ASIA INVESTMENT RESEARCH

Tracking Global Investment Flows Into China & Asia

· November 2022 Issue ·

AIR

MALAYSIA'S ECONOMIC TRANSITION: FROM PLANTATIONS AND PALM OIL TO TECH AND GREEN ENERGY

Tracking Malaysia's Inbound Investment Flows And Who Has Invested Where

A Publication From China Investment Research Ltd.

Asia Investment Research

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Overview

In our first Special Edition, we focussed on Bangladesh, https://www.asiainvestmentresearch.org/issue/bangladesh-special-2022-investment-issue due both to long-held beliefs dating back to Henry Kissinger's remarks in the 1970s and the World Bank's early last decade. As we specialise in Asian markets, and interact with the Bangladesh Government through the UK Government, we felt global perceptions lagged the recent changes Bangladesh has taken to increase FDI and to convert the economy from its garment base (under threat from Vietnam) and positioning it for continued strong GDP future growth. We did so using both near- term major FDI wins in renewable and healthcare (across a number of countries), as well as below FDI data, which then captured flows into its growing VC and equity markets. It will not be before these markets are producing unicorns.

We see Malaysia as having a similar number of characteristics; some historical negative investor perception in the prior decade, numerous changes to government, an economy with a historical reliance on palm oil and unresponsive capital markets which lost its first major unicorn to Singapore/USA. There were a few major differences such as inbound FDI, which was strong as well as direct outbound investment, including to/from the UK. Within the past year, we have also seen significant investment interest in Southeast Asian markets, across East Asia and, in particular Islamic markets, from major investors in the GCC/ MENA led by UAE and Saudi Arabia.

Contemporary Malaysia - Key Findings

- Inbound FDI in 2021was RM 48.1 billion, the highest since 2016, led by manufacturing and by Asian countries
- Major inbound investments/Government Infrastructure-three categories: operational 2017-2021 (regional Asian logistics hub, digital finance), becoming operational 2022-2024 (5G, cloud, data centres and green energy including methanol and converting palm oil to biofuel), and those from 2024-2027, most specifically the East Coast Rail link to China and southward into Singapore as well as the deep water port
- M&A – mostly domestic and continued diminished volumes in 2020 (for obvious reasons); however, both inbound and outbound volumes and aggregate amounts began to expand again in 2021 which has continued through H1 2022.
- Private Equity- the domestic PE industry is less than 20 years old and remains quite small. However, Malaysia based companies attracted $1.3 billion PE inbound during 2021 and $1 billion through H1 2022. Most of this investment was from major Asian investors although USA funds have also recently discovered this market.
- Venture Capital – similar to the PE segment, the domestic VC segment is less than 20 years old, has seen limited domestic funding sources (although this is changing) and focussed on small seed, pre-seed rounds. However, Malaysia is home to Grab, which relocated to Singapore and IPOed in the USA at a valuation of circa $ 40 billion. In the process Malaysia learned the importance of keeping and nurturing growth companies with two more possible unicorns over the next 1-2 years.
- Capital Markets- Bursa Malaysia is globally-recognised in Shariah investment, is the world's largest palm oil futures trading hub. That said it has not performed well over the recent past; equity volumes are expected to be up in 2022, but aggregate amounts raised and remain small. The largest two deals over the past

18 months (tech and consumer) still represented major percentages of annual issuance. The future looks brighter with the renewable investments being built and/or being restructured (plus the two unicorns discussed above)

- Cross Border FDI with UK - since Bangladesh does not really permit significant outbound investment, we did not include this section in our Bangladesh analysis. This is not the case with Malaysia. We set out tables of inbound from the UK and outbound into the UK. It is worth noting that Malaysian investors are currently leading investors in two of the UK's largest infrastructure projects (Battersea Power Station, Brabazon District of Bristol).

Innovation- The Green Future

In addition to the changes noted above, Malaysia, led by the government, has undertaken a number of recent steps to transform its economy and transition it to greener fuels. Over the summer the Prime Minister stated "The government will continue to encourage FDI to diversify agricommodity products with high added value. "The agricommodity sector will help to rejuvenate the country's economy and restore the people's economic stability"

In January 2022, Bloomberg published an article setting out a Japan led initiative called Matsuri (Microalgae Towards Sustainable & Resilient Industry) in which its 35 members (including Eneos and Honda and Mitsui Chemicals) are focussed on the potential of microalgae to help replace fossil fuels and provide food and consumer goods products. Through the size and clout of its members, Matsuri is hoping to create sufficient demand to build a large-scale algae farm in Malaysia.

The growing facility would be built by Chitose Bio Evolution Pte (Singapore), which is constructing a 5 hectare trial farm on the Malaysian part of Borneo Island, with financial support from Japan's New Energy and Industrial Technology Development Organization.

Chitose is negotiating with the Sarawak state government to secure land to expand its facility to 2,000 hectares by 2027, and is thus in the process of raising circa $1.8 billion funding for the project. After this expansion, this would be one of the world's largest purpose-built algae farms, which, at full capacity could produce circa $700 million/year revenues.

The site in the Malaysian state of Sarawak was chosen because of its more intense tropical sunshine, low risk of natural disasters and easy access to markets in Asia, said Tomohiro Fujita, chief executive officer of Chitose."Creating a business is within the realm of imagination," said Fujita. "But we are creating an industry, which is something extraordinary."

Algae products in the food, feed, fuel and chemical sectors could have a combined annual market of $320 billion in 2030, according to the Center for Climate and Energy Solutions, and the past decade has seen a boom in cultivated products. While most projects are focused on food and cosmetic ingredients, the big prize is to find a cost-effective way to make auto and jet fuel.

Eneos, which has been working on bio-jet fuel for more than 15 years, aims to begin commercial production of algae-based biofuel once the Chitose starts operation in 2025. Honda said it is still at the research stage for possible uses for algae and is also conducting its own investigation into cultivation.

Also in January 2022, Reuter's published an article – later republished by numerous others - on how Malaysia's state of Sabah plans to be the world's first green palm oil state. Sabah produced about 5 million tonnes of palm oil in 2020 making it the second-largest palm oil state in Malaysia, which itself is ranked #2 the world. Sabah's palm oil industry, which relies on smallholders for 20-30% of output, has plantations spread across 1.7 million hectares (4.2 million acres). Nonetheless, 65% of Sabah is still covered by lush forests home to often-endangered wildlife including wild boar, orangutans, proboscis monkeys and pygmy elephants. Looking to balance nature conservation with supporting its palm oil sector, Sabah launched the Jurisdictional Certification of Sustainable Palm Oil (JCSPO) initiative in 2015 with a target of producing only oil certified as ethical and green by 2025.

In July 2022, several state-owned Chinese companies agreed to collaborate with Malaysian firms as well as the Malaysian Palm Oil Board (MPOB) to produce oil palm-based products involving RM 6 billion in FDI:

- Chinese partners: Shanxi Construction Investment Group Co Ltd (SCIG) and the Institute of Coal Chemistry, Chinese Academy of Sciences (ICC-CAS)
- Malaysian partners include Benalec Holdings Bhd's subsidiary Pengerang Maritime Industries Sdn Bhd and Sabah Oil and Gas Development Corporation (SOGDC).

The products are hydrotreated vegetable oil (HVO) and sustainable aviation fuels (SAF), according to Prime Minister Datuk Seri Ismail Sabri Yaakob: "The joint venture is expected to provide 1,000 job opportunities, and "The development of the maiden HVO and SAF plant in Malaysia is an initiative to drive the palm sector towards high-tech and high-value industries."

Future Growth Themes

Forest Conservation

These moves are aligned with a recently released (June) report by Bain& Co and Temasek entitled: "Southeast Asia's Green Economy 2022: Investing behind new realities. The authors stated that forest conservation is a growing investible space towards emission reduction in Southeast Asia particularly in Indonesia and Malaysia. The segment is the largest carbon abatement lever in the region and will represent a $20 billion (RM63.7 billion) investment opportunity by 2030.

Solar

Malaysia's renewable energy installed capacity is targeted to reach 31% by 2025 and 40%, or 18,000 MW, by 2035. The net installed capacity of solar energy reached 1,493 MW in 2020 compared to 229 MW in 2015.

Separate from growth, Malaysia continues to showing innovation. In April 2022, Shizen Energy (Japan- which has already developed 200 MW of renewable energy in Malaysia) joined the Nusa Baiduri Consortium, which is planning to build a 150 MW floating solar power plant at the Durian Tunggal Dam in Malaysia's Melaka state. Shizen (Malaysia sub) will conduct a 12month feasibility study for the project and will cooperate directly with the consortium's largest shareholder, Malaysian real estate manager Nusa Baiduri Sdn Bhd. If the feasibility study yield positive results, the completion of the 150 MW floating solar project would mean Malaysia having one of the first and largest floating solar plant in South East Asia.

