams - Batang Ai, Bakun, and Murum - collectively capable of generating 3,450MW of electricity. Another dam called Baleh is scheduled for commissioning in 2026, which will add an additional capacity of 1,300MW. In February 2008, the Sarawak Corridor of Renewable Energy (SCORE) was introduced to leverage on the electricity generated by these hydroelectric dams in Sarawak to drive the development of 10 priority industries, including oil and gas and manufacturing, within the region. Furthermore, PETROS has set a target to increase the distribution and utilization of natural gas for power plants within Sarawak, in account of 30% of the total energy production in Sarawak, in a bid to replace coal by 2030.

Sarawak aimed to be the pioneers of renewable energy and energy transition within the oil and gas sector. In consideration of its initiatives under PETROS, we believe that Sarawak will be a formidable stepping stone to further develop hydrogen fuel and hydrogen technology for the nation, as well as fully utilizing its gas resources for a cleaner and orderly energy transition.

OUR VIEW

We are generally **POSITIVE** on Sarawak’s oil and gas industry. With the latest Rosmari-Marjoram deepwater gas project, as well as the Kasawari CCUS project, we opine that Sarawak has the potential to be forerunners for cleaner operations in the upstream E&P and an orderly energy transition and climate solutions within the oil and gas sector.

Moving forward, under the state’s PCDS 2030, we believe the oil and gas sector will continue to contribute to Sarawak’s socio-economic prosperity. Companies directly involved in the upstream E&P subsector and downstream gas distribution would be beneficiaries to Sarawak’s development in the sector. Our top picks include **MISC (BUY, TP: RM8.16)** and **MMHE (BUY, TP: RM0.81)**, for its upstream services and its involvement with the Kasawari CCUS project, as well as **Petronas Gas (BUY, TP: RM18.43)**, for the leverage on its involvement with the MLNG Complex in Bintulu which for: (i) the distribution of methane to petrochemical companies in Sarawak, (ii) the selling of LNG to local and international buyers and (iii) the regasification and gas processing operations.

CONSUMER.....Maintain POSITIVE

Better job and wage prospects could benefit consumer staple-related products. Sarawak's post-COVID-19 development strategy (“PCDS 2030”) aims to create 195K new employment opportunities and increase household income to RM15,050. This is expected to boost Sarawak’s consumer spending capacity, which would benefit both retail and consumer staple-related products. Items such as biscuits, food, beverages, and poultry products are likely to experience increased

domestic consumption. Hence, we view that well-known household brands like **F&N (BUY, TP: RM33.50)**, **Hup Seng Industries (BUY, TP: RM0.88)**, and **Nestle Malaysia (NEUTRAL, TP: RM139.50)** stand to benefit from the expanded demand for their products.

Benefitting from the uptick in Sarawak's tourism activities. Based on Sarawak's PCDS 2030 strategy, tourism is one of the main enablers, involving initiatives such as expanding the number of flights into Sarawak and building a deep-sea port for cruises to draw both domestic and foreign tourists. This influx of tourists will raise demand for convenient, ready-to-eat F&B options like snack-sized biscuits and beverages, that are suited for consumption on buses, aircraft, and flights. Additionally, the uptick in tourism will drive the consumption of restaurants and hotels catering to tourists. As such, consumer companies supplying products to these tourist-oriented establishments are expected to benefit from this trend. This includes **Nestle Malaysia (NEUTRAL, TP: RM139.50)** providing coffee packs to hotels and **QL Resources (BUY, TP: RM6.75)** supplying eggs to restaurants.

Higher Chicken and Egg Prices in Sarawak. Historically, the average prices of chicken and eggs (including Grades A, B, and C) in Sarawak have been higher than the national average in Malaysia. The average cost of chicken and eggs in Sarawak remained elevated in April 2023, both yearly and monthly basis. This implementation of retail price ceilings and rising input costs have put downward pressure on profit margins and caused some local businesses to scale back output. Recall that, the retail ceiling prices have been implemented for standard chicken and eggs in East Malaysia, however, it varies across cities in East Malaysia. The government's subsidies for chicken and eggs were also applicable to East Malaysia farmers. Notably, chicken farmers receive a subsidy of 80 cents/kg for chicken, while chicken egg producers receive a subsidy of 10 cents/egg for Grades A, B, and C. On a positive note, the recent decline in raw material prices for animal feed (such as corn and soybean meal) and the downward trend in global natural gas prices could indicate lower input costs in the future. This could support the profit margin for poultry players in East Malaysia and encourage continued chicken and egg production to ensure an adequate supply in the market.

