From the Desk of the Chief Economist

BANK ISLAM

ECONOMIC OUTLOOK 2022: NAVIGATING THROUGH A BUMPY RECOVERY

6 DECEMBER 2021

ECONOMIC RESEARCH

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REVIEW ON THE FINANCIAL MARKET (EQUITIES & BONDS)

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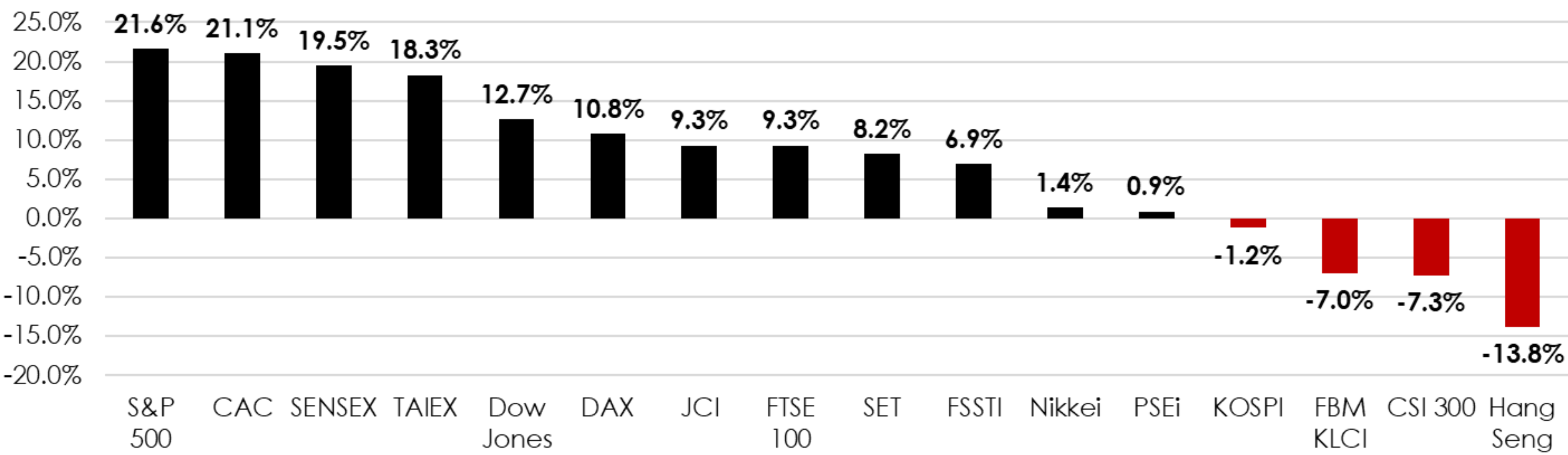
- ✓ Among major regional markets, Wall Street's S&P 500 index was the largest gainer on a Year-To-Date (YTD) basis with a 21.6% advance. The rally in the S&P 500 index has been fuelled by President Joe Biden's infrastructure bill worth USD1.2 trillion which is expected to facilitate the country's economic growth from the pandemic. However, the final trading day of November saw the U.S. Federal Reserve (Fed) Chairman Jerome Powell mention that the risk of higher inflation has increased and that it was appropriate to consider wrapping up tapering of bond purchases a few months sooner, causing the S&P 500 index to slump by 1.9% on the same day.
- ✓ Meanwhile, Hong Kong's Hang Seng index led laggards with a 13.8% decline on a YTD basis which was initially sparked by Evergrande's debt crisis. The latest drag on the index was the news of the Omicron variant which sapped risk appetite while a sell-off in Macau casino operators prolonged after Macau's largest casino junket operator Suncity Group said its controlling shareholder Alvin Chau Cheok-wa offered to step down as chairman and executive director, following his arrest.
- ✓ On the domestic front, the FBM KLCI index stood out as the third smallest decliner among its Asian peers, declining by 7.0% on a YTD basis due to the absence of major catalysts after the one-off prosperity tax was tabled during Budget 2022.

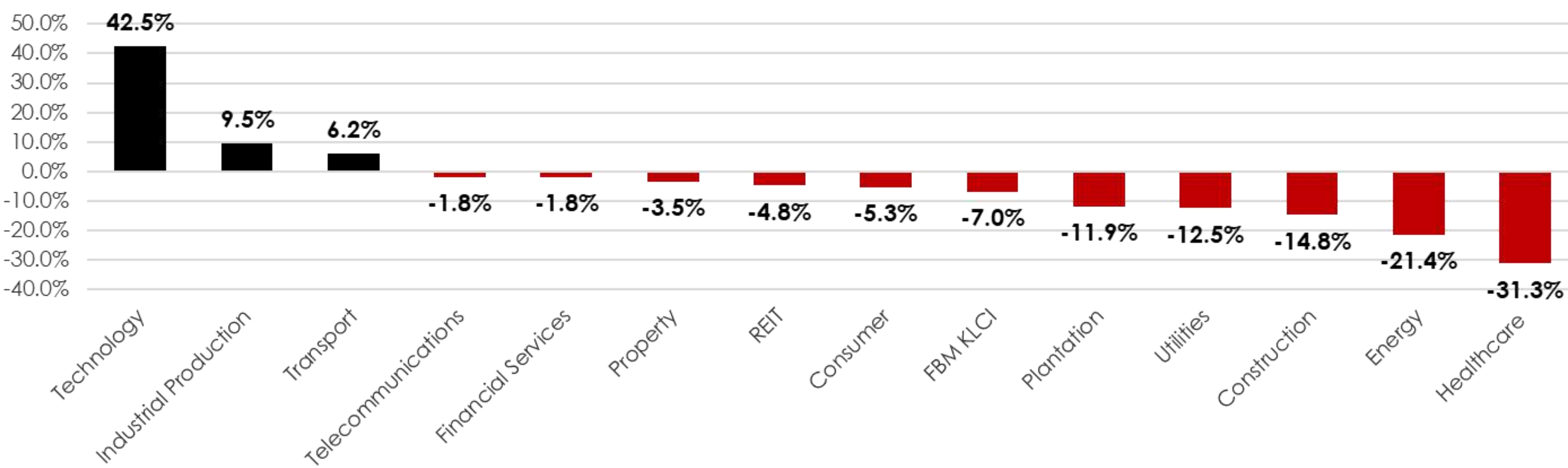
Benchmark Indices YTD Gain, %



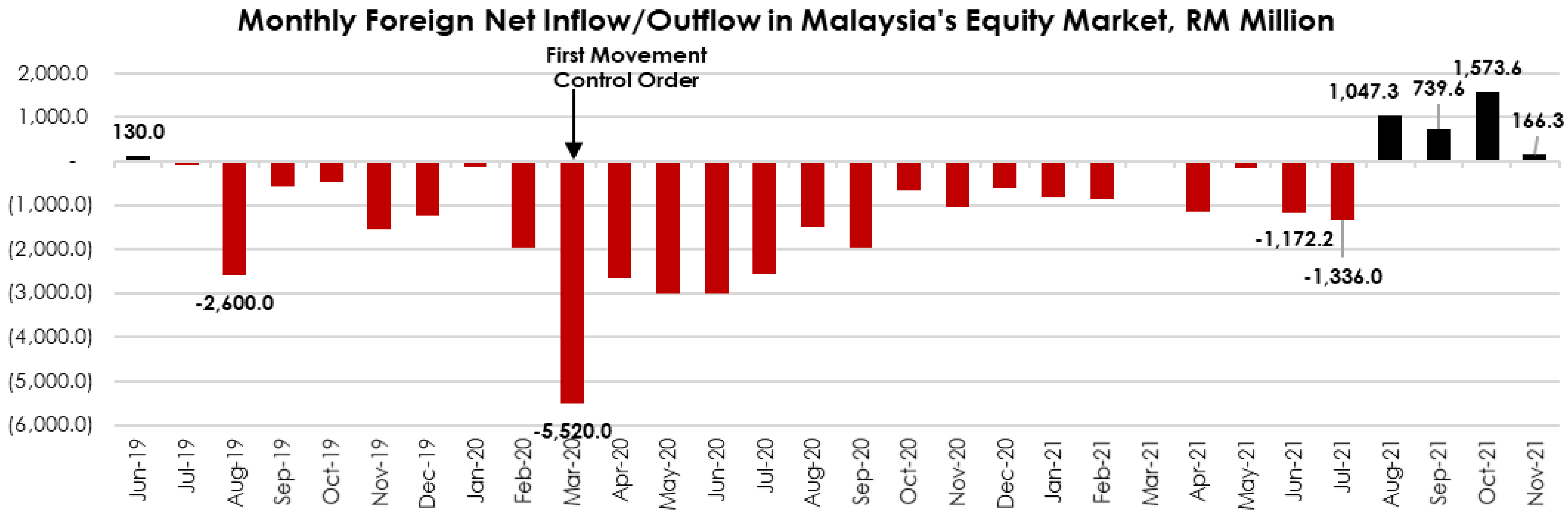
Source: CEIC
Note: As at 30 November 2021

- ✓ It came to no surprise that the Bursa Malaysia Technology index was the best performer during 11M2021, rising by 42.5% amid Malaysia's position as an important semiconductor hub. Although manufacturing activities were affected during the series of lockdowns, Malaysian semiconductor fabrication plants are back to 100.0% capacity which could accommodate the pent-up demand for server shipments in Asia. Original equipment manufacturers (OEM) in the automotive industry also stated that the worst of the chip shortage is behind them and it could take at best 3 to 4 months for the issue to be over.
- ✓ The tables have turned for the Bursa Malaysia Healthcare index which recorded a 31.3% decline during 11M2021 compared to a 220.9% gain in 11M2020. It cannot be denied that the progress of vaccination efforts throughout the globe have somehow reduced the urgent need for rubber gloves. As a result, the average selling prices (ASPs) of rubber gloves have been on a downtrend, painting gloomy prospects for the profitability of rubber glove manufacturers. Nevertheless, the concerns from the Omicron variant could possibly put rubber glove manufacturers back into the centre of attention among investors.

Bursa Malaysia Sectoral YTD Performance, %

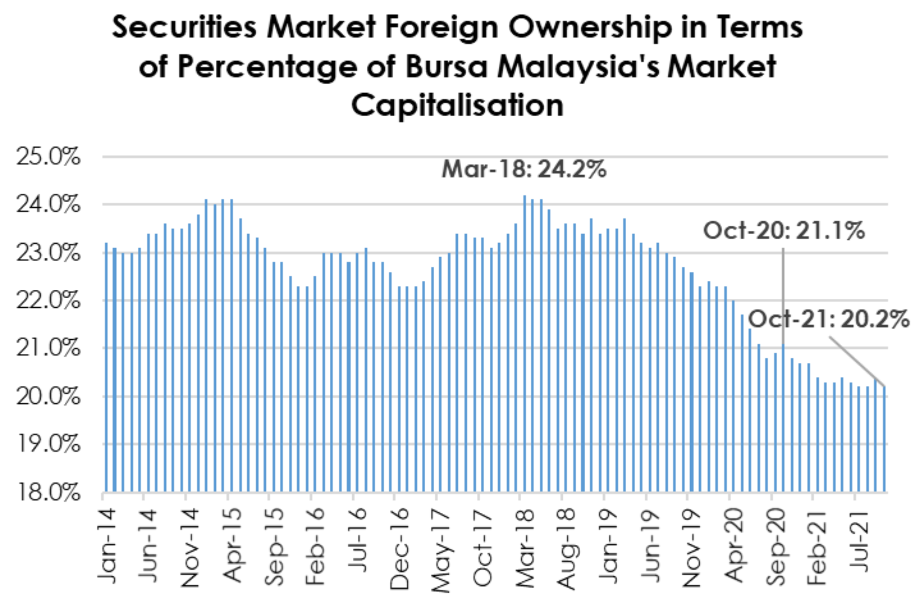


Source: CEIC



Source: Bursa Malaysia

- ✓ For the past 4 straight months, international investors have been accumulating Malaysian equities.
- ✓ The cumulative foreign net selling stood at RM2,011.6 million in 11M2021 compared to a foreign net outflow of RM24,000.6 million in 11M2020.
- ✓ With one month left, the year 2021 is set to mark the fourth consecutive year of foreign net outflow from Bursa.
- ✓ Foreign ownership levels in terms of percentage of Bursa Malaysia's market capitalisation have been steadily coming off since hitting the peak of 24.2% in March 2018. The recent influx of foreign investors into Malaysia did not help in increasing foreign ownership levels as the value of shares that they own has likely dropped after purchase especially after the announcement of the one-off prosperity tax or 'Cukai Makmur' under Budget 2022.



Source: Bursa Malaysia

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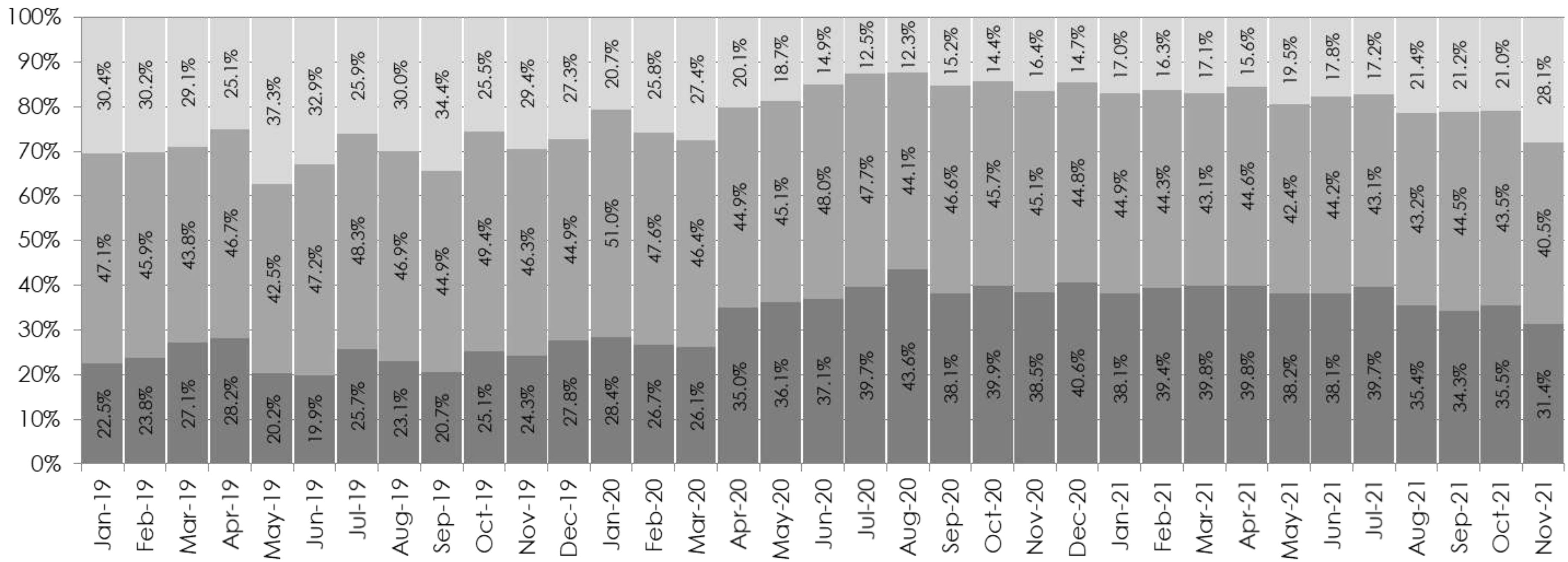
- ✓ We observed that the participation from retail investors took a sharp turn in November 2021. This is evident from the reduction in retail investors' share of value traded on Bursa Malaysia which dropped to 31.4% in November from 35.5% in October, the lowest in 20 months.
- ✓ Likewise, the participation from local institutions was lower at 40.5% of the total value traded on Bursa in November compared to 43.5% in the previous month.
- ✓ We can infer that these two types of investors were jittered about the one-off prosperity tax for 2022 which may reduce the profitability of listed companies.
- ✓ Meanwhile, foreign investors saw their trading participation based on value traded on Bursa increased markedly to 28.1% for the month of November (October: 21.0%).
- ✓ Overall, the total value traded on Bursa Malaysia for 11M2021 was at RM1.65 trillion compared to 2.1 trillion for 11M2020.

Trading Participation (%) based on value traded amongst investor types



Source: Bursa Malaysia

DEMAND FOR LOCAL GOVVIES REMAINS STURDY IN 2021

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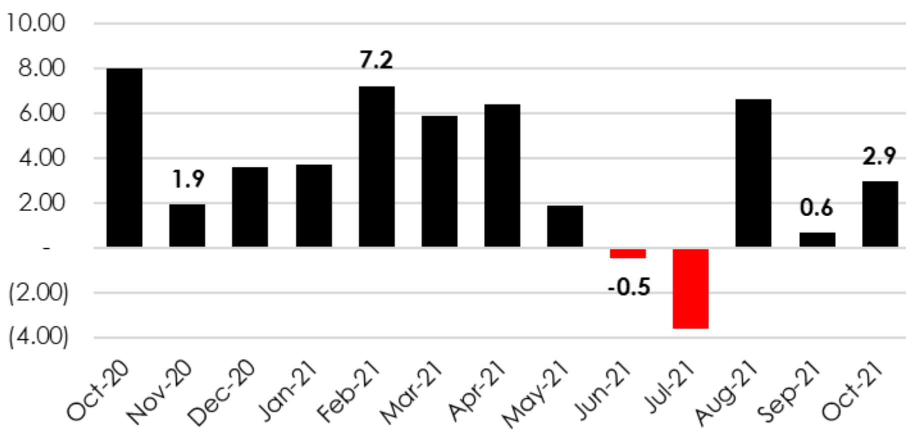
U.S. Treasury & Malaysian Government Securities (MGS) YTD Performance

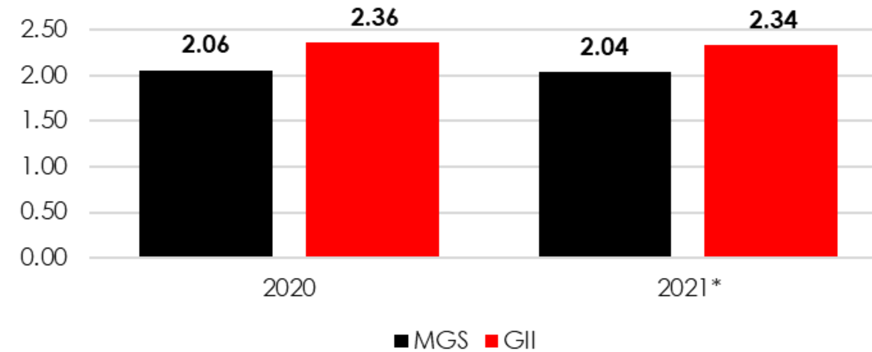
UST	Yields (%) 31-Dec-20	Yields (%) 30-Nov-21	Change (bps)
3-Y MGS	0.09%	0.05%	-4
5-Y MGS	0.13%	0.52%	39
10-Y MGS	0.36%	1.14%	78
MGS	**Yields (%) 31-Dec-20**	**Yields (%) 30-Nov-21**	**Change (bps)**
3-Y MGS	1.88%	2.68%	80
5-Y MGS	2.12%	3.13%	101
10-Y MGS	2.65%	3.52%	87

Foreign Fund Flows in Bond Market, RM Billion



Sources: CEIC, Bond Info Hub

Bid-To-Cover (BTC) ratio



Note: * As at November 2021

- ✓ On domestic front, the yields of 3-Y, 5-Y and 10-Y MGS have increased significantly by 80 bps, 101 bps and 87 bps respectively on a YTD basis, mirroring the U.S. Treasury (UST) yield movement as the risks from the Covid-19 have gradually dissipated accompanied by progress on vaccination efforts.
- ✓ Meanwhile, foreign investors continued to purchase local govvies for three straight months with the latest net inflow standing at RM2.9 billion in October (September: RM0.6 billion).
- ✓ This has brought the cumulative net inflow higher at RM31.0 billion in 10M2021 compared to RM12.8 billion in 10M2020.
- ✓ In addition, the average BTC for MGS and GII was fairly stable at 2.04x and 2.34x respectively as at November.
- ✓ This shows that the demand for Malaysian bonds remains supportive.

RINGGIT – EXTERNAL PRESSURES CONTINUE TO DRAG THE LOCAL NOTE

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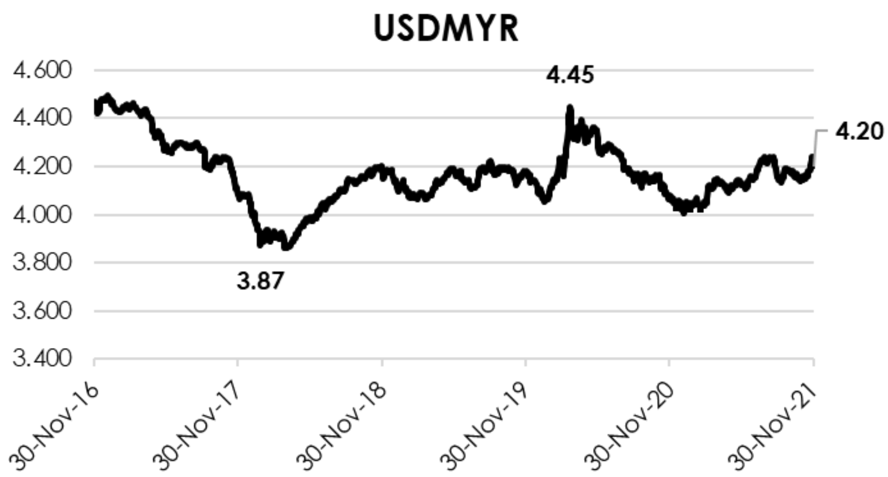

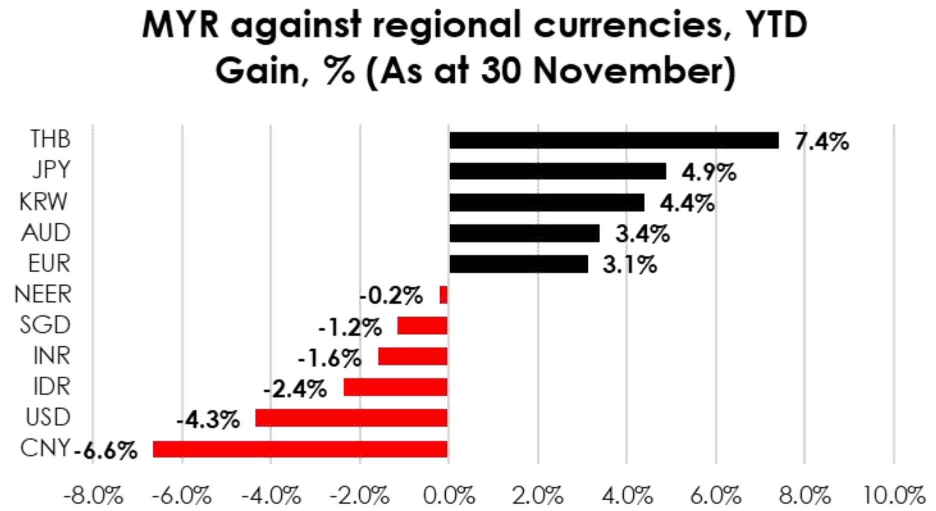

Source: Investing.com

- ✓ At the current juncture, the Ringgit has weakened by 4.3% on a YTD basis to close at RM4.200 against the U.S. dollar on 30 November from a RM4.023 on 1 January.
- ✓ One of the reasons was attributable to the current account balance of payments which registered a smaller surplus of RM11.6 billion or 3.1% of GDP in 3Q2021 after increasing by RM14.4 billion or 3.9% of GDP in the previous quarter and thus, further lowering the value of the Ringgit.
- ✓ Other than that, hawkish remarks from the Fed that indicated the tapering process could be quicker should economic data point to a more sustainable recovery might bring pressure to currencies of emerging countries including the Ringgit. In addition, he suggested to retire the word 'transitory inflation' which subsequently could open the door to interest rate hikes thereafter.
- ✓ Despite the gradual reopening of the economy, the future remains uncertain. This is especially true when the recent discovery of new Covid-19 variant of concern (VOC) called Omicron might be a sign that the pandemic will remain with us for some time.
- ✓ The weakness of the Brent crude oil price which dropped below USD80.00 per barrel amid demand concerns arising from the possible threat of the Omicron will also have some bearing towards the Ringgit. The reason being is that Brent crude oil price has a causality effect towards the Ringgit.
- ✓ In brief, the Ringgit is still exposed to a combination of external factors ranging from monetary policy to the new Covid-19 variant.

