RAM Business Confidence Index

RAM

3Q-4Q 2018

Firms surveyed post-GE14 generally more optimistic

July 2018

KDN : PP19172/04/2017(034706)

Contents

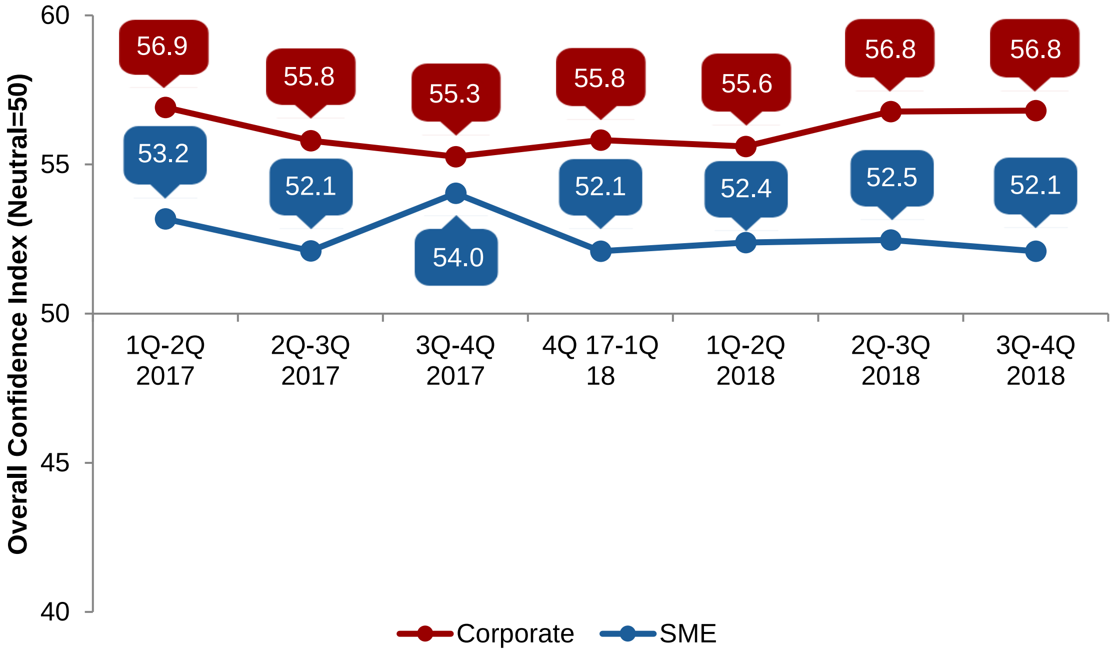
RAM Business Confidence Index

Firms surveyed post-GE14 generally more optimistic

Overview

The 3Q-4Q 2018 RAM Business Confidence Index (RAM BCI) – the third survey this year – suggests that firms remain upbeat on their business outlook. Both Corporates and SMEs continued to show broad-based optimism in this survey, charting another positive sentiment reading of 56.8 and 52.1, respectively. All seven aspects measured for both Corporates and SMEs, save for SMEs' sentiment on access to bank financing, are in positive territory for the second half of the year. The performance outlook (measured by sentiment on turnover and profitability) for both segments also reflected a third consecutive improvement, signalling a potential pick-up in demand in 2H 2018. This bullishness complements the strong skew towards capacity-building indicators (business expansion, capital investment and hiring intentions) among firms, which have been the main components propping up firms' sentiment in the last few surveys. Given the sustained (Figure 1) and more balanced positive readings across all aspects, this trend suggest that Malaysia's economic resilience in 1H 2018 is likely to carry through to the second half of the year, particularly supported by the Corporate segment's strong optimism.