MALAYSIA INBOUND FDI 2017-2021

Overview

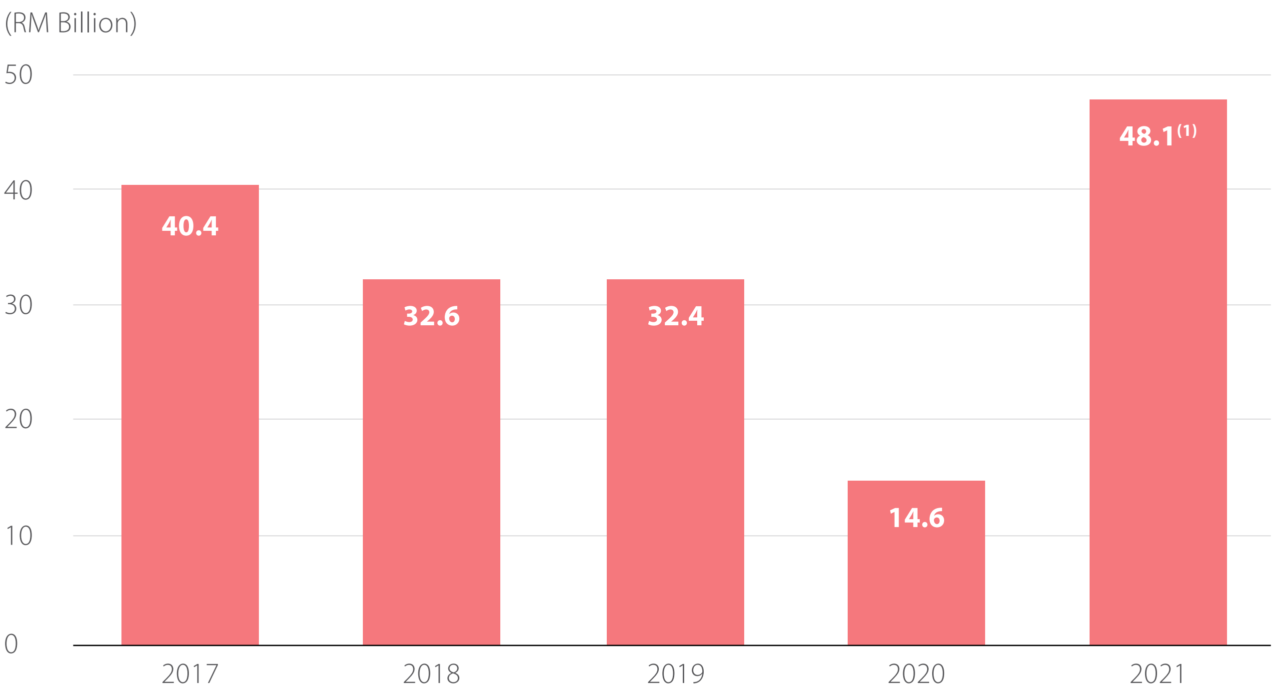
In this section, we examine Malaysia's inbound investments at the aggregate level, by the 3 most active sectors and from the 3 most active regions/countries over the period of 2017-2021. While it is interesting to see movements over this period of time we focus on the past two years, and in particular in 2021.

Aggregate Level

Table 1 below shows Malaysian net inbound FDI over the years 2017-2021 (in ringgit billion). As shown, it was quite strong 2017-2019 (although slightly down from 2016), primarily from COVID disruption. However, it jumped back strongly in 2021, topping even the 2016 total. The Minister of International Trade and Industry

said in the statement that easing COVID-19 restrictions and high vaccination rates allowed economic activities to resume in Malaysia.

Malaysian Net FDI Inbound 2017-2021



(1) Highest since 2016

Table below sets out Malaysian inbound FDI by sector and by region and/or country.

Malaysian FDI Inbound by Section/Region 2017-2021					
Segment	2017	2018	2019	2020	2021
By Sector					
#1	Services / Financials / Comms	Services / Financials	Services / Heath	Services / Financials	Manufacturing
#2	Mining / Quarrying	Manufacturing	Manufacturing	Manufacturing	Services
#3	Manufacturing	Construction	Mining / Quarrying	Mining / Quarrying	Mining
By Region					
#1	Asia (63.5%) (Led by Hong Kong, China, Singapore)	Asia (44.9%) (Led by Hong Kong)	Japan (32.9%)	Singapore	Asia
#2	Europe (29.7%	Europe (33.7%)	Hong Kong (27.2%)	Thailand	Americas (38.3%)
#3	Africa	USA (20.0%)	Netherlands (12.3%)	China	Europe (12.3%)

By Sector

While the 3 leading sectors (manufacturing, services/financials, and mining) vary in annual ranking, they arepresent in all 5 years. Manufacturing (discussed below) has risen from #3 position in 2017 to #1 by 2021. Conversely, mining and quarrying fell from #2 in 2017 to #3 by 2019, where it has remained. Services, including financial services and health care (and communications) led throughout the period until being overtaken by manufacturing in 2021.

2021 – By Sector

The manufacturing sector expanded by RM22.5 billion to record net inflows of RM29.5 billion which attributed to the largest flows in FDI. The manufacturing sector attracted 61.4 per cent of total investment, particularly in electrical, transport equipment and other manufacturing subsector.

The northern state of Penang, which is Southeast Asia's semiconductor manufacturing hub, was the largest recipient of investments. "The manufacturing sector continued to be the mainstay of the economy for 2021, generating significant multiplier effects on the nation's activities and growth," MIDA said.

Services were the second highest contributor mainly in financial activities, followed by the mining sector which received equity and investment fund shares (UK and EU investors).

By Region

In 2021, the Asia region continued to be the top source of FDI with net inflows of RM22.5 billion (46.9% of total), mostly from Singapore, Japan and South Korea which amounted to RM17 billion.

While Singapore and Hong Kong have been leading investors throughout the period, Japan is the third largest Malaysian investor in terms of projects in the manufacturing sector. Investment value from 1980-2021 was $27.6 billion with 2,709 projects in the manufacturing sector implemented. In 2021, US$1.81 billion of investment was recorded, involving 25 approved projects in manufacturing. Japan also played an important role in health FDI investment during 2019.

It is also worth noting that the USA has become increasingly active FDI investors during this time period.

Aggregate FDI Inbound

The Asia region has been the predominant source for FDI with RM413 billion (54%), followed by Europe at RM208 billion (26%) and the Americas at RM153 billion (14%) as at the end of 2021.

By sector, the services sector remained the largest at 49.2% or RM388.4 billion, driven by financial and wholesale activities. This was followed by the manufacturing sector which accounted for 42.2% of total FDI, particularly in electrical, transport equipment and other manufacturing subsectors.

Direct investments outbound (DIA) 2021

Similar to inbound flows, 2021 DIA flows leapt from RM9.5 billion to RM19.7 billion led by higher investment in the manufacturing and services sectors.

- Manufacturing overtook services as a primary sector for DIA, contributing 40.5% of the total investment, especially in electrical, transport equipment and other manufacturing subsector.
- The services sector contributed 30.3%, particularly in financial activities.
- Europe was the leading region of DIA flows in 2021 with 54.9% notably in the Netherlands and the United Kingdom. Overall, these investments were mainly channelled to the Netherlands, Canada and Indonesia.
- DIA flows were predominantly in the form of equity & investment fund shares with a share of 61.7% attributed to higher profit retained abroad albeit lower outflows in equity.

KEY INVESTMENT PROJECTS

Overview

We have been closely monitoring major private company Malaysian projects, including government led infrastructure projects, for some time. This section sets out those which we see as already operational, those becoming operational from 2022-2025 and those which are not expected to operational until after 2025.

Already Operational

Manufacturing Expansion (2021-2022)

Semiconductor Increased Investment (2021)

Decades ago, Malaysia built the basis of a leading semiconductor manufacturing hub…which now has 13% of global chip assembly and testing market share. Malaysia also has the right ecosystem and talent to attract more investments in the semiconductor space, according to the Malaysia Semiconductor Industry Association President Datuk Seri Wong Siew Hai. "Not just the ecosystem itself, but we have the right infrastructure, including our engineers, contractors and architects to build factories to international standards," he said.

In December 2021 Intel Corporation (USA) pledged US$7 billion (approximately RM30 billion over 10 years) in Penang to expand its advanced semiconductor packaging technology. Other 2021 and 2022 multi-billion investment commitments include Infineon (RM 8 billion), Nexperia (RM 1.6 billion through 2026) and Austria Technologie (RM 8.5billion –phase 1).

Electric Vehicles (2022)

Malaysia led the way among ASEAN countries in 2009 introducing amendments to its taxation system wherein imported hybrid vehicles would enjoy 100% import duty and 50% excise tax exemptions (applies to petrol engines below2,000 litres). In 2018-2021, about 9,000 vehicles were added to the total 22,000 EVs registered in the country. Despite this slow prior year's progress, earlier in 2022 Samsung Electronics' battery arm, Samsung SDI, broke ground on a $1.3 billion plant in Seremban (south of Kuala Lumpur) scheduled to open 2025. The President of Samsung SDI Energy stated that he expects Malaysia to become a "centre of the global battery industry".

