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RHB CAPITAL BERHAD
ANNUAL REPORT 2009



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RHB Research Institute

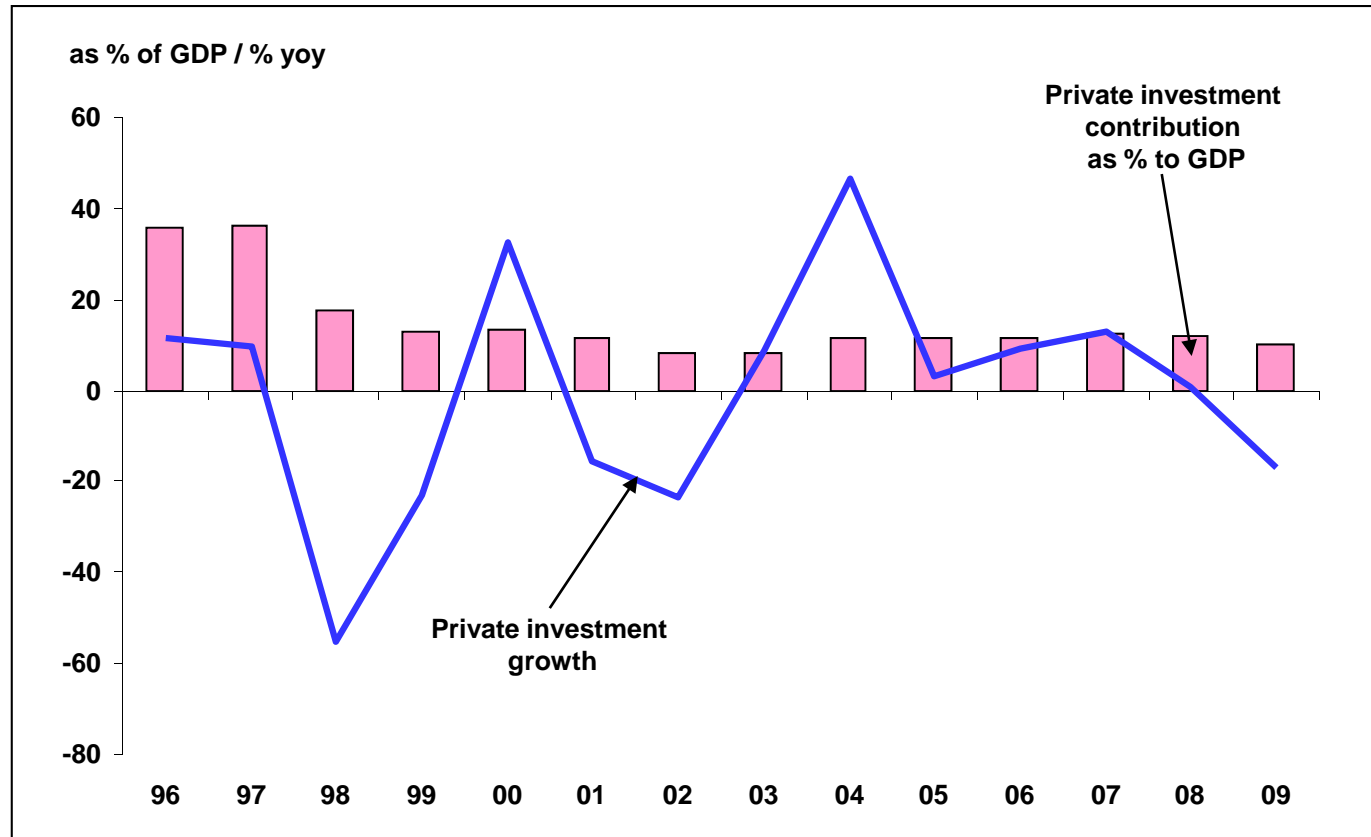


The New Economic Model and 10th Malaysia Plan: Impact On The Market

December 2010

The 15th Malaysian Capital Market Summit: “Scaling New Heights, Facing New Challenges”

Structural weakness: lack of investment to drive growth



Source: Dept of Statistics , RHBRI.

RHB◆ A New Economic Model (NEM) and reforms to drive the economy over the longer term

- ◆ The Malaysian Government has embarked on a series of reforms to improve the country's economic prospects.
- ◆ To achieve an average economic growth of 6.0% a year over 2010 – 2020, driven by eight strategic reform initiatives:
 - Reenergising the private sector to drive growth;
 - Developing quality workforce and reducing dependency on foreign labour;
 - Creating competitive domestic economy;
 - Strengthening of the public sector;
 - Transparent and market friendly affirmative action;
 - Building the knowledge base infrastructure;
 - Enhancing the sources of growth; and
 - Ensuring sustainability of growth.
- ◆ The NEM also highlighted six national economic activities to be the engines of growth, including oil & gas, electronics, electrical, tourism, agriculture and financial services.

(cont'd...)