PRESENT ECONOMIC CONDITION

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GDP FORECAST IN 2022

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2022F: 5.5%
2021E: 3.0%

BANK NEGARA MALAYSIA

2022F: 5.5% - 6.5%%
2021E: 3.0% - 4.0%

WORLD BANK GROUP

2022F: 5.8%
2021E: 3.3%

INTERNATIONAL MONETARY FUND

2022F: 6.0%
2021E: 3.5%

Sources: World Bank, IMF, BNM, Bank Islam, CEIC

Current Performance

GDP

9M2021: 3.0%
9M2020: -6.4%

Demand Side

Private Consumption
9M2021: 1.2%
9M2020: -4.6%

Public Consumption
9M2021: 7.7%
9M2020: 4.7%

Private Investment
9M2021: 4.2%
9M2020: -13.3%

Public Investment
9M2021: -15.4%
9M2020: -21.8%

Exports
9M2021: 16.9%
9M2020: -11.2%

Imports
9M2021: 19.9%
9M2020: -10.1%

Supply Side

Services
9M2021: 1.4%
9M2020: -5.7%

Manufacturing
9M2021: 9.7%
9M2020: -4.6%

Agriculture
9M2021: -1.2%
9M2020: -2.5%

Mining
9M2021: 1.3%
9M2020: -10.7%

Construction
9M2021: -2.6%
9M2020: -21.3%

TRANSITIONING TOWARDS NORMALCY – HUMAN MOBILITY HAS BEEN INCREASING IN MALAYSIA

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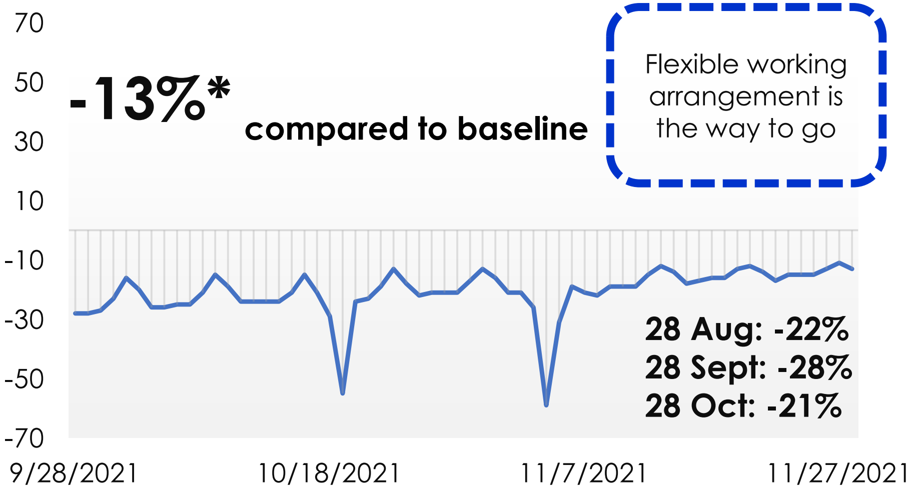
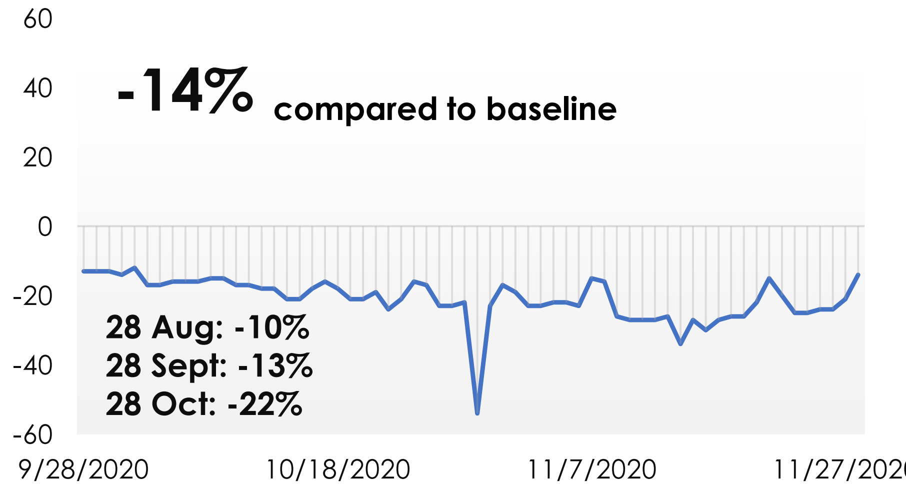
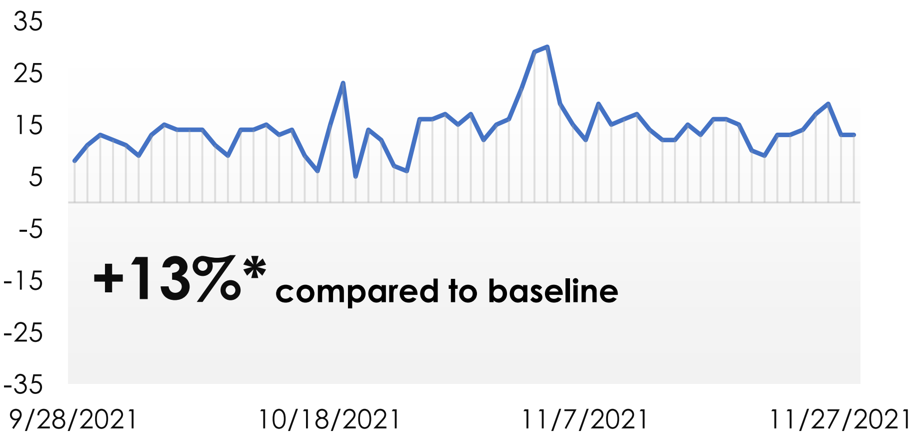
Workplace, % (2021)



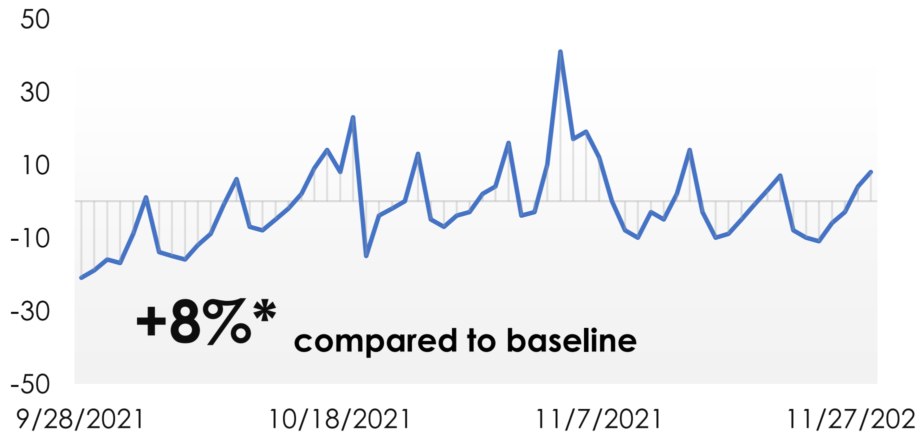
Workplace, % (2020)



Grocery & Pharmacy, % (2021)



Parks, % (2021)



Note: Baseline 0 indicated no movement, while any number level above 0 means people are at specific places (workplaces, residential areas) and any number below 0 would mean otherwise.
*figure as at 28 November
Source: Google Mobility Report

CONSUMER AND BUSINESS SENTIMENT ARE EXPECTED TO IMPROVE

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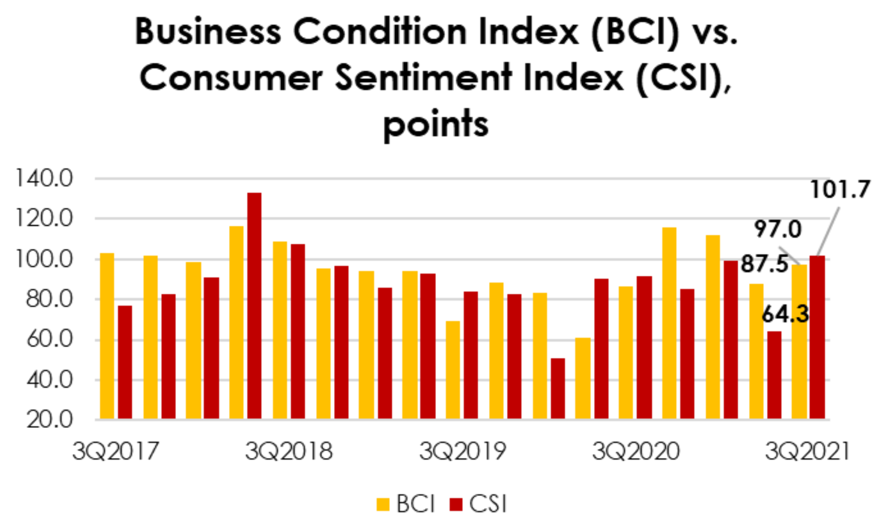
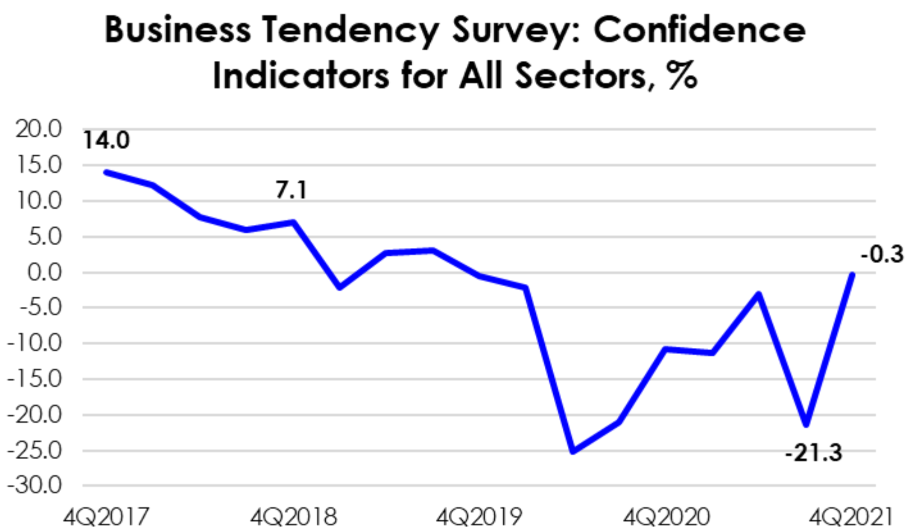
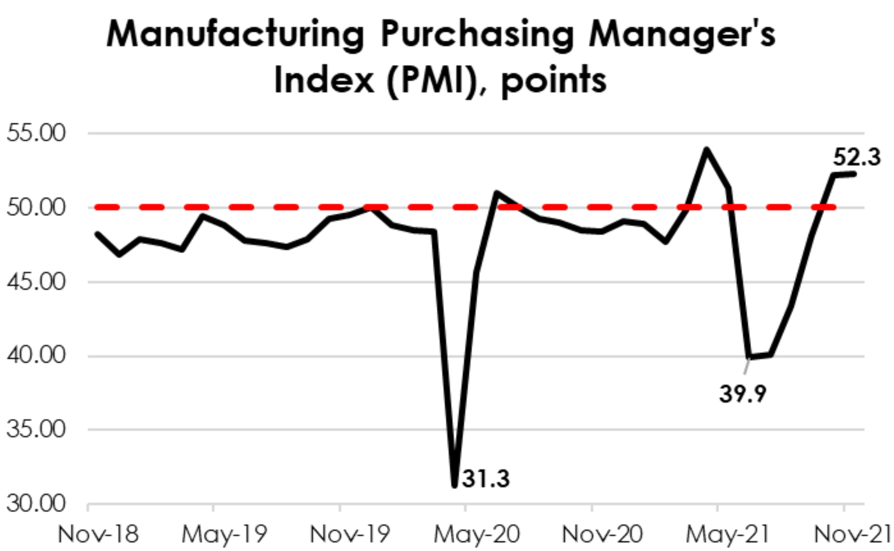


Source: DOSM

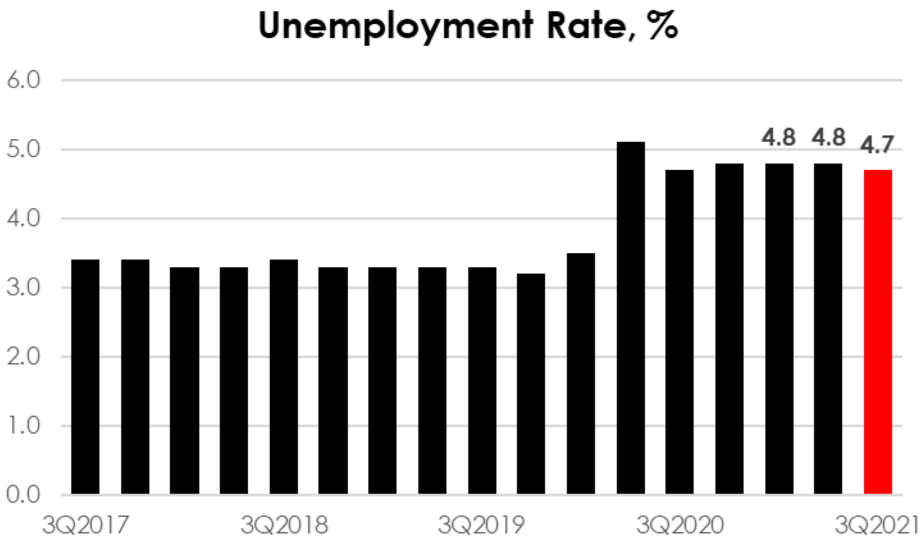


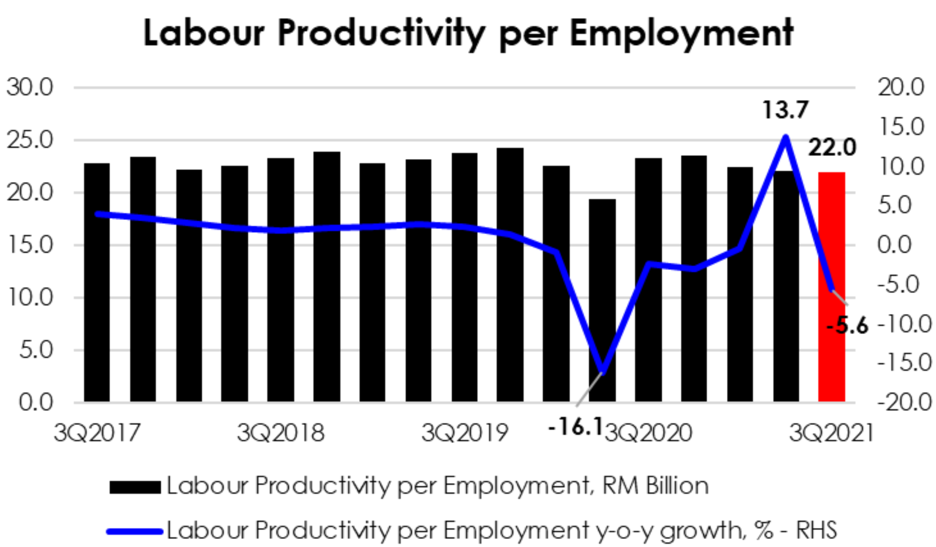


Source: Bloomberg

- ✓ Malaysia's Manufacturing PMI edged up to 52.3 points in November, (October: 52.2 points) marking the second straight month of gains and the strongest since April amid recovery from the intense downturn seen during mid-year following the gradual easing in Covid-19 restrictions.
- ✓ Apart from that, Department of Statistics Malaysia (DOSM) has reported that businesses gain confidence towards fourth quarter of 2021 with the confidence indicator recorded a smaller contraction at 0.3% (3Q2021: -21.3%) as compared to the previous quarter. The positive outlook was supported by the easing of economic restrictions during mid-October.
- ✓ On the other hand, both BCI and CSI have further increased to 97.0 points (2Q2021: 87.5 points) and 101.7 points (2Q2021: 64.3 points) respectively in 3Q2021, indicating that both indicators are looking up once again due to the easing of Covid-19 restrictions.
- ✓ Be that as it may, the encouraging sentiment might be reversed amid fears on the emergence of Omicron variant which has been detected in over 20 countries including Malaysia as of 3 December 2021.

LABOUR MARKET RECOVERED AT A MODERATE PACE



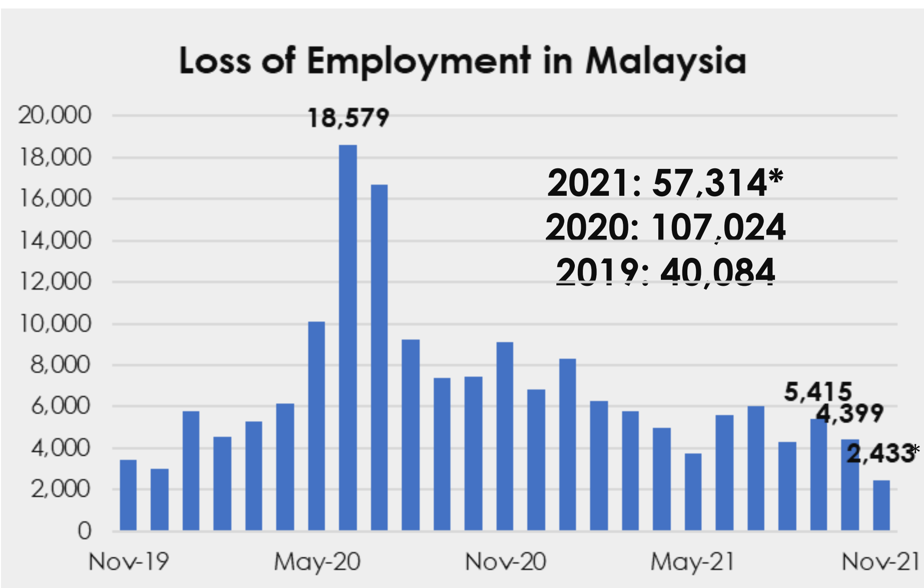


Sources: CEIC, DOSM

- ✓ Overall, the labour market has yet to return to pre-pandemic levels during 3Q2021 albeit posting a better quarter-on-quarter (q-o-q) performance.
- ✓ Unemployment rate (UR) saw a slight improvement as the figure declined by 0.1 percentage points (ppts) to reach 4.7% (2Q2021: 4.8%) during the said quarter amid gradual ease of restrictions according to the phases of the national recovery plan (NRP).
- ✓ Similarly, employment rate recorded a marginal increase of 67.5 thousand persons to hit 15.3 million in 3Q2021 (2Q2021: 15.2 million).
- ✓ Meanwhile, labour productivity expressed in terms of value added per employment has plummeted by 5.6% during the quarter after increasing by 13.7% in 2Q2021. The downward pressure was due to most of the states especially key states such as Selangor and Kuala Lumpur that were under phase 1 of NRP. As such, demand for good and services remained subdued following cautions of high daily Covid-19 cases though there was progressive lift of selected restrictions targeted towards the fully vaccinated individuals.
- ✓ Moving forward, the labour market is expected to improve for the next quarter since the economy has gradually opened with the reopening of state borders from 11 October.
- ✓ Nevertheless, with the new emergence Omicron strain of Covid-19 which was first detected in South Africa, this could pose challenges for the road to recovery in the country.

LOSS OF EMPLOYMENT IS DECLINING

- ✓ The series of Movement Control Orders (MCOs) imposed by the government to curb the fast-spreading virus have restrained economic activities and human mobility, thus affecting labour market and business operations.
- ✓ Consequently, job losses have been higher compared to the pre-pandemic period. Last year, the total loss of employment (LOE) in Malaysia stood at 107,024 (2019: 40,084) as employers had to bear the brunt of the Covid-19 pandemic.
- ✓ As at 19 November 2021, the total LOE in 2021 had reached 57,314 which was more than the total LOE recorded in 2019. However, the cumulative figure was lower during 10M2021 at 54,481 as compared to the same corresponding period last year (10M2020: 91,133), suggesting an improvement in labour market conditions amid new job opportunities in light of the gradual reopening of the economy.
- ✓ In effort to generate and sustain jobs next year, the government under the Jamin Kerja Keluarga Malaysia (JaminKerja) initiative will guarantee 600,000 job opportunities with an allocation of RM4.8 billion. This would further stimulate job creation moving forward.

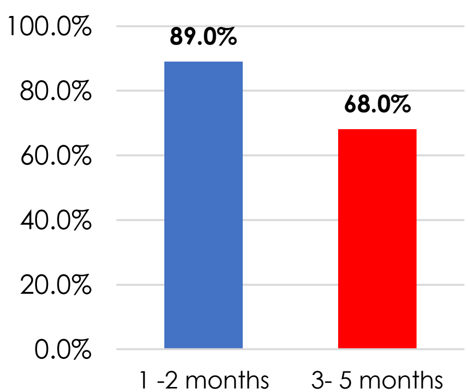


Source: SOCSO
*as at 19 November 2021

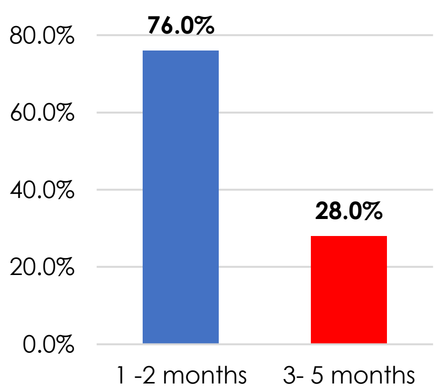
WHAT TO LOOK OUT FOR IN 2022?

- ✓ As Malaysia's vaccination rate for the adult population reached 90.0%, the government has allowed to resume interstate and overseas travel from 11 October.
- ✓ The next focus will be to complete the vaccination programme for adolescents (12 to 17 years of age).
- ✓ In addition, the administration of booster shots has commenced from 13 October 2021 with a smooth progress. So far 2,457,510 booster shots have been administered as at 30 November from just 3,158 booster shots on 13 October.
- ✓ Booster shots are important as the effectiveness of vaccines against the virus wanes after three to five months.
- ✓ Therefore, a higher vaccination rate in the country could prevent another wave of infections.