There are also manufacturing gains in aerospace and medical devices.

ASEAN Regional Logistics Hub – Alibaba-Malaysia (2021)

In November 2021, Alibaba chose Malaysia as its Asia Pacific preferred air cargo hub with the official launch of Cainiao Aeropolis eWTP Hub, via a JV company between Malaysia Airports Holdings Bhd and Alibaba. The hub is expected to transform Malaysia into a regional distribution centre for e-commerce, generate a cumulative GDP of RM4.2 billion over the next 10 years and support over 35,000 jobs.

At the launch, the Transport Minister said the Malaysian freight and logistics market is expected to exceed $55 billion (RM228 billion) by 2026 up from $37.6 billion in 2020 (year eWTP hub was announced). Malaysia Airports chairman said its aim is to gain leadership in e-commerce logistics and establish KLIA as a preferred regional distribution hub within the Asia Pacific.

Data Centres (2021-2022)

Malaysian data centre market is forecast to grow to $2.08 billion value by 2026, an increase of $1.4 billion (7% CAGR from 2021). Currently, Malaysia has only a fraction of the data centres in China or Japan. The growth of the Malaysian data centre market to date has been led by Microsoft (its first local data centre in 2021), followed by AWS and Google. The growth is in line with the Malaysian government's target to achieve 50% cloud adoption in cloud data centres in Malaysia by 2024, and predictions for Malaysia's IoT industry to reach a value of over $10 billion by 2025.

In April 2022, YTL Power and GDS Holdings (China) signed a partnership to co-develop 168MW of data centre capacity, across 8 individual data centre facilities, at the upcoming YTL Green Data Centre Park in Johor, Malaysia. The first phase of the co-development will enter service in 2024.

In September 2022, NTT (Japan), a leading IT infrastructure and services company, has announced the commencement of its sixth data centre construction in Cyberjaya, shortly after the completion of its fifth data centre (CBJ5) in 2021. NTT plans to invest over $50 million for the new data centre known as Cyberjaya 6 (CBJ6). It complements CBJ5 which covers just under 20,000 $m^2$with a total facility load of 22MW when combined with CBJ6.

Telecommunications – 5G (2021-2024)

In July 2021, Digital Nasional, a government-backed entity set up in March to be Malaysia's single wholesale 5G network operator, awarded Ericsson an 11-billion-ringgit (around US$2.6 billion) deal for the network build, which includes tower rental and fibre leasing, 60% of which will go to local contractors over the next 10 years.

Nikkei Asia quoted Digital Nasional as saying that "Ericsson has undertaken to arrange to finance for the supply, delivery, and management of the entire 5G network," with future cash flows for the business to be securitised via Islamic bonds to fund opex and repay vendor financing arrangements.

In 2019, Malaysian mobile operator Maxis selected Huawei as its 5G vendor partner, unveiled at a high visibility signing ceremony with the then PM. The Maxis deal was based on the assumption that Malaysia would follow international norms and allocate 5G spectrum to the country's mobile operators, who would then roll out their own networks. The subsequent administration opted for a single national 5G network, setting up Digital Nasional to run it. The goal is for 5G coverage for 80% of the nation's population by 2024.

Projects Coming On-line 2022-2024

Sarawak State New Methanol Plant (2021-2023)

Formed in June 2017 as part of Sarawak state's plan to monetize its natural gas resources and expand Bintulu's downstream industrial sector, Sarawak Petchem launched preliminary construction activities for the methanol plant project in September 2019 in Tanjung Kidurong, 15 kms northeast of Bintulu. The plant's site is part of 1,068 acres the state government acquired for development of its proposed Sarawak petrochemical hub (SPH). While Sarawak Petchem's project will remain independent from Malaysia's Petroliam Nasional Bhd. (Petronas), Petronas will supply the proposed methanol plant by using 140-160 million standard cf/d of natural gas as feedstock.

In June 2021, Sarawak Petchem let a contract to a division of Air Liquide (France) to license process technology for a grassroots methanol plant now under development at Bintulu, Sarawak, eastern Malaysia. As part of the contract, Air Liquide agreed to deliver licensing of its proprietary Lurgi MegaMethanol technology for the planned 5,000-t/d (1.7-million t/yr) methanol plant.

Alongside technology licensing, engineering services, and related equipment for the methanol unit, Air Liquide's scope of delivery under the contract includes an air separation unit that will have capacity to produce 2,200 tonnes/day of oxygen. The 2021 Air Liquide for the project follows Sarawak Petchem's previous award of a $1.07 billion contract to Samsung Engineering Co. Ltd. (Korea) to provide licensing, engineering, procurement, construction, and commissioning (LEPCC) services for the proposed Sarawak methanol project. Air Liquide and Samsung Engineering said they expect Sarawak Petchem's $2.1 billion methanol plant to enter operation by late 2023.

Digital Banking (2022+)

In April 2022, Malaysia's Minister of Finance (MOF) approved 5 digital banking licenses; 3 majority owned by Malaysians and 2 not majority owned by Malaysians. We set these out below. The two not majority owned have major investors from Singapore and Japan. We understand that potential investors from other countries had soundings taken, but only these two countries were successful.

Significant Banking Investments

- Consortium of Boost Holdings (Axiata Group, eWallet) and RBH Bank Berhad (market cap RM 24+ billion)
- Consortium led by Sea Limited (eCommerce; gaming) and YTL Digital Capital (computing telecommunications)
- *Consortium led by KAF Investment Bank (leading Investment Bank), and includes Carsome, MoneyMatch and Jixnexu
- Consortium led by GXS Bank Pte (Singapore; owned by Grab and Singtel) and Kuok Brothers
- *Consortium led by AEON Financial Services (Japan), AEON Credit and
- MoneyLion (USA)

*Only 5 of the 29 Applicants for digital banking licenses were approved by MoF Malaysia.

* Also licensed under Islamic Financial Services Act.

Biodegradable Packaging (2022+)

In April 2022, Hotpack Global, a UAE-based leading food packaging manufacturer, announced its plan to invest AED 350 million in Malaysia over the next 10 years to construct 10 biodegradable packaging plants in partnership with Free The Seed Sdn Bhd, a Malaysian manufacturer of biodegradable products from rice straw, facilitated by Malaysian Bioeconomy Development Corporation. Construction of the first plant, the first-ever manufacturing unit of Hotpack in Malaysia and Southeast Asia, has already commenced. The plant is anticipated to produce 70 million units of fast-moving consumer goods (FMCG) packaging products per year.

As part of the partnership, Hotpack have also struck a deal with local Malaysian farmers to ensure a steady supply of agricultural raw materials. With this project, Hotpack will manufacture and provide a new line of biodegradable products for its global markets, including GCC countries.

Construction of the first 3,200 sq m production plant in Gurun, Kedah began May and is slated to complete in August. This plant itself will create 300 job opportunities among the skilled and semi-skilled workforce.

Cloud Computing (2022)

In May 2022, Google Cloud confirmed that it was rolling out its cloud region in Malaysia (after signing a contract). The cloud region will be complemented by Google Cloud's existing Dedicated Cloud Interconnect locations in Cyberjaya and Kuala Lumpur, which provide direct connections between an organisation's onpremises network and Google Cloud's global network.

Google Cloud will be supporting the Malaysian government's plans for the country's next phase of economic development by providing local organisations with the enterprise-grade capabilities they need to accelerate digital transformation and forge new competitive advantages through the Malaysia cloud region.

The move follows research by AlphaBeta, commissioned by Google, which found that digital transformation if leveraged fully, could create up to RM257.2 billion in annual economic value in Malaysia by 2030, thus equivalent to 17% of Malaysia's 2020 GDP.

Renewables – Biofuels (2022-2024)

In December 2021, Malaysia and Shanxi Construction Investment Group signed a MoU to collaborate on the production of second-generation biodiesel and biojet fuel. Shanxi Construction plans to invest in a hydrogenated vegetable oil (HVO) plant, which has the potential to produce Sustainable Aviation Fuels, also commonly as biojet fuels, in Malaysia's southern state of Johor. Each HVO plant is expected to bring foreign investment worth 3 billion ringgit ($712.25 million) and create nearly 800 jobs. The biodiesel and bio-jet fuel products will be used to meet the needs of the Chinese market but will also be exported to Europe and the USA.

"This investment can be seen as a commitment between Malaysia and China in exploring new advanced technology involving palm oil products in lieu of the United Nations Climate Change Conference (COP26) to reduce carbon intensity (against GDP) by 45 per cent by 2030 for Malaysia, and the Dual Carbon commitment for China targeting carbon neutral by 2060."

Kuantan Port Expansion – Links to ECRL (2022-2026)

In November 2021, officials from the Beibu Port Group announced that the Malaysia-China Kuantan Industrial Park (MCKIP) received a 17.5 billion yuan ($2.74 billion) investment; the largest investment MCKIP has ever received. It is also a step change from the investment amount of $4.8 billion to date announced in October 2021. The new investment will involve a number of major projects.

