

scoutAsia

BY NIKKEI & THE FINANCIAL TIMES

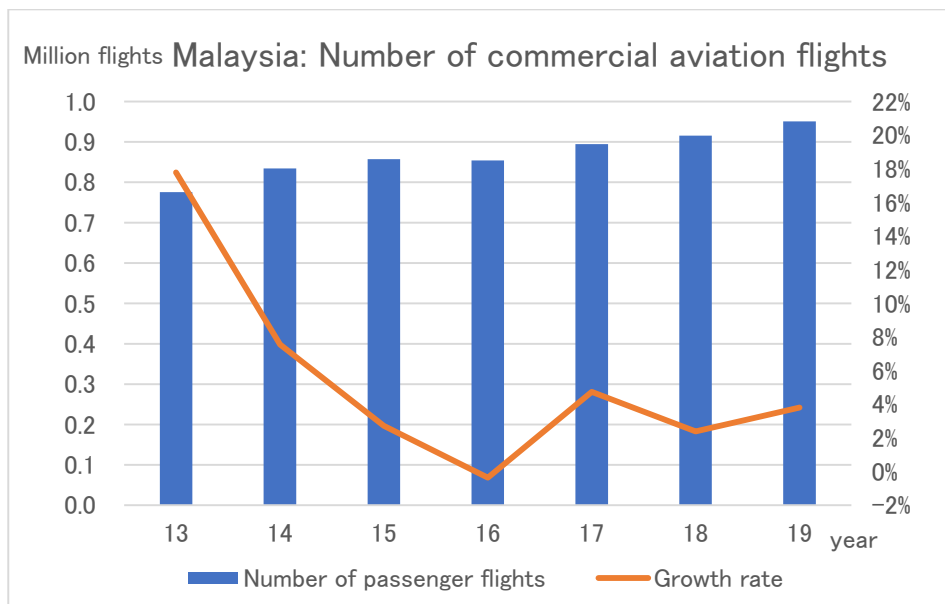
Sector Reports from Ashu Research 2021 April - Malaysia

Sectors including Aviation, Palm Oil,
Petroleum & Furniture.

Malaysia: Aviation industry

<Industry overview> Steady growth, supported by active investment in airports

Malaysia's aviation industry as a whole has grown steadily, with the development of the domestic economy (maintained an economic growth rate of 5% or more from 2010 to 2018), as well as boosted growth with active airport investment. The number of commercial aviation flights has been steadily rising. In 2019, the number of flights increased by 3.8% from the previous year to 950,000 flights. Compared to 2008 (about 540,000 flights) 11 years ago, it has expanded by about 80%.



* Commercial aviation refers to the transportation of people and cargo using aircraft.

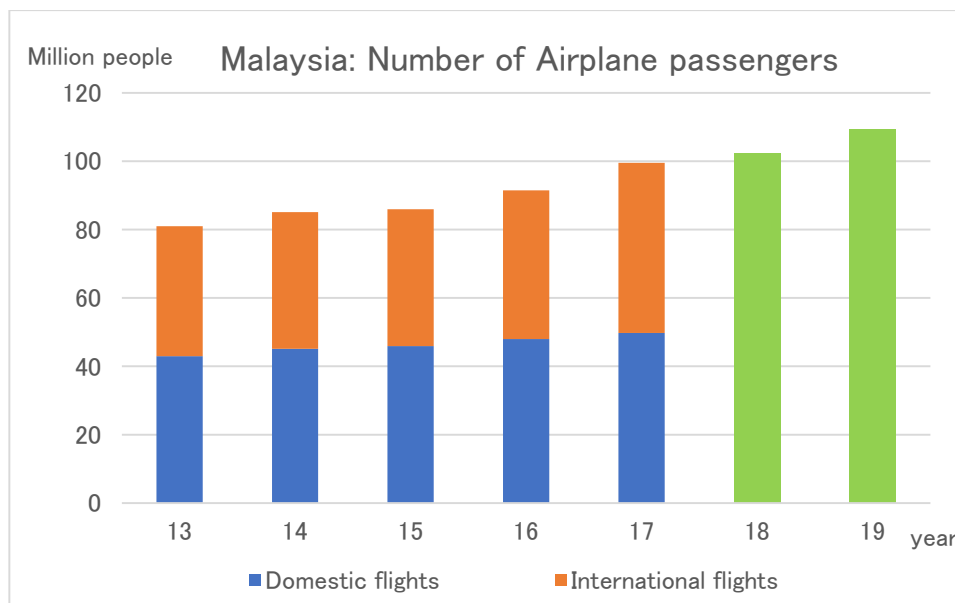
(Data by Ashu Research based on Malaysia Ministry of Transport materials, Malaysian Aviation Commission: MAVCOM data)

< Passenger numbers and cargo transport volume > Passenger numbers are expanding

Malaysia's airline passenger numbers (Domestic/International flights total) is growing gradually. The number of passengers in 2017 increased by 8.8% from the previous year to 99.52 million, and in 2018 it increased by 2.9% to 102.43 million. In 2019, it increased by 6.7%, reaching to 109.33 million. Compared to 2008, eleven years ago, it has more than doubled. Reasons for the growth include a 15-day visa exemption for tourists from China and India extended until December 2019, as well as a decline in fuel prices and others.