Pfizer Fffectiveness Against Covid-19 Infections



Sinovac Fffectiveness Against Covid-19 Infections



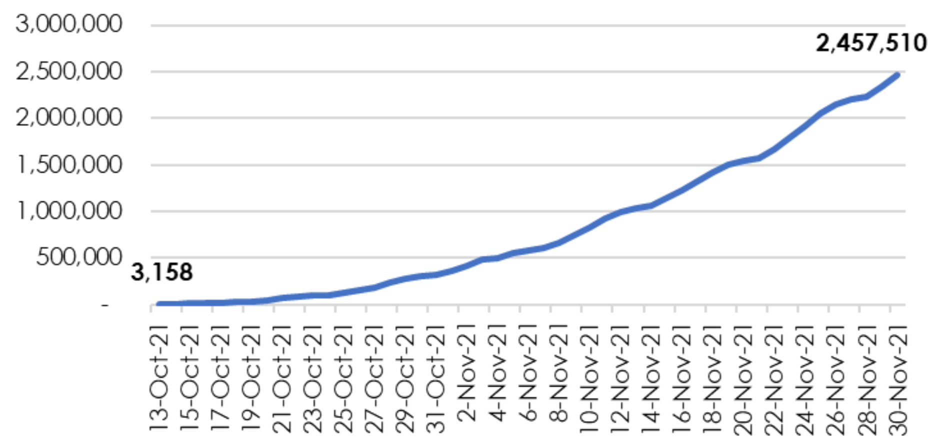
Source: Ministry of Health

Malaysia's Vaccination Rate For Fully Vaccinated Individuals

Adolescents (12 to 17 years old)	Adults (18 years old and above)	Total Population
86.2%	97.0%	77.8%

Source: Covid-19 Immunisation Task Force
Note: As at 1 December 2021

Cumulative Booster Shots Administered In Malaysia



UPDATES ON THE OMICRON VARIANT

- ✓ However, the world was shocked on 26 November when the World Health Organisation (WHO) designated the variant B.1.1.529 a VOC, named Omicron.
- ✓ Since then, many countries have re-imposed certain standard operating procedures (SOPs) such as wearing masks in public places and requiring testing of international arrivals.
- ✓ More than 200 cases related to the Omicron variant have been detected throughout the world as at 3 December.
- ✓ So far, Malaysia has detected one case under the Omicron variant on 3 December.

Measures carried out by countries in response to the Omicron variant

Countries	Types of Measures Imposed
South Africa	Remain on the lowest 'Level One' of its five-level lockdown strategy.
The U.K.	Masks made mandatory in shops and on buses and trains, while new arrivals must take PCR tests.
The U.S.	New York declared state of emergency in response and released updated mask advisory on 29 November that strongly recommends people to wear masks indoors.

Source: Various

Number of Covid-19 cases related to the Omicron variant

Country	Number of Omicron-related cases
Australia	7
Austria	1
Belgium	1
Botswana	19
Brazil	2
Canada	6
Czech Republic	1
Denmark	4
France	1
Germany	9
Hong Kong	4
Israel	4
Italy	9
Japan	2
Netherlands	16
Nigeria	3
Norway	2
Portugal	13
Saudi Arabia	1
South Africa	77
South Korea	5
Spain	2
Sweden	3
U.K.	22
U.S.	1
Malaysia	1
Total	**216**

Source: CNN

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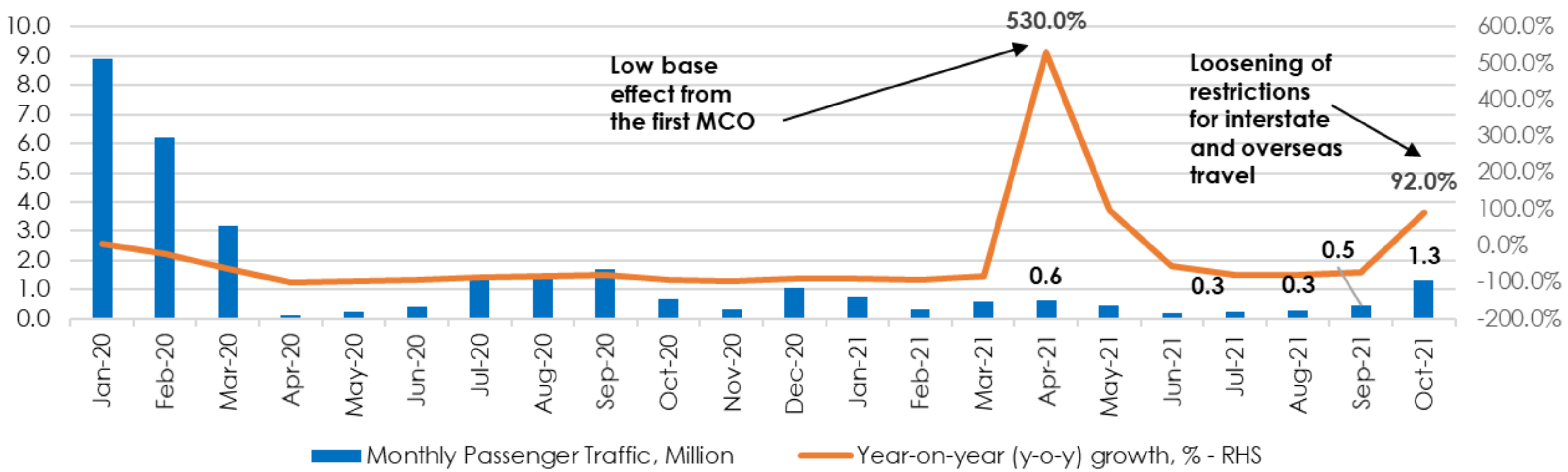
- ✓ The government has decided to pause Malaysia's move into the endemic phase until more information on the Omicron variant is available.
- ✓ Tighter border controls have been in place, preventing entry to visitors from countries that have recorded cases of Covid-19 from the Omicron variant.
- ✓ As such, the aviation and tourism sector that was just about to gain momentum from the loosening of restrictions could face obstacles if the Omicron variant was found to be more dangerous than other variants.
- ✓ Recall that the tourism industry contributes 14.1% towards the nation's GDP in 2020 (2019: 15.9%).

Countries which have banned travellers from South Africa, Botswana, Eswatini, Lesotho, Mozambique, Namibia, Zimbabwe
Malaysia
The U.K.
The U.S.
Netherlands
Indonesia

Source: Various

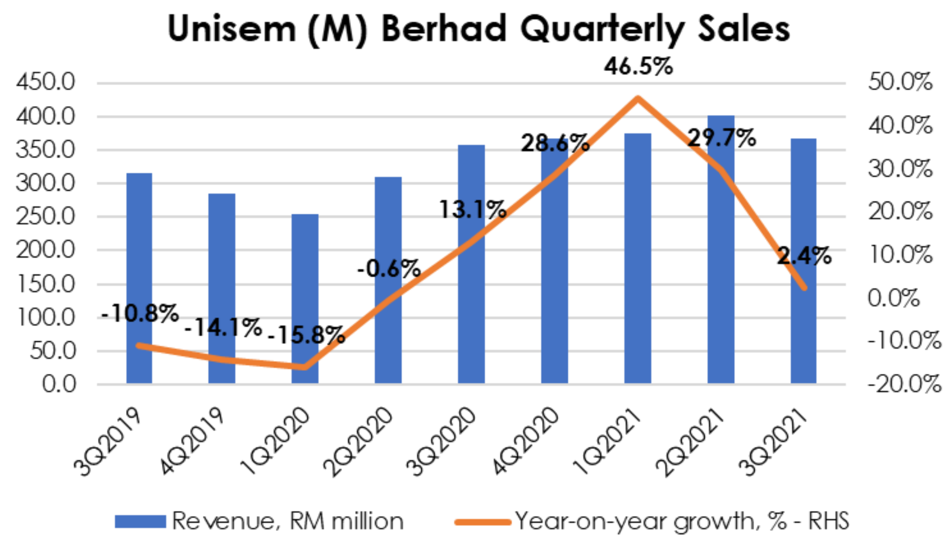
Monthly Passenger Traffic at Malaysia Airports



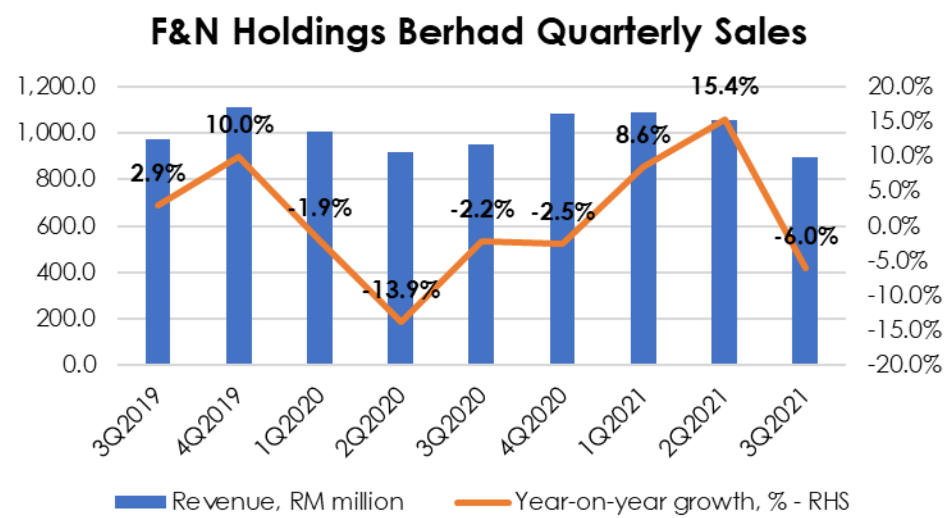
Source: Malaysia Airports Holdings Berhad

RISKS OF OMICRON TOWARDS MALAYSIA – MANUFACTURING SECTOR

- ✓ While a nationwide lockdown is no longer preferred, targeted lockdowns could still be on the cards if the Omicron variant contracts severe symptoms.
- ✓ Assuming that an Omicron-related outbreak is detected at factories, factories will have to temporarily shut down their operations.
- ✓ Recall that the enhanced movement control order (EMCO) in 3Q2021 during the first half of July saw many manufacturing sub-sectors including electrical & electronics (E&E) such as Unisem (M) Berhad to record softer revenues.
- ✓ Food and beverage (F&B) manufacturers like Fraser & Neave Holdings Berhad (F&N) were not spared from the EMCO as the prohibition to dine-in at F&B outlets and restricted operating hours for convenience stores caused a 6.0% y-o-y drop in their sales in 3Q2021.
- ✓ Therefore, businesses and factories have to formulate a more comprehensive business continuity plan in the event that a targeted lockdown is implemented at their premises.



Sources: Bursa Malaysia, Various Media & Unisem's 3Q2021 Analyst Briefing



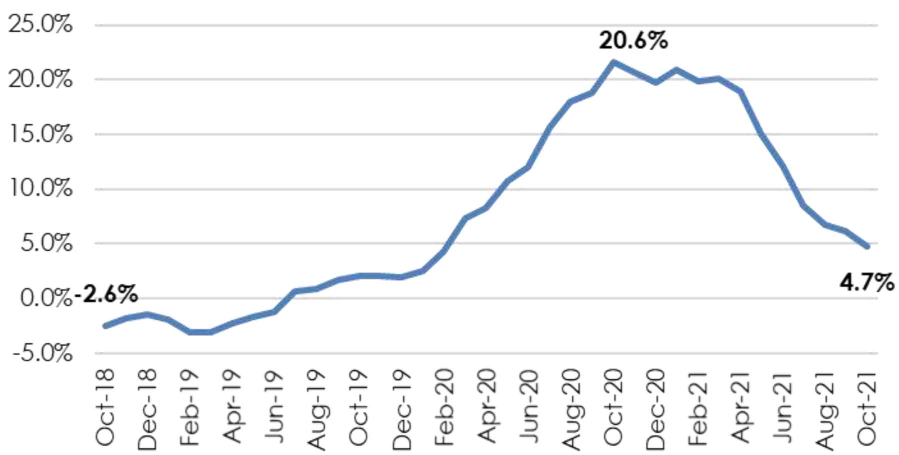
Source: Bursa Malaysia

MONETARY POLICY OUTLOOK APPEARS MIXED

- ✓ The discovery of the Omicron variant coincided with the statement by Fed Chairman Jerome Powell that inflation may no longer be 'transitory' in nature while signalling support for a faster tapering schedule.
- ✓ If the Omicron variant was proven to be more infectious and cause severe symptoms, the pathway to monetary policy normalisation by the Fed could face some setbacks.
- ✓ The reason being is that the unemployment rate in the U.S. could increase if restrictions were imposed later on to curb the spread of the variant.

- ✓ For Malaysia, our base case scenario includes a possible rate hike in 2H2022 with July being the earlier.
- ✓ Therefore, any possible threat from the newest variant could mean a longer timeline to consider raising the Overnight Policy Rate (OPR) by BNM provided that certain form of restrictions on economic activities were imposed again.
- ✓ Restrictions could also dampen consumer spending which has been rising as reflected by the growth in saving deposits in banks which had moderated to 4.7% y-o-y in October, (September: 6.1%) from 20.1% in March.
- ✓ More importantly, BNM will continue to utilise its policy levers based on prevailing data points before considering to gradually move away from its accommodative stance.

Growth In Saving Deposits Of Individuals In Malaysia, %



Source: CEIC

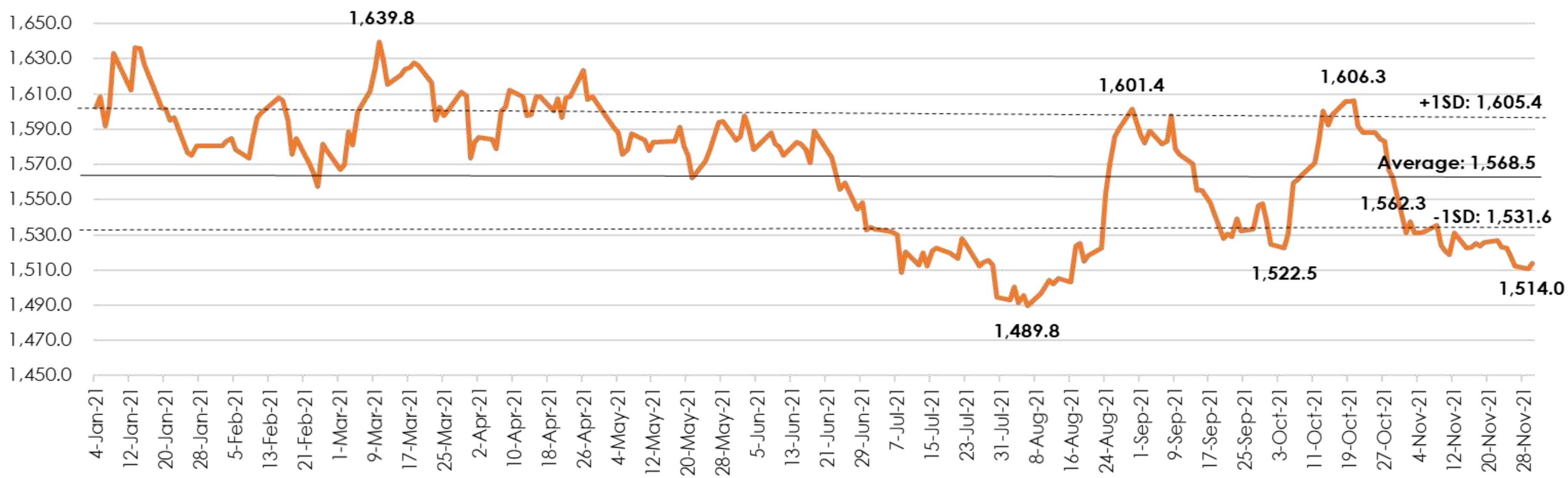
- ✓ The FBM KLCI index has gone through a roller coaster ride this year in light of the past political uncertainty combined with external pressures from the virus and the surprise from the one-off prosperity tax.
- ✓ We are revising our year-end FBM KLCI target to settle at 1,540 points at year-end for 2021 (2020 year-end: 1,627 points) from 1,610 points previously based on a price-to-earnings (PE) target of 15.7x.
- ✓ The reason for the revision is to incorporate the lower consensus forecasted for the 2021 FBM KLCI index earnings per share (EPS) integer of 98.0 compared to 110.0 following weaker-than expected 3Q2021 results season.
- ✓ We are also taking the opportunity to introduce our 2022 FBM KLCI year-end target of 1,660 points as we view that earnings will be stable barring any unforeseen circumstances posed by the Omicron variant.

EPS Integer Of The FBM KLCI Index

Year	Earnings Per Share (EPS) Integer of the FBM KLCI Index	Year-on-year growth, %
2022F	105.6	7.8%
2021E	98.0	37.6%
2020	71.2	-20.6%
2019	89.7	13.0%
2018	79.3	-26.5%
2017	107.9	9.8%

Source: Bloomberg

FBM KLCI Index, points



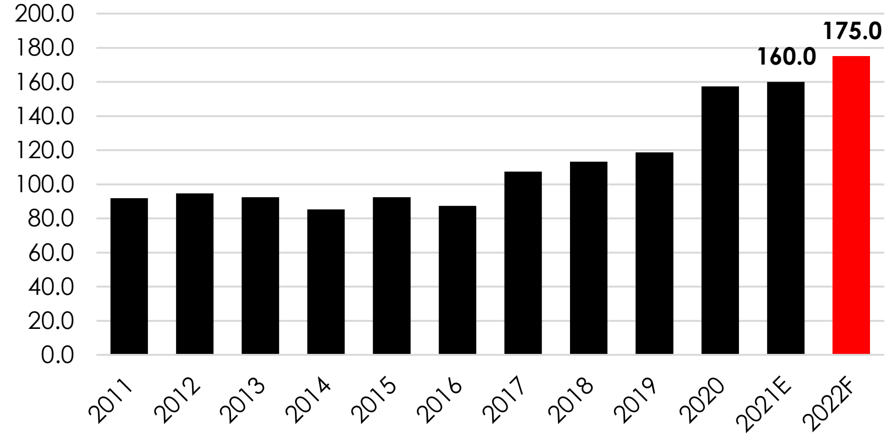
Source: Bursa Malaysia

MGS Yields Forecast

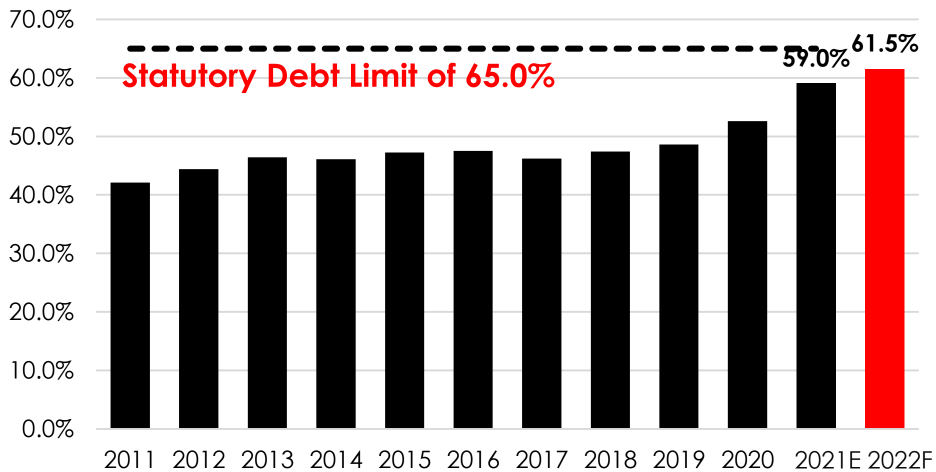
	3-Y MGS	5-Y MGS	10-Y MGS
2021E	2.79%	3.26%	3.63%
2022F	3.19%	3.69%	4.08%

- ✓ Going into 2022, the MGS yields for 3-Y, 5-Y and 10-Y are projected to go up to 3.19%, 3.69% and 4.08% next year respectively in view of a swift economic recovery.
- ✓ On the fiscal front, we are forecasting that the issuance of MGS and GII will reach RM175.0 billion in 2022F (2021E: RM160.0 billion) as the government is set to maintain its expansionary budget to spur the economy,
- ✓ Meanwhile, the statutory debt-to GDP ratio is likely to reach 61.5% next year which is remain below the new statutory debt threshold of 65.0%.
- ✓ Hence, the government will have to balance the need for supporting the economic recovery with its fiscal position.
- ✓ All in all, the risks due to emerging of new Covid-19 variant and global inflation remain as wildcards that could cloud the prospects next year.