In January 2022, it was announced by the Transport Minister that KUANTAN Port's Phase 3 expansion in Gebeng is expected to raise the port's handling capacity from about 27 mts in 2020 to 50 mts, in the process converting it to a deep-water port. "The operator Kuantan Port Consortium Sdn Bhd and the Kuantan Port Authority are both working in concert to ensure the port will be integrated into the Malaysia-China Kuantan Industrial Park (MCKIP) and Gebeng Industrial Park (GIP) ecosystems. "All this is needed to allow the port to meet the future needs of industrial players like Alliance Steel Sdn Bhd, MCKIP's largest investor. "Furthermore, as the East Coast Rail Link (ECRL) route is planned for completion in 2026, it is vital for the state and federal governments to ensure the port is ready for this land-bridge between the west and east coast," he added.

Bosai Minerals Group Co Ltd is also expected to invest RM10.6 billion into a Coke-Electricity-Aluminium and Ferroalloy industrial project. Alliance Steel has already brought in RM5.84 billion worth of investments in the area. The spur line route from the ECRL into Kuantan Port through MCKIP should be finalised in the next few months.

2025 onwards

Major Bridge Project/Sarawak Coastal Road (2025)

In January 2021, China State Construction Group (CSCEC) successfully won the bid for the RM848- million Batang Saribas Bridge Project in Sarawak, Malaysia. The bridge is one of the 11 major bridges which are being constructed and are scheduled to be ready by 2025 as the first of the three components of the Sarawak Coastal Road project which covers a total length of 896 km.

The Saribas Bridge project is one of the largest single bridge projects that CSCEC Group has won in overseas bids in recent years. It is also one of the longest main span bridges of the same type in Southeast Asia. Once the project is completed, it will be connected to coastal roads, effectively improving local traffic, raising employment levels, and driving economic development.

The East Coast Rail Link (ECRL) (2026-2027)

This is the largest economic and trade project between China and Malaysia and links the east coast with the west. CCCC's Malaysian unit is building the project. Once complete, Malaysia Rail Link (MRLSB) will operate the line in a 50/50 JV with CCCC. ECRL construction works were suspended in 2018 due to high project costs.

Following the work stoppage, both parties signed a revised agreement which both reduced the size of the original contract and the cost by 1/3 to $10.6 billion. In April 2021, both parties signed a revised deal, where the line increased from 640 kms to 665 kms, and the cost was increased to $12.1 billion.

As at July 2022, the ECRL project in Malaysia reached a 30% construction completion mark, as reported by CGTN. In the report, CGTN added that the excavation work has begun on the Genting Tunnel of the project.

Meanwhile, CCCC is running a programme for young Malaysians in a bid to hire local talent for the construction and operation stages of the project. CCCC facility relocation manager stated that they are planning to recruit 5,000 railway construction and operation workers to improve local involvement. Once complete, ECRL will improve connectivity and will reduce journey times between Kuala Lumpur and Kota Bharu to less than four hours, is expected to contribute around 2.7% to the economic growth of the country and is currently slated for completion in 2027.

Malaysia to Singapore Railway (2022-2026)

In July 2022, it was reported that Ekovest Construction (Malaysia) won the 2 billion-ringgit ($447 million) contract to build a commuter train service linking Malaysia's state of Johor Bahru to Singapore. The 4 km railway, called the Rapid Transit System Link Project, is expected to transport 10,000 commuters/hr in each direction when completed by end-2026. The project had been discussed for years and was originally scheduled to be completed by end-2024.

Ekovest Construction is building the 2.7 kms of railway that links to the Woodlands North MRT station in Singapore, while 1.3 kms is being built in Singapore by contractors including Penta Ocean (Japan) and CCCC (China).

RECENT MALAYSIAN M&A/INVESTMENTS

Overview

In this section, we analyse M&A activity from pre-pandemic 2018/2019 through to 2021 and year to date in 2022. We present the overall data below in Table 3, which clearly reflects effects of COVID and related travel constraints. By 2021, those constraints had begun to be mitigated, resulting in increasing volumes and aggregate amounts.

There were also major shifts occurring which we highlight in the other tables. The 2020 data indicated most of the activity was domestic. In 2021, there were considerable increases, in particular, in inbound flows, from many parts of the globe. In 2022, this extended also to MENA, where UAE and Saudi Arabia are expected to increasingly invest in Southeast Asia.

In 2022, we were particularly impressed at the quantum leap in Malaysian outbound flows, which we expect to continue.

Malaysian M&A Activity 2018-2021(1)		
Year	Volume (m)	Aggregate ($m)
2018	89	10,414
2019	52	5,699
2020	47	4,332
2021	TBD	8,900[(3)]

(1) Transactions > $5 million.
(2) Source: Mergermarket.
(3) Does not include $1 2 billion DiGi.com and Axiata merger.

2020 Activity

As shown above in Table 3, Malaysia's 2020 M&A activity declined for the 3rd consecutive year (since 2017), with volume only 50% of 2018 volume. There were 47 deals valued at US$4.3 billion (RM17.4 billion) compared with 52 deals valued at US$5.7 billion in 2019. Not surprisingly, since deal related travel was severely restricted due to COVID constraints.

We set out selected 2020 transactions below in Table 4. These 9 transactions represent over 80% of announced aggregate amounts.

Virtually all of the activity was domestic, except for an education deal from a Hong Kong based acquirer. Again, this was due in part to the impact of travel restrictions on cross border transactions – where face to face due diligence and negotiations are customary.

Relative to sectors, activity was centred around property/real estate, financial and consumer/education. There was one small industrial/chemicals deal.

Selected Transactions (2020) [1]

Selected Transactions (2020) (1)					
Announced Date	Target Name	Industry	Acquirer Name (Country)	%	Amount ($m)
08/12	FGV Holdings	Plantations	Felda (KWAP)	80.0	2,720.0[2]
17/11	Chemical Co Malaysia	Polymers Coatings	Batu Kawan	56.3	71.4
13/11	TA Enterprise	Financial	Tiah Thee Kian	57.6	158.0[3]
17/07	Naim Holdings	Real Estate	Sarawak Economic Development	100.0	79.6
29/06	Pinnacle Sunway	Real Estate	Sunway REIT	100.0	105.3
14/06	Blossom Eastland; Rantau Urusan, YK	Real Estate	DBE	100.0	189.3
02/03	Int Education Holding	Education / Consumer	Hope Education (Hong Kong)	100.0	148.0
12/02	TA Global (TAG)	Property / Financial	TA Enterprise	34.2	138.0
11/02	SPA Furniture	Consumer	Euro Holdings	51.0	6.3

(1) Using 2020 exchange rate.
(2) For 100% of the shares.
(3) $245 for 100% value.

2021-2022

As markets began to return to normal and travel improved, M&A activity improved substantially, both in volume and aggregate amounts. We also saw increasing flows both outbound and inbound. We thus set each of these out in separate tables.

Selected Domestic Transactions/Investments						
Announced Date	Target Name	Country	Industry	Acquirer Name	%	Amount ($m)
11/01/22	HMC Corporate	Malaysia	Accounting	Acclime	100.0	ND
31/12/21	Juris Tech	Malaysia	Fintech	CTOS	49.0	46.8
13/10/21	Mykris Asia	Malaysia	Communications	Maxis	100.0	37.9
13/09/21	Signature Int.	Malaysia	Real Estate	Ace Logistics	106.0	12.8
06/09/21	IJM Plantations	Malaysia	Palm Oil	KL Kepong	43.8	269.6
21/06/21	Digi.com	Malaysia	Telecoms	Axiata; Telenor (Norway)	51.0	12,100
11/06/21	IJM Plantations	Malaysia	Palm Oil	KL Kepong (Malaysia)	56.2	337.0
16/03/21	CCM	Malaysia	Polymers / Coatings	Batu Kawan	43.7	51.0
24/02/21	Genting Highlands	Malaysia	Real Estate	Kanger Int.	100.0	48.4

As seen, the $12.1 billion Digi.com and Axiata/Telenor telecoms merger dwarfed all other domestic 2021 activity. This carefully structured transaction kept 51% of the voting shares in local Malaysian shareholders. There were also a number of transactions in energy, communications, technology and e-commerce.

Unlike prior years Malaysian inbound activity increased significantly, led by a number of significant financial services and tech investments as well as New Energy.

2021 Selected Inbound Acquisitions/Investment

Announced Date	Target Name	Country	Industry	Acquirer Name	Country	%	Amount ($m)
14/12	Jaya Grocer	Malaysia	eCommerce	Grab	Singapore	100.0	404.0
26/10	BGBF Genesis	Malaysia	Insured Bitcoin Fund	ICOA	USA	100.0	240.0(1)
20/09	MCE Ventures	Malaysia	Hydrogen	Chongqing Beidon Jean	China	70.0	ND
09/09	Big Pay (AirAsia)	Malaysia	Fintech / eWallet	SK Group	Korea	ND	100.0
27/08	Dialos Group	Malaysia	Engineering	Morinatsa	China	49.0	3.2
19/07	AmGeneral	Malaysia	Insurance	Liberty Mutual	USA	70.0	544.0(2)
22/06	AFFIN Life + General	Malaysia	Insurance	Generali (53% Gen4)	Italy	70.0	267.9
10/05	Aerodyne Group	Malaysia	Drones / AI	Kobashi, Real Tech	Japan	ND	ND
13/04	Fave	Malaysia	Fintech	Pine Labs	India	100.0	45.0
11/02	Flour Mills	Malaysia	Poultry	Tyson Foods	USA	49.0	94.4

1) LOI only.