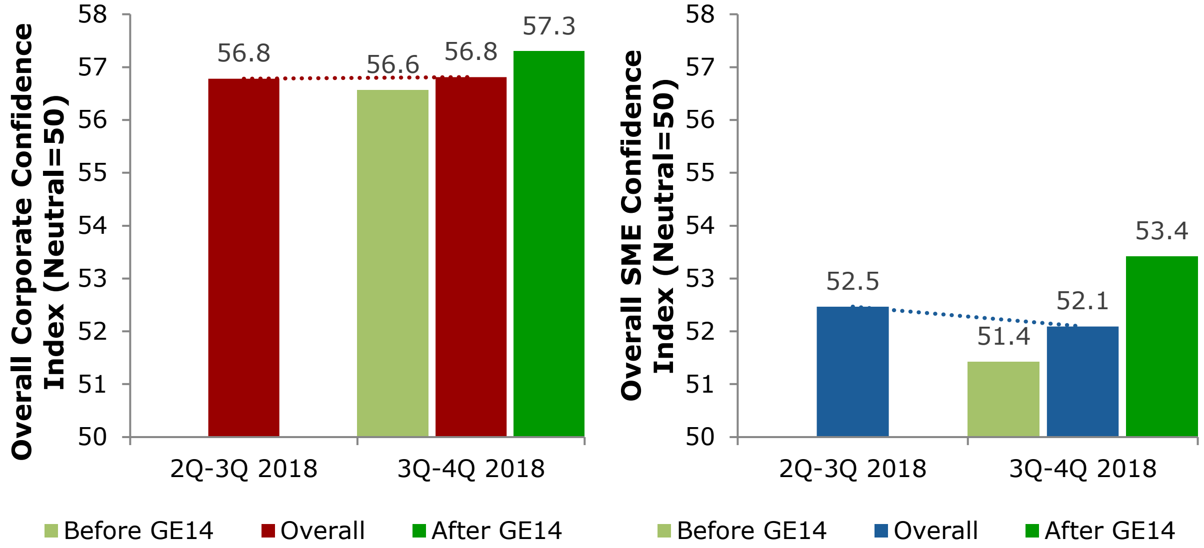
Figure 1: Overall index value – Corporates vs SMEs



Source: RAM BCI

The results of our survey also show that the outcome of the 14th General Election (GE14) may have partly contributed to the more upbeat sentiment among firms. Notably, Corporates and SMEs surveyed after GE14 appear more positive compared to those surveyed before the event. The 3Q-4Q 2018 survey was conducted in April and May. In this round of index calculation, we have separated the respondents to pre-GE14 and post-GE14 buckets, based on when they were surveyed; about 35.4% of the 1,000 Corporates and 33.4% of the 2,500 SMEs were surveyed after GE14. Our analysis shows that the Corporate and SME indices were a respective 0.7 and 2.0 points higher in the post-GE14 sample relative to the pre-GE14 sample (Figure 2).

Figure 2: Business sentiment improved among firms surveyed after GE14



Source: RAM BCI

The healthier business sentiment post-GE14 is observable across all sectors for both Corporates and SMEs, except for the Corporate construction sector, which experienced a drop of 1.0 point. The uncertainties over various property and infrastructure projects following the election victory of Pakatan Harapan may have slightly dampened the prospects of incoming contracts for Corporate construction firms, as depicted by its lower turnover sub-index for the post-GE14 sample. That said, Corporate construction firms remained firmly optimistic post-GE14, with an overall index value of 55.0, indicating still-bullish prospects through the rest of the year.

Meanwhile, the proportion of firms citing “rising cost of doing business” as their main challenge was also much lower after GE14, likely on expectations that the zero-rating of GST and the three-month tax holiday until the SST is reintroduced in September will allow businesses to achieve some cost savings. Among the firms surveyed after GE14, only 22.3% of Corporates and 17.1% of SMEs cited “rising cost of doing business” as their primary challenge, as opposed to a respective 32.2% and 22.1% before GE14.

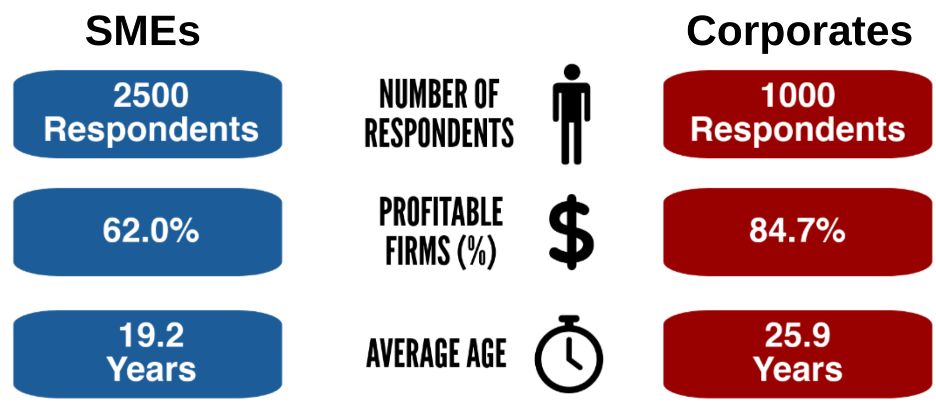
The results of our survey also suggest that the global environment remains supportive, with export-oriented firms across both Corporates and SMEs recording respective bullish overall index readings of 58.3 and 56.2. The overall index for export-oriented Corporates and SMEs remained more optimistic than that of their domestic-oriented counterparts, although sentiment had tapered off slightly from a year ago. On the other hand, while domestic-oriented firms were less upbeat, the still-positive readings (Corporates: 56.5, SMEs: 51.9) indicate that domestic demand conditions should keep steady through the rest of this year.