RHB◆ A New Economic Model (NEM) and reforms to drive the economy over the longer term

- ◆ A new approach of policy towards affirmative action which are market friendly, merit based, more transparent and needs based has been launched.
- ◆ The NEM aims to move the country towards a high-income economy (per capita income to rise from US\$6,700 in 2009 to US\$15,000 in 2020) through innovation, knowledge and R&D as well as improve efficiency and productivity.
- ◆ It essentially shifts the ethnic focus of the previous National Economic Policy to one that focuses on the bottom 40% of households by income levels.
- ◆ Overall, the NEM has rightly pointed out the weaknesses of the Malaysian economy and mapped out comprehensive measures to chart the country's development ahead.
- ◆ However, in our view, the key still lies with execution and the political will to force through changes. At the end of the day, consistent implementation will still be crucial and tangible impact can only be felt over the longer term.

RHB ♦ Approach to economic development: the old versus NEM

| Old Approach | New Approach |
|---|---|
| <ol style="list-style-type: none"><li data-bbox="343 396 977 482">1. Growth primarily through capital accumulation.<li data-bbox="343 545 1019 631">2. Dominant state participation in the economy<li data-bbox="343 694 948 731">3. Centralised strategic planning.<li data-bbox="343 836 874 873">4. Balanced regional growth.<li data-bbox="343 979 1073 1016">5. Favour specified industries and firms.<li data-bbox="343 1122 1123 1208">6. Export dependence on G-3 (US, Europe and Japan) markets.<li data-bbox="343 1265 1094 1302">7. Restrictions on foreign skilled workers. | <ol style="list-style-type: none"><li data-bbox="1189 396 1744 434">1. Growth through productivity.<li data-bbox="1189 545 1703 582">2. Private sector-led growth.<li data-bbox="1189 694 1819 779">3. Localised autonomy in decision-making.<li data-bbox="1189 836 1736 922">4. Cluster- and corridor-based economic activities.<li data-bbox="1189 979 1798 1065">5. Favour technologically capable industries and firms.<li data-bbox="1189 1122 1852 1159">6. Asian and Middle East orientation.<li data-bbox="1189 1265 1686 1350">7. Retain and attract skilled professionals. |

The detailed ETP blueprint

- ◆ Driven by the 12 National Key Economic Areas (NKEAs) and supported by the 8 strategic reform initiatives (SRIs).
- ◆ Identified 131 Entry Point Projects (EPPs) and 60 Business Opportunities (BOs).
- ◆ Total investment of about US\$444bn (RM1.3trn) required over the next 10 years (2010-2020), of which 92% is expected to be funded by the private sector (73% from domestic, of which 68% from non-GLCs).
- ◆ Major projects include:
 - i). The RM40bn MRT project;
 - ii). The high-speed rail from KL to Singapore and Penang;
 - iii). The clean-up/beautification of the Klang River;
 - iv). Creation of a regional oil storage and trading hub by 2017; and
 - v). Making Malaysia a preferred Asian hub for oil field services by 2015.

The detailed ETP blueprint

- ◆ The success of the ETP could depend on the effective implementation of certain NKEAs.
- ◆ In our view, the Greater KL NKEA holds great potential as enabler for the construction and housing sectors, but it is also cross-linked to other NKEAs such as financial services, tourism, and education.
- ◆ Conceptually the plan is sound, and is ready to go in our view, but execution risk from political and social perspective is relatively high.
- ◆ Securing the buy-in from private sector is key.
- ◆ Overall, the ETP will likely continue to provide news flow for the market and certain key sectors.

RHB ♦ 9 key private sector-led projects to kick-start in the near term

| | <u>Value (RMm)</u> |
|---|--------------------|
| 1. LFoundry relocation of wafer fab to Malaysia | 1,900 |
| 2. Mydin – 14 new branches and assist in upgrading small sundry shops | 1,000 |
| 3. St. Regis in KL Sentral (hotel) | 1,200 |
| 4. Schlumberger – Eastern Hemisphere Global Financial Services Hub and Shared Services in Bandar Utama | 300 |
| 5. Malaysia Airports – 25 years concession for WCT to build the integrated complex for the new LCCT (KLIA2) | 486 |
| 6. 1MDB and Mudabala – KL International Financial District | 26,000 |
| 7. Premium Renewable Energy – Bioplant in Lahad Datu | 124 |
| 8. Asia e-University – gateway university for international education for distance and online learning | 100 |
| 9. Genting Plantation Johor Premium Outlet | 150 |

The Tenth Malaysia Plan, 2011-2015

- ◆ The first stage of implementing the New Economic Model
 - Shifting to a high value-added and high income economy.
 - Promoting domestic demand and re-energising the private sector.