(2) Confirmed privately

Relative to sectors, the data in table 6 shows that the focus on inbound investment during 2021 was in financial services and technology. In financial services, there were major cross border investments by global insurers Liberty Mutual and Generali, which made investments in both life and in general insurance. There were two fintech investments and an important e-commerce investment into Jaya Grocer by Grab.

Sources of funding were pretty much in line with inbound trends: Asia led (Singapore, China, Korea, Japan and India), followed by two from USA and one from Europe.

Selected 2021 Malaysian Outbound Transactions/Investments						
Announced Date	Target Name	Country	Industry	Acquirer Name	%	Amount ($m)
10/12	Tenaga Power	Pakistan	Gasfired Powerplant	AsiaPak Investments	100.0	ND
20/10	Blythe Offshore (EDF-France)	UK	Renewables	Tenaga National	49.0	ND
23/08	Shipping Start Ups	Singapore	Shipping / Tech	MISC Berhad / BCG (USA)	ND	ND
13/07	iCarAsia	Australia listed	eCommerce	Carsome Group	19.9	ND
13/07	iCarAsia	Australia listed	eCommerce	Carsome Group	80.1	200.0
08/07	Gojeck	Thailand	eCommerce	Air Asia	100.0	50.0
08/07	Salmon	Australia	Construction	Sime Darby	100.0	78.2
07/07	PT UC	Indonesia	Transport Tech eCommerce	Carsome	ND	ND

(1) Over 10-years

Unlike in 2020, there was a substantial increase in outbound M&A/investments. As shown in Table 7, Asia led, with transactions/investments in Singapore, Indonesia, Thailand and Pakistan. There were also three deals related to Australia. Finally, there was a UK based deal, for assets owned by a major French company.

2022 Selected Inbound Acquisitions/Investments							
Announced Date	Target Name	Country	Industry	Acquirer Name	Country	%	Amount ($m)
26/07	JPengoranig Sabah Oil	Malaysia	Energy	Shaanxi Construction	China	50.0	1,346.5
23/04	Greenfield	Malaysia	Packaging	Hotpack	UAE	100.0	98.1[(1)]
09/02	Curlec	Malaysia	Fintech	Razor Pay	India	100.0	ND

(1) Over 10-years

Selected 2022 Malaysian Outbound Transactions/Investments						
Announced Date	Target Name	Country	Industry	Acquirer Name	%	Amount ($m)
12/07	UK Building Whitehall	UK	Real Estate	Lembaga Tabung Haji	100.0	283.0
01/07	Repsol Assets	Vietnam, Malaysia	Energy	Hibiscus Petroleum	100.0	212.5
28/06	Yiwu Semiconductor	China	Tech	Amerton International	54.5	66.3
02/06	Tuaspring	Singapore	Energy	YTL Power	100.0	196.3
15/05	Perstorp	Sweden	Chemicals	Petronas	100.0	2,400.0
04/04	Capital Dynamics	UK	Renewables	Tenaga / Vantage	100.0	178.0
23/03	Ramsay Healthcare	Asia / Indonesia	Healthcare	IHH Healthcare	100.0	1,350.0(1)
18/03	Car Times Automobile	Singapore	eCommerce	Carsome Group	51.0	ND
09/02	Electra Net	Australia	Electricity	XTC Power	33.5	717.0
27/01	Link Net	Indonesia	Communications	Axiax Investments	66.0	606.2
11/01	HMC Corporate	Malaysia	Accounting	Acclime	100.0	ND

(1) Stake sold by XTC Power (Malaysia)

To date in 2022, outbound has been even more active. As shown in Table 9, Asia once again leads with deals/investments in Singapore, Indonesia and Vietnam as well as one deal in Australia and one into China. However, the largest deal to date in 2022 is the $2.4 billion acquisition of Perstorp in Sweden. There were also two investments into the UK, adding to their existing UK portfolio.

Relative to sectors, energy, in particular renewables led, followed by tech/fintech, communications, healthcare, chemicals, services and real estate.

We believe that there will continue to be increasing inbound and outbound flows in renewables, in particular in solar and wind, where there is already Government support.

MALAYSIA CAPITAL MARKETS - BURSA MALAYSIA

Overview

Bursa Malaysia is an exchange holding company incorporated in 1976 and listed in 2005. One of the largest bourses in ASEAN, Bursa Malaysia helps circa 1,000 companies raise capital – across three different categories; Main Market (large-cap companies), the ACE Market (emerging companies of all sizes), and the LEAP Market (for growth SMEs).

Bursa Malaysia's product range includes equities, derivatives, offshore and Islamic assets as well as ETFs, REITs and Exchange Traded Bonds and Sukuk (ETBS).

Bursa Malaysia is globally-recognised as a highly innovative exchange in Shariah investment – Bursa Malaysia-i – the world's first end-to-end Shariah investing platform, and Bursa Suq-Al-Sila' – the world's first end-to-end Shariah-compliant commodity-trading platform.

Bursa Malaysia is also the world's biggest palm oil futures trading hub. Its Crude Palm Oil Futures (FCPO) is recognised as the global price benchmark for the palm oil industry.

Bursa Malaysia was the first emerging market to introduce the globally benchmarked FTSE4Good Bursa Malaysia Index in 2014, which measures the performance of companies demonstrating good environmental, social and governance (ESG) practices. In 2015, Bursa Malaysia joined the United Nations Sustainable Stock Exchanges (SSE) initiative, strengthening our commitment to promoting sustainable strategies among our issuers and the marketplace.

Key Financial Information

- Shareholders – Circa 40% of shares controlled by leading Malaysian government institutions. There are also a number of leading international financial services firms which hold stakes from 1%-3%
- 2021-2022 share performance – over the past 5 years, the shares peaked at 10.63 MYR/share on 7th August 2020. They closed at 6.51 MYR on 17 August 2022, down 38.8% over that period
- The decline is partly explained by a 40+% decline in securities trading revenues in full year 2021; performance which was repeated in H1 2022

New Listings

In Table 10 below, we present data for listings by category and by aggregate amount during the years 2018-2022 (through July). As shown, volume has not topped 30 during any of those years, even though there has been movement among the categories.

Aggregate annual amounts have increased throughout the period but remain below MRY 3 billion/year.

The table also shows that aggregate amounts are highly linked to one deal per year, with as much as 75% of aggregate amounts related to that one (mostly MAIN) deal.

Listings (2018-2022)					
	2018	2019	2020	2021	2022
	#	#	#	#	#
MAIN	2	4	2	7	3
ACE	9	11	10	11	14
LEAP	11	15	7	12	4
TOTAL	22	30	19	30	22[1]
Aggregate Amount Raised	0.63 (RM bn)	1.97 (RM bn)	2.0 (RM bn)	2.6 (RM bn)	2.1 (RM bn)
Largest Deal as % / Total	30.1%	52.2%	75.0%	46.5%	47.6%

2021 Other progress

First Malaysia-Australia cross listing in June 2021 – With its primary listing on the Australian Securities Exchange, OM Holdings Limited had its secondary listing on Bursa Malaysia by way of introduction with an initial market capitalisation of close to RM1.90 billion.

Shariah Compliant ETF listing – World's first Shariah-compliant A-share ETF debuted on the Main Market when it was listed in July. The VP-DJ Shariah China A-Shares 100 ETF specialised in investing in securities in China with Shariah-compliant feature.

REIT listing – IGB Commercial REIT listed on the Main Market in September with an IPO market capitalisation of RM2.31 billion.

Largest Annual Listing (2018-2022)				
Announced Date	Company Name	Industry	Deal Size (RM bn)	Comments
06/18	MI Equipment	Semiconductor Chips	0.19	Public subscription. Over subscribed
03/19	Leong Hup Int.	Poultry Producer	1.03	Largest IPO since 2017. Proceeds to fund ASEAN expansion
10/20	Mr D.I.Y. Group (M)	Largest Domestic DIY	1.50	Fund domestic store expansion
07/21	CTOS Digital	Digital / Regional Credit Bureau	1.21	IPO oversubscribed 28x. Shares up 68% 1st day[1]
03/22	Farm Fresh[2]	Diary Producer	1.00	Shares up 26% 1st day

(1) As at July 2022.

(2) Eastspring (Prudential PLC); Fidelity Cornerstones; AIA; Aberdeen.

We then review the largest deals in each of the past five years. It is interesting to note that they reside in either the tech or consumer sectors. The 2021 and 2022 deals were both huge successes, with shares trading up appreciably on day one. These deals also include both major domestic and international investors. That said, they remained small, with neither over RM 1.25 billion.