Despite the upbeat mood, especially post-GE14, short-term economic uncertainties linger. On the domestic front, a slew of potential measures by the new administration - such as changes in the tax regime, reviews of major government-linked projects and a proposed increase in minimum wages - may affect domestic businesses. On the external front, the US Federal Reserve’s rate hikes and the ongoing US-China trade war could stunt international trade flows and economic growth. These factors may dampen the prospect of business optimism, translating into tangible results.

Profile of survey samples

The respondents comprise 1,000 Corporates and 2,500 SMEs.

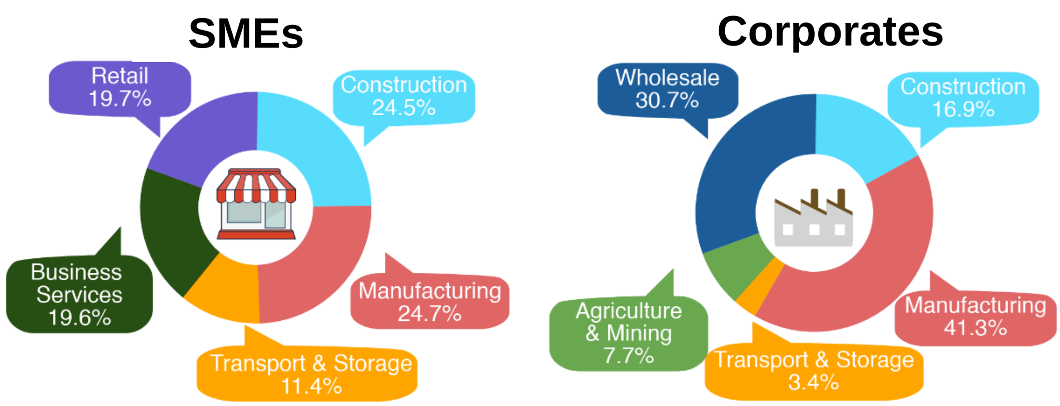
Figure 3: Key characteristics of respondents



Source: RAM BCI

The manufacturing sector makes up the largest group of respondents surveyed for both Corporates and SMEs.

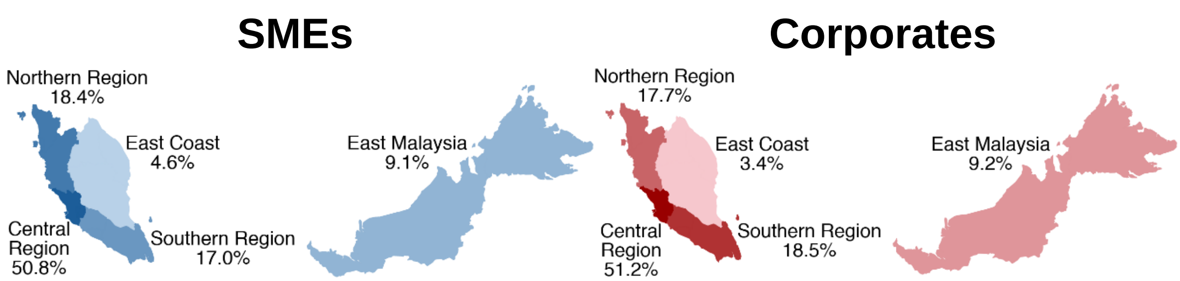
Figure 4: Sectoral profiles of respondents



Source: RAM BCI

Geographically, the majority of firms polled are based in the central region (Kuala Lumpur, Selangor and Putrajaya), accounting for a respective 50.8% and 51.2% of all SMEs and Corporates surveyed.