- ◆ Target is to achieve 6.0% per annum real GDP growth

| Tenth Malaysian Plan (2011-15) Targets | | |
|--|------|------|
| (%, p.a.) | 9MP | 10MP |
| Real GDP | 4.2 | 6.0 |
| GNI per capita | 6.7 | 8.0 |
| Private consumption | 6.5 | 7.7 |
| Public consumption | 4.8 | 4.8 |
| Private investment | 2.0 | 12.8 |
| Public investment | 6.2 | 5.0 |
| Exports | 1.8 | 7.2 |
| Imports | 2.8 | 8.6 |
| Inflation | 2.7* | n.a |
| Resource balance (% of GNI) | 16.6 | 12.3 |
| Savings | 36.3 | 34.5 |
| Investment | 19.7 | 22.2 |
| Fiscal deficit (% of GDP)** | 5.3 | 2.8 |

Source: Economic Planning Unit

* average, RHBRI's estimate.

** end-period

The Tenth Malaysia Plan, 2011-2015

- ◆ Ambitious target to grow private investment by 12.8% a year (vis-à-vis 2.0% p.a. achieved under 9MP).
- ◆ Federal Government's development expenditure kept at RM230bn in the 10MP
 - To reduce fiscal deficit to 2.8% of GDP by 2015, from 5.3% GDP estimated for 2010.
 - To improve Government's debt level to 49.9% of GDP by 2015, from 54% of GDP estimated for 2010.
 - Allocation for "physical hardware" reduced, transport infrastructure in the spot light.
 - RM62.7bn privatisation / public-private partnership projects, back by RM20bn "facilitation fund".
- ◆ No easy task, execution is key.

- Oil & gas
- Palm oil & related products
- Financial services
- Wholesale & retail trade
- Tourism
- ICT
- Education
- Electrical & electronics
- Business services
- Private healthcare
- Agriculture
- Greater Kuala Lumpur developments

52 “High impact” projects worth RM62.7bn

| Projects | Cost (Billion) | Potential Beneficiaries |
|--|----------------|-----------------------------------|
| 7 Highway projects: <ul style="list-style-type: none"> ➢ West Coast Expressway ➢ Guthrie-Damansara Expressway ➢ Sungai Juru Expressway ➢ Paroi-Senawang – KLIA Expressway | 19 | Kumpulan Europlus, IJM |
| 2 Coal-fired power plants | 7 | Zelan, Mudajaya, MMC |
| Development of Malaysian Rubber Board’s 3,300 acres land in Sungai Buloh | 10 | MRCB |
| 5 Universiti Teknologi Mara (UiTM) Branch campus | | |
| Redevelopment of Angkasapuri Into a Media City | | |
| Integrated Transport Terminal in Gombak | | WCT |
| Privatisation of Penang Port S/B | | |
| Senai Hi-Tech Park in Iskandar, Johor | n.a | MMC |
| The raw water supply project for industrial complex in Tanjong Langsat, Johor | 4,000 | Gamuda, Loh & Loh, Jaks Resources |
| Land reclamation in Westport, Port Klang | n.a. | |
| Malaysia Truly Asia Centre in KL | n.a. | |

Source: 10MP



Key public projects earmarked for implementation under the 10MP

| | Value*(RMm) |
|--|-------------|
| KL MRT | 36,000 |
| Ampang & Kelana Jaya LRT line extension | 7,000 |
| Gemas-JB double tracking | 5,000 |
| Flood mitigation programmes | 5,000 |
| Expansion of airports | 3,300 |
| 3,580km of paved roads, of which 72% in Sabah and Sarawak | n.a. |
| Remaining work for East Coast Expressway (Phase 2) | n.a. |
| Kuala Lipis – Cameron Highlands road | n.a. |
| Jerantut – Sungai Lembing road | n.a. |
| Sewerage treatment plant in Lembah Pantai, KL | n.a. |
| Eight hospitals (including specialist hospitals), 197 clinics and 50 1Malaysia clinics | n.a. |
| 78,000 units of affordable public housing | n.a. |
| Repair and maintenance of public/private low-cost housing | 500 |