During H1 2022, Bursa Malaysia saw 22 new IPO listings. Management is expecting this total to rise to 37 by year end 2022. H1 2022 capital raised by IPOs increased substantially from RM0.4 billion 2021 to RM2.1 billion in H1 2022.

Of the 13 new listings on the Main and ACE Market as at 2Q 2022, 7 were trading above their IPO price; led by Financial Services, Tech, Industrial Products & Services and healthcare.

Bursa Malaysia's performance needs to be viewed both in regional and global context. Malaysia's GDP is expected to grow by 5.5% in 2022, and its market is viewed as a low beta market, both very positive in an uncertain world.

Globally, the global IPO market declined by almost half in H1 2022 following 2021's record year. Global IPO volumes fell by 46%, while proceeds raised declined by 58% y-o-y. Q2 was even slower due to escalating geopolitical tensions, lower valuation levels and poor post IPO performance.

Regionally, only India and MENA trended up while North America showed the largest declines.

Despite the declining tech valuations, technology IPOs led in volume; however, average deal size for tech IPO more than halved from $293 million to $137 million. The energy sector saw 3 of the 4 largest IPOs and saw average deal size more than treble from $191 million to $680 million.

Looking to the future, Bursa Malaysia seems poised to increase deal sizes, initially with an energy related IPO and two future unicorns we discuss in the VC section.

There has been press coverage regarding Tenaga Nasional Bhd beginning the process of IPOing TNB Genco, Tenaga's power generation business. In terms of size, Genco would be valued at circa $4 billion. Thus, an IPO of say $1 billion would be the largest in Malaysia since 2012.

Tenaga management is focussed on turning TNB Genco into a greener power generator as part of its ambition to grab a bigger share of the clean energy market; estimated to be worth between RM65 billion and RM80 billion in Malaysia by 2050. Tenaga aims to have TNB Genco take RM40 billion of this market. In preparation for the IPO, TNB Genco plans to retire certain coal plants, and seek potential collaboration with technology partners to further the development of hydrogen.

MALAYSIA'S PRIVATE EQUITY INDUSTRY (2021-2022) DOMESTIC SMALL BUT ATTRACTIVE INTENATIONALLY

Macro Industry Trends

Malaysia's PE industry is less than 20 years old, less than half the age of PE firms in North America as well as the UK and Europe. In this regard, while showing some growth, Malaysian PE growth remains well below global growth standards as well as relative to its regional competitors: global PE AUM more than doubled from $1.8 trillion in 2010 to $4.3 trillion in 2020 (9+% pa) while ASEAN PE AUM produced 14.8% growth over the same period. A few ASEAN countries posted even higher growth rates during this decade, specifically Singapore with 18.6%, Japan 14.9% and South Korea 29.6%. Preqin forecasts that global PE AUM is expected to more than double again to $9 trillion by 2025.

Reasons for Underperformance

The Institute for Capital Market Research Malaysia (ICMR) is an independent think tank under the Securities Commission Malaysia and is funded by the Capital Market Development Fund. ICMR stated there are three main reasons why Malaysia's PE industry has been underperforming against the global and regional PE industry.

1. Depth of local talent; while there are currently 29 PE firms in Malaysia only 15 have any real consequence

2. Lack of liquidity in the local market. While the number of LEAP listings have increased as well as two very successful listings; CTOS Digital in 2021 and Farm Fresh in 2022

3. Divestment/trade sale as an exit. This has been functional over the past few years and has been utilised by the leading players including the $1.2 billion sale of Columbia Asia Hospital $1.2 billion to TPG(USA)

We add two additional considerations:

4. Increased private sector involvement to broaden out the ecosystem. This includes fund managers and private investors

5. Innovation- both Hong Kong (HKSE) and Shenzhen (SZSE) introduced innovative changes which led to over $5 billion fresh equity into biotech. In January 2022, Singapore authorised SPACs

Existing Domestic Based

According to the Institute for Capital Market Research Malaysia (ICMR), more needs to be done to grow the market. These include a healthier and more diverse ecosystem of fund managers and private investors to address the country's rising liquidity needs. Today, says Chua, the majority of PE firms, even if they are not government-backed, are still raising funds from the public sector, relying on larger institutional investors such as the EPF and KWAP.

Successful Existing PE (only) Players (1) (2)

We set out information on 3 Malaysia based PE firms. It clear that while successful, they operate at the middle market of the PE investment markets.

Navis Capital – Since 1998, has completed more than 160 primary and follow-on PE investments across the region. Made 3 investments to date in 2022 (tech, education and software) and 4 in 2021 (mostly healthcare and tech). In 2020, exited its holding in Strateq Sdn Bhd ("Strateq"), a leading Malaysia based ICT company via a sale to StarHub, a telecoms company listed in Singapore.

Creador Sdn Bhd – focussed on South and Southeast Asia. In 2011, raised $130 million for its first fund. In 2019, Creador closed its fourth fund at over US$500 million (RM2 billion), making it one of the largest capital raises for a Malaysia-based PE firm (without any capital from Malaysia's largest government linked funds such as the Employees Provident Fund, Retirement Fund Inc and Permodalan Nasional Bhd). Fund 5 is expected to close at $600 million in 2022.

Cope – mid-market PE firm established in 2005 with the mandate to invest in Malaysia and Southeast Asia. Cope made 3 investments since 2021: two in 2021 (logistics and pet food) and one in 2022 (cybersecurity). Three exits since beginning 2021; largest fruit stores retailer in Malaysia, a Malaysian aluminium and die casting business and a leading Malaysian school uniform manufacturer.

Currently, Malaysia's PE industry is less diversified as most private funds target early-stage venture investments. As at September 2020, growth funds made up over 49% of total Malaysia-focused private funds, aggregating $157.7 million in AUM. These funds typically take minority positions in investee companies without the use of leverage. Buyouts and late-stage strategies comprised only 1.8% and 0.4% respectively of Malaysia's total private funds.

International PE interest in Malaysia

Since local Malaysian PE focuses on the middle market and on relatively small amounts, combined with the future economic growth prospects of Malaysia, we have seen considerably increased inbound activity from major international PE firms and sovereign wealth funds (SWFs).

Selected inbound Malaysian PE deals (2021-2022)

Announced Date	Target Name	Industry	Acquirer / Investor Name(s)	Countries	%	Amount
05/10/21	AirAsia	Airlines	Dernajamin National Berhad	Malaysia	ND	120.0
17/09/21	Socar Mobility	Car-Sharing	EastBridge Partners, Sime Darby	Korea	ND	55.0
01/09/21	Carsome	Consumer / Tech	Penjana Capital Mediatek	Taiwan	ND	170.0

(1) Established in 2001 on the Malaysian government's policy to accelerate the technology ecosystem and provide funding to the unbankable market, Malaysia Venture Capital Management Berhad (MAVCAP) has since evolved and transformed its operations to ensure continuous development and value creation of the Venture Capital (VC) ecosystem in Malaysia.

(2) Xeraya Capital is a venture capital and private equity firm headquartered in Kuala Lumpur, Malaysia. It was founded it 2012 by the Khazanah Nasional Berhad, the SWF of Malaysia. The firm invests in the life sciences industry. It has invested in medical technologies, biotechnology, pharmaceuticals, and biorenewable fuel resources.

Selected inbound Malaysian PE deals (2021-2022)						
Announced Date	**Target Name**	Industry	Acquirer / Investor Name(s)	Countries	%	Amount
08/08/21	Big Close Pay	Fintech	SK Group	Korea	ND	100.0
08/07/21	EdgePoint	Infrastructure	ADIA	UAE	ND	500.0
06/07/21	Silverlake Group	Tech	Ikhias Capital	Singapore	ND(4)	40.0
23/06/21	Sunway Healthcare	Healthcare	GIC	Singapore	16.0	180.41
11/6/21	Loob Holdings	Consumer	Creador	Malaysia	30.0	52.0
24/05/21	Aurelius	Healthcare	Navis Capital	Malaysia	ND	ND
17/03/21	AirAsia Group	Transport	TPG Capital	USA	14.1	82.0
				TOTALS		$1,299.4

2022						
Announced Date	**Target Name**	Industry	Acquirer / Investor Name(s)	Countries	%	Amount
07/06/22	IMU (IHH)	Healthcare	TPG / Hong Leong	USA	100.0	306.0
16/04/22	CIMB Group	Banking	Khazanah Investments	Malaysia	1.0	120.1
11/01/22	Carsome	Consumer	QZA, 65 Equity Partners (Qatar)	Singapore	ND	290.0(4)
08/01/22	Affin Hwang	Asset Management	CVC	Luxembourg	68.4	360.4

(3) Related $1.7bn VAL: Series E; Leads only above.

(4) Reported $1.3bn VAL.

(5) Significant minority stake.

Analysis

Of the 2021 inbound PE deals, 5 of the 10 were $100 million or greater in amount. Collectively, these 10 investments totalled nearly $1.3 billion or $130 million/investment – beyond domestic PE reach.