Figure 5: Distribution of respondents by region



Source: RAM BCI
**Darker shades indicate higher concentration of respondents.*

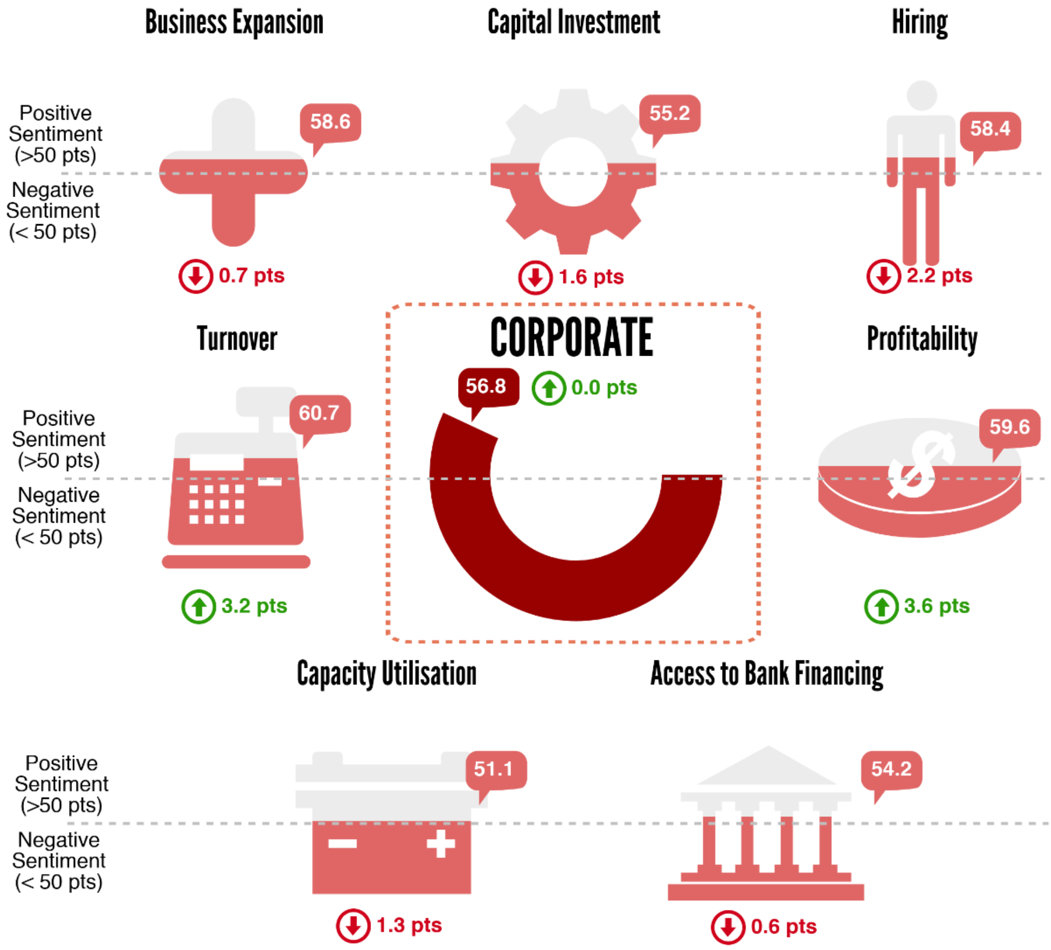
Main findings on Corporates

Corporates' expectations on business performance hit record high

Corporate firms remained bullish on the business outlook for 3Q-4Q 2018, with the Corporate Index maintained at 56.8. In addition, all seven sub-indices exceeded 50 for the sixth consecutive time, indicating that the optimism is broad-based. Corporates were the most positive on turnover and profitability outlook, which improved in this survey. The Corporate turnover and profitability sub-indices surged for the third consecutive survey, to a respective 60.7 and 59.6 - the highest since the inception of the RAM BCI in late 2016. This signals firms' rising confidence in sustained growth in demand for goods and services in 2H 2018.

All the other sub-indices, however, were slightly lower compared to the previous survey, albeit still firmly optimistic. The capital investment and hiring sub-indices fell the most, declining a respective 1.6 and 2.2 points. This indicates that businesses may have begun slowing down their capacity expansion after several quarters of strong capacity building, as underlined by the successive declines in the capacity utilisation sub-index since the inception of the RAM BCI - even amid positive expectations on business performance. The capacity utilisation sub-index fell from 62.2 for 1Q-2Q 2017 to 51.1 for 3Q-4Q 2018. With a lower proportion of Corporates operating above full capacity (11.4%) compared to the corresponding period of the previous year (19.2%), it is likely that the need to build capacity will be softer in the next 6 months.