Source: The 10MP

*The 10 MP & various news reports

Federal land to be privatised for re-development

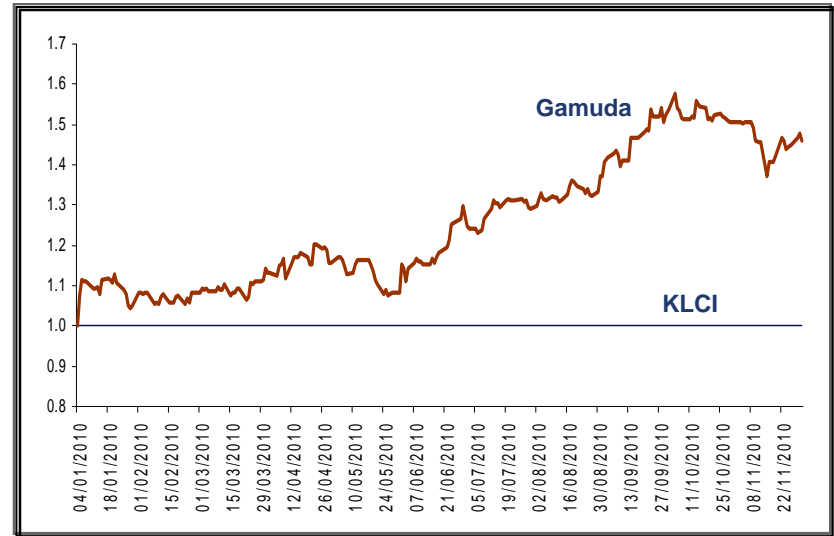
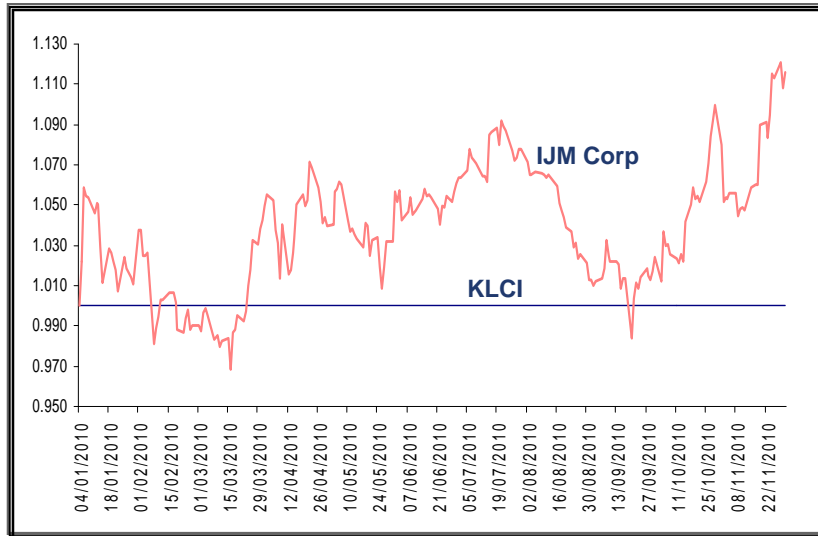
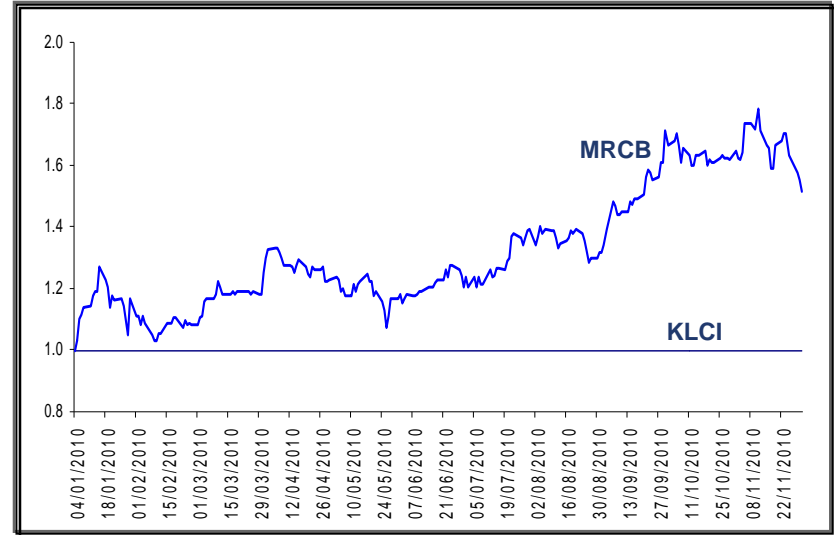
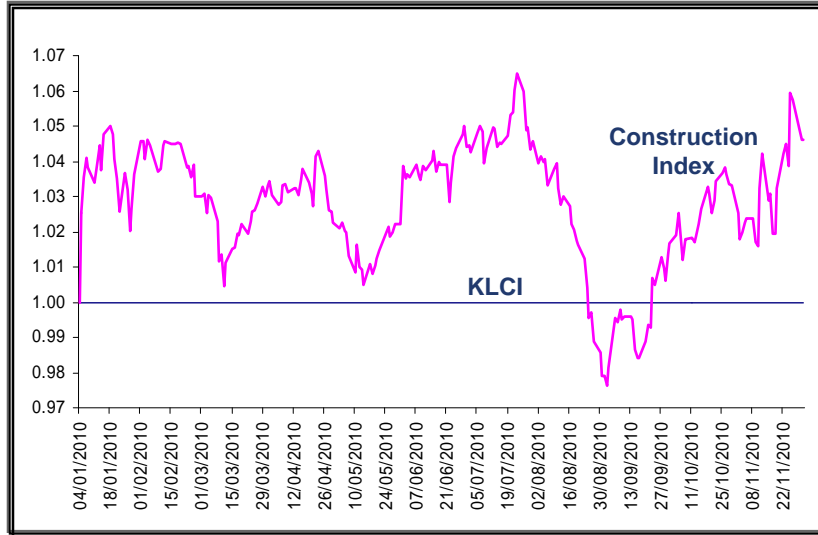
| Federal land to be awarded | | | |
|---|--------------|-----------------------|---|
| Land | Area (acres) | GDV (RMm) | Potential Master Developer(s) |
| Matrade Jalan Duta | 65 | 15,000 | Naza TTDI (Awarded) |
| Rubber Research Institute, Sungai Buloh | 2,680 | 10,000 | EPF, MRCB |
| Royal Malaysian Air Force, Sungai Besi | 400 | Multi-billion (1MDB), | 1Malaysia Development Bhd Qatar Investment Authority |
| Jalan Cochrane | 150 | Multi-billion | To be auctioned |
| KL International Financial District | 85 | Multi-billion | 1MDB, Mubadala |
| Batu Cantonment army base, Jalan Ipoh, KL | 245 | - | 1MDB, LTAT (Boustead) |
| KLCC, Jalan Ampang & U-Thant vicinity | - | - | MRCB |