Table 7: Malaysia vs. Sarawak Monthly Hen's Egg and Chicken Statistics

Data	Average monthly data					vs. 2021		
	Apr-23	Mar-23	Apr-22	YoY (%)	MoM (%)	Apr-23	Apr-21	chg (%)
Malaysia:								
Egg – Grade A (each)	0.47	0.47	0.45	4.5	(1.1)	0.47	0.38	22.5
Egg – Grade B (each)	0.45	0.46	0.43	6.6	(1.3)	0.45	0.35	30.8
Egg – Grade C (each)	0.44	0.44	0.41	6.9	(0.5)	0.44	0.30	43.4
Chicken (per kg)	10.45	10.40	9.50	10.0	0.5	10.45	8.74	19.6
Sarawak:								
Egg – Grade A (each)	0.67	0.53	0.47	41.9	26.7	0.67	0.40	67.9
Egg – Grade B (each)	0.58	0.56	0.44	32.1	2.9	0.58	0.37	54.4
Egg – Grade C (each)	0.56	0.55	0.42	32.4	1.6	0.56	0.35	58.2
Chicken (per kg)	11.78	11.72	10.62	10.9	0.5	11.78	9.76	20.7

Sources: MIDFR

Insights from CCK Consolidated Holdings Berhad. We recently visited **CCK Consolidated Holdings (Not Rated)** in Kuching, Sarawak last week and were briefed on the current operating environment for retailers, poultry producers, and

pawn producers. We gather that the demand for consumer-staple related products remains robust in East Malaysia. However, the availability of chicken and eggs is limited in the region due to the scarcity of great-grandparent stock DOC worldwide.

Background of CCK Consolidated Holdings Berhad (Non Rated). CCK's retail stores account for the majority of the company's FY22 revenue, contributing 79%. The group currently operates 62 fresh marts across East Malaysia; 7 wholesale stores in East Malaysia and Indonesia; 3 CCK Local supermarkets in East Malaysia; and 7 Partner stores in Indonesia. The poultry business is also a significant contributor, comprising 12% of the total FY22 revenue, with almost 60%-70% of poultry products are supplied to the own retail stores. Additionally, CCK's prawn division contributes 7% of the FY22 revenue, and the company operates 81 ponds in Sarawak. Furthermore, CCK holds an associate stake in Goldcoin Sarawak, leveraging this partnership to source animal feed from Goldcoin and package it for smaller poultry farmers in Sarawak. However, we observed a resilient demand for consumer staples companies in East Malaysia. The challenges faced by the poultry industry, particularly in sourcing great-grandparent stock DOC, as well as continuous retail price ceiling for chicken and eggs will present opportunities for market participants to explore alternative solutions and expand their operations in other subsector like retail and prawn.

Maintain POSITIVE on consumer sector. In the long run, we believe that some consumer companies operating or supplying in Sarawak, particularly those associated with consumer staples, could benefit from the numerous initiatives outlined in the Sarawak's PCDS 2030 strategy. Thus, we are positive about the outlook for the consumer sector underpinned by: (1)) a defensive play due to the resilient demand for staple-related products (2) solid domestic consumption ahead, supported by a stable labour market, robust retail trade, and increased tourism activities, (3) solid profit margins for F&B producers driven by falling raw material prices and previous price hikes, offsetting other cost pressures and (4) normalized commodity prices for livestock feed are likely to alleviate elevated input costs for poultry players. Our top picks continue to be consumer staple companies that exhibit resilient demand, such as **QL Resources (BUY, TP: RM6.75)**, and **F&N (BUY, TP: RM33.50)**.

