Sabah, Sarawak positioned for growth

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Story By : WONG CHEW HANN

SABAH and Sarawak offer tremendous opportunities for growth. The two states are also rich in natural resources, accounting for 40% and 55% of the country¡¦s crude oil and natural gas production respectively, with several deep-water sites currently being explored.

With much of their land areas enveloped in primary and secondary forest, the two states produced about 84% of the country¡¦s saw logs supply. Sarawak itself is one of the world¡¦s largest suppliers of tropical hardwood.

Sabah and Sarawak¡¦s fertile land and natural terrain are ideal for oil palm cultivation.

Total planted area is about 1.83 million ha, accounting for 44% of the country¡¦s total plantation size. In terms of production, the two states produced a total of 6.91 million tonnes of crude palm oil in 2006, making up 43% of Malaysia¡¦s total production of 15.9 million tonnes.

In addition, they also offer bountiful eco-tourism activities, with beautiful diving sites, a heritage rainforest and the world¡¦s largest cave chamber.

It is therefore not surprising that the primary sectors are the main economic drivers, contributing 40% and 44% to Sabah¡¦s and Sarawak¡¦s gross domestic product (GDP) respectively, compared with 15% for Malaysia as a whole.

This is followed by the secondary sectors, comprising mainly manufacturing and construction, which contribute 17% and 24% to Sabah¡¦s and Sarawak¡¦s GDP respectively. The tertiary sectors, which include services (and tourism), account for 43% and 31% respectively.

While oil and gas activities, and oil palm cultivation have spawned industrialisation, the socio-economic well-being in these two states has remained behind that of the other states.

Whilst GDP growth by states indicate that Sarawak was slightly ahead of the country as a whole during the Eighth Malaysia Plan period (2001-2005), its development composite index (DCI) lagged that of the other states.

In 2005, Sabah ranked last among 14 states in Malaysia in terms of development (economic and social), while Sarawak was just three notches higher, at 11th place. Consequently, Sabah and Sarawak are termed as less developed states, together with Kelantan and Terengganu.

Landscape to change with 9MP regional development efforts

The Government has committed to develop the less developed states as measured by the DCI, allocating a total of RM32bil for development in Sabah and Sarawak under the 9MP, 23% higher than the total amount spent under the 8MP.

Specifically, new regional development authorities (RDA) would be set up to implement regional development efforts. The focus areas will be around new rural growth centres and in trans-border areas.

From checks with industry players, we gather that several economic sectors would be identified as key drivers for growth: oil and gas; agro-based (oil palm); industrialisation; and tourism.

We believe the thrust would be on improving the transportation network (i.e. roads, airports and seaports) to support higher industrialisation efforts.

We also expect initiatives to raise the rakyat's socio-economic status, which would comprise more schools and health clinics, better water and sewerage amenities, and an improved flood mitigation system, with the latter being a yearly occurrence which is least publicised. Developments involving oil and gas also demand better infrastructure for accessibility.

However, little has been revealed to date on the RDAs, detailed plans and the parties to lead development initiatives in Sabah and Sarawak, unlike in Peninsular Malaysia, where Khazanah Nasional Bhd has been identified for the Iskandar Development Region, Petronas for the Eastern Corridor Development, and Sime Darby Bhd for the Northern Corridor Development.

Nonetheless, we understand that for Sarawak, major industrial projects would be located within the Central Development Region stretching from Tanjung Manis to Similajau.

As it is today, three major industrial projects have been identified, comprising two aluminium smelter plants in Similajau and Murum, and a pulp and paper mill in Tatau.

A check with the Sarawak State Planning Unit revealed that economic niches by geographical divisions have already been identified by the state government. As for Sabah, a palm oil industrial cluster has been identified in the Eastern corridor, i.e. in Lahad Datu.

With the country now into the second year of the 9MP, we estimate RM10bil worth of infrastructure works are already ongoing in Sabah and Sarawak, while another RM14bil worth of works are waiting to be launched.

Major ongoing government-funded jobs are the Bakun Dam and coastal roads in

Sarawak, and the Kota Kinabalu Airport upgrading in Sabah. As for works waiting to start, the larger ones include the laying of overland transmission lines and potentially undersea cables to Peninsular Malaysia from Bakun (est. RM9bil), and a coal fired power plant in Lahad Datu worth over RM1bil undertaken by a Tenaga Nasional Bhd-led consortium.

Better mileage by positioning early

We believe it could take another few months before the Government¡¦s initiatives for these two states are made clearer. Investors could, however, gain better mileage by positioning themselves early for higher infrastructure activities ahead.

Potential beneficiaries for infrastructure works are contractors with experience and good track records in these two states ¡V Hock Seng Lee, Naim Cendera, Cahya Mata Sarawak, Gamuda, **WCT** Engineering, TRC Synergy, Loh & Loh and Salcon.

Localised contractors could also gain from the billion-ringgit gas pipeline project from Sabah to Sarawak, and the oil and gas terminal plant in Sabah ¡V Naim Cendera and Hock Seng Lee for the construction works, and Wah Seong and UMW Holdings for the pipe works.

As for the Bakun hydroelectric project (overland transmission lines and undersea cables), likely beneficiaries are Malaysian Resources Corp Bhd, Sarawak Energy Bhd and Sime Darby.

Our top picks for an exposure to east Malaysia construction under the 9MP are Hock Seng Lee, **WCT** Engineering and Loh & Loh. Bintulu Port is strategically located to gain from higher levels of oil and gas, industrialisation, and palm oil activities.

(Wong Chew Hann is Aseambankers Malaysia Bhd senior investment analyst (equity markets))