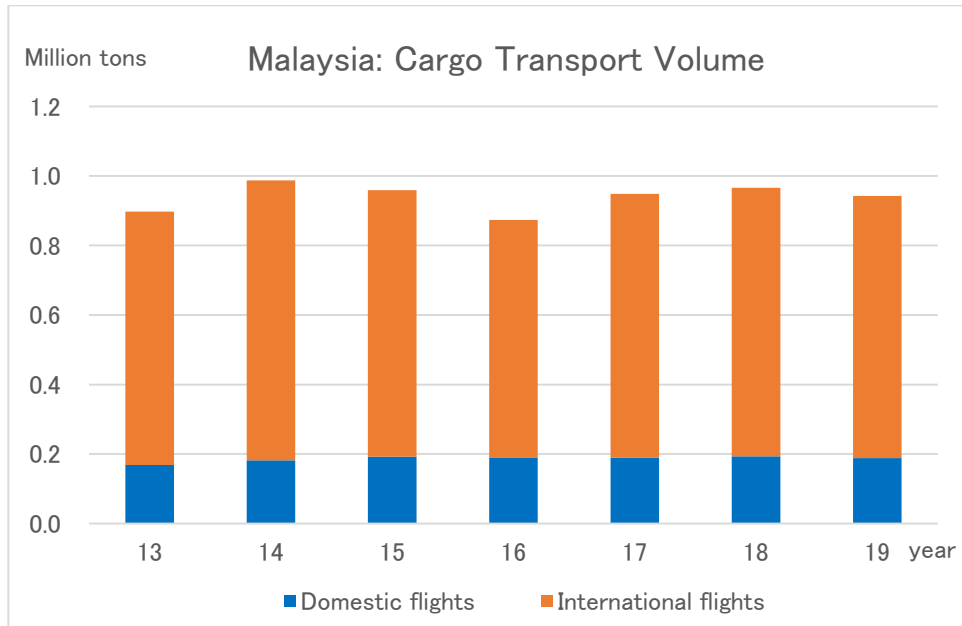
On the other hand, cargo transport volume has lost upward momentum. Although it has grown for two consecutive years from 2017, it declined 2.4% in 2019. Compared to 2008, eleven years ago, it has had only a modest increase of 2.2%.

The number of passengers in 2020 is forecasted to fall sharply, affected by the new Coronavirus. According to Malaysia Airport, which is engaged in air traffic control and airport management, the number of passengers in the period of January to July 2020 was down by 66.0% year-on-year to 20.53 million. International passengers dropped by 70.4% to 9.08 million. Domestic passengers fell by 61.5% to 11.45 million. For the full year 2020, the Malaysian Aviation Commission (MAVCOM) forecasts that the number of passengers will decrease by half from the previous year to between 54.3 to 56 million (as of June 2020).



*Total number of passengers handled by the airport excluding transit.
Domestic and international flights breakdowns for 2018 and 2019 are unpublished.

(Data by Ashu Research based on MAVCOM, Malaysia Ministry of Transport materials)



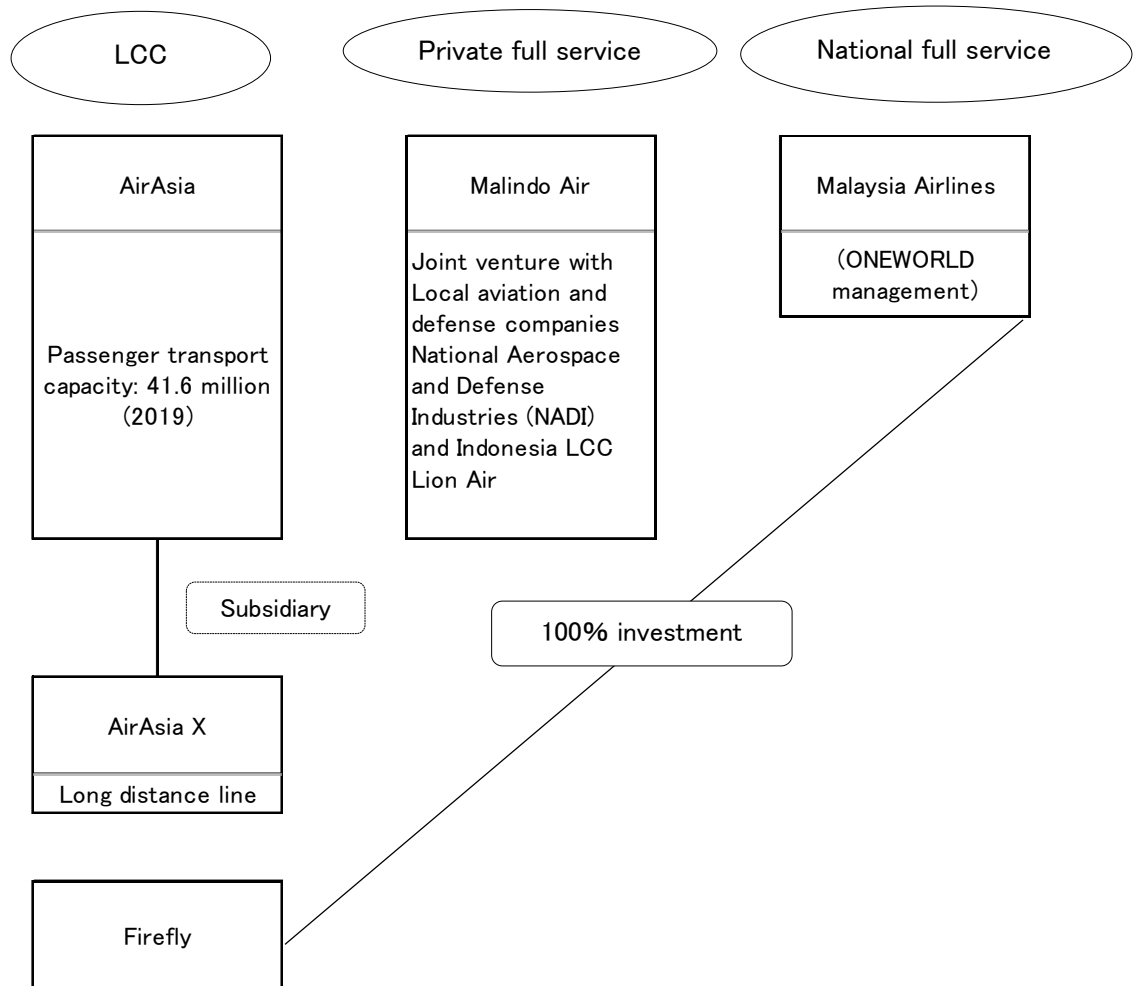
*Excluding transit. The breakdown of domestic and international flights for 2018 and 2019 is estimated by Ashu Research.