Figure 6: Business performance sentiment overtakes capacity-building intentions in 2H 2018



Source: RAM BCI

and indicate changes in index values from last survey.

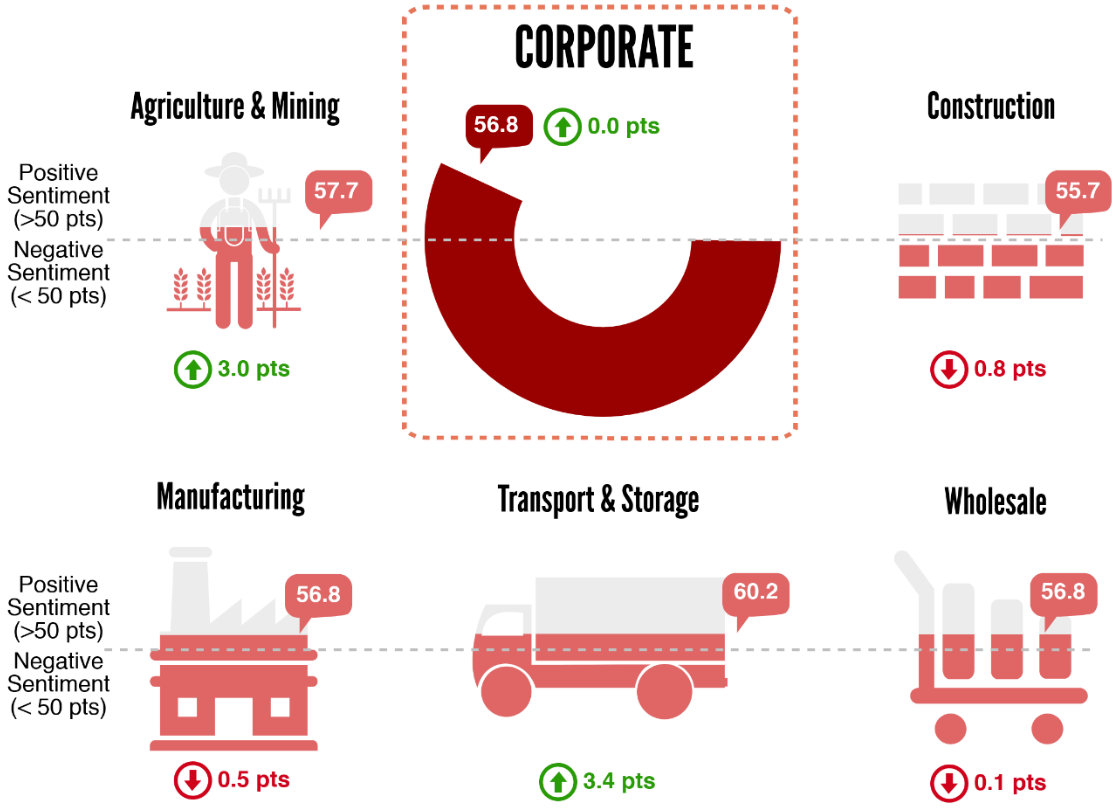
All sectors most optimistic about their turnover outlook for 3Q-4Q 2018

All five sectors of the Corporate segment surveyed continue to signal a bullish outlook for the next six months, especially on their performance prospects, which charted the highest sub-index reading.

The transport/storage sector was again the most bullish sector. The sector's overall index rose 3.4 points to 60.2 – its fourth consecutive improvement – primarily driven by a sharp spike in turnover (+7.1 points) and profitability expectations (+6.8 points). This continued improvement suggests that the sector may be experiencing a sustainable pace of recovery - in sharp contrast to the trough a year ago, after a prolonged period of uncertainty and volatility. Overall demand for logistics, shipping and oil tanker services was sluggish last year as fierce competition and excess supply had depressed charter rates, in addition to the oil and gas sector holding back orders amid the uncertain trajectory of oil prices. With turnover and profitability expected to chart robust expansion, at 65.4 and 64.7, respectively, this paints a rosy outlook on demand for the sector's services. Nevertheless, fierce competition remains, notably among support service providers in the oil & gas sector, which could depress prices and profitability.