Total Issuance of MGS and GII, RM Billion



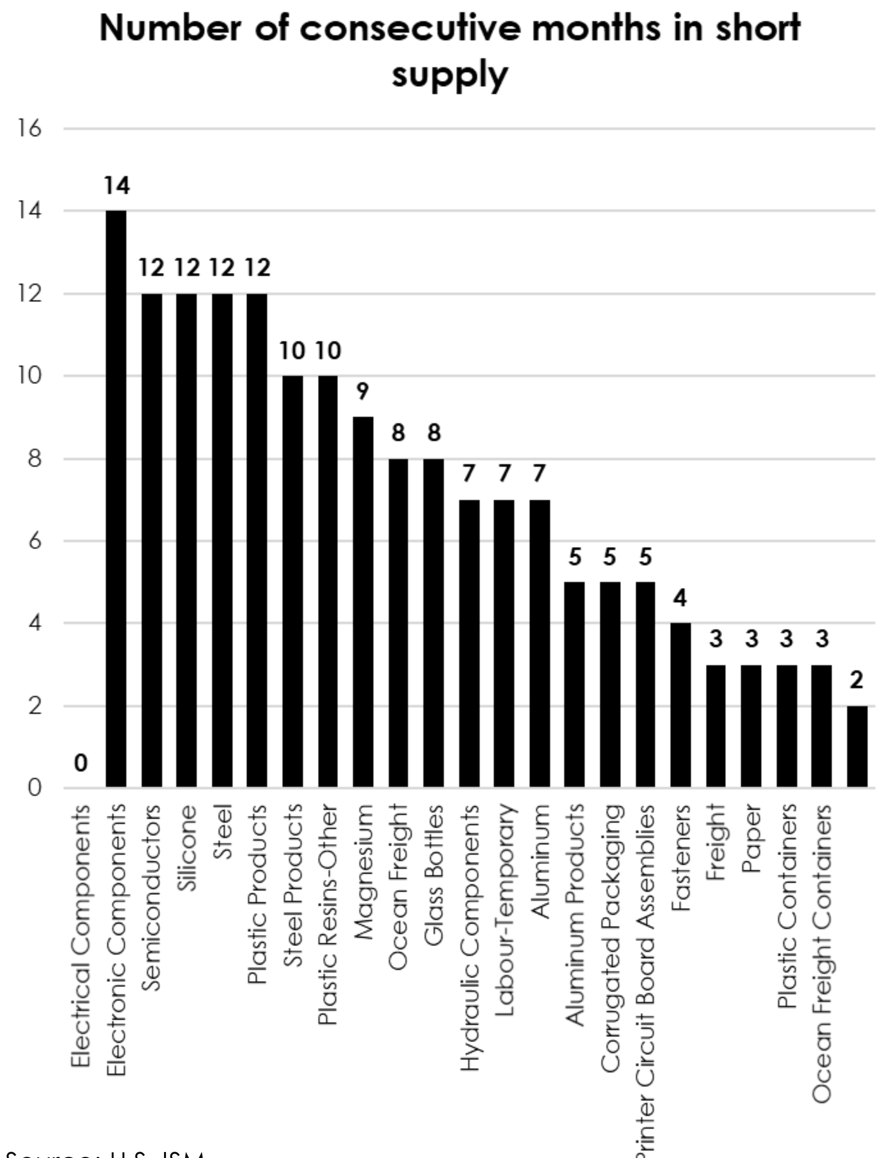
Statutory Debt (MGS, GII & MITB)-to-GDP ratio, %



Sources, CEIC, Bank Islam

RISKS THAT MAY CONTINUE TO LINGER IN 2022

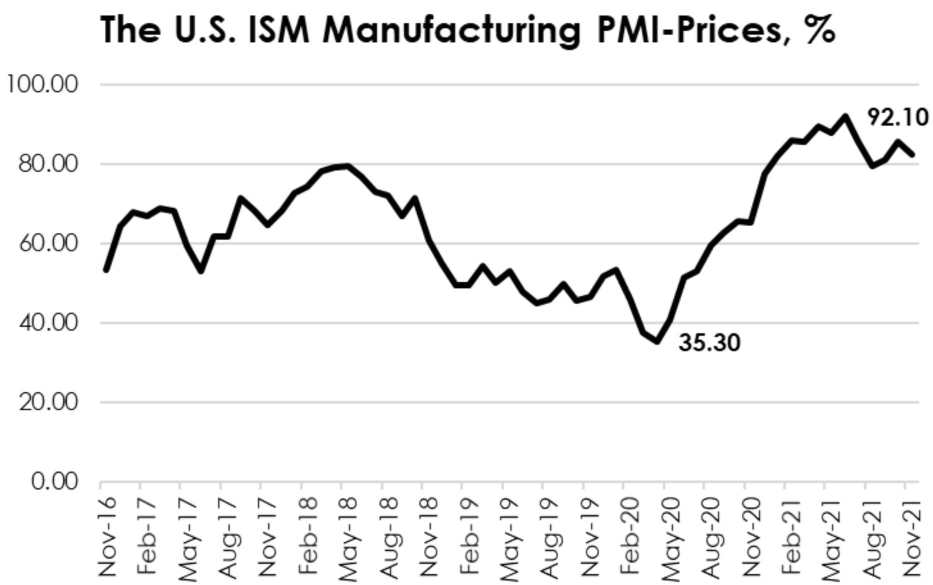
GLOBAL SUPPLY CHAIN DISRUPTION HAS WEIGHED ON THE BUSINESS SENTIMENT



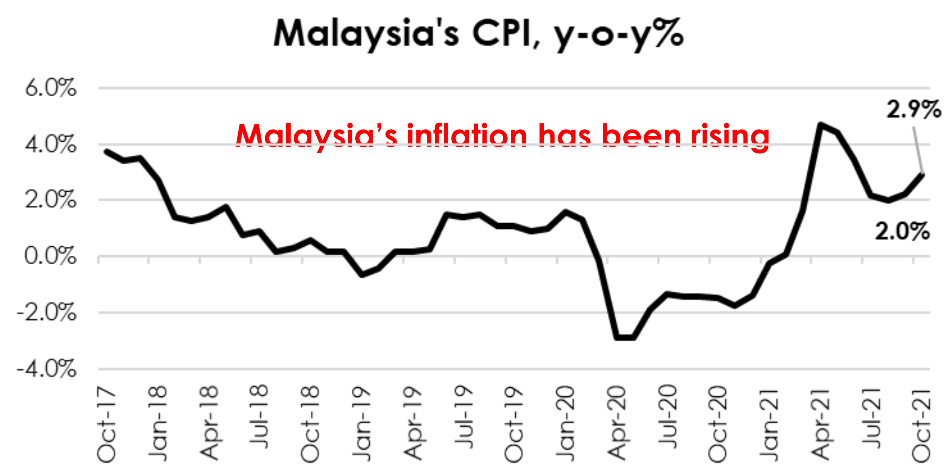
Source: U.S. ISM

- ✓ Businesses around the world and across key sectors are feeling the impact from ongoing supply chain disruptions.
- ✓ According to the U.S. Institute of Supply Management (ISM) Manufacturing PMI Survey, items such as electrical and electronic components and semiconductors have been in short supply for 13-14 consecutive months.
- ✓ This was followed by the shortage of silicone and steel products which have been prolonging for 13 straight moths.
- ✓ Furthermore, key ports around the world remain congested which have amplified the ongoing supply shortages, leading to backlogs and long lead times for certain goods.
- ✓ The issue of supply shortages remains in the minds of companies around the world and featured prominently in earning calls for businesses in the industrials, tech and consumer goods sectors.

GLOBAL INFLATION WILL BE A WILDCARD



Sources: U.S. ISM, CEIC

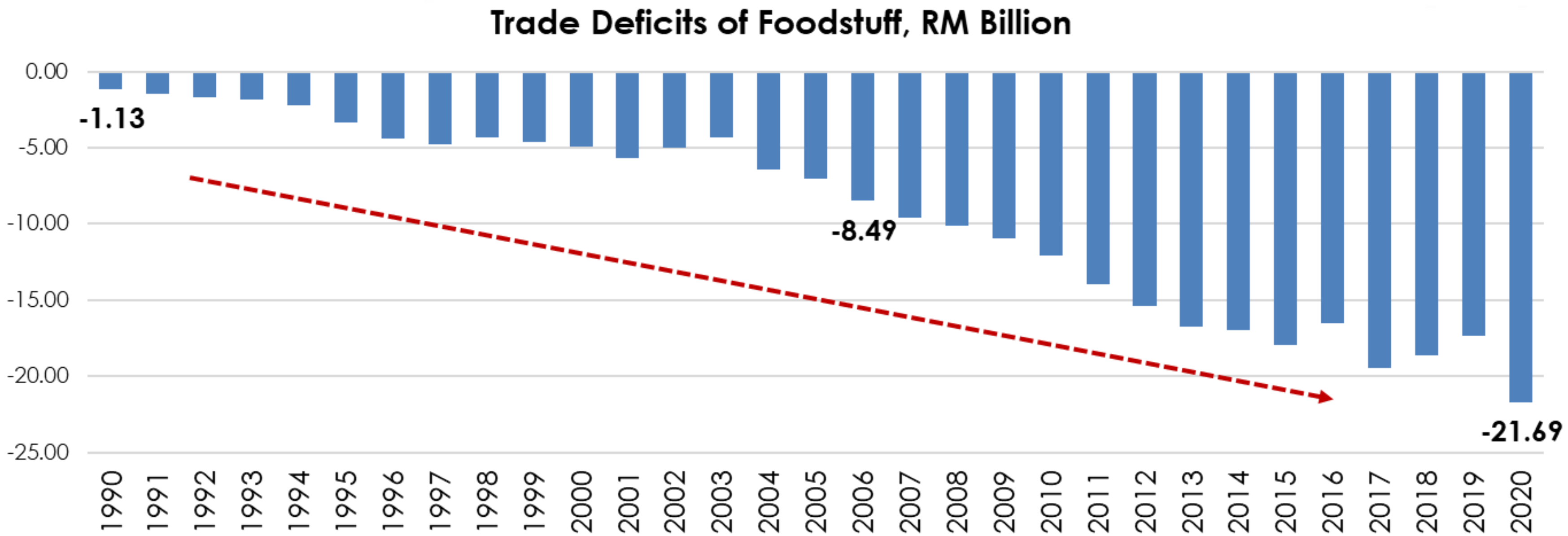


Sources: CEIC, DOSM

- ✓ The latest data by the U.S. ISM shows that the price paid by the manufacturers were significantly higher by more than 80.0% since January this year.
- ✓ Hence, supply shortages and logistics issues are pushing up prices and eating into the margins of businesses.
- ✓ Additionally, animal feed, fertilisers and pesticides also reported in shortages which has resulted in higher cost of farming and harvesting activities in future.
- ✓ As a result, the ongoing pandemic has amplified the food price shock by severely hampering food production and distribution.
- ✓ This may increase the risk to the nation's food security.
- ✓ Therefore, the emergence of the new variant could lead to another round of lockdown measures and businesses would be forced to halt their operations.
- ✓ This could stretch global supply chains further and spike in products prices.

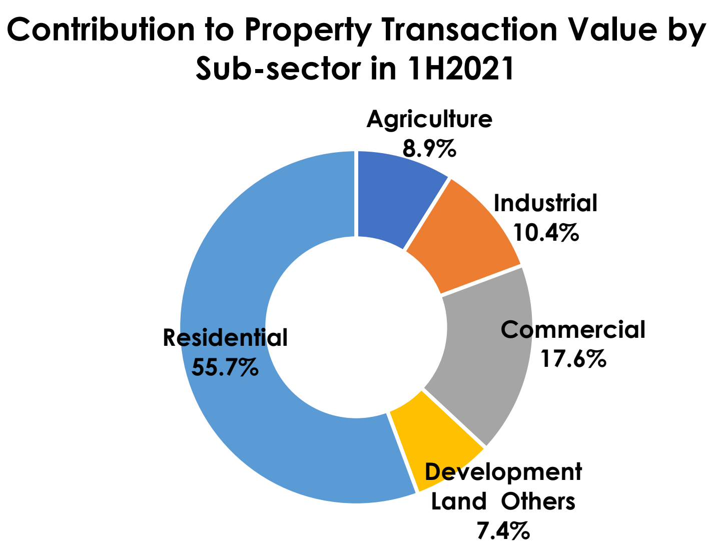
POTENTIAL OPPORTUNITIES IN 2022

INTEGRATING TECH AND AGRICULTURE



Sources: DOSM, CEIC

- ✓ Malaysia's deficit in international food trade has continued to show an increasing trend from just RM1.13 billion in 1990 to RM21.69 billion last year.
- ✓ As such, it was no surprise that Malaysia's food import bill reached a record high of RM55.5 billion in 2020 (2019: RM51.5 billion).
- ✓ Therefore, Malaysia's burgeoning trade deficit poses serious risks in relation to food security. The rise in food inflation was also partly caused by the reliance towards imported foodstuff.
- ✓ At the same time, transactions related to agricultural land have also been very small, accounting for 8.9% of Malaysia's total property transaction value in 1H2021. This indicates the potential for such transactions to expand further in light of more farming activities.



Source: NAPIC

INTEGRATING TECH WITH AGRICULTURE (CONT'D)

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- ✓ Interestingly, a report by DOSM noted that the adoption of the agriculture sector towards digital technologies is quite high.
- ✓ For instance, the percentage of adoption of digital technologies, particularly data analytics stood at 9.0% for the agriculture sector in 2019, the highest among the other sectors.
- ✓ Nevertheless, it could be that data analytics are mostly used by researchers in the industry rather than the real business operators.
- ✓ Currently, one of the main drivers for the data analytics usage in agriculture is the Malaysian Digital Economy Corporation (MDEC) via its pilot initiative called 'eLadang'. The initiative aims to empower the sector by infusing technologies under the Fourth Industrial Revolution (4IR).

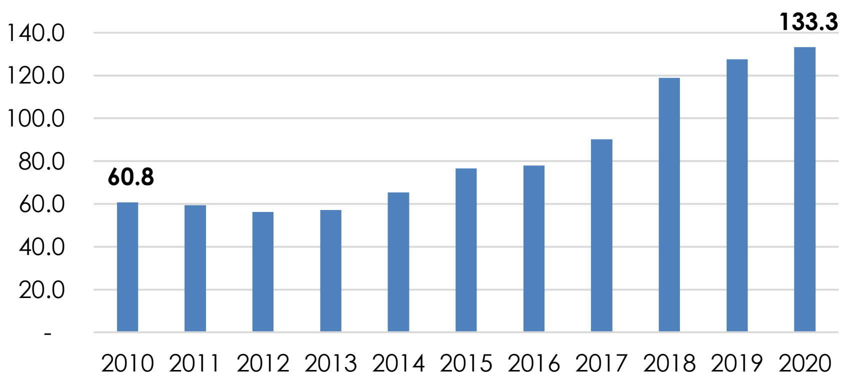
Percentage of Adoption of Data Analytics According to Sectors in 2019

Agriculture	9.0%
Mining & Quarrying	3.4%
Manufacturing	4.3%
Construction	2.8%
Services	6.8%

Source: DOSM

- ✓ With this in mind, Malaysia's E&E manufacturing sector could move up the value chain to evolve into activities such as design & development (D&D) for other industries including agriculture rather than just being a large net exporter of E&E products.
- ✓ Corporates under the E&E sector can work together with farmers to see what can be operationally enhanced, enabling smart farming.
- ✓ This could also provide employment for fresh science, technology, engineering mathematics (STEM) graduates and later develop skilled human capital which can propel the nation's agricultural sector.
- ✓ Thus far, pilot projects under the 'eLadang' programme have resulted in an increased yield of about 12.0% and reduced manpower by 50.0%.

Malaysia's Trade Surplus for Electrical & Electronic Products, RM Million



Source: DOSM

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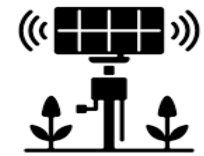
Farm/Agricultural land

Drones

Fly over fields to locate pathogens and collect data about the development of crops and their needs together with weather conditions.

Smart crop sensor



Collect data about moisture, lack of nutrients or the presence of pests to determine the need for irrigation, fertiliser or pesticides.

Cloud-based data management

Data collected by drones and smart crop sensor is stored in the cloud.

Farmers can access information about the farm and rectify any issues detected from the data collected.

Result:
Efficient management of crops, enabling better production of agriculture output.

Source: Various

INTEGRATING TECH WITH AGRICULTURE (CONT'D)

- ✓ Aside from addressing the efficiency of farming using technology, the issue of food wastage can also be turned into an opportunity for the animal farming industry together with the technology industry.
- ✓ The production of sustainable feed from food waste can help contain the costs incurred by farmers handling cattle and chicken.
- ✓ In Kuantan, 11-year-old Maryam Muzamir formulated a new form of livestock feed made out of ground shrimp shells and sea snail shells, calling the product 'YAM 2.0'.
- ✓ Interestingly, data from DOSM showed that the Malaysia is a net exporter of Crustaceans (including shrimps) and Molluscs that are fresh chilled frozen, salted or in brine.
- ✓ Henceforth, the animal feed industry can leverage on shrimp shells and snail shells to produce animal feed that is less costly while being environmentally friendly.
- ✓ Technology could also play a role by enabling the efficient production of the YAM 2.0 and expanding sales network domestically and overseas.

YAM 2.0 Sustainable Animal Feed

Source: Says.com

Trade Surplus of Crustaceans and Molluscs

Year	2017	2018	2019	2020
Trade Surplus (RM Billion)	274.0	256.2	486.4	249.8

Source: DOSM

SECTORAL VIEW

OVERVIEW OF SECTOR RATINGS

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- ✓ We currently have 15 sectors under our observation.
- ✓ Recent rating revisions were made to some sectors such as Power which was revised from neutral to positive amid the country's aspiration to be carbon neutral by 2050. Meanwhile, Manufacturing Rubber Gloves was downgraded from positive to neutral, taking into account of the normalisation in ASPs of rubber gloves.
- ✓ Overall, we opine that sectors with good prospects in the coming years will revolve around sustainable energy and the proliferation of technological adoption.
- ✓ We also flag possibilities of a revision to our sector calls in the event that the Omicron variant exerts downward pressures towards the economy and businesses.
- ✓ Further explanation of each sectors can be found in the Appendix.

Positive	Neutral	Negative	Avoid
Healthcare	Manufacturing Rubber Gloves	Non-residential Property – Shop Units	Retail Space
Power	Construction		
Manufacturing Semiconductors	Residential Property		
Oil & Gas	Automotive		
Telecommunication	Banking		
	Transportation & Storage		
	Education		
	Plantation		

MACROECONOMIC FORECAST

MACROECONOMIC FORECAST

Variables	2020	2021E	2022F
GDP	-5.6%	3.0%	5.5%
FBM KLCI year-end target	1,627 points	1,540 points	1,660 points
OPR	1.75%	1.75%	2.00%
USDMYR	RM4.02	RM4.15	RM4.09
CPI	-1.1%	2.3%	2.2%
CPO	RM3,788 MT	RM4,231 MT	RM4,156 MT
BRENT	USD51.80 bbl.	USD72.27 bbl.	USD68.37 bbl.

Source: Bank Islam
FBM KLCI USDMYR, Brent Crude and CPO are end of the year forecasts

FORWARD LOOKING STATEMENT

The known unknowns – Bearing in mind that the Covid-19 virus continues to mutate into other variants, it is apt for the global community to always be prepared for incoming variants.

Proceed with more comprehensive scenario building exercises – This is important to ensure that actions plan are well in place before any calamity arises. The lag time between the period when the issue arises and the implementation of the action can be reduced to prevent huge danger from spreading fast.

What to expect in 2022 - Overall, Malaysia's economy is expected to record a respectable gain despite a bumpy road as the monetary and fiscal stimulus has been forthcoming. In addition, more people and businesses have increasingly adopted ways to operate and work in the pandemic era.

Downside risks that may prompt a revision in our view

1. Resurgence of new cases especially the Omicron variant and delay in booster vaccine rollout whereby targeted lockdowns could adversely impact the affected industries.
2. A prolonged supply chain bottleneck which will push prices at a higher rate compared to the economic growth, giving rise to stagflation.
3. Fluid domestic political landscape – economic and institutional reforms may not be able to be executed.


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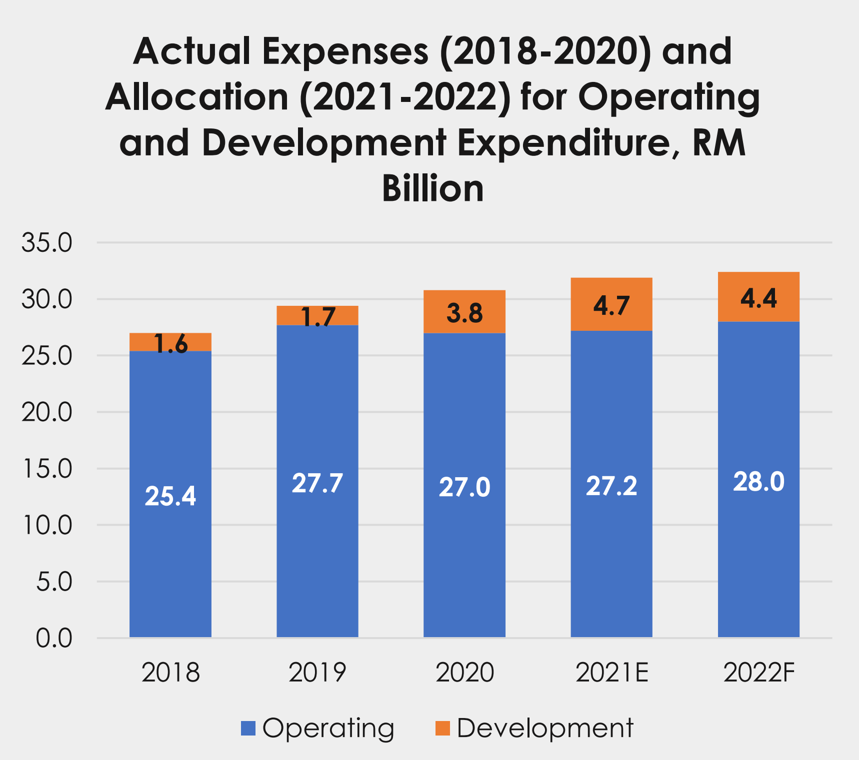
Thank You

APPENDIX

- **Healthcare awareness** is rising among the public and preventive measures are widely adopted.
- Apart from that, the healthcare sector has a **strong economic immunity,** whereby medical treatments are not tied to the vagaries of the economic cycle.

01 Higher Allocation – Budget 2022

- As the government continues to prioritise public health to build national resilience to prepare for an endemic phase later in the future, the Ministry of Health is the second largest after the Ministry of Education to receive higher allocation under Budget 2022.
- A total of RM32.4 billion would be distributed to the Ministry of Health for operating and development expenditure, which is 1.6% higher than the previous budget at RM31.9 billion.
- Apart from that, the government is providing an additional RM4.0 billion to the ministry to continue the agenda to tackle the Covid-19 pandemic.



Source: Ministry of Finance (MOF)

02 Medical Tourism

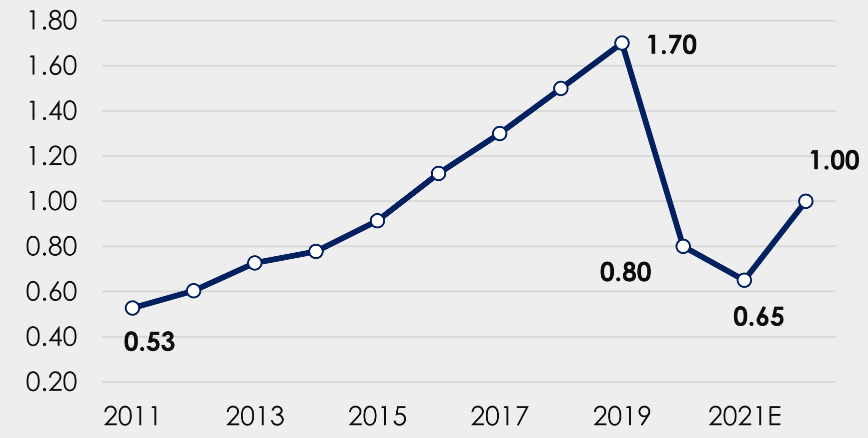
- With gradual lifting of travel restrictions in Malaysia combined with plans by the government to reopen international borders to international visitors by 1 January 2022 at the latest, these could be catalysts for the sector.

- Thus far, the Malaysia Healthcare Tourism Council (MHTC) estimated that the national medical tourism receipts could reach between RM0.58 billion and RM0.65 billion in 2021 (2020: RM0.80 billion) before improving to RM1.00 billion next year.

- Apart from that, Malaysia Healthcare Travel Industry Blueprint 2021-2025 is expected to map out the strategies and framework for healthcare travel industry stakeholders until 2025, as well as to build up Malaysia's healthcare brand internationally.

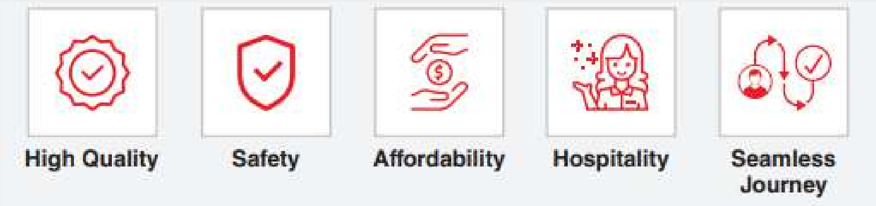
- On top of that, the MHTC is expected to receive an allocation of RM20.0 million next year under Budget 2022 to promote Malaysia's medical tourism sector globally. The allocation is aimed to support Malaysia as one of the top medical tourism destinations in the region.

National Medical Tourism Receipts (RM Billion)



Sources: MHTC, news

Aspiration to Provide the
"Best Malaysia Healthcare Travel Experience by 2025"
Focusing on:



Source: MHTC Blueprint 2021

HEALTHCARE - BED OCCUPANCY RATES ARE IMPROVING

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03 Occupancy Rate

- The occupancy rate in hospitals is anticipated to improve further after the government allowed inter-state travel which could further spur demand for medical treatment.
- In addition, higher vaccination rates in Malaysia could help to give some conviction for customers who were previously reluctant to get elective treatments and undergo surgeries at the hospitals due to the fear of being infected by the coronavirus.
- Thus far, KPJ (3Q2021: 44.0% vs. 2Q2021: 41.0%) recorded an increasing trend for their occupancy rates, mainly contributed by higher elective treatments and Covid-19 tests. Meanwhile, IHH Healthcare sustained its occupancy rate at 48.0% during 3Q2021.