PLANTATION.....Maintain NEUTRAL

Largest oil palm planted area in Malaysia. While Sarawak has long, been called as "Land of the Hornbills", few know that the state plays a pivotal role as a major oil palm site in the agriculture sector. In short, Sarawak has the largest oil palm planted by area at 1,622,374 ha (28.6%) in Malaysia with total matured and immature trees comprises of 1,488,917 ha (91.8%) and 133,458 ha (8.2%) respectively. On average, the state OER remains decent c. 19.5% despite the large planted area it operates in. It also possesses the 2nd largest CPO production in the country at 4,005,425 tonnes with average May prices of RM3,743.0/tonne. Based on our database, a few publicly traded companies with landbank in Sarawak include IOI Corporation (5.1%), Sime Darby Plantation (8.1%), FGV Holdings (7.5%), Sarawak Plantation (100%), Ta Ann (100%), as well as Sarawak Oil Palms (100%).

POIC – a game changer. As Sarawak land almost equal c. 90% to the size of Peninsular, the eastern region is centre for palm oil given its mostly good soil and topography, agroclimatic conditions apart from a long costal area. To elevate the Palm Oil ecosystem, one of the Post Covid-19 Development Strategy 2030 priorities, under the EPU of Sarawak, is the growth of oil palm value chain, throughout expansion of Oleochemical plant. Despite the fact c. 84 milling and c. 6 refining operations are well established in Sarawak, there were only 1 high biodiesel plants establishments and none oleochemicals plant. Through the Palm Oil Industrial Cluster (POIC) proposal project in Bintulu, the state able to accelerate the development of the palm oil industry moving in the right direction in downstream value-adding products. We view this classification industrial serves the needs of high value chains of Palm Oil products, given that the Bintulu port oil palm tonnage handled in CY22

reached 3.96m Mt (+5.3%yoy) from the 3.76m MT handled in CY21, which approximately accounts for 24% of total Malaysian palm oil exports, based on Bintulu Port data.


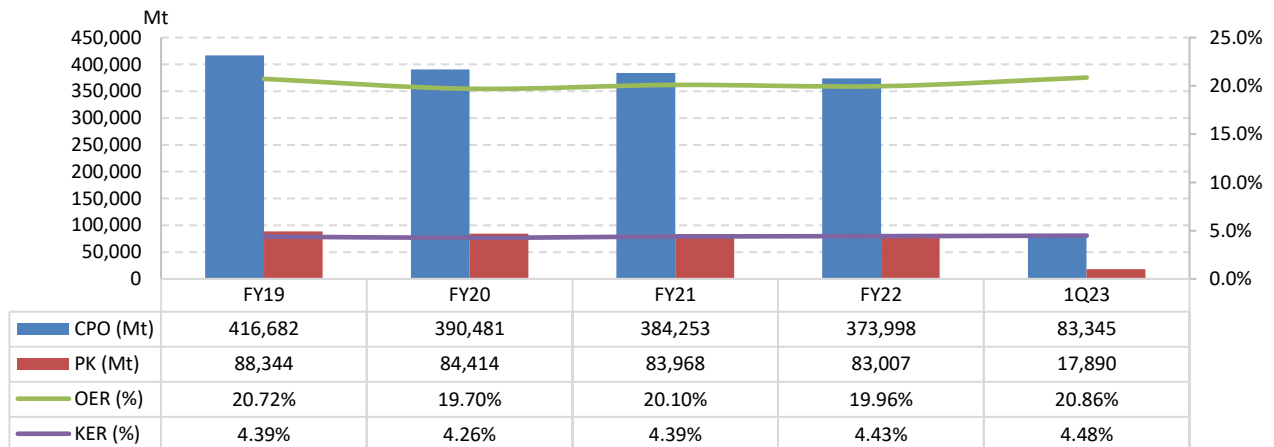
SOP Visit. We recently had a site visit to Sarawak Oil Palms Berhad (SOP) and learned that the group is in the midst of accelerating its replanting programme involving 4,000-5,000 ha across its 42 estates. Its age profile remains decent at 14 years across its matured area of 66.2%, as of FY22. Looking at its operational statistics, SOP seemingly bottomed, where its FFB yield succumbed to 14.5 Mt/Ha (-4.8%yoy), while its internal and external FFB processed posted a mixed bag performance. Additionally, SOP managed to realize higher average CPO prices of RM5,151 (+16.3%yoy) from RM4,430/Mt in prior year. The drawback of the output was mainly due to labour crunch issues compounded by freak weather pattern. Nonetheless, while remedies take time for its upstream, we are optimistic with its downstream arm since it still operated in positive margin as compared to its peer, where most of the players posted negative margin. 