(Data by Ashu Research based on Malaysia Ministry of Transport, MAVCOM materials)

<Industry Competitive Layout> Five major airlines

There are five major airline companies in Malaysia, including full service and Low-cost carriers (LCC). Full-service airlines include state-owned Malaysia Airlines and private Malindo Air (Joint venture between local aviation and defense company, National Aerospace and Defense Industries, and LCC Lion Air of Indonesia). There are 3 LCCs. In addition to Asia's largest LCC, AirAsia, and its subsidiary AirAsia X, Malaysia Airlines Group has a wholly-owned LCC subsidiary Firefly Airlines, with hubs at Penang and Subang (former Kuala Lumpur International Airport).

Malaysia: Major airline companies



(Data by Ashu Research based on AirAsia's annual report and various reports)

<LCC Trend> AirAsia emerged in the 2000s

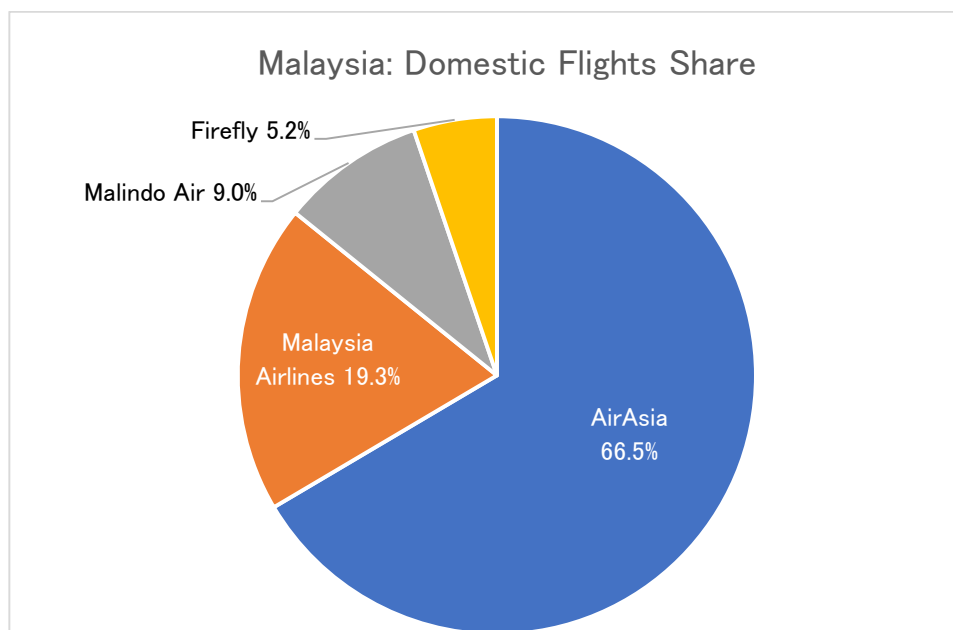
Air Asia, Asia's largest LCC, was established in 2002 and has risen its head with liberalization and deregulation in the aviation sector. With 243 aircraft, it has launched services in 160 cities around the world. In other Asian regions, it has joint ventures in Thailand, Indonesia, the Philippines, India, and Japan. Malaysia's domestic share accounted for 41.7% (total of domestic and international flights, MAVCOM data) in the first quarter of 2020. Meanwhile, AirAsia X, a long-distance service subsidiary, has launched services in more than 20 countries around the world, including China, Australia, Taiwan, Iran, South Korea, and Japan.

<Industry share> AirAsia tops domestic and international flights

In Malaysia's aviation industry, AirAsia holds the top share of domestic and international flights based on the number of passengers. The domestic market share in the 2nd Quarter of 2019 was 66.5%. This is followed by Malaysia Airlines (19.3%) and Malindo Air (9.0%). AirAsia has the highest share of international flights, accounting for 29.3%. This is followed by Malaysia Airlines (17.1%), AirAsia X (11.0%), and Malindo Air (6.5%).

Malaysia: airline share (Q2 2019)

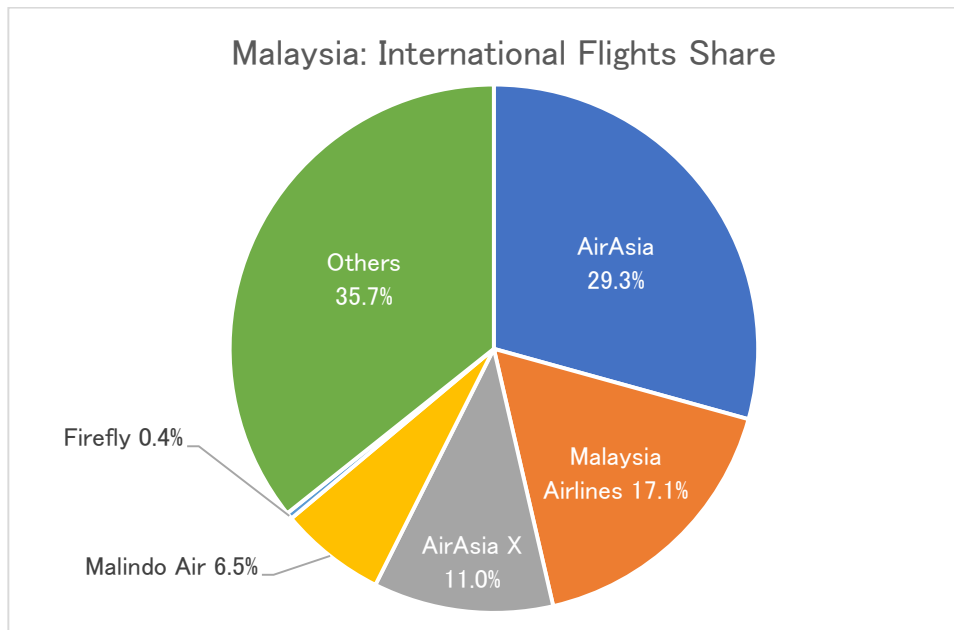
【Domestic flights】



*Based on the number of passengers.

(Data by Ashu Research based on MAVCOM materials)

【International Flights】



*Based on the number of passengers.