Source: Various news reports

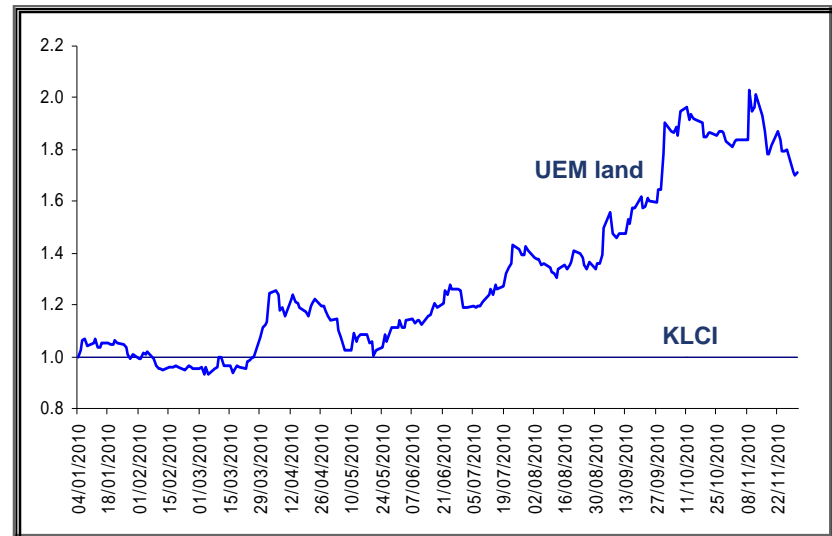
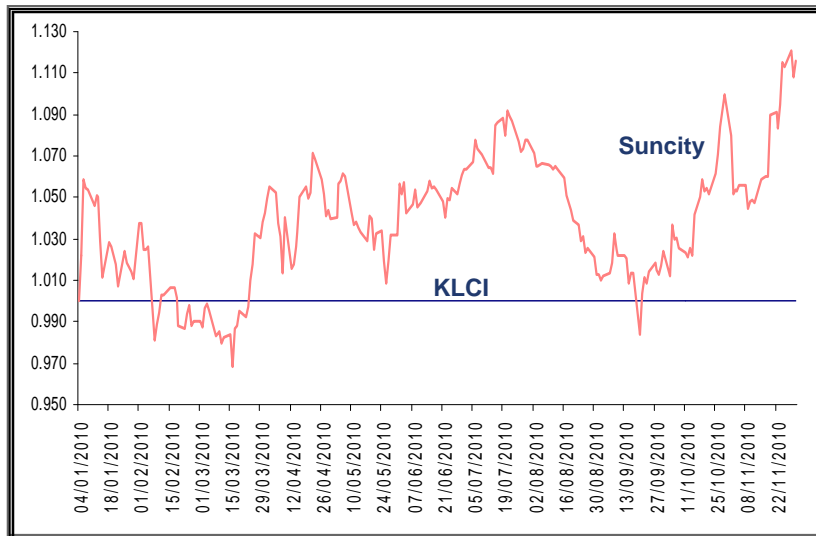
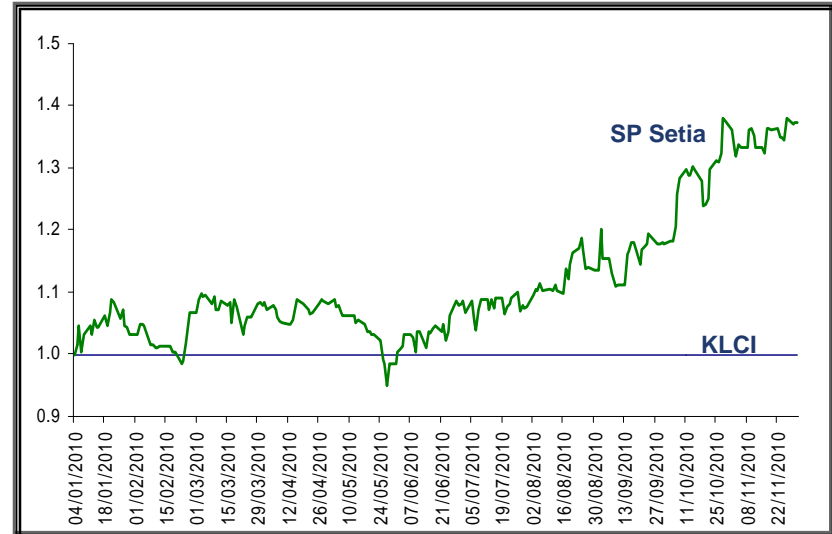
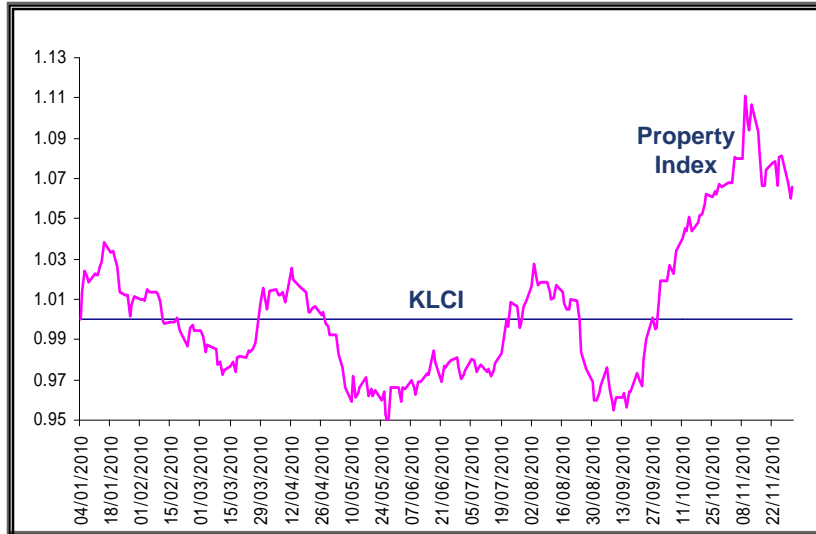
Impact of 10MP on the sectors