3Q2021
48.0%
2Q2021
48.0%

KPJ HEALTHCARE

3Q2021
44.0%
2Q2021
41.0%

04 Population Growth

- Malaysia's population in 3Q2021 is estimated to be 32.67 million, expanding by 0.2% y-o-y from 32.60 million in the same period last year.
- The percentage of population aged 65 years and above (old age) is expected to increase from 7.1% in 3Q2020 to 7.4% in 3Q2021. This would translate into higher demand for healthcare services particularly for complex diseases treatment.

Downside Risk

- The threat of new variants could lead to the reimposition of lockdowns. As such, this would affect the recovery in occupancy rates due to slow return of patients seeking for treatments.
- Apart from that, there is an anticipation of a regulatory risk from the potential new price controls on medicines in Malaysia to ensure that treatment costs in private hospitals do not increase arbitrarily, which may affect the earnings and margins of these companies.

POWER – NOTEWORTHY GLOBAL TRENDS ARE GOING TO CHANGE THE FUTURE OF THE POWER INDUSTRY

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Demand Sales	1Q2020	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021	9M2020	9M2021
Industrial									
GwH	11,206.0	8,825.0	11,262.0	11,497.0	11,163.0	11,717.0	9,544.0	31,293.0	32,425.0
Growth (y-o-y%)	-1.3%	-26.7%	-1.7%	-0.5%	-0.4%	32.8%	-15.3%	-10.2%	3.6%
Commercial									
GwH	9,933.0	7,660.0	9,126.0	9,113.0	8,397.0	9,102.0	7,515.0	26,719.0	25,014.0
Growth (y-o-y%)	1.7%	-26.2%	-10.5%	-9.6%	-15.5%	18.8%	-17.6%	-11.9%	-6.4%
Domestic									
GwH	6,985.0	8,298.0	7,389.0	7,289.0	7,423.0	8,052.0	8,240.0	22,672.0	23,715.0
Growth (y-o-y%)	4.1%	17.5%	6.0%	11.7%	6.3%	-3.0%	11.5%	9.3%	4.6%
Others									
GwH	584.0	553.0	578.0	582.0	577.0	588.0	585.0	1,715.0	1,750.0
Growth (y-o-y%)	-8.1%	-4.4%	-3.7%	-5.2%	-1.2%	6.3%	1.3%	-5.4%	2.0%
Total									
GwH	28,708.0	25,336.0	28,354.0	28,481.0	27,560.0	29,459.0	25,885.0	82,399.0	82,904.0
Growth (y-o-y%)	0.8%	-15.7%	-3.0%	-1.0%	-4.0%	16.3%	-8.7%	-6.1%	0.6%

Source: TNB

Key factors driving the growth of RE

- ✓ Lower generation cost for solar photovoltaics (PV).
- ✓ Potential development of new Waste-to-Energy (WTE) plant to manage increasing municipal solid waste (MSW).
- ✓ Leveraging full hydro potential.
- ✓ Government incentives e.g. green tax allowance and exemption, as well as open-bidding tender under the Fit-in Tariff (FiT) scheme, Net Energy Metering (NEM), Large Scale Solar (LSS), and the New Enhanced Dispatched Arrangement (NEDA).

- ✓ Tenaga Nasional Berhad (TNB)'s total demand sales rebounded by 0.6% y-o-y during first nine months this year compared to a 6.1% contraction in the same period last year as consumption activities were picking up.
- ✓ The demand sales are anticipated to sustain its recovery in the upcoming months in view of reopening of the economy that would push up the domestic and industrial consumption.
- ✓ As for Malaysia's Renewable Energy (RE) field, we foresee that the prospects will remain upbeat in the long run.
- ✓ In addition, Malaysia is focusing on its power generation plan with a target of 31.0% (8,531 MW) and 40.0% (10,944 MW) RE capacity mix in 2025 and 2035 respectively in terms of installed capacity.
- ✓ Meanwhile, the Large Scale Solar 4 (LSS4) project bids are expected to start commercial operations by 2023 with each plant having a minimum operational period of 21 years.
- ✓ RE players would also benefit in the longer term as the environmental, social and governance (ESG) screening is gaining ground in banking sector.
- ✓ Furthermore, green initiatives by the government during Budget 2022 particularly efforts to promote higher usage of EVs would have positive impact on demand for RE in long run.
- ✓ Hence, the maintain our positive call for this sector.

Note: Gigawatt hours (GwH), Megawatt (MW)

SEMICONDUCTOR – POSITIVE MOMENTUM IS EXPECTED TO PERSIST NEXT YEAR

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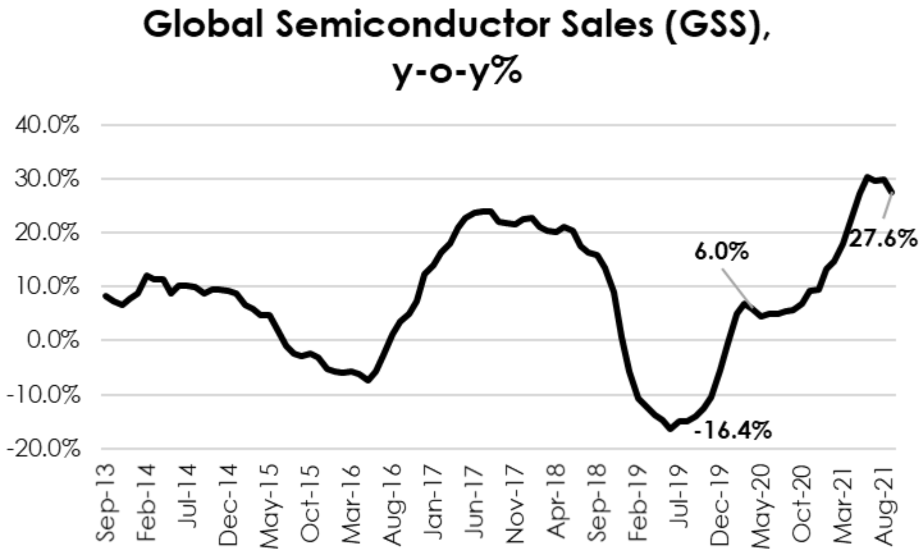
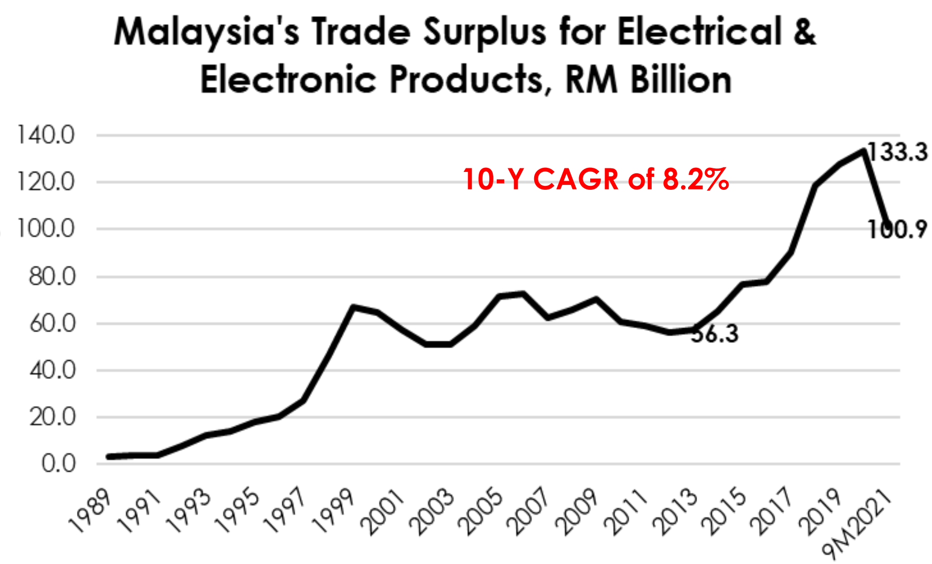


Sources: CEIC, SIA



Source: CEIC

- ✓ The Covid-19 outbreak has prompted a massive trend towards remote working while the advent of Internet of Things (IoT) and Artificial Intelligence (AI) are driving the high-end application segment across the consumer electronics and automotive industries.
- ✓ This was reflected in the continued increase in Global Semiconductor Sales (GSS) which has been recording a double-digit growth for 9 straight months since early 2021 (September: 27.6% vs. August: 29.9%).
- ✓ Following this, Malaysia's exports of Electrical & Electronic (E&E) products continued to record stellar performance with the trade surplus for E&E products widening at a 10-Year Compound Annual Growth Rate (CAGR) of 8.2%.
- ✓ Nevertheless, the production of electronic products have showed signs of easing as of late.
- ✓ According to the IHS Markit, Global Electronics Purchasing Manager's Index (PMI) softened to 58.3 points in October (September: 58.5 points) after reaching its peak of 61.2 points in May. The slower growth was mainly affected by short supplies of raw materials and key components.
- ✓ These factors have constrained production activities and led to the rise in backlogs which have damped the sector growth quite considerably.
- ✓ Nevertheless, demand conditions still remain strong across the globe as firms are scaling up their business for growth with employment rising sharply.

SEMICONDUCTOR – POSITIVE MOMENTUM IS EXPECTED TO PERSIST NEXT YEAR (CONT'D)

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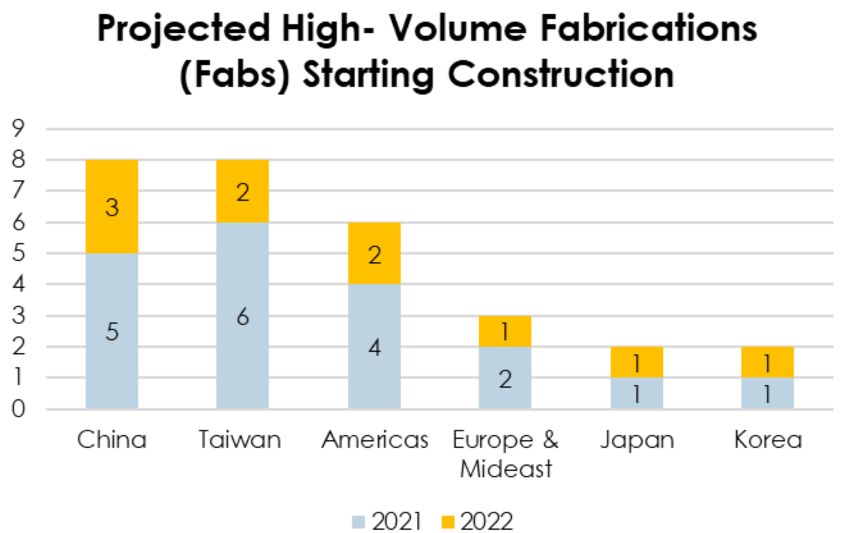


Source: SEMI.org

WSTS Market Forecast Fall 2021

Fall 2021	Amounts in US$M			Year on Year Growth in %		
	2020	2021	2022	2020	2021	2022
Americas	95,366	118,835	131,084	21.3	24.6	10.3
Europe	37,520	47,126	50,467	-5.8	25.6	7.1
Japan	36,471	43,581	47,621	1.3	19.5	9.3
Asia Pacific	271,032	343,419	372,317	5.1	26.7	8.4
Total World - $M	440,389	552,961	601,490	6.8	25.6	8.8
Discrete Semiconductors	23,804	30,100	32,280	-0.3	26.4	7.2
Optoelectronics	40,397	43,229	45,990	-2.8	7.0	6.4
Sensors	14,962	18,791	20,913	10.7	25.6	11.3
Integrated Circuits	361,226	460,841	502,307	8.4	27.6	9.0
Analog	55,658	72,842	79,249	3.2	30.9	8.8
Micro	69,678	79,102	83,980	4.9	13.5	6.2
Logic	118,408	150,736	167,396	11.1	27.3	11.1
Memory	117,482	158,161	171,682	10.4	34.6	8.5
Total Products - $M	440,389	552,961	601,490	6.8	25.6	8.8

Source: WSTS

- ✓ Apart from that, industry players across the world have been ramping up their production with another 10 high-volume fabs which will be constructed next year.
- ✓ In 2022, the World Semiconductor Trade Statistics (WSTS) forecasted that the global semiconductor market will grow positively by 8.8% in 2022 though slower compared to an estimated 25.6% increase this year.
- ✓ All in all, we foresee that the gradual reopening of other countries will have a positive impact on the semiconductor industry in Malaysia in the long run. This will be further supported by the push towards digitalisation and the adoption of new technologies, fuelling chip demand.
- ✓ Therefore, the narrative for now remains firmly focused on the supply-related issues which has been weighing across market segments.
- ✓ Meanwhile, the possible threat from the Omicron variant will likely result in stronger demand for semiconductor components as more people continue to use electronic devices when working remotely.
- ✓ As such, we maintain our positive stance for the manufacturing of semiconductors.

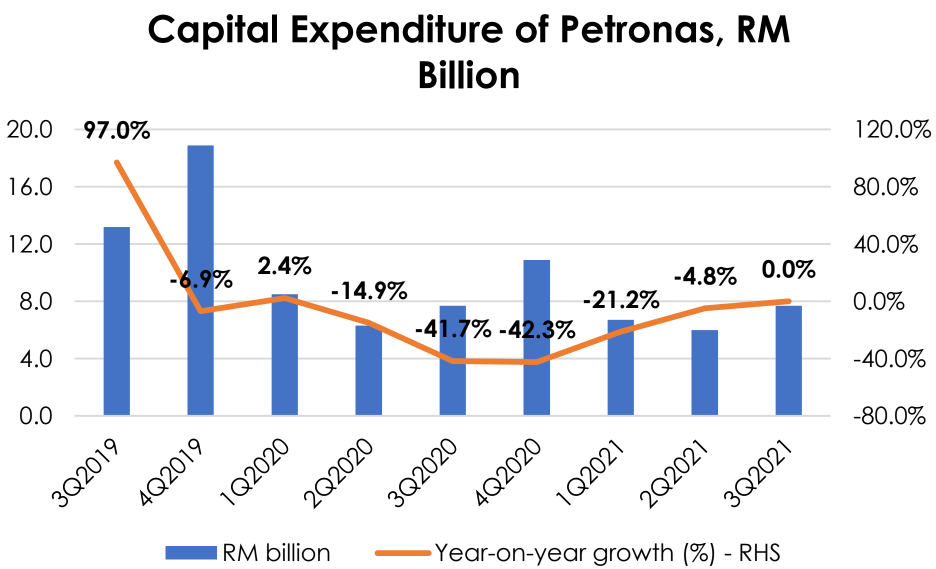
OIL & GAS – PROFITABILITY OF PETRONAS GRADUALLY IMPROVED FOR 9M2021

Financial Performance of Petronas

Performance (RM Billion)	3Q2020	3Q2021	Year-on-year growth (%)	9M2020	9M2021	Year-on-year growth (%)
Revenue	41.1	61.8	50.4%	134.7	171.4	27.2%
Operating Profit/(Loss)	1.1	19.9	-1709.1%	-10.1	51.8	612.9%
Profit/(Loss) After Tax	-3.4	16.3	579.4%	-19.9	35.2	276.9%

Source: Petronas, Bank Islam

- ✓ Petronas posted a profit after tax of RM35.2 billion in 9M2021 compared to a RM19.9 billion loss after tax in 9M2020. The improvement was mainly due to the 66.4% increase in average Brent crude oil price to USD67.92 per barrel in 9M2021 from USD40.82 per barrel during 9M2020. Total daily production average for 9M2021 was 3.6% higher at 2,269k barrels of equivalent (boe) per day (9M2020: 2,190K boe per day).
- ✓ However, Petronas' capital expenditure (capex) dropped by 9.3% y-o-y to RM20.4 billion in 9M2021 (9M2020: RM22.5 billion) amid project delays and rephasing of activities during the MCO.
- ✓ At this stage, the capex incurred during 9M2021 worth RM20.4 billion appears to be below Petronas' annual capex target of RM40.0 billion to RM45.0 billion from 2021 to 2025.



Source: Petronas

OIL & GAS – DRILLING ACTIVITIES CONTINUE TO SEE A PICKUP

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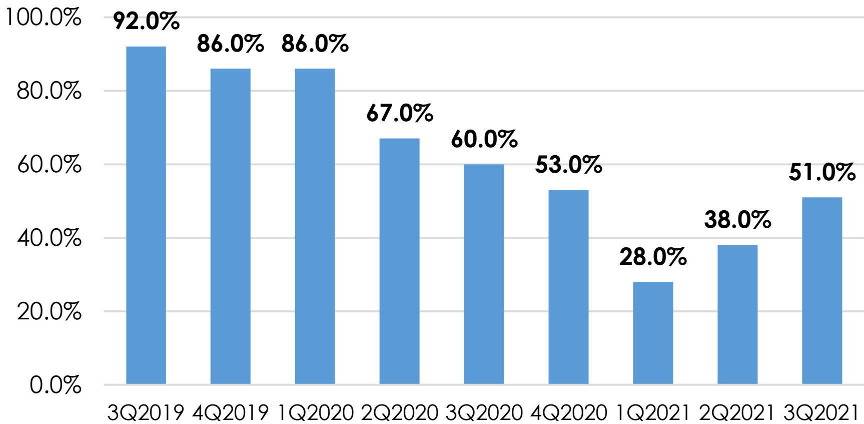
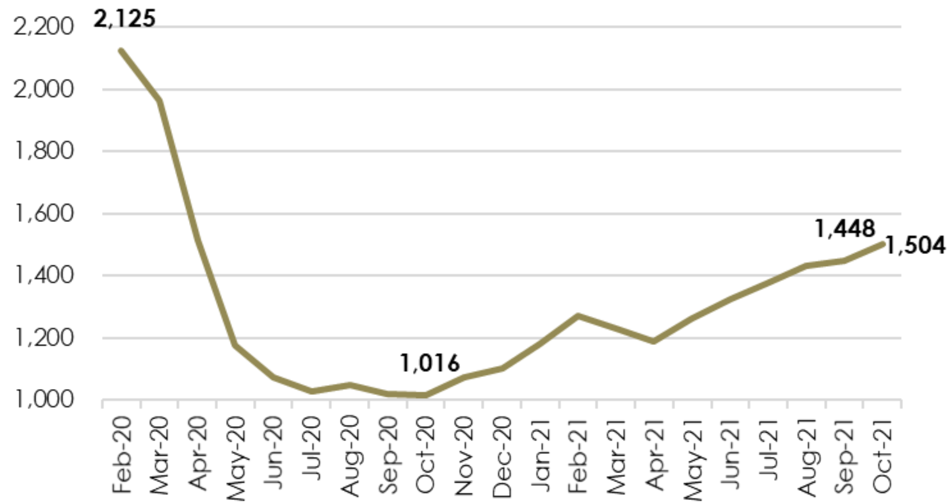
Velesto Energy Berhad-Average Asset Utilisation Rate, %



Source: Velesto Energy Berhad

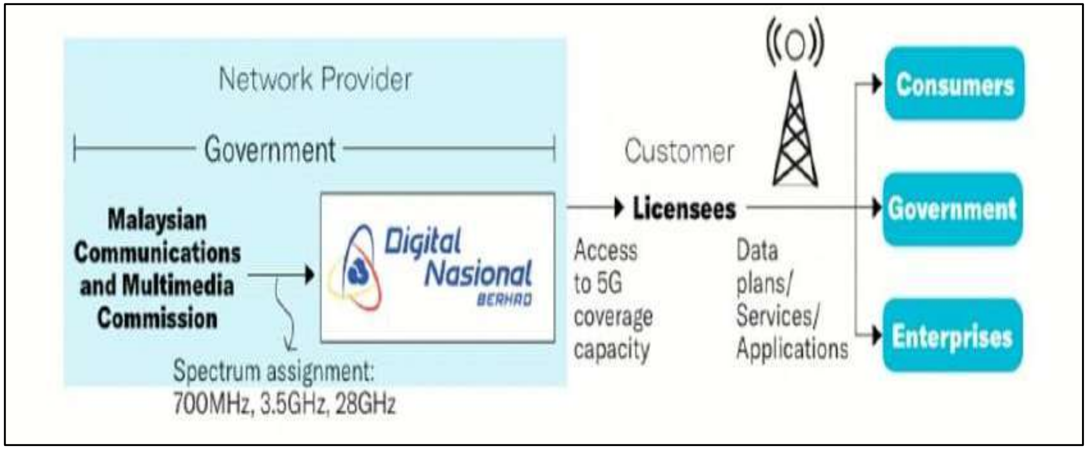
Global Oil Rig Count



Source: Baker Hughes

- ✓ Notwithstanding the slow spending on projects, we remain convinced that oil & gas contract rollouts will gather momentum, particularly in selected segments in the value chain better positioned to benefit from projects sanctioned by national oil companies. For instance, the floating production storage and offloading (FPSO) subsector which saw a decimated number of operators during the previous downturn in 2015 to 2017.
- ✓ The average asset utilisation rate of companies such as Velesto Energy Berhad has also been steadily increasing from 28.0% in 1Q2021 to 51.0% in 3Q2021. In the same vein, number of global oil rigs inched higher to 1,504 rigs in October (September: 1,448 rigs) compared to 1,016 rigs in the same period last year.
- ✓ Therefore, it is clear that demand prospects for oil has been increasing in light of economies being reopened while opportunities to venture into cleaner fuel such as Liquefied Natural Gas (LNG) is gaining traction. As such, we maintain our positive stance on the oil & gas sector, barring any unforeseen circumstances coming from the threat of the Omicron variant that could dampen oil demand.
- ✓ At this juncture, we have maintained our year-end Brent crude oil price projection of USD72.27 per barrel for 2021 and USD68.37 per barrel for 2022 amid fears of a resurgence of Covid-19 cases. Even if the Omicron variant is not proven to lead to severe symptoms, a normal growth scenario could see higher production by the Organization of the Petroleum Exporting Countries (OPEC) together with countries such as the U.S. and Japan releasing their national oil reserves to contain oil prices.