On the other hand, the construction sector was the least positive among the Corporate sectors surveyed, albeit still recording positive sentiment at 55.7, a decline of 0.8 points from the previous survey. Despite a moderation in capacity-building intentions, possibly due to some current capacity slack, the business expansion, capital investment and hiring sub-indices are still strongly positive. This is supported by positive movements in turnover (+1.2 points) and profitability (+1.7 points) expectations, to a respective to 59.8 and 58.4. That said, uncertainties over various property and infrastructure projects following the election victory of Pakatan Harapan may have slightly dampened the prospects of incoming contracts for Corporate construction firms, as depicted by the lower turnover sub-index for firms sampled post-GE14.

Figure 7: Continued improvement in transport/storage sector's business outlook



Source: RAM BCI

and indicate changes in index values from last survey.

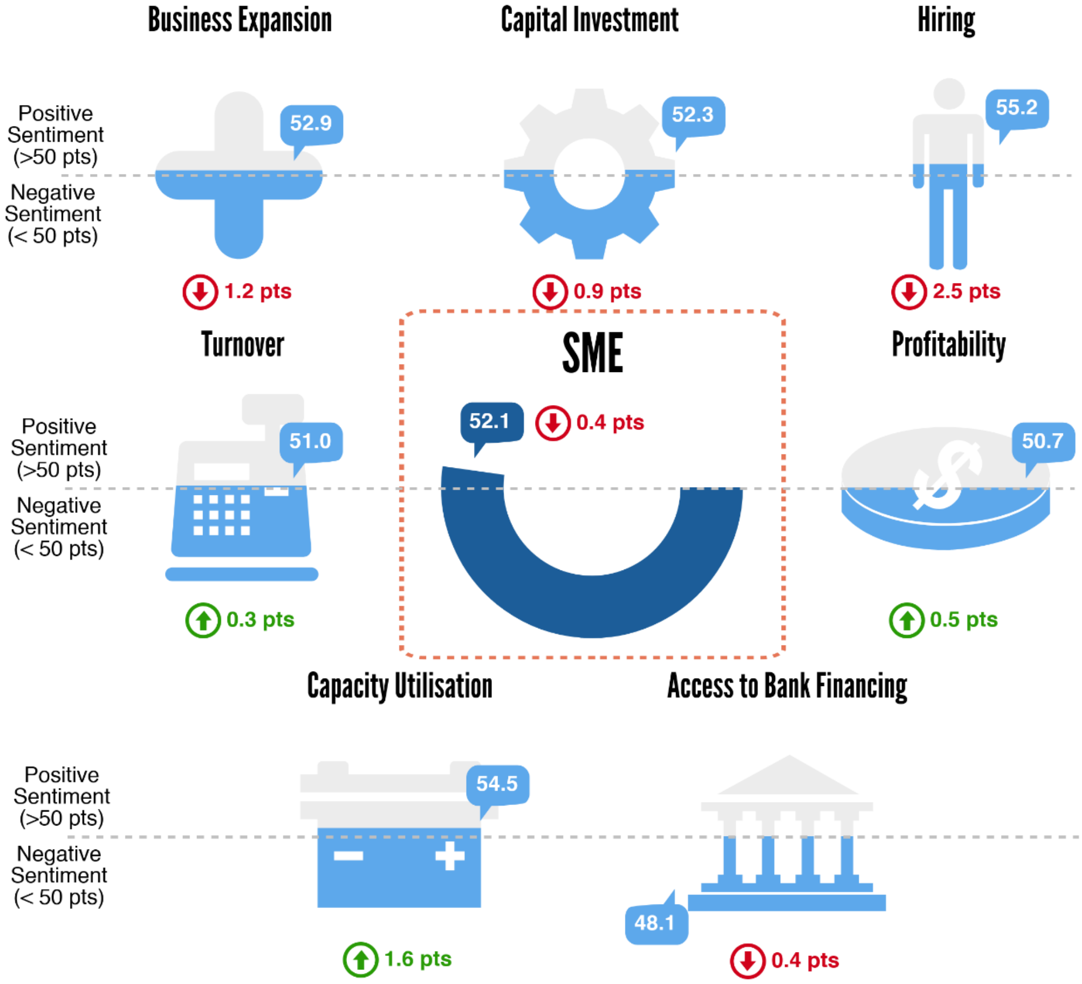
Main findings on SMEs

More positive performance expectation, but access to bank financing still an issue