(Data by Ashu Research based on MAVCOM materials)

(Ashu Research: August 2020)

Malaysia: Palm Oil Industry

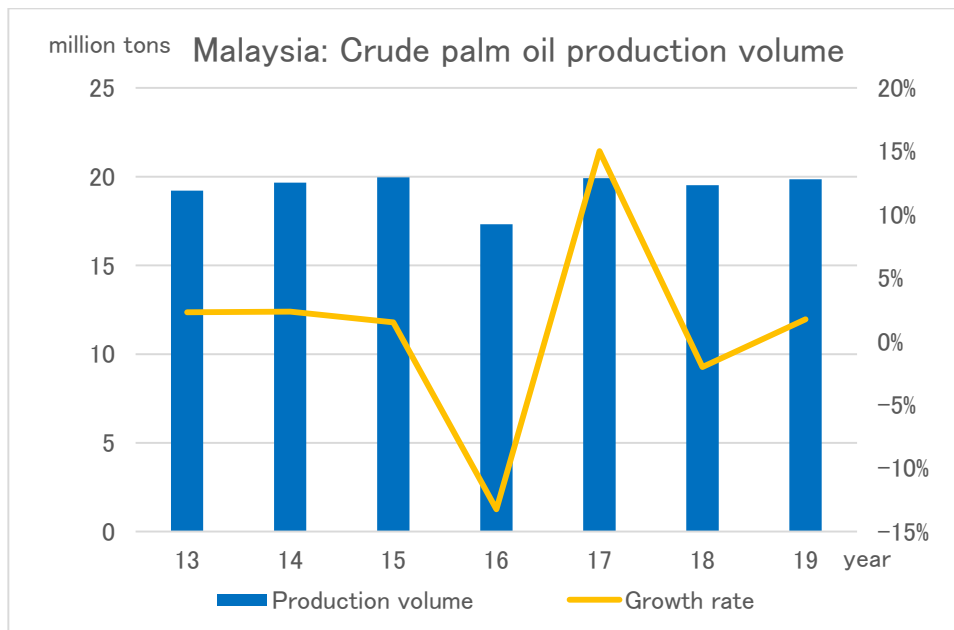
<Industry overview> World's 2nd largest production volume

Malaysia, which had the highest palm oil production volume in the world until 2006, is now the second-largest after Indonesia (the Food and Agriculture Organization of the United Nations: FAO data, 2019). The two countries, Indonesia and Malaysia, account for more than 80% of the world's total production.

<Production> Flat

Crude palm oil production volume has been at a standstill for slast few years. In 2019, it increased by 1.8% from the previous year to 19.86 million tons, but compared to 2013, it recorded only slight growth of 3.3% in 6 years.

It may turn negative in 2020. According to the Malaysian Palm Oil Board (MPOB), production fell 3.9% year-on-year to 17.8 million tons from January to November of 2020.

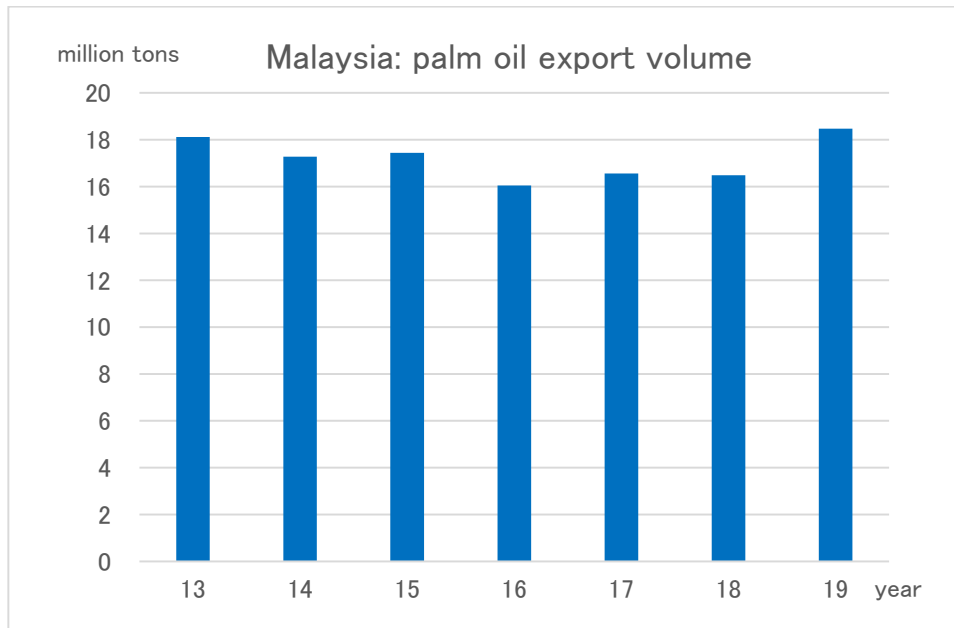


(Data by Ashu Research based on MPOB data)

< Import and export > Exports stagnate

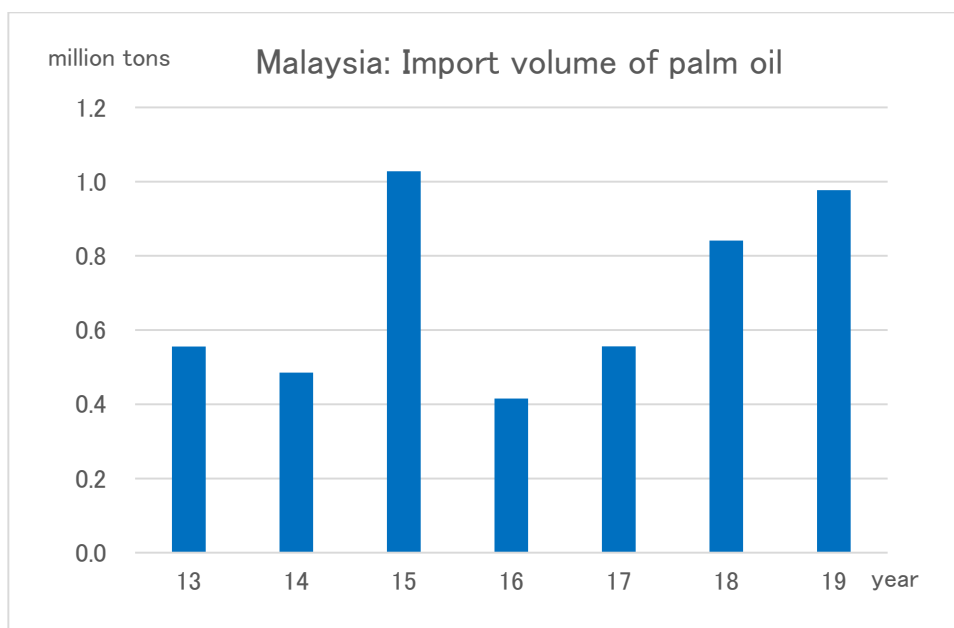
Malaysia's palm oil exports have tended to stagnate. In 2019, exports increased by 12.0% from the previous year to 18.47 million tons, but compared to 2013, exports have increased by less than 2% in 6 years.