| Sector | Impact | Summary |
|--------------------|----------|--|
| Aviation | Positive | Efforts to increase tourism to benefit passenger traffic volume |
| Banking | Neutral | No surprise in the plans to improve the financial sector |
| Construction | Positive | RM62.7bn high-impact projects, new MRT system & 7 new highways |
| Oil & gas | Positive | Acceleration & optimisation of the development of domestic reserves |
| Plantations | Neutral | Plans to expand downstream activities & help smallholders are not new |
| Power | Positive | Medium-term positive given formulation of energy policy |
| Property | Positive | Drive to transform KL into a world class capital |
| Technology | Neutral | Move up value chain & creation of more jobs negated by foreign worker levy |
| Telecommunications | Neutral | No new measures. New target of 75% broadband penetration by end of 2015 |
| Infrastructure | Positive | Enhances the rail, port & air transportation systems |

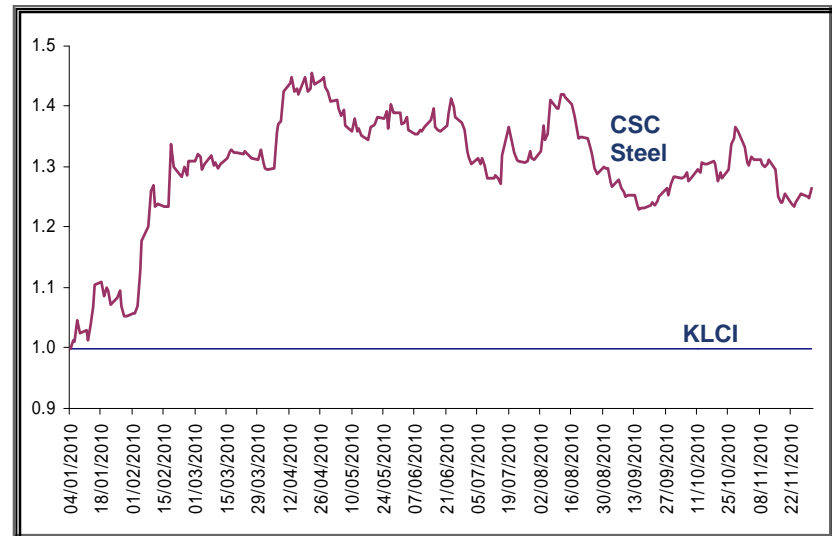
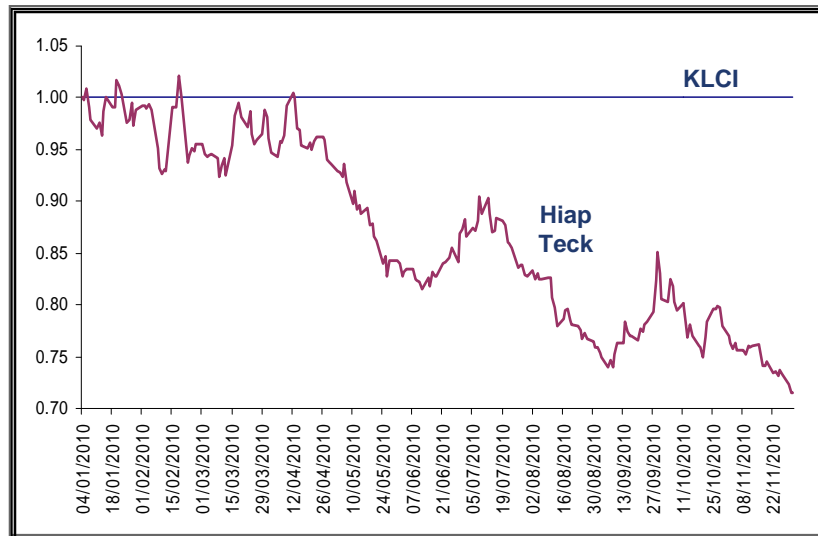
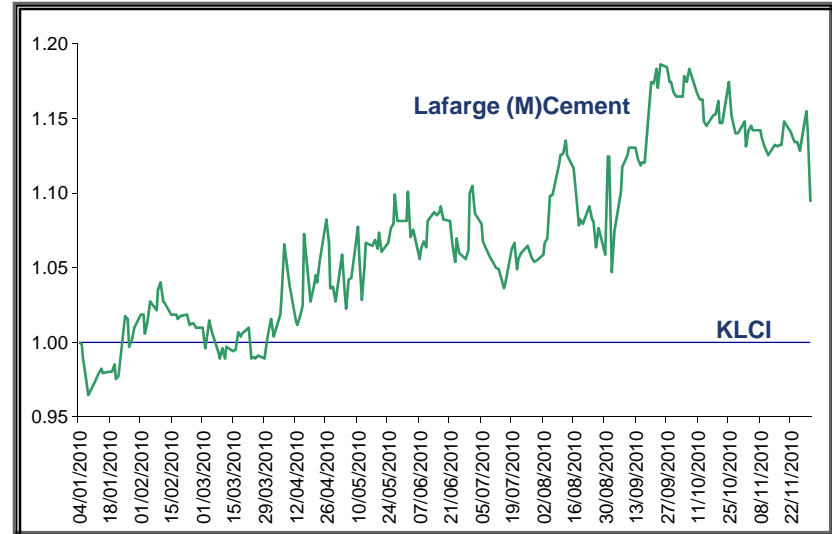
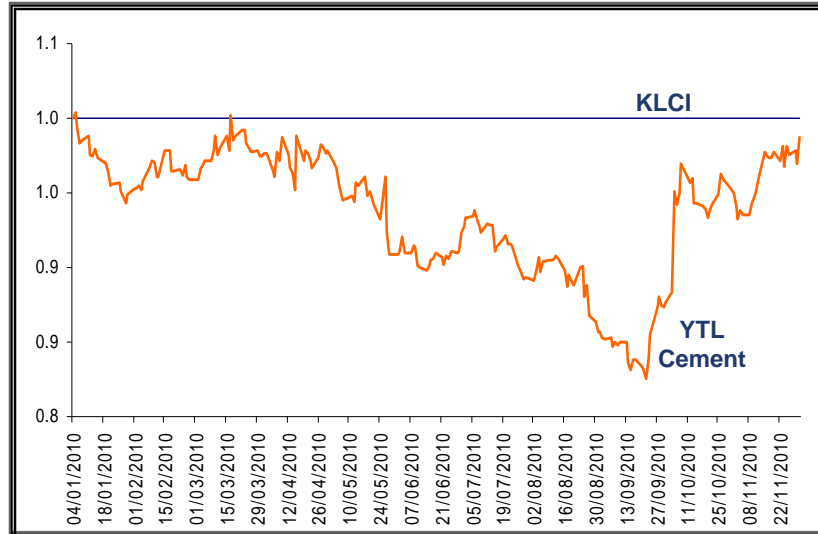
Construction stocks: Share price performance