These involved investors from UAE, Singapore, Taiwan and Korea. Relative to industries, these investments were in infrastructure funding, transportation, fintech/tech and healthcare.

Of the four 2022 investments announced to date, all were in excess of $100 million. Collectively, they totalled $1.077 billion for an average of circa $270 million/investment. These were split equally 1 each from Malaysia, Asia, USA and Europe. In terms of industries, two were in financial services, one in tech and one in healthcare.

We anticipate increased inbound PE flows from Asia, North America, UK/EU and MENA as Malaysia transitions its economy from palm oil led to renewables and tech.

MALAYSIA VENTURE CAPITAL (2021-2022)

Overview

The Malaysian venture capital industry started in the mid-1980's, but for a number of reasons (as previously set out in the PE section), has been slow to develop but until recently. This note addresses some of the historical ecosystem development, but the focus is on the increased VC deal flow and the positive trajectory in 2021 and 2022.

Key Components of the Ecosystem

In February 1995, the Malaysian Venture Capital Association (MVCA) was founded to develop and promote the growth of VC and PE industries through joint venture, research, and forums and investment.

Established in 2001 on the Malaysian government's policy to accelerate the technology ecosystem and provide funding to assist small and new ICT companies in getting financing, Malaysia Venture Capital Management Berhad (MAVCAP) was formed. MAVCAP is the largest venture capital company in Malaysia and is wholly owned by the Ministry of Finance. MAVCAP plays a significant role in providing financing to start-up, seed and early stage businesses from the ICT and technology.

has become an integral component of the Malaysian VC ecosystem. By mid-2022, MAVCAP had invested over MY 5.0 billion of $1.25billion in Malaysian based VC companies.

In August 2002, Venture Capital Consultative Council (VCCC) was established to address the issues of the VC industry in Malaysia: it was then replaced by the Malaysia Venture Capital Development Council (MVCDC) in September 2004. The main objective of MVCDC is to provide the strategic vision and direction for the development of the Malaysian VC industry.,

Key Funding Sources

Key components of Malaysian VC ecosystem are MAVCAP, Kumpulan Modal Perdana (KMP), Malaysian Global Innovation & Creativity Centre (MaGIC) and Cradle Seed Ventures, all designed to nature development.

The top three registered corporations by amount of investor commitments as at end 2021 were Creador (founded 2011), Xeraya Capital (founded 2012), and MAVCAP.

Creador, a PE firm that invested in two companies that were floated on Bursa Malaysia, namely Mr DIY Group (M) Bhd and CTOS Digital Bhd, in the last two years.

Xeraya Capital Khazanah is the VC arm of Khazanah; this fund is focused on medical technologies, pharmaceutical biotech as well as bio-renewables.

MAVCAP, the largest VC firm in the country, which together with partners such as 500 Global, Gobi Partners, the Employees Provident Fund and Axiata Digital Sdn Bhd, invested in companies like Carsome, Bukalapak.

Key 2021 Developments

MavCAP

In November, Mavcap announced two new VC funds: Orbit Malaysia Fund I and the Ficus SEA Fund.

These two funds, with total target size of RM160 million have been designed to provide equity funding to startups with strong growth potential in Malaysia and other Southeast Asian markets.

Orbit Malaysia Fund I will be managed by Jakarta-based Kejora Capital, with Sunway Group Bhd and Mavcap as anchor investors.

This marks the second collaboration between Mavcap and Sunway Group, following the Malaysia SuperSeed Fund II in 2019. Sunway, a listed conglomerate with business interests spanning property to construction and healthcare, established Sun SEA Capital in July 2018 with a planned size of $50 million to invest in Southeast Asian and Hong Kong start-ups. In June 2019, Sunway partnered Gobi Partners and Mavcap to launch a $10-million micro fund targeting early-stage Malaysian start-ups.

Mavcap said the Ficus SEA Fund is investing in highly promising local startups in logistic tech and greentech, and is considering other potential areas including islamic fintech, augmented reality and environmental social governance (ESG) solutions. The fund is the first of its kind in the region with Shariah-compliant investment structuring.

ScaleUp Malaysia also announced that it would invest in 11 startups: Accelerator, ScaleUp Malaysia and its partners Mranti, Quest Ventures, and Indelible Ventures have selected 11 emerging startups, including MadCash, VireServe, Open Academy, RECQA, Kumo, Howuku, WaSushi, BizTech Asia, MidWest Composites, SparexHub, and Guruinovatif (we include 2 on these in Table 11)

In October, Malayan United Industries Berhad (MUI), a Malaysian conglomerate whose business interests span from confectionery to property – decided to expand further into Malaysian VC investment. In August 2020, MUI created an early-stage venture capital vehicle Pan Malaysia Ventures Sdn Bhd (PMV) to invest in tech or tech-enabled businesses at the seed or Series A stage primarily in Malaysia. Since then MUI has invested in at least 5-6 startups. In 2021, MUI targeting to invest an average of $100,000-200,000 for a pre-Series A round in a similar number of start-ups.

MUI, which is already a limited partner Genesis Alternative Ventures' (Singapore) $50-million fund. Other startups MUI has invested in include Singapore-based credit management firm Flow; Hong Kong-based on-demand expert network platform Lynk Global; US-based 3D imaging platform Matterport and Singapore-based co-living company Hmlet.

It is worth noting that AirAsia launched in digital unit in 2018, while in 2019, Petronas announced the setting up of a $350-million VC arm, Petronas Corporate Venture Capital, to tap investments in startups in advanced materials and specialty chemicals in 2019.

Other active domestic players include 1337 Venture and Vynn Capital.

Selected 2021 Malaysian VC Capital Raises				
Date	Company Name	Seed/Series	Amount ($m)	Investors
08/12/21	OncoMyx Therapeutics	Series B	50.0	Lumira Ventures, B Capital Group (+6)
07/12/21	MLEN Diary	Series A	15.6	SJ Jiacheng Investment Management Co Ltd (China), Frees Fund
17/11/21	Orbit Malaysia	Seed/Series A	25.0	Sunway Group, Kejora Capital
11/11/21	Retailetics Sdn Bhd	Pre-Seed	0.5	1337 Ventures
05/11/21	Talentcloud.ai, Entrusol, Running Man, Payex Venture, Riipay	Pre-Seed	0.25	NEXEA VC, MaGIC, MBAN, AWS Activate, MDEC, Cyberview
01/11/21	Versa	Seed	ND	TH Capital
27/10/21	Cik guu	Pre-Seed	0.0012	1337 Ventures
12/10/21	Fefifo (a Singapore founded Agtech Startup with operations in Malaysia)	Seed	3.1	RHL Ventures, KB Investment
01/09/21	Carsome Group	Series D	200.0	Catcha Group, MediaTek, MUFG Innovation Partners, Daiwa PI Partners
27/08/21	Arus Oil, Cult Creative	Pre-Seed	0.05 MR	1337 Ventures
06/08/21	Torum	Partnership	ND	Huobi Global (China)
27/07/21	iSroreiSend	Series B	ND	Kuroneko Innovation Fund, Global Brian Corporation
26/07/21	Touch 'n Go (TNG)	Partnership	ND	AIA Group (Hong Kong)
12/07/21	Speedhome	Series A	1.68	Allianz SE (Germany), Gobi Partners (China)
07/05/21	Laparsar	Seed	1.80	NEXEA VC, 360 shopreves
19/04/21	Torum	Private Round	1.5	13 investors
14/04/21	Fepulo Holdings	Seed	ND	1337 Ventures
16/03/21	Rapid Micro Biosystems	Series E	81.0	BlackRock. Aly Bridge (+8)
19/02/21	Zepto Express	Pre-Seed	ND	Inovasi Venture
26/01/21	iStoreiSend	Series A	5.5	Gobi Partners, EasyParcel

Highlights:

- Funding for VC grew to MYR5.18 billion ($1.23 billion) in 2021 from MYR4.31 billion ($1.02 billion) in 2020. (We include larger deals in PE list)
- In total, 36 venture capital deals were recorded in 2021. (We list 20 here, but there were another 9 ScaleUp deals we haven't included)
- Government agencies and investment companies (45.0%), sovereign wealth funds (27.90%) and corporate investors (19.73 percent) make up the top three sources of funding.
- Early stage led with 51.3%, followed by seed, 20.5% and growth 17.9%.

- By industry, healthcare/ biotech led with 63.6% percent), TMT was 2nd with 25.9%, and financial services with 4.3%.

Selected Q2 2022 Malaysian VC Capital Raises

Date	Company Name	Seed/Series	Amount ($m)	Invenstors
23/06/22	Gobi Partners	Shariah-compliant Seed	20.0	E this Group
21/06/22	Orgtomic	Angel	ND	Indelible Ventures
07/06/22	MX Global	TED	ND	Binance, Cuscapi
09/05/22	Unearth	Seed	0.0345 (MYR 150k)	1337 Ventures
27/04/22	Payd	Seed	1.7	Antler, 1982 Ventures, The Hive Southeast Asia, Delight Capital, IFS Capital
20/04/22	Finory	Seed	ND	1337 Ventures
07/04/22	KapitalX VC Programme			Penjana Kapital

I think this programme should deleted.. (KapitalX, which began operations on April 1, 2022, intends to develop future venture capital ("VC") talent by providing them with the essential skillsets to become junior to mid-level VC investment analysts.