Imports, on the other hand, have been expanding recently. Although small in scale, imports grew for the third consecutive year since 2017, increasing 16.1% to 980,000 tons in 2019.



(Note) Total of crude palm oil and refined palm oil.

(Data by Ashu Research based on MPOB data)



(Data by Ashu Research based on MPOB data)

<Industry Map> Felda Global Ventures largest planted acreage

The largest palm oil company in Malaysia is state-run Felda Global Ventures (FGV), followed by state-run Sime Darby and privately-owned IOI Group, Genting Plantations, and Kuala Lumpur Kepong.

Malaysia: Major palm oil companies

Company name	Palm tree planting area
Felda Global Ventures (FGV)	417,147 hectares (as of the end of 2019)
Sime Darby	299,350 hectares (noted on the company's website as of January 2021)
IOI Group	156,185 hectares (as of June 2020)
Genting Plantations	64,600 hectares (as of the end of 2019)
Kuala Lumpur Kepong	53,000 hectares (estimated by Ashu Research based on the company's website as of January 2021)

(Note) All planting area are in Malaysia.

(Ashu Research aggregated and based on each company's website and annual report)

(Ashu Research: January 2021)

Malaysia: Petroleum industry

<Industry overview> ASEAN's second-largest oil-producing country

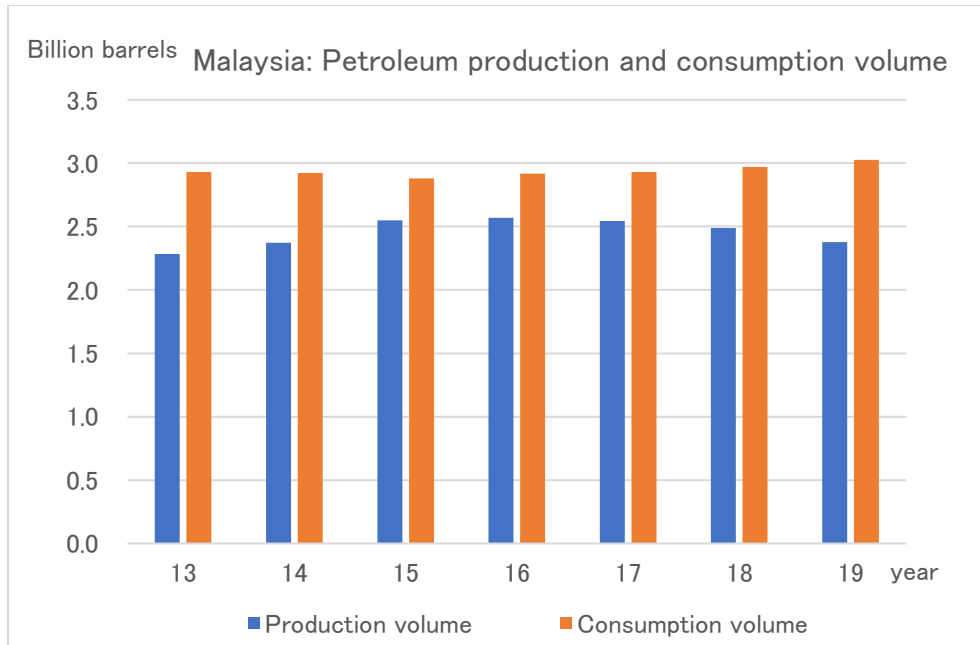
Malaysia, an oil-producing country, boasts the second-largest crude oil production volume in the ASEAN region after Indonesia (2019). The long-term trend of production has been declining after peaking at 293.6 million barrels in 2003 after expanding significantly in the 1990s. The government is implementing a policy to diversify resources (natural gas, coal, hydropower, renewable energy, etc.) while reducing its dependence on petroleum, to ensure stable energy supply and exports of petroleum. Meanwhile, proven crude oil reserves in 2019 were 2.8 billion barrels, a decline of 40% since 1996 when proven reserves were 5 billion barrels.

<Crude oil production/consumption volume> Production is on a downward trend

Malaysia's crude oil production volume has been declining in recent years. In 2019 volume dropped for the third consecutive year to 237.6 million barrels, down 4.6% from the previous year. As crude oil prices fell in the latter half of 2018, the Malaysian government in cooperation with the Organization of the Petroleum Exporting Countries (OPEC) to stabilize the oil price by cutting production. OPEC announced in December 2018 that it would cut production by an additional 1.2 million barrels per day in conjunction with non-member countries from January 2019 for a half year.

Consumption volume is flat. In 2019 it was up 1.8% to 302.6 million barrels. In the six years from 2013 to 2019, there was only a modest consumption volume increase of 3.2%. Demand for petroleum has increased against the backdrop of the expansion of the domestic economy, but the demand situation has begun to stagnate.

In 2020, production and consumption may fall with the worldwide spread of Covid-19 pandemic. Fuel demand has fallen sharply due to restrictions on movement around the world. Under these circumstances, crude oil prices turned to negative prices on April 20, 2020, the first time since the crude oil futures market began. The World Bank announced on April 23 2020 that crude oil prices for the full year of 2020 are expected to hover at a low level of 35 US dollars per barrel, down 43% from 2019.