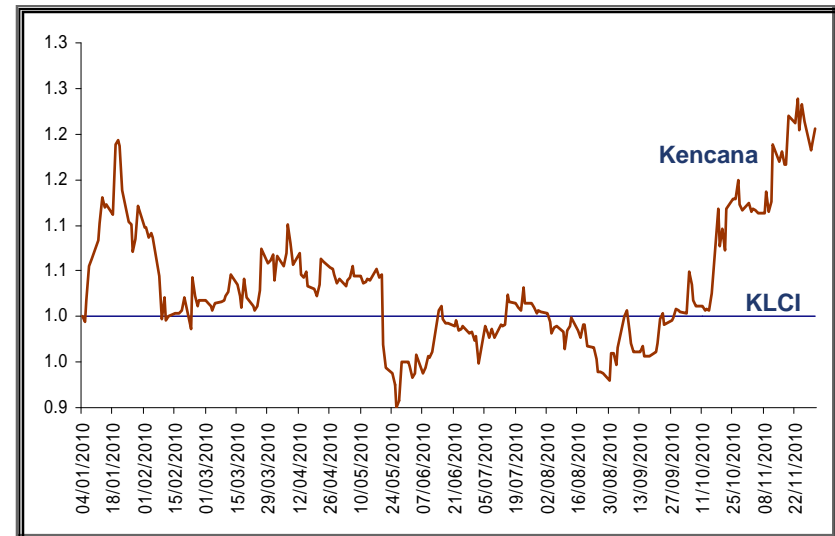
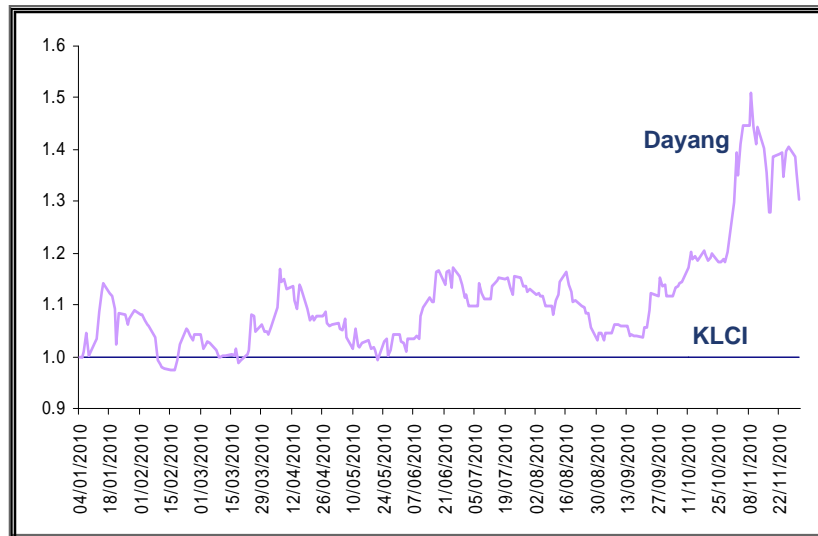
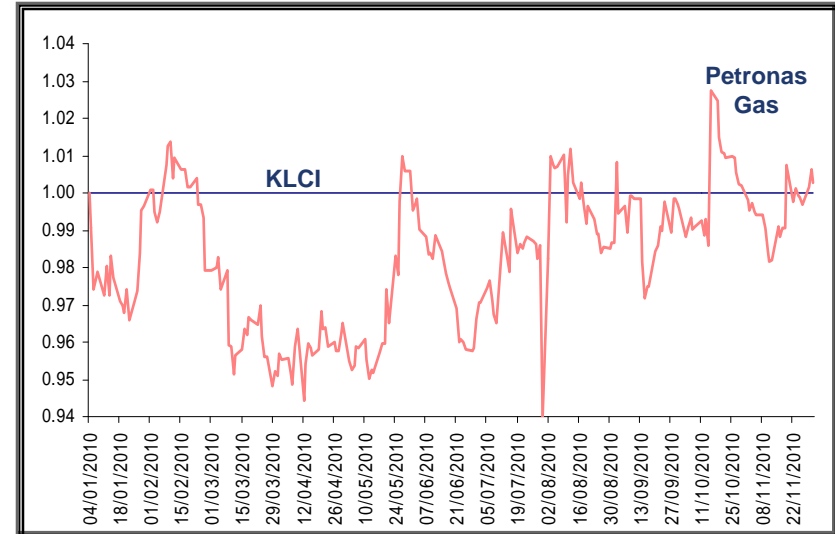
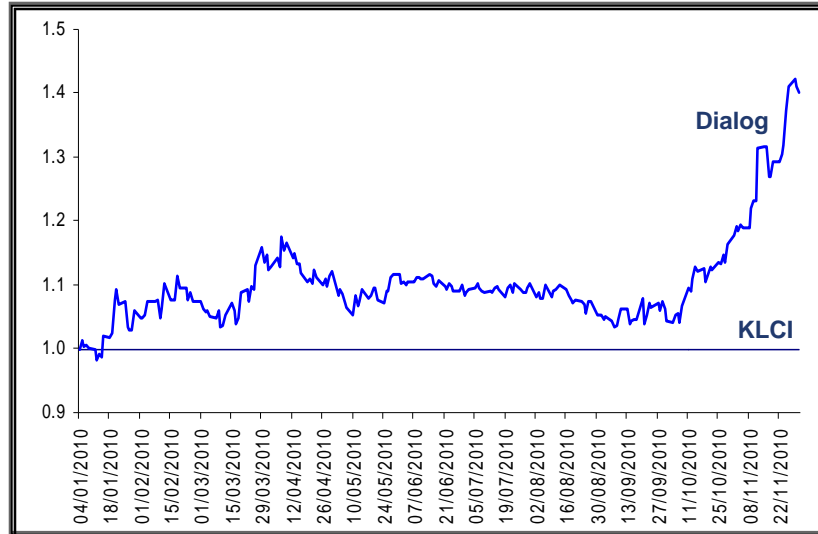
Property stocks: Share price performance



RHB Cement & Building Materials Stocks: Share price performance



Oil & Gas Stocks: Share price performance



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