SMEs' turnover and profitability indicators continued their stable uptrend, improving for the third consecutive time in this latest survey. The steady improvement signals more sustainable demand growth for SMEs, which typically face greater uncertainties than their larger counterparts, as depicted by more volatile index movements in the past. SMEs were also noticeably more optimistic on their turnover (+6.7 points) and profitability (+6.6 points) outlook post-GE14. This is likely in anticipation of the various consumption-boosting measures as well as the removal of GST, which had disproportionately burdened SMEs administratively and constrained their already-limited liquidity.

Despite their healthier business performance, SMEs continued to express concern over their access to funding. SMEs' access to bank financing sub-index has hovered within the "negative sentiment" territory in the last four surveys. This appears to also be an issue pertinent only to SMEs, as their larger Corporate counterparts have been consistently recording positive readings for this sub-index in the last six surveys. This round, 28% of the SMEs indicated that they expected it to become more difficult to secure bank financing. This is roughly double the proportion of Corporates (14.3%) with the same response. As SMEs play a significant role in the country's economy, it is important to ensure that they have better access to funding. Furthermore, the uptrend in the turnover and profitability indices signals a potentially greater need for funding to finance working capital and/or investments.

Figure 8: SMEs still most bullish about hiring despite charting steepest decline in index value



Source: RAM BCI

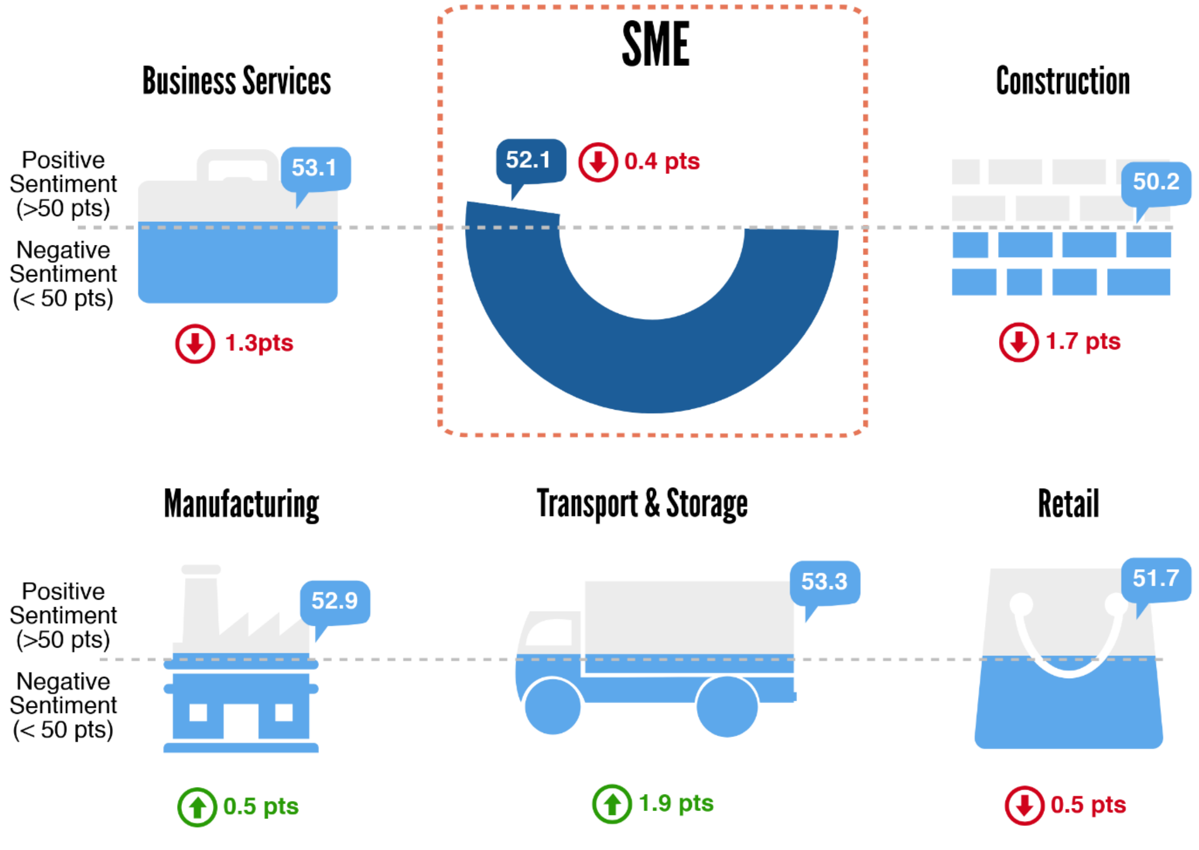
and indicate changes in index values from the last survey.