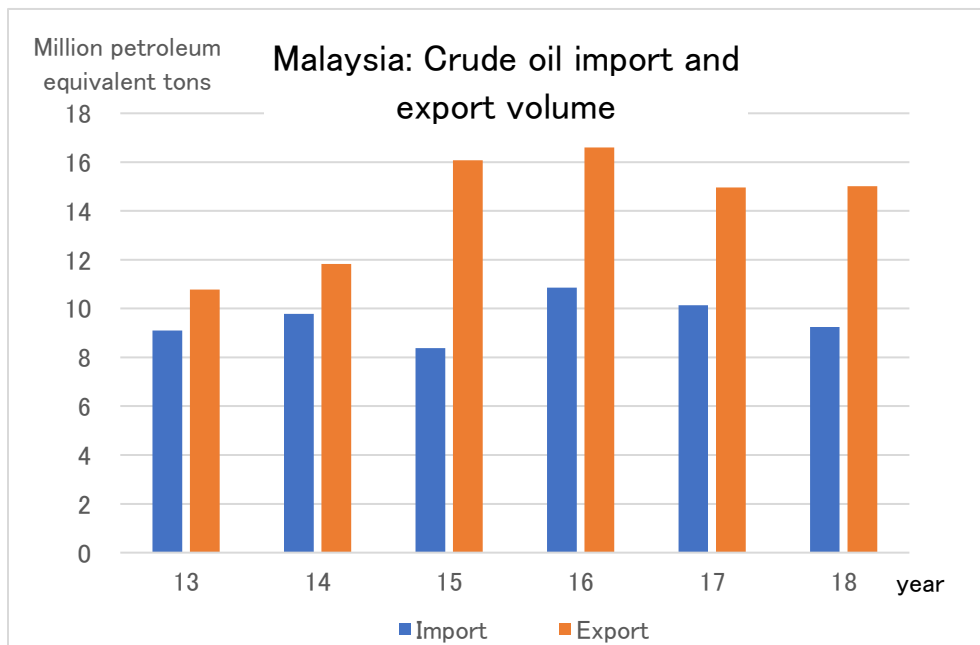


(Data by Ashu Research based on UK BP materials)

<Crude oil import/export volume > Exports have been flat since 2017

Crude oil export volume has been flat since 2017. As mentioned above, the reason is that oil-producing countries are adjusting their export volumes due to the decline in crude oil prices. In 2017, it decreased by 9.9% from the previous year to 14.96 million tons (petroleum conversion). In 2018, it increased by 0.4% to 15.01 million tons.

Crude oil import volumes have seen a narrowing trend. In 2017, it decreased by 6.6% to 10.14 million tons. In 2018, it decreased by 8.8% to 9.24 million tons, down for the second consecutive year. The import decline resulted from a slowdown in domestic demand as the pace of GDP growth slowed (2018 is ↓ 1.0 points from the previous year, 2019 is ↓ 0.2 points).



(Data by Ashu Research based on Energy Commission of Malaysia data)

<Industry map> State-owned PETRONAS plays a leading role

PETRONAS, a state-owned petroleum company, is the largest petroleum producer in Malaysia. Consolidated sales for the fiscal year ended December 2019 were 240.3 billion ringgit (approximately 6.08 trillion yen). In terms of sales ratio by product (2019), Petroleum products are the top with 36%. This is followed by liquefied natural gas (21%), crude oil/condensate oil (15%), natural gas/process gas (12%), and petroleum chemical products (7%).

PETRONAS opened a new Pengerang Integrated Petroleum Complex (PIC) in Johor State in 2019. The crude oil processing capacity of PIC is 300,000 barrels per day, and at full operation will be expanded to 700,000 barrels per day. The complex, with a total investment of 27 billion US dollars, was jointly developed with Saudi Aramco, together with a petroleum chemical plant.

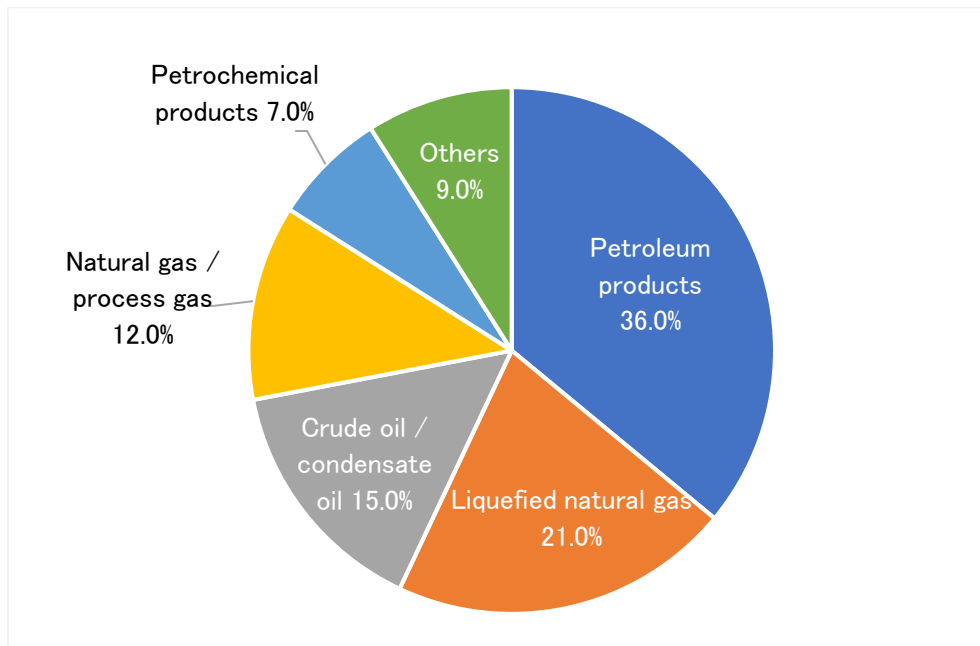
However, PETRONAS is planning to curb output in 2020 given the impact of the Covid-19 pandemic on global economic activity. In May 2020 the company decided to reduce its full-year capital spending costs by 38 billion US dollars (about 22%) from its original plan of 175 billion US dollars.

Foreign capital expanding companies include US companies ExxonMobil and ConocoPhillips, and the United Kingdom and Dutch, Royal Dutch Shell.

In addition, there are plans for Chinese companies to build petroleum and gas complexes in Sarawak. China Petrochemical Corporation (Sinopec Group), a major petrochemical company, plans to invest 5 billion US dollars to refine crude oil procured from the Middle East and ship it to China and Southeast Asia. It aims to start production in 2022.