Selected Q1 2022 Malaysian VC Capital Raises

Date	Company Name	Seed/Series	Amount ($m)	Invenstors
28/03/22	Farm Fresh Bhd	IPO	238.8	Largest
02/03/22	MRANTI Malaysia	Pre-Seed	0.060 (MYR 251K)	Indelible Ventures
23/01/22	Kapitani	Series A	0.036 (MYR 150K)	FWD Insurance (Hong Kong), 1337 Ventures
23/01/22	Blueduck	Series A	0.036 (MYR 150K)	FWD Insurance (Hong Kong), 1337 Ventures
19/01/22	Fusang Corp	IPO	10.0	FSC Equity Token
10/01/22	Carsome Group	Series E	290.0	QIA, Temasek
05/01/22	PandaiEducation Sdn Bhd	Seed	2.0	Y Combinator, Global Founders Capital, 500 Global, Soma Capital, Harvard

(1): In the country's largest Listing since June, 2021

Unicorns

Malaysia has a goal of creating 5 unicorns by 2025; it already created Grab (discussed below) and has two more headed in that direction; Carsome and Aerodyne.

Its first unicorn, Grab, represents a tough lesson learned.

The Grab business concept was conceived by two Malaysians who, while at Harvard Business School, developed a business plan for a mobile app for ride sharing, originally aimed at solving an unreliable and sometimes unsafe taxi services in Malaysia.

Grab, then MyTeksi (founded in 2012) initially received the backing of Cradle, which we discussed previously. However, as the company grew, Grab expanded its range of services from ride-hailing to food delivery as well as its geographical footprint. Grab thus needed additional capital to fund this growth.

Initially, the owners focussed on Malaysian financing options, which for all the reasons set out in this section (as well as the PE section), did not produce any viable options.(ironically, Khazanah did investin Uber (USA). In 2018, Uber exited the region when it sold its business to Grab in exchange for a 27.5% stake in the latter.

In 2014, Grab decided to move its headquarters to Singapore where they met with Vertex Venture Holdings (under SWF Temasek), advised that in order for Grab to attain critical size, and attract major financing players, they needed to be in Singapore, where start-ups receive government subsidies and tax breaks.

Grab's $250 million December 2014 Series D fundraising included Tiger Global (US PE) , as well as SoftBank (Japan). The fundraising valued Grab at US$1 billion, making it a unicorn. Grab has continued to attract investments from the likes of Honda and Toyota (Japan), HSBC (UK), CIC (China), Didi, Hyundai (Korea) , Mirae Asset Venture Investment (Korea), OppenheimerFunds (USA) and Macquarie (Australia).

Grab, which went on to become Southeast Asia's biggest ride-hailing and delivery firm, listed its shares on NASDAQ in December 2021. Grab went public by merging with a special-purpose acquisition company (SPAC). As part of the listing Grab raised $4.5 billion new capital. It was valued at nearly $40 billion, the largest US market debut by a Southeast Asian company. The previous record was held by an Indonesian satellite company, which raised nearly $1.2 billion in 1994.

Grab's $40 billion valuation at its IPO made it worth more than Malayan Banking Bhd, the most valuable company listed on Bursa Malaysia and thus served a lesson for Malaysia that it keep and develop its best talents. As can be seen from our analysis, there has been considerable support/investment for its next 2 likely unicorns.

ADDITIONAL RECENT INVESTMENT INTELLIGENCE

Trade & Investment

Malaysia's Ratification of CPTPP to Help Increase Trade

Malaysia's ratification of the Comprehensive and Progressive Agreement for the Trans-Pacific Partnership (CPTPP) looks set to provide indigenous businesses with expansion opportunities around the Asia Pacific and even further afield. The pact, deemed highly beneficial for the development of Malaysian trade, removes as much as 95 percent of tariffs between CPTPP member states, which also includes Australia, Brunei, Canada, Chile, Japan, Mexico, Peru, New Zealand, Singapore and Vietnam. The United Kingdom has additionally expressed interest in joining.

Following The Belt & Road Initiative: Investment Opportunities in Malaysia

Following where China has been spending and investing its Belt & Road Initiative capital can provide FDI clues and reveal new opportunities in recipient countries. As infrastructure builds start to yield productive user cashflows and the need for subsequent support services arises, case studies for investment potential become apparent. In this series, we examine where China has spent its money and where returns on investment exist for foreign investors in piggybacking onto opportunities created by the BRI build. In this article: Malaysia.

Comparing Mexico and Malaysia as Investment Destinations for US Businesses

Mexico and Malaysia are good investment destinations for US businesses, particularly those with a China footprint seeking to diversify their supply chains. Supply chains between the US and Mexico have become highly integrated, and production sharing is now commonplace. 80 percent of Mexico's exports go to the US, boosted by an updated free trade agreement in 2020. Malaysia offers US businesses access to the ASEAN market, one of the fastest-growing regions in the world, and comprises over 600 million consumers.

Corporate Establishment

Establishing a Representative Office in Malaysia: A Guide for Foreign Investors

Establishing a representative office (RO) in Malaysia is often the fastest and most cost-effective way to have a legal entity and study the local market before determining viable opportunities. However, the RO is prohibited from earning any revenue and is limited to mainly market research, information gathering, and developing trade contacts in Malaysia.

Establishing a Branch Office in Malaysia

Establishing a branch office can be a quick and cost-effective way for foreign businesses looking to explore the Malaysian market. We discuss the procedures, pros, and cons.

Establishing a Private Limited Company in Malaysia

Establishing a private limited company (locally known as a Sendirian Berhad – Sdn Bhd) is the most common type of business entity in Malaysia for foreign investors. The entity offers a host of benefits, such as being able to be 100 percent foreign-owned and being relatively quick to setup.

Visas

Malaysia Issues Digital Nomad Visa: What are the Requirements?

Malaysia has issued a special work permit specifically for digital nomads called De Rantau. The program aims to attract foreign and local digital professionals to work in the country for between three and 12 months. Applications are open from October 1, 2022.

Legal, Tax & Investment Incentives

Malaysia Makes Amendments to its Patent Act: Key Highlights

Malaysia has amended its Patent Act to ensure that its patent protection laws are in line with international standards. The amendments incorporate Malaysia's commitments to various international treaties, such as the Budapest Treaty on the International Recognition of the Deposit of Microorganisms for the Purposes of Patent Procedure, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), the Regional Comprehensive Economic Partnership Agreement (RCEP), and the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

Changes to Merger and Acquisition Rules in Malaysia

Malaysia has amended its merger and acquisition rules in the hope of offering a more flexible and transparent approach to M&As in the country. The amendments include the revised requirements for pre-conditional possible and pre-conditional voluntary offer announcements, restrictions on dealings before an offer is made, and restrictions on favorable deals in relation to whitewash procedures.

Malaysia Enhances Incentives for Businesses Looking to Establish a Principal Hub

Malaysia has enhanced incentives for businesses looking to establish a principal/regional hub in the country. The amendments include allowing companies to undertake one qualifying service as opposed to three previously. Businesses that qualify for the principal hub incentive can enjoy a corporate income tax rate of between zero and 10 percent. However, this is dependent on several factors, including the number of Malaysians they hire, their salaries, and the company's annual operating expenditure.

Malaysia Extends Income Tax Incentive Applications for the East Coast Economic Region

Malaysia has extended the timeline for applicants seeking income tax incentives for qualifying activities in the East Coast Economic Region to December 31, 2022. The ECER is one of three economic corridors in with the aim to accelerate economic growth in the country. The incentives include up to 100 percent income tax exemption for a wide range of qualifying activities from planting crops to the purchase of machinery for manufacturing to the construction or purchase of a factory or warehouse.

Tax Incentives for Pharmaceutical Manufacturers in Malaysia: How Can Businesses Qualify?

Malaysia will continue to accept applications for tax incentives from pharmaceutical manufacturers until December 31, 2022, as the government looks to strengthen the country's position in the global pharmaceutical value chain and promote its healthcare industry as an attractive foreign investment destination. To be eligible, manufacturers must fulfill a variety of requirements ranging from collaborating with local higher learning institutions, incurring the first qualifying capital expenditure within a year of approval, hiring a minimum number of local employees, and undertaking research and development (R&D) activities, among others.

Electric Vehicles in Malaysia: Tax Incentives for Owners and Manufacturers

As of January 2022, electric vehicle (EV) producers in Malaysia can enjoy a variety of tax incentives, which include tax exemptions for imports, excise, and sales. Further, consumers can also claim tax relief for owning an electric vehicle. The government hopes that the incentives will attract more EV producers to establish their manufacturing hub in Malaysia and develop a domestic EV assembly industry.

Asia investment research

ASIA INVESTMENT RESEARCH

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