Deployment of 5G infrastructure



Source: Ernst & Young report commissioned by DNB

Price of each gigabyte (GB) sold to telco operators

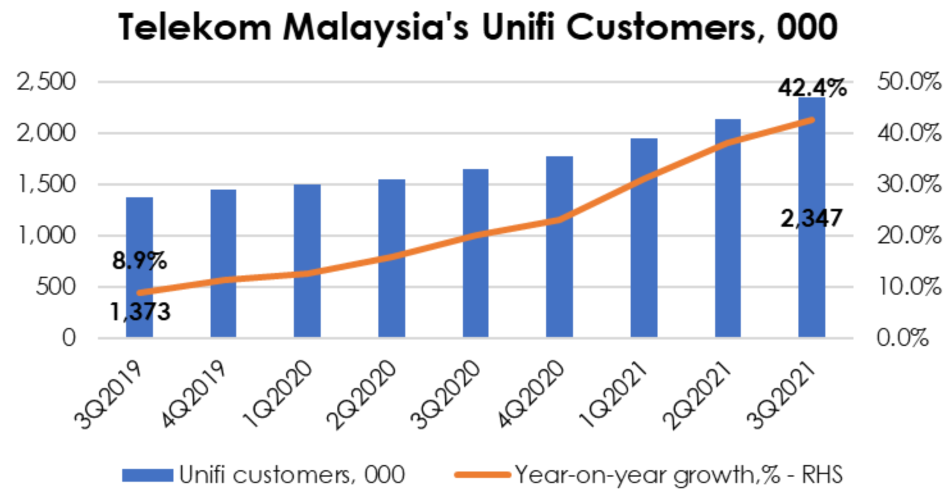
Type Of Network	Price Per GB
4G	Around RM0.45 to RM0.55
5G	Less than RM0.20

Source: The Vibes

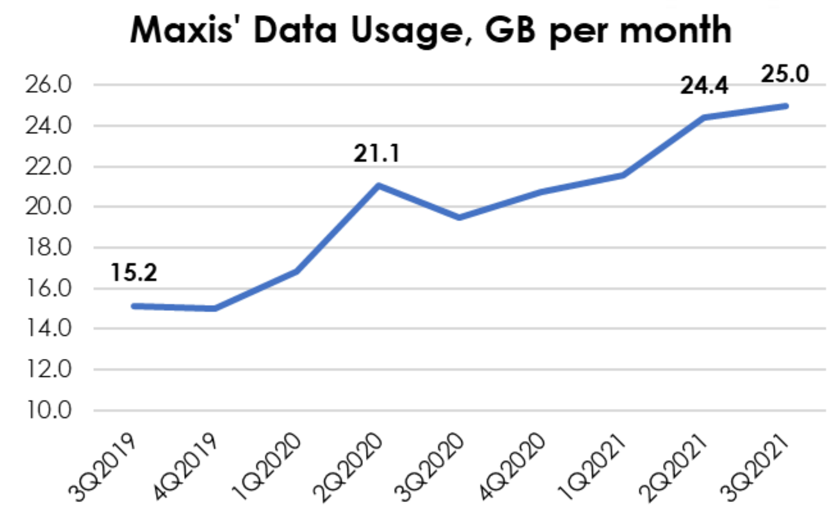
- ✓ Reuters on 11 November reported that none of Malaysia's major mobile carriers have agreed to use Digital Nasional Berhad (DNB)'s 5G network due to transparency and pricing issues.
- ✓ In DNB's defense, it said that negotiations on pricing would begin only after an applicable reference access offer (RAO) document, which forms the basis for DNB's entering into commercial agreements with licensees seeking access to the 5G network.
- ✓ Latest developments show that DNB will charge telco firms far less for 5G network than the cost operators have incurred for 4G as quoted by the finance minister, Tengku Zafrul Abdul Aziz during the parliamentary session on 25 November.
- ✓ The finance minister cited that each telco firm will pay RM350.0 million to RM400.0 million a year to DNB for 5G, compared with the RM1.0 billion that telcos invest as capital expenditure for 4G every year. This can translate into savings of more than 50.0% and lead to lower reduced service prices for their customers and users. The pricing is currently awaiting approval from the industry regulator which will ensure that price set is fair and based on cost recovery, and not to make a profit.

TELECOMMUNICATIONS – THE CASE FOR STRONGER INTERNET CONNECTIVITY IS STRONG AMID HIGHER NUMBER OF SUBSCRIBERS

BANK ISLAM



Source: Telekom Malaysia



Source: Maxis

- ✓ We posit an opinion that a fair price for telco players to participate in the 5G network is essential to enhance the connectivity as the pandemic continues to linger and businesses still need to operate with more efficient technology.
- ✓ In fact, telco players continue to see an uptick in data usage in terms of numbers of subscribers. For instance, Telekom Malaysia's number of Unifi customers jumped by 42.4% y-o-y to hit a record high of 2,347.0k subscribers in 3Q2021 from 1,648.0k subscribers in 3Q2020.
- ✓ Likewise, Maxis' average data usage per user for both post-paid and pre-paid reached 25.0GB per month in 3Q2021 (2Q2021: 24.4GB per month), signifying the need of mobile data as flexible working arrangements remain in place for many organisations.
- ✓ All in all, we maintain our positive stance on the telecommunication sector as the adoption of 5G technologies could produce an incremental GDP impact across the Malaysian economy of RM 122.0 billion or 5.0% in 2030, compared to the baseline view of 2030 with no assumed 5G impact according to a study done by Ernst & Young.
- ✓ The possible threat coming from the Omicron should raise the urgency to deploy 5G technology as more people need to stay connected during the pandemic. Hence, we view the telecommunication sector to be somewhat immune from shocks of the pandemic and maintain our positive view for the sector.

RUBBER GLOVES – NORMALISATION IN AVERAGE SELLING PRICES OF RUBBER GLOVES

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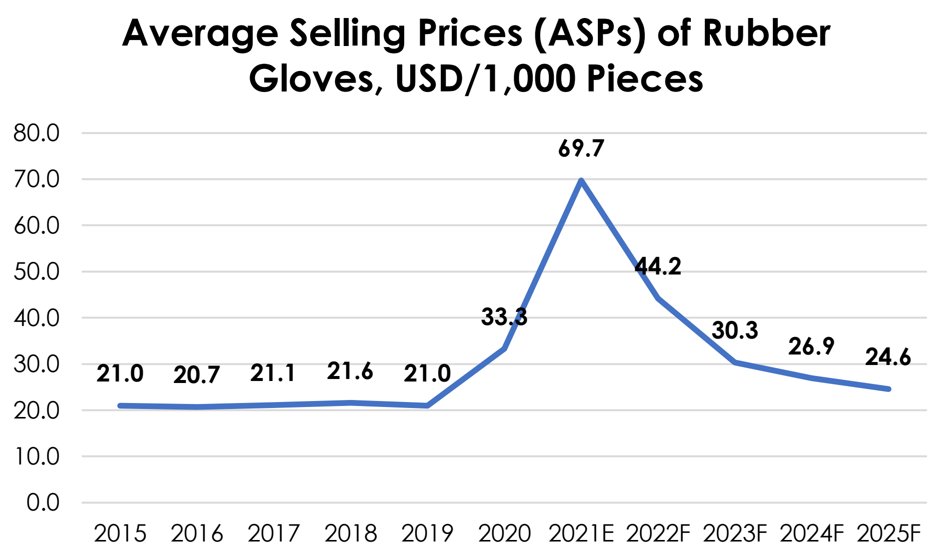
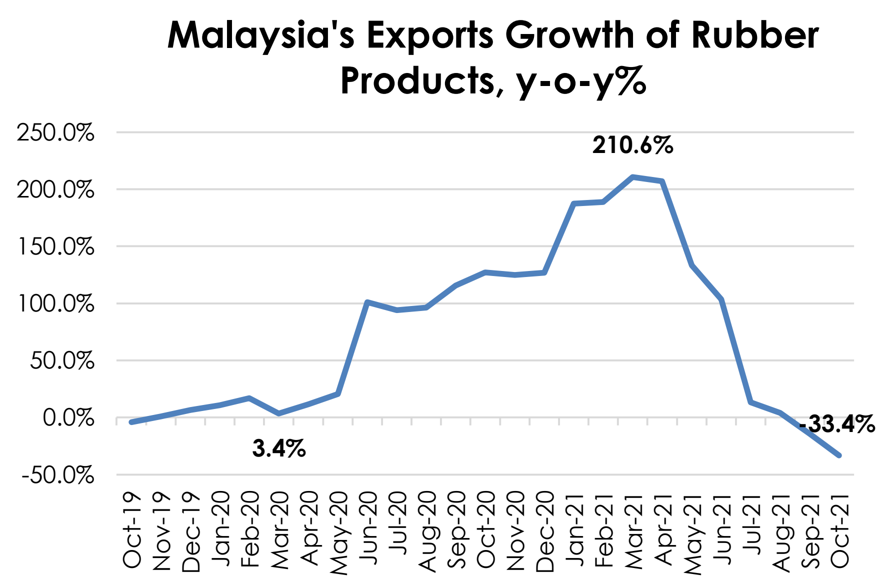
- ✓ While ASPs are loftier relative to pre-pandemic conditions, profitability per glove is approaching normality.
- ✓ Based on a study done by Frost & Sullivan, ASPs of rubber gloves are expected to decline to USD44.2 /1,000 pieces in 2022 after peaking at an estimated level of USD69.7/1,000 pieces in 2021.
- ✓ On further scrutiny, Top Glove's ASPs were among the earliest to see weakness, declining to the current ASP of USD30/1,000 pieces from a peak of USD120/1,000 pieces in 2Q2021.
- ✓ The reason behind the normalisation of the ASPs of rubber gloves is attributable to the drop in spot orders as purchasers are no longer needing the supplies urgently.
- ✓ Another hurdle surrounding manufacturers of rubber gloves comes in the form of restriction on glove imports by other countries. For example, the U.S. Customs and Border Protection (CBP) has instructed officers at all ports of entry in the U.S. to detain disposable gloves produced in Malaysia by a group of companies collectively known as Smart Glove effective from 4 November.
- ✓ The investigation by the U.S. CBP identified seven of the International Labour Organization's (ILO) indicators of forced labour related to Smart Glove.
- ✓ If such restrictions towards Malaysian rubber glove companies were to be extended to many other companies, exports of rubber products, particularly rubber gloves could dwindle further in the coming months.



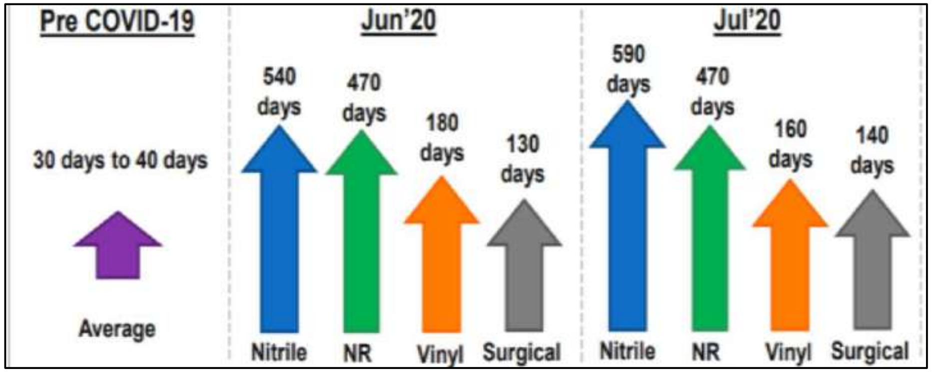
Source: Frost & Sullivan



Source: DOSM

- ✓ Notwithstanding this, the rubber glove sector may be in the spotlight again if scientists discover that the Omicron variant is highly infectious and more dangerous compared to other variants.
- ✓ When the pandemic outbreak first occurred and countries were rushing to get rubber glove supplies, the lead time for all types of rubber gloves became longer than 100 days during June and July last year compared to the pre-Covid-19 average of 30 days to 40 days.
- ✓ Therefore, we cannot discount the possibility of this to happen again if the Omicron variant is proven to cause severe symptoms. In addition, a possible spike in demand for rubber gloves due to the Omicron variant could push the ASPs of rubber gloves higher.
- ✓ As for now, the status of Omicron is uncertain and we maintain our neutral stance on the rubber glove sector as our base case scenario stipulates that revenues of rubber gloves will continue to drop in light of lower ASPs. While latest 3Q2021 financial results of rubber glove manufacturers show that revenues were higher on a y-o-y basis, it was actually lower on q-o-q basis in light of lower ASPs which have impacted sales.

Lead Time For Rubber Glove Production According To Each Type



Source: Top Glove
Note: NR- Natural Rubber

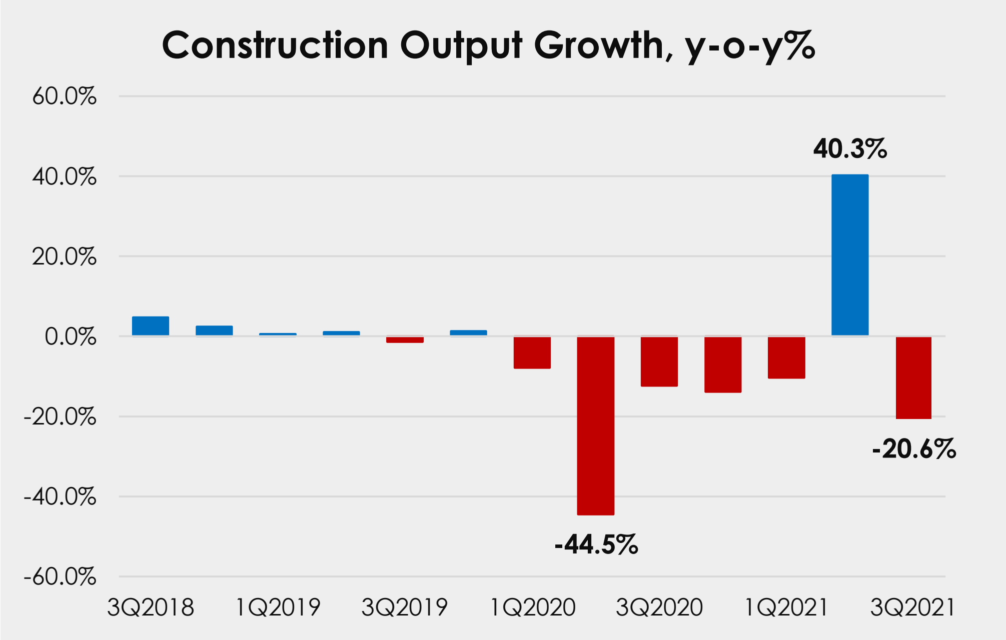
Quarterly Performance of Malaysian Rubber Glove Makers

Revenue, RM million	3Q2020	2Q2021	3Q2021	y-o-y change,%	q-o-q change, %
Hartalega	1.3	3.9	2.0	49.4%	-48.5%
Supermax	1.4	1.9	1.5	7.6%	-22.4%
Kossan	1.0	2.2	1.3	26.1%	-41.8%

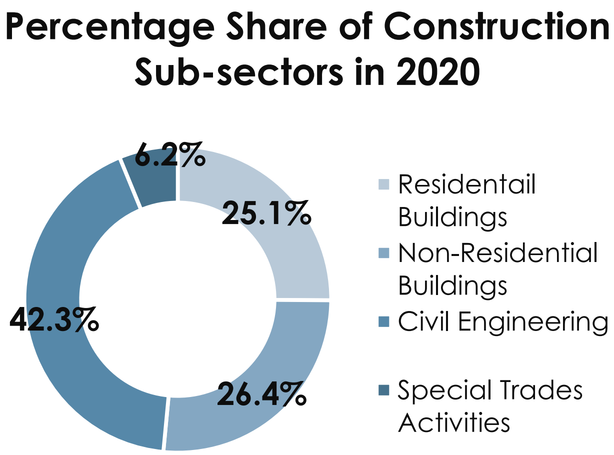
Source: Bursa Malaysia

CONSTRUCTION – MORE TO CATCH UP

- Construction output plummeted by 20.6% in 3Q2021 after expanding by a double-digit growth of 40.3% previously, driven by limited operating capacities in light of containment measures to curb the Covid-19 infections. However, construction activities showed some improvement though still in a contractionary zone (9M2021: -2.6 vs. 9M2020: -21.3%) during the first nine months of 2021.
- On further scrutiny, three sub-sectors declined during 3Q2021 with Civil Engineering showing the biggest drop (3Q2021: -36.1% vs. 2Q2021: 50.0%), followed by Residential Buildings (3Q2021: -27.3% vs. 2Q2021: 16.3%) and Non-residential Buildings (3Q2021: -13.3% vs. 2Q2021: 34.8%). These sub-sectors contributed about 93.8% out of total construction output last year.



Source: CEIC



Source: CEIC

CONTSTRUCTION - HIGHER DEVELOPMENT EXPENDITURE (DE) NEXT YEAR

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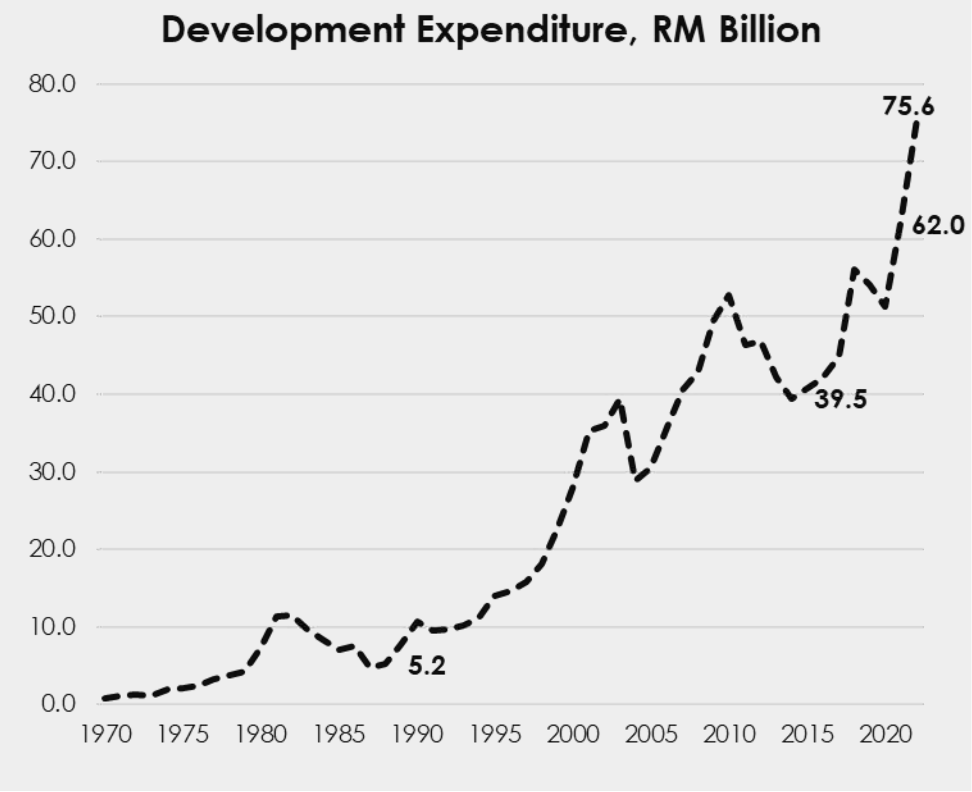
- A sizeable amount is allocated for DE (2022F: RM75.6 billion vs. 2021E: RM 62.0 billion) to revive the economy that has been hit by the pandemic. About 88.5% or RM66.9 billion is distributed for 5,575 ongoing projects, while the balance is slated for 1,180 new projects.

- In terms of allocation by sector, the Economic sector remains the largest recipient at 53.2% in 2022 (2021E: 54.5%), followed by Social (2022F: 30.0% vs. 2021E: 28.0%) and Security (2022F: 11.9% vs. 2021E: 11.8%).

- Within the Economic sector, the government would focus on Transport (2022F: RM15.5 billion vs. 2021E: RM13.0 billion) to construct, refurbish and maintain key infrastructure, which includes existing projects such as the Electrified Double Track Gemas-Johor Bahru, Rapid Transit System Link, Pan Borneo Highway, as well as the expansion of Kuantan Port in Pahang and Sandakan Airport.



Sources: MOF, CEIC

- Notwithstanding this, no new major infrastructure projects were mentioned under Budget 2022, but rather small-mid sized projects were highlighted.

- All in all, we maintain our neutral call for the sector.

CONSTRUCTION - PROJECTS WHICH ARE EXPECTED TO BE IMPLEMENTED NEXT YEAR

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Projects	RM Billion
Rural Infrastructure*	2.5
Rural and inter-village roads	1.5
Water supply	0.4
Electricity supply	0.5
Street lightings	0.1
***RM1.5 billion is allocated for the development of rural infrastructure in Sabah and Sarawak.**	
Development Projects for Recovery	
Various infrastructure projects such as the construction of the Borneo Highway and Central Spine Road	3.5
Infrastructure Facilitation Fund 3.0	0.2
Small and medium projects for G1-G4 contractors	2.9
Inter-regional Development	
Corridor development	0.7

Source: 2022 Budget Speech

- In the absence of new major infrastructure projects next year, we believe the government allocation on construction projects in 2022 will be mainly benefit the smaller contractors rather than the main players.

RESIDENTIAL PROPERTY – REMAIN NEUTRAL CALL

Property Transactions

- ✓ 134,829 transactions worth RM52.8 billion during 9M2021, **growing by 3.0%** y-o-y (9M2020: 130,877 transactions) in volume and 17.0% (RM45.1 billion) in value compared to the same period last year.

Property Unsold

- ✓ Residential property unsold **improved** in 3Q2021, declining by 59.8% y-o-y to 46,889 units (2Q2021: 119,109 units).
- ✓ Residential property **overhang dropped by 2.1%** y-o-y to 30,290 units in 3Q2021 from 31,112 units in the previous quarter.

Sales Performance

- ✓ Sales performance for new launches recorded **a higher growth rate** of 78.0% y-o-y to reach 10,041 units during 9M2021 from 5,641 units in the same period last year.

House Price Index (HPI)

- ✓ Malaysian **HPI declined** by 0.7% y-o-y in 3Q2021P* from a 1.0% growth in the previous quarter.
- ✓ **Average house price** in Malaysia **softened** from RM436,958 in 2Q2021 to RM428,458 in 3Q2021P*.

Source: NAPIC

P*= Preliminary

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01 Affordability

- Affordability remains a pressing issue for home buyers especially when the jobless rate is still above its pre-pandemic level of 3.3% (September: 4.5% vs. August: 4.6%).
- Based on our computation using Median Multiple (MM) income technique, which is 3 times of annual salary, houses in Malaysia are beyond affordable (Refer table below).

States	House Price (3Q2021P*)	Median Household Income (2020)	Affordable House Price	Affordable?
Malaysia	**428,458**	**5,209**	**187,524**	**No**
Kuala Lumpur	731,910	9,093	327,348	No
Selangor	490,779	7,300	262,800	No
Johor	369,772	5,690	204,840	No
Pulau Pinang	430,818	5,474	197,064	No
Perak	236,597	3,759	135,324	No
Negeri Sembilan	276,997	4,478	161,208	No
Melaka	205,305	5,447	196,092	No
Kedah	251,339	3,829	137,844	No
Pahang	236,556	4,033	145,188	No
Terengganu	278,463	4,790	172,440	No
Kelantan	227,343	3,010	108,360	No
Perlis	213,458	4,043	145,548	No
Sabah	465,579	3,773	135,828	No
Sarawak	479,146	3,831	137,916	No

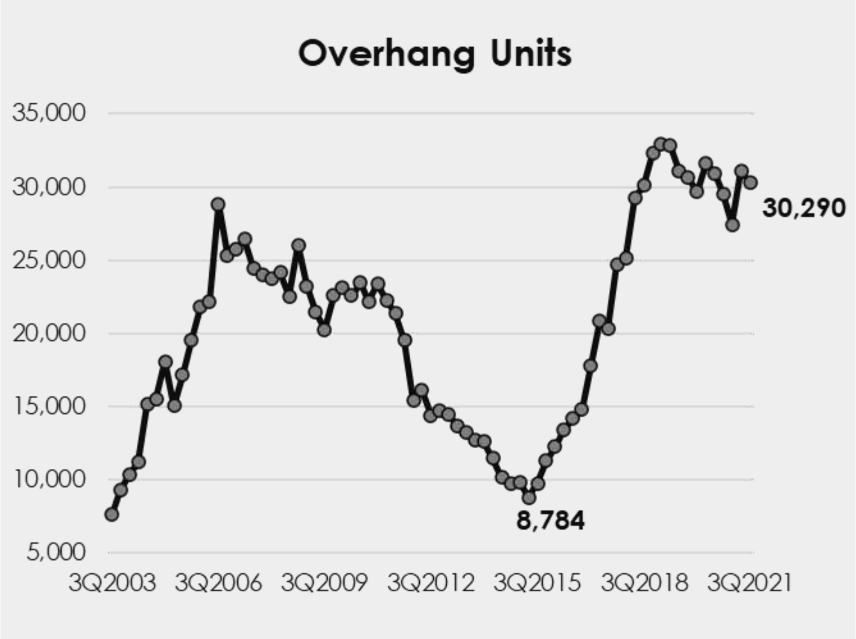
Sources: NAPIC, DOSM, Bank Islam
P= Preliminary

Average house prices are still high despite showing a gradual decline in 3Q2021P at RM428,458 (2Q2021: RM436,958).