Japanese companies are also expanding. JX Nippon Oil & Gas Exploration Corporation, a group company of ENEOS Holdings, started commercial production of crude oil at the Block SK10 off the coast of Sarawak in December 2019. The daily volume is expected to be 3,000 barrels, which is the first crude oil production in the licensed area. JX Nippon Oil & Gas Exploration owns a 75% stake in the drilling area and will lead the development of the drilling.

PETRONAS: Sales ratio by product (2019)



(Data by Ashu Research based on PETRONAS annual report)

< Biodiesel fuel trends > Government focuses on encouraging the use of biodiesel

The Malaysian government is currently focusing on encouraging the use of biodiesel fuel, a mixture of light oil and methyl ester derived from palm oil. By increasing the proportion of methyl ester, the government intends to raise the consumption of oversupplied palm oil. Under these circumstances, the government introduced "B10" a bio-diesel content blending ratio of 10% in December 2018 and became mandatory for the transportation sector from February 2019. By June 2021, the government indicated a mandatory policy for the industry that will require the use of 20% "B20" bio-diesel blend. In addition, a 7% blend "B7" has been mandated for industrial use from July 2019.

(Ashu Research: September 2020)

Malaysia: Furniture industry

<Industry overview> A key industry, Exports are active

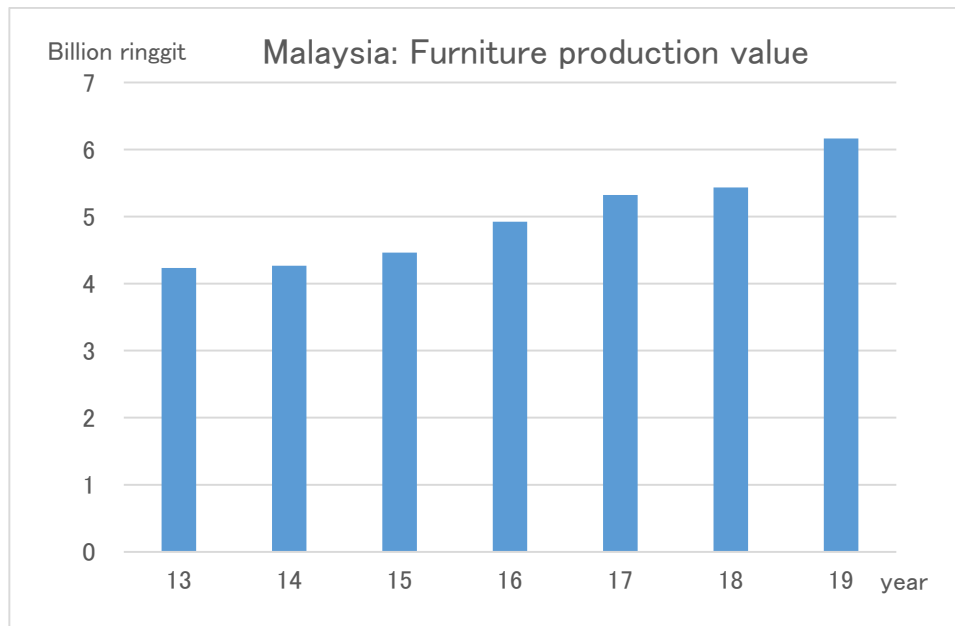
Malaysia's furniture industry is a key industry promoted by the government, which seeks to utilize its abundant forest resources. Its main product is wooden furniture made of timber from rubber trees. Overseas shipments are strong, with about 80% of domestically produced furniture is exported. It ranks 11th in the world in furniture exports (2019). The cost of resources and labor is not so high, and thus is an attractive manufacturing hub for Japanese furniture makers.

Growth potential will be high in the future. The government expects furniture production to keep expanding and export value to grow to 12 billion ringgit (approximately 320 billion yen) by 2020.

<Production value> Increasing trend

The Malaysian furniture industry continues to increase its production value. It has expanded for the sixth consecutive year since 2014. In 2019, it increased by 13.5% from the previous year to 6.17 billion ringgit (about 157 billion yen). Compared to 2013, it has increased by about 50% in 6 years.

Against the background of such production expansion, the furniture industry faces a shortage of raw materials. To secure raw materials, Malaysia has taken measures to ban the export of rubber tree timber from July 1, 2017.



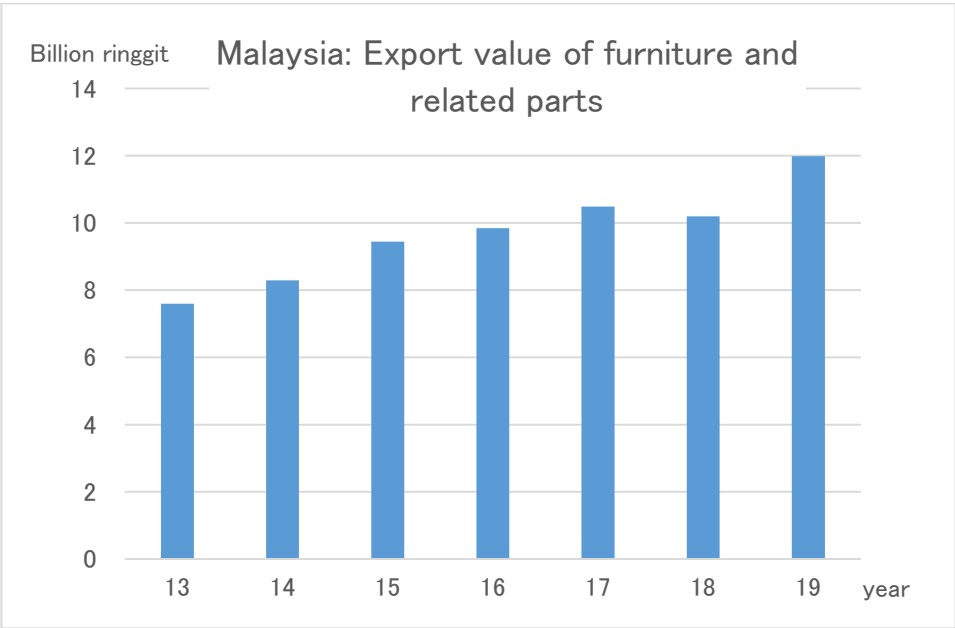
(Data by Ashu Research based on Department of Statistics Malaysia data)