Chart 34: Upstream; Milling Output Overview



Source: SOP, MIDFR

MIDF RESEARCH is part of MIDF Amanah Investment Bank Berhad (197501002077(23878 – X)).
(Bank Pelaburan)
(A Participating Organisation of Bursa Malaysia Securities Berhad)

DISCLOSURES AND DISCLAIMER

This report has been prepared by MIDF AMANAH INVESTMENT BANK BERHAD (197501002077 (23878 – X)) for distribution to and use by its clients to the extent permitted by applicable law or regulation.

Readers should be fully aware that this report is for information purposes only. The opinions contained in this report are based on information obtained or derived from sources that MIDF Investment believes are reliable at the time of publication. All information, opinions and estimates contained in this report are subject to change at any time without notice. Any update to this report will be solely at the discretion of MIDF Investment.

MIDF Investment makes no representation or warranty, expressed or implied, as to the accuracy, completeness or reliability of the information contained therein and it should not be relied upon as such. MIDF Investment and its affiliates and related companies and each of their respective directors, officers, employees, connected parties, associates and agents (collectively, "Representatives") shall not be liable for any direct, indirect or consequential loss, loss of profits and/or damages arising from the use or reliance by anyone upon this report and/or further communications given in relation to this report.

This report is not, and should not at any time be construed as, an offer, invitation or solicitation to buy or sell any securities, investments or financial instruments. The price or value of such securities, investments or financial instruments may rise or fall. Further, the analyses contained herein are based on numerous assumptions. This report does not take into account the specific investment objectives, the financial situation, risk profile and the particular needs of any person who may receive or read this report. You should therefore independently evaluate the information contained in this report and seek financial, legal and other advice regarding the appropriateness of any transaction in securities, investments or financial instruments mentioned or the strategies discussed or recommended in this report.

The Representatives may have interest in any of the securities, investments or financial instruments and may provide services or products to any company and affiliates of such companies mentioned herein and may benefit from the information herein.

This document may not be reproduced, copied, distributed or republished in whole or in part in any form or for any purpose without MIDF Investment's prior written consent. This report is not directed or intended for distribution to or use by any person or entity where such distribution or use would be contrary to any applicable law or regulation in any jurisdiction concerning the person or entity.

MIDF AMANAH INVESTMENT BANK : GUIDE TO RECOMMENDATIONS

STOCK RECOMMENDATIONS

BUY	Total return is expected to be >10% over the next 12 months.
TRADING BUY	Stock price is expected to <i>rise</i> by >10% within 3-months after a Trading Buy rating has been assigned due to positive newsflow.
NEUTRAL	Total return is expected to be between -10% and +10% over the next 12 months.
SELL	Total return is expected to be <-10% over the next 12 months.
TRADING SELL	Stock price is expected to <i>fall</i> by >10% within 3-months after a Trading Sell rating has been assigned due to negative newsflow.

SECTOR RECOMMENDATIONS

POSITIVE	The sector is expected to outperform the overall market over the next 12 months.
NEUTRAL	The sector is to perform in line with the overall market over the next 12 months.
NEGATIVE	The sector is expected to underperform the overall market over the next 12 months.

ESG RECOMMENDATIONS* - source Bursa Malaysia and FTSE Russell

☆☆☆☆	Top 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆☆	Top 26-50% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆☆	Top 51%- 75% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell
☆	Bottom 25% by ESG Ratings amongst PLCs in FBM EMAS that have been assessed by FTSE Russell

* ESG Ratings of PLCs in FBM EMAS that have been assessed by FTSE Russell in accordance with FTSE Russell ESG Ratings Methodology