02 Overhang Units

- Though residential property overhang units have gradually declined in 3Q2021, the figure is still higher as compared to the pre-pandemic period particularly in 2017 and 2018, suggesting an oversupplied market.

- On further scrutiny, property prices between **RM500,001 and RM1,000,000** posted the highest unsold units at 10,208 units in 3Q2021 (2Q2021: 10,827 units), followed by property prices ranging between **RM300,001 to RM400,000** at 4,323 units (2Q2021: 4,030 units).



Sources: CEIC, NAPIC

Overhang units	3Q2020	4Q2020	1Q2021	2Q2021	3Q2021
Price Range					
RM0 - RM100,000	1,104	1,209	997	1,950	1,706
RM100,001 - RM200,000	2,518	2,168	1,429	1,771	1,714
RM200,001 - RM300,000	5,505	5,381	4,184	4,718	4,309
RM300,001 - RM400,000	3,909	3,478	3,979	4,030	4,323
RM400,001 - RM500,000	3,948	3,707	3,632	4,132	4,282
RM500,001 - RM1,000,000	9,954	10,199	9,408	10,827	10,208
RM1,000,001 and above	3,988	3,423	3,839	3,684	3,748
Total	30,926	29,565	27,468	31,112	30,290

Sources: CEIC, NAPIC

RESIDENTIAL PROPERTY - SOME INITIATIVES TO REJUVENATE RESIDENTIAL PROPERTY MARKET UNDER BUDGET 2022

Real Property Gains Tax

Removal of Real Property Gains Tax (RPGT) under Budget 2022 for the disposal of real estate in the sixth year of ownership and beyond is expected to stimulate and boost sales in the property market in 2022.

Guaranteed Credit Housing Scheme

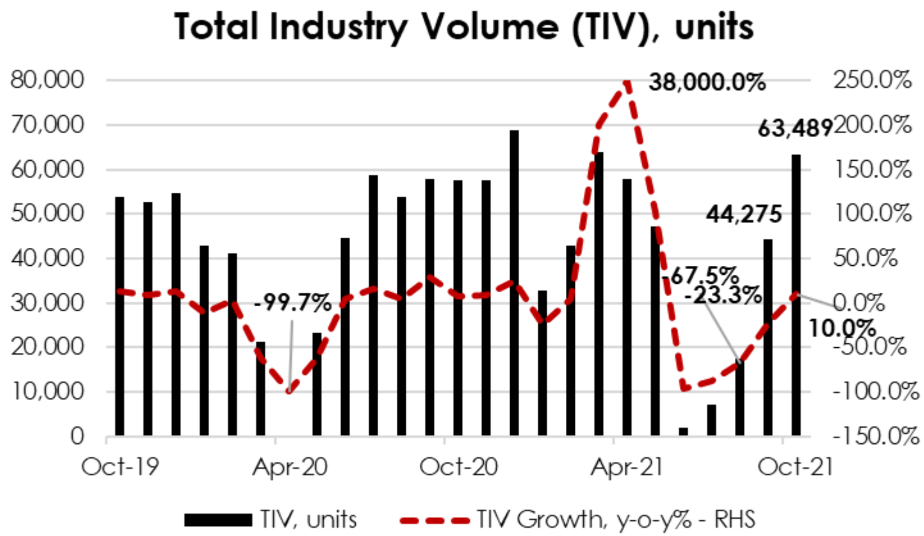
RM2.0 billion guarantees is given to the banks via Guaranteed Credit Housing Scheme (Skim Jaminan Kredit Perumahan) to assist those in the gig economy to own a house, thus encouraging home purchases.

Low-cost Housing Project

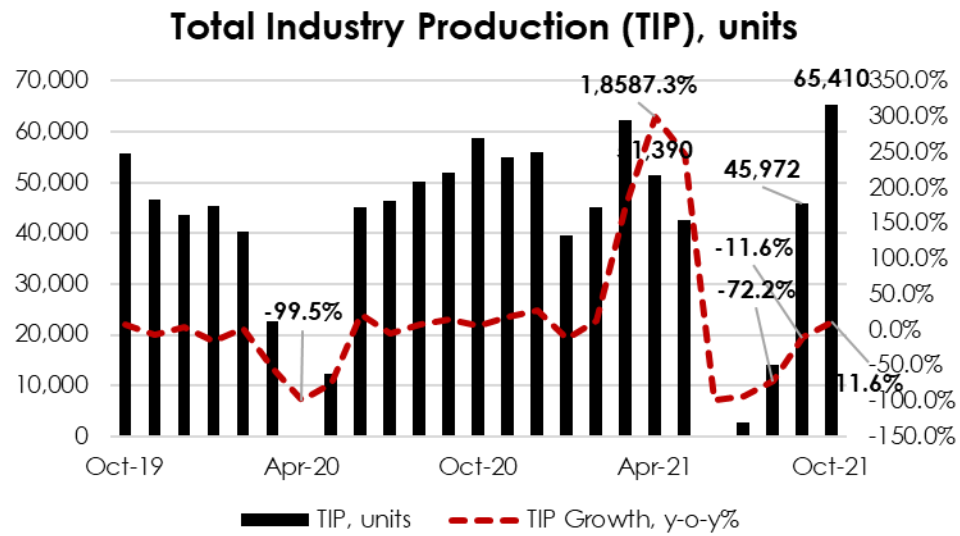
Allocation of RM1.5 billion to continue with **housing programmes** such as the development of "Rumah Mesra Rakyat" and maintenance of public housing units.

Source: MOF

AUTOMOTIVE – EXTENSION SALES & SERVICE TAX EXEMPTION INTO 2022 TO SUPPORT VEHICLE SALES



Source: Malaysian Automotive Association

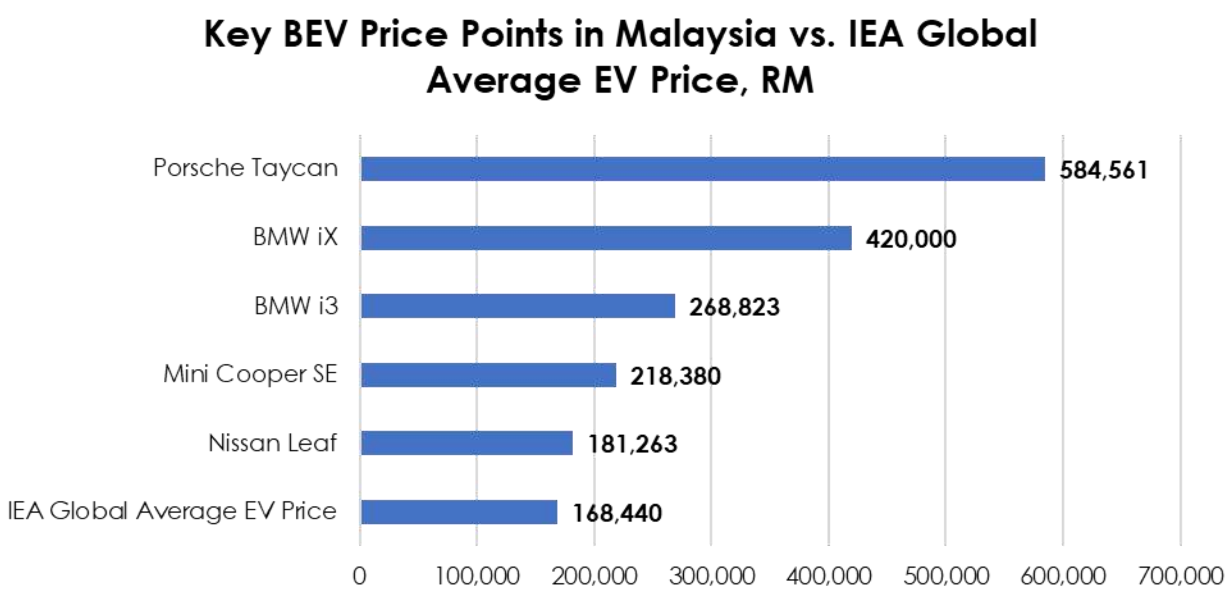


Source: Malaysian Automotive Association

- ✓ The total industry volume (TIV) rose by 10.0% y-o-y to 63,489 units in October (September: 44,275 units) due to higher sales as companies ramped up production and deliveries of vehicles to fulfill backlog orders. However, the TIV was 4.8% lower for 10M2021 at 382,379 units (10M2020: 401,714 units) as the series of lockdowns saw the closure of auto showrooms.
- ✓ Meanwhile, the total industry production (TIP) was up by 11.6% y-o-y at 65,410 units in October (September: 45,972 units), which is the highest monthly production volume since January 2018 that produced 68,002 units. On a YTD basis, the TIP was lower by 1.4% at 369,406 units in 10M2021 (10M2020: 374,494 units) as car manufacturing plants had to deal with restricted capacity during the series of lockdowns.
- ✓ To recap, the local auto sector was one of the beneficiaries of Budget 2022 whereby the key measure was the extension of the sales tax holiday for passenger vehicles until 30 June 2022 from the previous 31 December 2021 expiry. Notwithstanding this, downside risks to the sector's recovery include persistent shortages of key components and delays in new model launches. With a mutating Covid-19 virus and rising Covid-19 cases globally, we cannot rule out further rolling lockdowns ahead. Other downside risks include the tightening of bank approvals for car loans and a sharp weakening of the Ringgit.

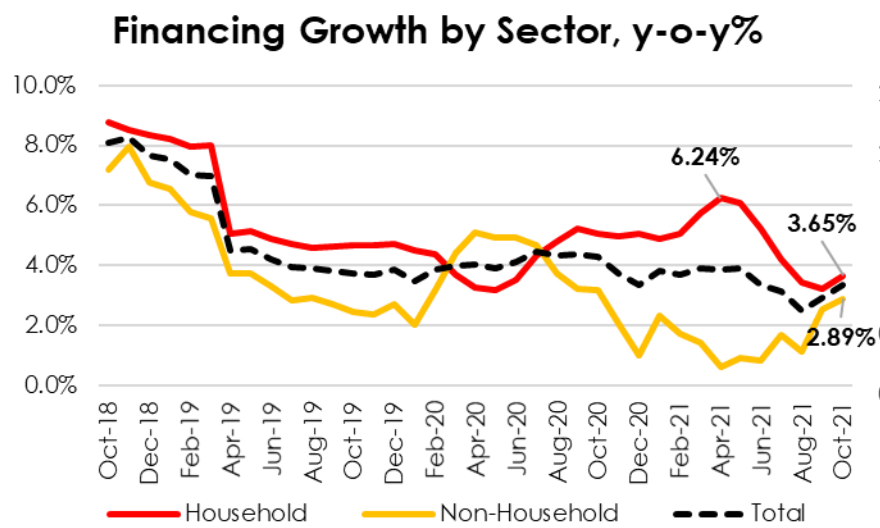
AUTOMOTIVE – CHOICES FOR ELECTRIC VEHICLES REMAIN LIMITED AND PRICEY

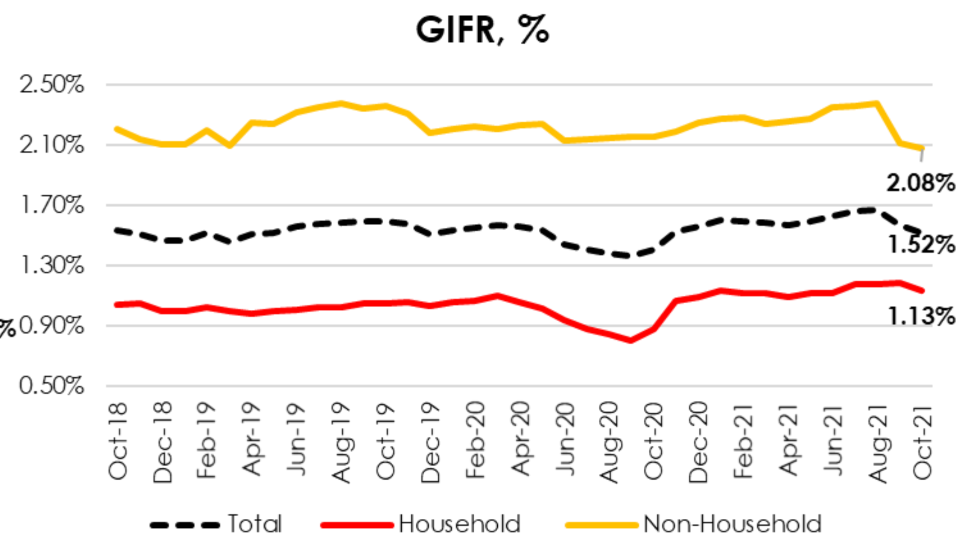
- ✓ Referring to the electric vehicles (EVs) space, the government under Budget 2022 has decided to give full exemption of import duty, excise duty, as well as road tax for EVs which may encourage the purchase of EVs, particular battery EVs (BEVs).
- ✓ However, BEVs are positioned at higher price points given the high powertrain cost of these models, whereas in Malaysia, the majority of EV models offered currently are from the premium brands. The estimated five BEV models available in Malaysia, ranging from the Nissan Leaf to the Porsche Taycan, entail starting prices ranging between RM180,000 and RM585,000.
- ✓ The cheapest BEV in Malaysia which is Nissan Leaf that has a price tag of RM181,263 is even more expensive than the International Energy Agency (IEA)'s global average EV price of RM168,440.
- ✓ Understanding that there is a lack of affordable EVs in Malaysia, it may take some time for the local market to introduce more EV models in the future.
- ✓ To encapsulate the previously mentioned points, we stick with our neutral view on the automotive sector as a clearer policy in developing the EV ecosystem seems to be lacking in the country.



Source: Paultan.org, various media

BANKING- FINANCING GROWTH IS EXPECTED TO BE HIGHER AMID PENT-UP DEMAND





Source: CIEC

- ✓ The banking system's financing activities increased further by 3.34% y-o-y in October from 2.94% previously.
- ✓ The stronger growth momentum was mainly underpinned by the reopening of the economy with the interstate ban was lifted on 11 October, resulting in better demand conditions.
- ✓ Following this, the Gross Impaired Financing Ratio (GIFR) improved slightly to 2.08% in October compared to 2.12% in September.
- ✓ The GIFR is expected to be lower in the upcoming months ahead in tandem with the gradual recovery in economic growth which may translate into higher salaries, enabling people to service their financing obligations better.
- ✓ Nevertheless, the banks are preparing for higher defaults and have continued to build up provisions against the materialisation of potential credit losses when support measures are eventually unwound.
- ✓ In 2022, the financing activities are likely to grow by 4.0% to 5.0% next year in view of a swift economic recovery next year, provided that the impact from the Omicron variant is not substantial.
- ✓ Henceforth, we maintain neutral call for the banking sector.

TRANSPORTATION & STORAGE – CONVENIENCE REMAINS AN IMPORTANT SELLING POINT FOR E-COMMERCE

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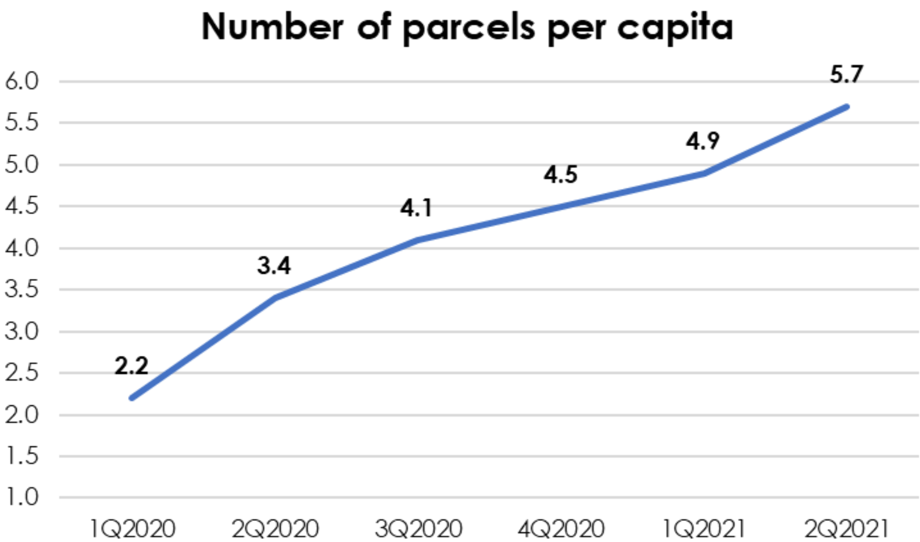
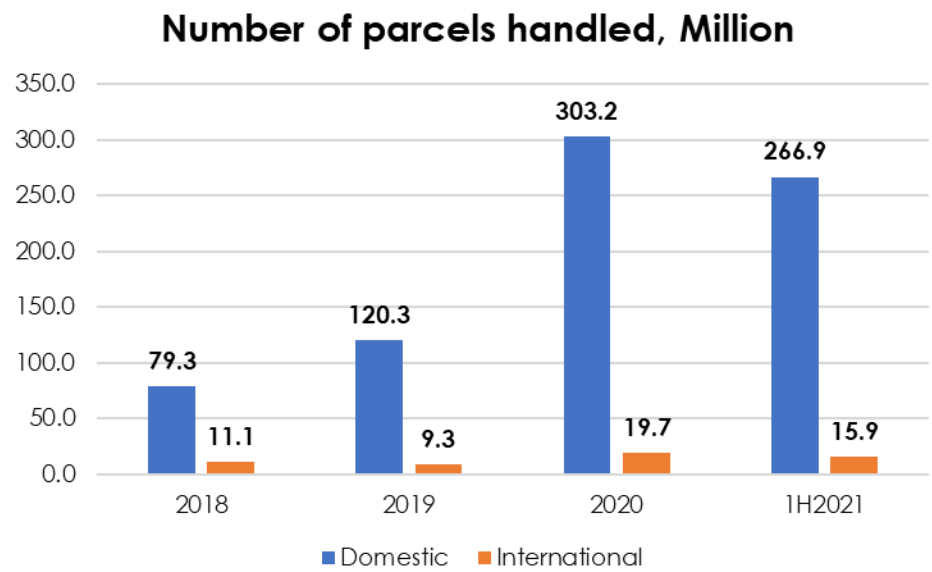


Source: Malaysian Communications and Multimedia Commission (MCMC)



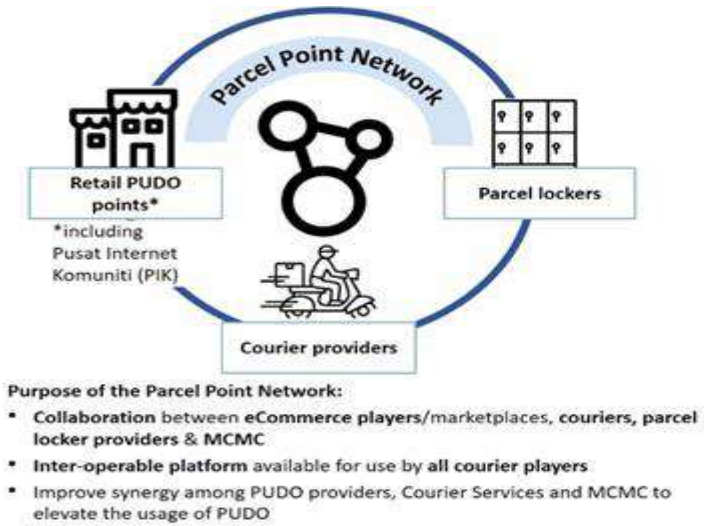
Source: MCMC

- ✓ The onset of the pandemic has accelerated the preference of consumers to purchase goods online especially during the series of lockdowns imposed in the country.
- ✓ This is reflected through the number of parcels of 5.7 per capita during 2Q2021(1Q2021: 4.9 parcels per capita) compared to just 3.4 parcels per capita in 2Q2020.
- ✓ In addition, the number of domestic and international parcels handled in 1H2021 reached 266.9 million and 15.9 million respectively, which is more than 80.0% of the domestic and international parcels handled for the whole of 2020.
- ✓ Even as movement restrictions are gradually relaxed, the convenience of online shopping remains a key attracting point for consumers to engage in e-commerce.
- ✓ Therefore, the need for logistics companies to handle e-commerce parcels will continue to remain crucial.
- ✓ In a scenario whereby the Omicron variant is found to be highly dangerous, the spike in online shopping volume is inevitable especially if lockdowns are imposed again.

TRANSPORTATION & STORAGE - ENHANCING THE NATIONAL COURIER ECOSYSTEM

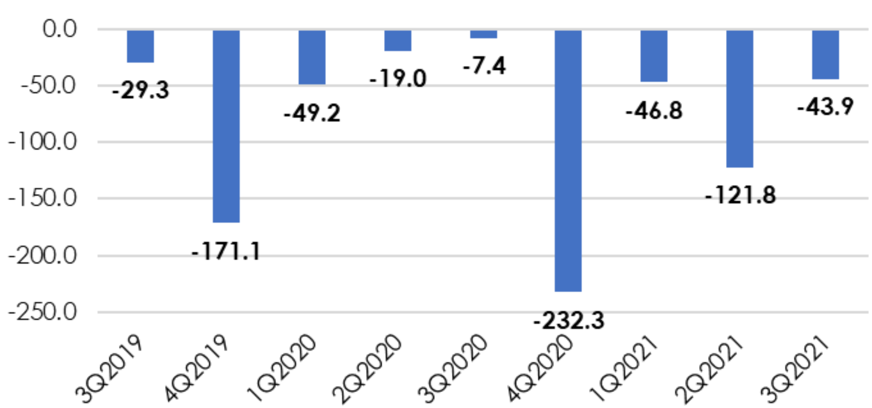
- ✓ To enhance the overall courier ecosystem, MCMC has introduced PAKEJ (National Courier Accelerator Plan), an action plan to improve courier and postal services in Malaysia.
- ✓ Key initiatives under PAKEJ include setting up a shared parcel network and sharing of postmen across different service providers. Such initiatives could help to expand network coverage and lower operating costs for courier industry players as labour costs involving postmen are a large fixed cost that has been hampering the profitability of courier players.
- ✓ However, we believe that these initiatives will go through a gestation period before contributing positively in the long run.