< Export / Import > Increasing trend

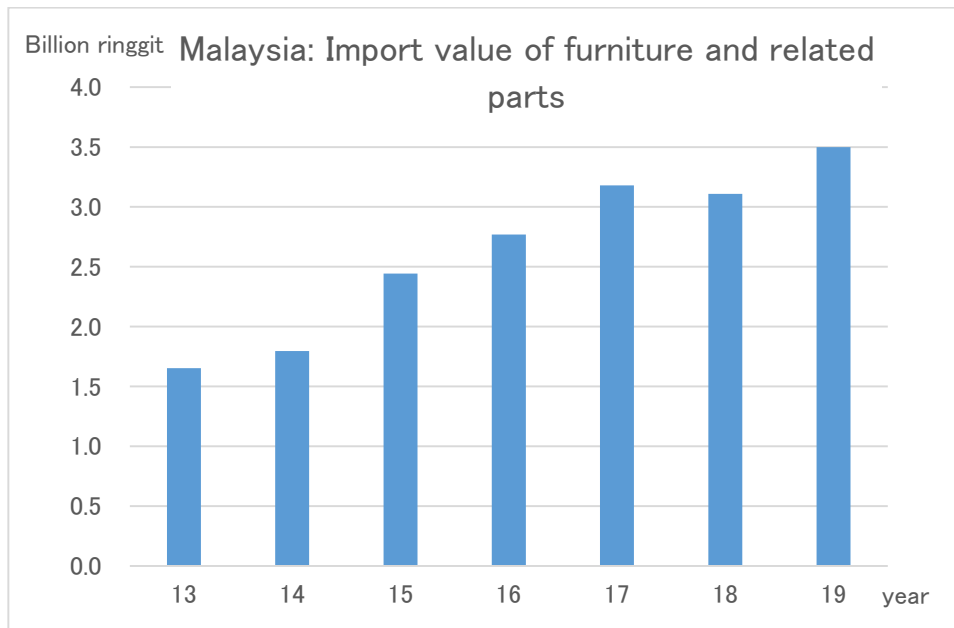
Malaysian furniture (furniture and related parts) export value is on the rise. From 2014 to 2018, it grew at an annual rate of 6.1%. In 2019, it expanded to 11.99 billion ringgit (approximately 304 billion yen), an increase of 17.6%, and recorded a growth of more than 60% compared to 2013.

Exports in 2020 are also strong. The export value from January to August of 2020 increased by 9.6% year year-on-year to 8.04 billion ringgit (approximately 204 billion yen). The main export destinations are the United States, Japan, Australia, the United Kingdom, and others. Recently, exports to the United States have been growing, because US importers are shifting their import destinations from China to Southeast Asia.

Although the scale is small compared to exports, the import value of furniture (furniture and related parts) has continued to increase. From 2013 to 2018, it grew at an annual rate of 13.5%, and in 2019 it was 3.50 billion ringgit (approximately 89 billion yen), an increase of 12.6% from the previous year. Compared with 2013, it has more than doubled.



(Data by Ashu Research based on CEIC data)



(Data by Ashu Research based on CEIC data)

<Industry map> Presence by local private companies

In the Malaysian furniture industry, local private companies stand out. On a sales basis, Poh Huat Resources Holdings is the largest (701 million ringgit). In addition to furniture for home use, the company also produces furniture for office use. This is followed by Latitude Tree Holdings with sales of 685 million ringgit. Besides domestic factories, the company also has factories in Vietnam and Thailand, producing wooden furniture for export. Also, as major companies, Sern Kou Resources, which focuses on furniture for dining use, Homeritz Corporation, which handles furniture for homes, and DPS Resources are famous.

Among foreign-affiliated companies, IKEA, a major Swedish furniture company, has entered the market. It has developed 4 stores in Malaysia (as of October 2020).

As for Japanese companies, Nitori has established a procurement base for materials.

Malaysia: Major furniture producer and exporter

Company name		Amount of sales	Major features
Local Company	Poh Huat Resources Holdings	701 million ringgit (Fiscal year ended October 2019)	Producing and exports furniture for offices and homes. In addition to having factories in Malaysia and Vietnam, the company has a sales hub in Australia.
	Latitude Tree Holdings	685 million ringgit (Fiscal year ended June 2020)	Producing wooden furniture using rubber tree timber. The company has 3 factories in Malaysia, 2 factories in Vietnam and 1 factory in Thailand. The total site area of the 6 factories is 741,400 square meters. Of the furniture produced, 99% is for export. Export destinations include the United States, Canada, Europe, and South Africa.
	Sern Kou Resources	237 million ringgit (Fiscal year ended June 2019)	The company mainly produces and exports furniture for dining. They also handle furniture for living rooms and bedrooms. Major export destinations are Asia, the Middle East, the United States, and Europe, and others, more than 50 countries around the world.
	Homeritz Corporation	148 million ringgit (Fiscal year ended August 2019)	The company produces and exports for household furniture. Export destinations are more than 40 countries around the world.
	DPS Resources	45.2 million ringgit (Fiscal year ended March 2020)	The company produces and exports for household furniture. Export destinations are more than 100 countries around the world. In addition to furniture, they also handle roof trusses.
Foreign owned	IKEA	41 billion euros (Fiscal year ended August 2019)	The company has 4 stores in Malaysia.
	Nitori	642 billion yen (Fiscal year ended February 2020)	Dealing with the production and export of furniture. The company has a material procurement hub in Malaysia. Has a factory in Vietnam.

(Data by Ashu Research based on each company's annual report, website, and various reports)

(Ashu Research : October 2020)

About ScoutAsia

ScoutAsia is an Asia-focused news & company data platform, jointly developed by Nikkei and the Financial Times in 2018, with the ultimate aim of making Asia more accessible to foreign businesses.

Combining quality content and technology, ScoutAsia provides AI-driven insights on what is changing in Asian businesses.

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