Parcel Point Network



Source: MCMC

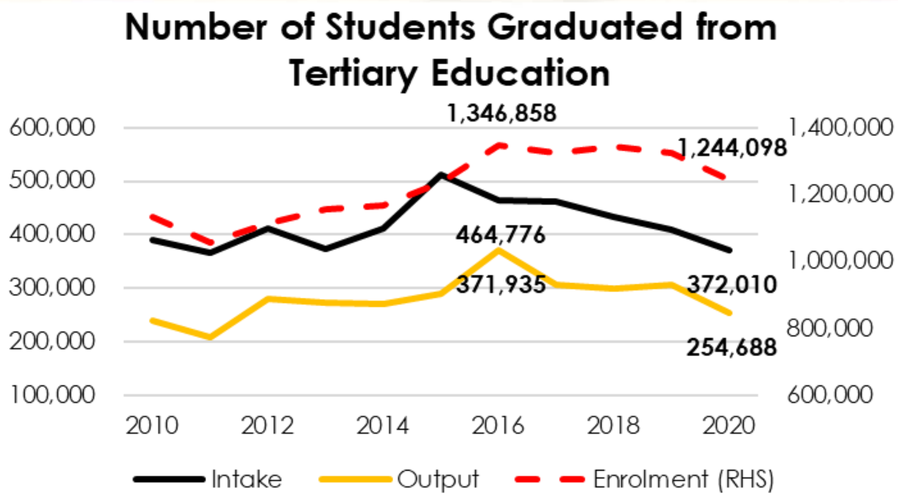
Pos Malaysia's Quarterly Losses After Tax, RM Million



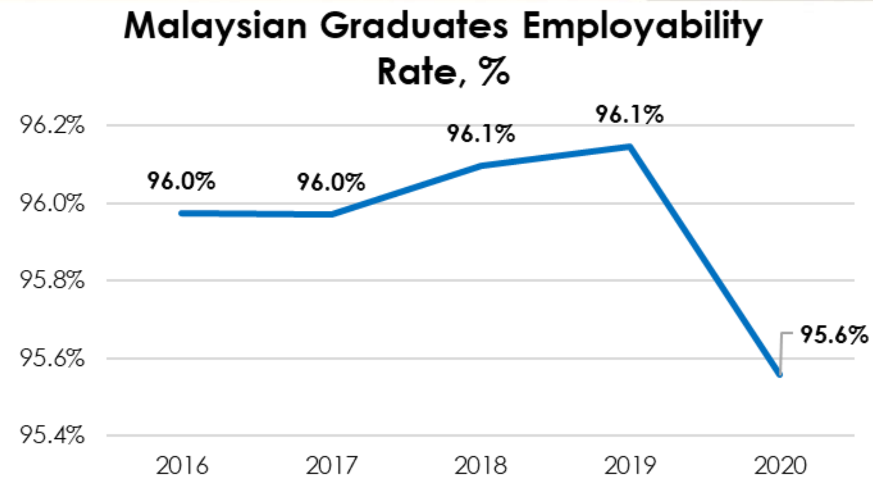
Source: Pos Malaysia

- ✓ Based on the latest measures outlined under Budget 2022, sales tax will be imposed on low-value items sourced overseas, sold by online sellers and sent to Malaysia via air courier.
- ✓ This could impact the number of international parcels handled by logistic companies which are still in red such as Pos Malaysia which recorded a larger loss-after-tax of RM43.9 million in 3Q2021 (3Q2020: -RM7.4 million) due to the decrease in mail and parcel volume handled, especially from contract customers.
- ✓ With that in mind, we reiterate our neutral stance for the logistics sector.

EDUCATION – EMPLOYABILITY IN GRADUATES HAVE DECLINED



Source: MoE



Sources: Graduate Statistics 2020, DOSM

- ✓ Based on the annual data from Ministry of Education (MoE), student enrolment into higher education institutions have experienced a downward trend (2020: -6.0% vs. 2019: -1.5%) following the Covid-19 pandemic that forced various socioeconomic sectors to go into lockdowns, including the education sector.
- ✓ Apart from that, the graduate employability also has edged downwards to 95.6% in 2020 after steadily increasing over the years to reach 96.1% in 2019 due to the pandemic. Though the figure is still hovering above 90.0%, the underemployment rate (2020: 31.2% vs. 2019: 26.7%) suggests that graduates are not employed according to their skills. Should this situation persist for much longer, this will discourage students enrolling into higher education institutions as education is no longer perceived as a fundamental requirement for better employment across industries.
- ✓ Apart from that, the number of international students have declined by 3.8% (2020: 131,300 students vs. 2019: 136,497 students) as the borders were closed, affecting private higher education institutions (PHEIs) since the revenue coming from the foreign students accounts for 40.0%.
- ✓ Be that as it may, the Education Malaysia Global Services (EMGS) has reported that the enrolment of international students into private universities may pick up amid recovery as the figure has rebounded over 31,000 applications as of 31 October this year (2020: 30,000 applications vs. 2019: 50,000 applications).
- ✓ Similarly, Monash University Malaysia saw an encouraging student intake in October 2021 as students will soon resume their studies since the country is heading towards recovery stage.
- ✓ However, the recovery journey may not be smooth due to the recently discovered Omicron, first detected in South Africa which has been categorised as 'Variant Under Monitoring'. Following this, EMGS has taken preventive steps by imposing a temporary entry ban on international students who have travel history within 14 days from several Southern African countries effective 27 November 2021.
- ✓ Meanwhile, the y-o-y change in the cost of tertiary education has remained flat at 0.0% from June 2020 to October 2021.
- ✓ All in all, we maintain a neutral call on this sector.

EDUCATION – BUDGET 2022 ALLOCATION

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Allocation for Development Expenditure in 2022	
Institutions	**Amount (RM)**
Pendidikan Politeknik	326,822,900
Universiti Putra Malaysia (UPM)	25,600,000
Universiti Malaya (UM)	14,500,000
Pusat Perubatan Universiti Malaya (PPUM)	70,000,000
Universiti Kebangsaan Malaysia (UKM)	221,314,700
Universiti Sains Malaysia (USM)	48,520,600
Universiti Teknologi Malaysia (UTM)	33,500,000
Universiti Teknologi MARA (UiTM)	881,444,100
Univerisiti Islam Antarabangsa Malaysia (UIAM)	297,229,000
Universiti Utara Malaysia (UUM)	12,970,000
Universiti Malaysia Sarawak (UNIMAS)	87,100,000
Universiti Malaysia Sabah (UMS)	34,940,000
Universiti Pendidikan Sultan Idris (UPSI)	20,358,000
Kolej Komuniti	80,600,000
Universiti Malaysia Pahang (UMP)	2,950,000
Universiti Malaysia Perlis (UniMAP)	48,125,000
Universiti Tun Hussien Onn Malaysia (UTHM)	87,214,000
Universiti Teknikal Malaysia Melaka (UTeM)	70,414,000
Universiti Sains Islam Malaysia (USIM)	26,800,000
Universiti Malaysia Terengganu (UMT)	13,600,000
Bahagian Kebajikan Pelajar Luar Negara	2,036,000
Penyelidkan Fundamental	294,035,000
Latihan Penyelidikan Universiti	3,250,000
Universiti Sultan Zainal Abidin (UniSZA)	38,900,000
Universiti Malaysia Kelantan (UMK)	74,000,000
Perancangan Strategik ICT	69,069,000
Universiti Pertahanan Nasional Malaysia (UPNM)	3,400,000
PPP/PFI	39,494,000
Total	**2,928,186,300**

Source: MoE

PLANTATION – GLOBAL CLIMATE CHANGE TO AFFECT CROP PRODUCTION MOVING FORWARD

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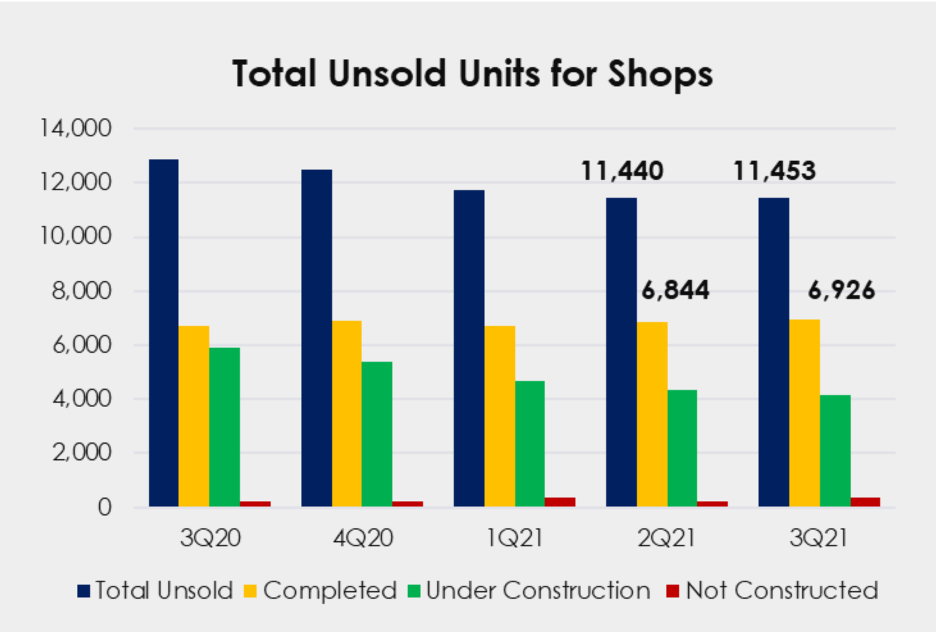
Palm Oil Production Statistics

000 metric tonne	Jan-21	Feb-21	Mar-21	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21
Opening stocks	**1,265.7**	**1,324.6**	**1,306.0**	**1,443.9**	**1,545.9**	**1,569.4**	**1,614.2**	**1,498.0**	**1,877.8**	**1,756.4**
Production	**1,126.5**	**1,108.2**	**1,423.5**	**1,528.1**	**1,571.5**	**1,606.2**	**1,527.5**	**1,710.4**	**1,703.7**	**1,725.8**
Y-o-Y	-3.8%	-14.0%	1.6%	-7.5%	-4.8%	-14.8%	-15.5%	-8.2%	-8.9%	0.1%
M-o-M	-15.5%	-1.6%	28.4%	7.4%	2.8%	2.2%	-4.9%	12.0%	-0.4%	1.3%
Exports	**948.0**	**900.5**	**1,190.5**	**1,347.6**	**1,268.7**	**1,419.0**	**1,402.0**	**1,167.4**	**1,611.8**	**1,417.9**
Y-o-Y	-21.9%	-17.3%	0.5%	9.0%	-7.4%	-16.9%	-21.4%	-26.0%	0.0%	-15.3%
M-o-M	-42.3%	-5.0%	32.2%	13.2%	-5.9%	11.9%	-1.2%	-16.7%	38.1%	-12.0%
Imports	**168.7**	**87.3**	**137.3**	**109.8**	**89.0**	**113.1**	**54.4**	**91.4**	**75.0**	**50.5**
Y-o-Y	98.4%	30.9%	73.4%	94.1%	139.9%	131.6%	3.2%	182.9%	55.3%	11.1%
M-o-M	-40.2%	-48.2%	57.3%	-20.0%	-19.0%	27.1%	-51.9%	68.1%	-18.0%	-32.7%
Consumption	**288.2**	**313.7**	**232.4**	**184.8**	**368.4**	**255.5**	**295.4**	**254.5**	**288.3**	**280.7**
Y-o-Y	-3.3%	-4.4%	-12.8%	17.0%	10.3%	-28.9%	7.0%	-18.9%	0.7%	15.0%
M-o-M	0.2%	8.8%	-25.9%	-20.5%	99.3%	-30.6%	15.6%	-13.8%	13.3%	-2.6%
Closing stocks	**1,324.6**	**1,306.0**	**1,443.9**	**1,545.9**	**1,569.4**	**1,614.2**	**1,498.0**	**1,877.8**	**1,756.4**	**1,834.1**
Y-o-Y	-34.1%	-25.6%	-15.1%	-10.6%	-23.2%	-20.5%	-21.1%	10.3%	2.0%	16.6%
M-o-M	4.7%	-1.4%	10.6%	7.1%	1.5%	2.9%	-7.2%	25.4%	-6.5%	4.4%
Stock-to-usage	**4.6**	**4.2**	**6.2**	**8.4**	**4.3**	**6.3**	**5.1**	**7.4**	**6.1**	**6.5**

Source: MPOB

- ✓ Malaysia's palm oil inventory continued to increase for the third consecutive month, standing at 1.83 million metric tonne (MT) in October (September: 1.76 million MT). The higher m-o-m stockpile during October was due to a combination of factors but mainly due to seasonal production recovery and lower-than-expected exports.
- ✓ The palm oil sector had been experiencing a labour shortage even before the pandemic and exacerbated since the government freezing the intake of foreign workers in March 2020. This has dampen the production activities particularly during peak season commencing around September every year.
- ✓ Notwithstanding this, this sector is expected to breathe a sigh of relief following the government's recent approval to recruit some 32,000 foreign workers to start arriving by end-March 2022 in Malaysia to ease a labour shortage and reverse a slump in output, provided the Omicron coronavirus variant does not disrupt plans.
- ✓ Therefore, the return of workers could help Malaysia's production to recover gradually next year alongside global economic recovery that could bolster the consumption of palm oil-based products barring any unforeseen consequences from the Omicron variant.
- ✓ On the other hand, biodiesel has received a great attention following its nature as an alternative source of energy to replace petroleum-based fuel in transportation amid the abundant resources of palm oil and environmental benefits.
- ✓ Moreover, biofuels offers many opportunities in term of renewability, biodegradability, sustainability, as well as neutrality compared to fossil fuels. This would benefit the industry players as CPO is one of the raw materials used in biodiesel production.
- ✓ The uncertainties in weather patterns caused by global climate change may affect crop production moving forward. All in all, we maintain our neutral view on the plantation sector.

NON-RESIDENTIAL PROPERTY (SHOP UNITS) – A PROLONGED SLOWDOWN



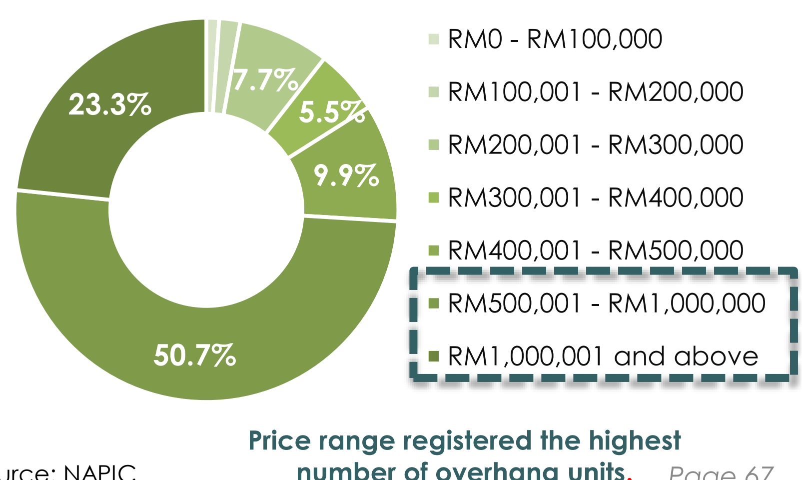
Sources: CEIC, NAPIC

- Within price composition, price between RM500,001 and RM1,000,000 recorded the highest number of overhang units (3Q2021: 3,511 units vs. 2Q2021: 3,560 units), representing 50.7% out of total units.
- Apart from that, the deployment of electronic commerce (e-commerce) among businesses has provided a convenient platform for customers to purchase goods. Moreover, the Covid-19 pandemic has accelerated the shift towards a more digitalised world.
- As such, we maintain a negative rating for the sector.

- The unsold units for shops were still higher at 11,453 units in 3Q2021 (2Q2021: 11,440 units), representing a 0.1% q-o-q increase.
- The breakdown of total unsold residential properties are as follows:

Completed:	**3Q2021: 6,926 units vs. 2Q2021: 6,844 units**
Under Construction:	**3Q2021: 4,158 units vs. 2Q2021: 4,361 units**
Not Constructed:	**3Q2021: 369 units vs. 2Q2021: 235 units**

Shops Overhang Composition by Price



Source: NAPIC

NON-RESIDENTIAL PROPERTY (SHOP UNITS) – PROLIFERATION OF E-COMMERCE IN MALAYSIA

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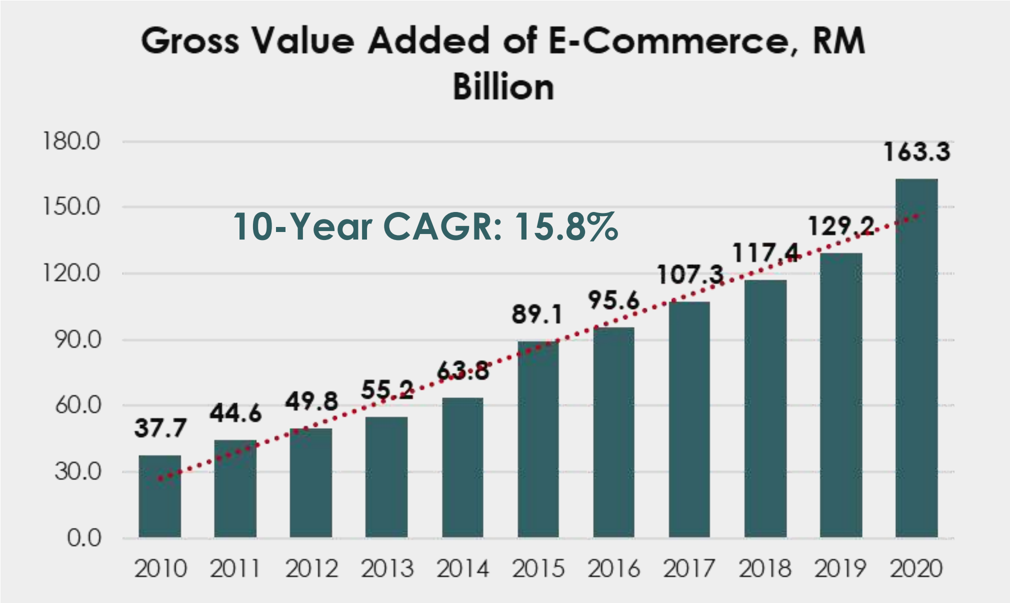

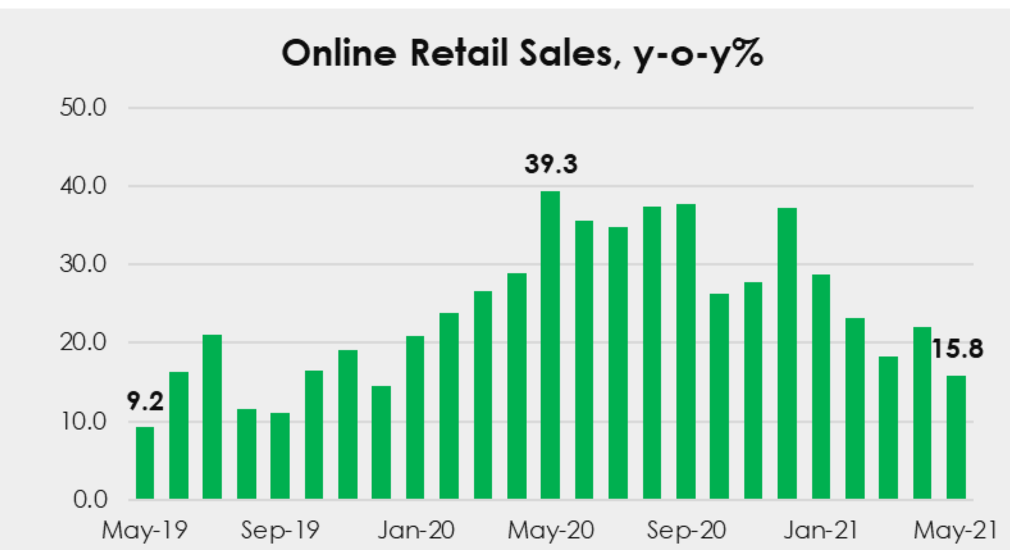

- E-commerce is an easy platform to purchase goods and it has been accepted as a medium of doing business in Malaysia. In 2020, Gross Value Added of e-commerce rose to RM163.3 billion from RM37.7 billion in 2010 with 10-year CAGR of 15.8% per annum, suggesting a positive development of e-commerce in Malaysia.
- Apart from that, share of e-commerce to GDP also increased to 11.5% in 2020 from 8.5% in the previous year.
- In addition, the online retail sales index, which portrays e-commerce activity in Malaysia has been expanding with double digit growth for the twenty fourth consecutive month.
- Though it has been showing a moderate growth recently, it is still higher as compared to the pre-pandemic levels, indicating that consumers have been gradually shifting to e-commerce platform.
- Moreover, the increasing number of connected devices to the internet has led to the growth of e-commerce, which provides a greater opportunity for online businesses and online shopping.
- This can be perceived as a hurdle for the commercial property sector to recover strongly from the pandemic.

Source: DOSM

RETAIL SPACE – ONLINE SHOPPING REMAINS AS ITS BIGGEST RIVAL

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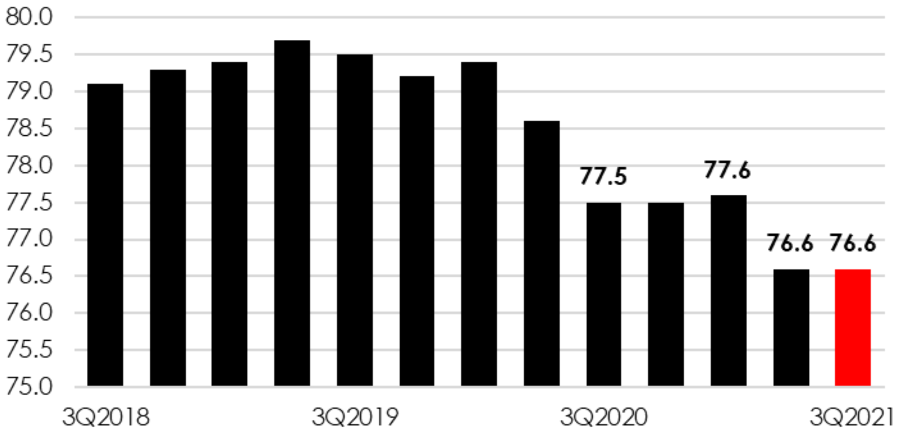
Retail Space Occupancy Rate for Shopping Complex, %



Source: NAPIC

Broadband Penetration Rates, %

Type of Broadband	2Q2020	3Q2020	4Q2020	1Q2021	2Q2021
Fixed Broadband per 100 inhabitants	34.5	35.6	37.2	39.0	41.0
Mobile Broadband per 100 inhabitants	116.7	117.4	118.7	120.1	124.2

Source: MCMC

- ✓ The latest report of the National Property Information Centre (NAPIC) for 3Q2021 has revealed that the occupancy rate for shopping complexes was unchanged at 76.6% (2Q2021: 76.6%). However, if we were to compared with 3Q2020, the occupancy rate was higher during that period at 77.5%.
- ✓ Many shoppers are still opting for online shopping as their primary shopping method due to the convenience it brings.
- ✓ The growth of online shopping is further underpinned by Malaysia's strong internet penetration. It is estimated that 80.0% of Malaysia's population are active internet users with extremely high rates of mobile phone penetration.
- ✓ This is in line with 2Q2021 Malaysian Communication and Multimedia Commissions (MCMC) report whereby both local fixed broadband (2Q2021: 41.0% vs. 1Q2021: 39.0%) and mobile broadband (2Q2021: 124.2% vs. 1Q2021: 120.1%) penetration rates improved compared to the previous corresponding period.
- ✓ Therefore, digitalisation is a key driver in remaining competitive. Businesses that have a high reliance on brick-and-mortar platforms will continue to face pressure due to the highly volatile environment resulting from the pandemic.
- ✓ While we view the reopening of the economy as a catalyst for physical retail space, retailers must rethink their assortments and channel strategies to match the shift in consumer preferences and behaviours. Otherwise, consumers will just prefer to shop online due to the convenience available.
- ✓ In addition, the psychological fear of being infected with Covid-19 at crowded places including malls will continue to deter people from frequenting malls, especially with the discovery of the new variant called Omicron.
- ✓ Hence, we maintain an avoid call for this sector.