Ongoing improvement in consumption growth to aid retail sector's recovery

The sluggish retail sector continues to show signs of recovery; its turnover and profitability indices rose for the third time to 50.0 (+0.9 points) and 49.1 (+0.4 points), respectively. While the two sub-indices still do not indicate any expansion for the next 6 months, the consecutive increases nevertheless suggest that sluggish consumer spending is staging a gradual recovery, especially for discretionary items that had not fared well earlier. The outlook on retail sector has also been boosted following the election victory of Pakatan Harapan, as the turnover and profitability indices of firms surveyed after GE14 were markedly higher at 54.9 and 53.7, respectively, compared to 47.1 and 46.5 for the pre-GE14 sample. Various consumption-boosting policies and the three-month tax holiday, coupled with improving labour market conditions, could help support retail sales growth in the near term.

Similar to its Corporate counterpart, the SME transport/storage sector also posted the largest improvement in sentiment (+1.9 points to 53.3) among the five sectors surveyed. This was broad-based, as all seven sub-indices charted higher readings, with its performance indicators clearly showing the most laudable improvement. With respective jumps of 2.0 and 2.3 points in turnover and profitability, the sector effectively snapped its three-survey streak of continuous declines in index readings. This shows that the worst may be over for the sector, although some weakness is still envisaged over the next 6 months, especially in turnover and profitability. In addition, the stronger intention to increase capital investment (+1.4 points to 55.2) and hiring (+0.7 points to 56.1) also indicates that firms remain positive on the longer-term outlook of the sector, and will seek to expand and tap any potential growth.

Figure 9: SME transport/storage sector the most optimistic



Source: RAM BCI

and indicate changes in index values from the last survey.

About RAM Business Confidence Index

The **RAM Business Confidence Index** (the Index) is a survey jointly conducted by RAM Holdings Berhad and RAM Credit Information Sdn Bhd, on business sentiment among SMEs and Corporates within five main industry segments.

SMEs	Corporates
Retail	Wholesale
Construction	Construction
Business Services	Agriculture & Mining
Transport & Storage	Transport &Storage
Manufacturing	Manufacturing

Our survey adheres to the following classifications for firm sizes:

SMEs	Corporates
Firms with annual turnovers of less than RM50 million	Firms with annual turnovers of at least RM50 million

The Index is derived from responses to the surveys conducted every quarter. It aims to measure the forward-looking expectations indicating the positive and negative sentiment of firms on seven key aspects that are pertinent to their business operations over the next six months.

Aspect	Definition
Business Expansion	Level of expansion or consolidation of business activities
Capital Investment	CAPEX growth rate (%)
Hiring	Changes to firm headcount
Turnover	Turnover growth rate (%)
Profitability	Profitability growth rate (%)
Capacity Utilisation	Utilisation of productive capacity (%)
Access to Bank Financing	Relative ease in accessing new bank financing opportunities

Response values between zero and one are assigned to the corresponding expressed sentiment. The overall responses are subsequently weighted by the proportion of corresponding responses in the calculation of the overall Index.

Response Value	Sentiment represented
0.00	Strongly Negative
0.25	Negative
0.50	Neutral
0.75	Positive
1.00	Strongly Positive

An index value of 50 is the neutral benchmark while a value **above 50 indicates positive sentiment** on the part of the firm; **below 50 shows negative sentiment**.

Index Value	Interpretation
Above 50	Positive sentiment on the next six months
50 (Neutral benchmark)	Sentiment remains at status quo over the next six months
Below 50	Negative sentiment on the next six months

About RAM Holdings Berhad

RAM Holdings is a leading provider of independent credit research and advisory services. RAM Holdings (formerly known as Rating Agency Malaysia Berhad) was established in November 1990 as a catalyst for the domestic debt capital market and as Malaysia's first credit rating agency. Its shareholders comprise both local and foreign financial institutions. On 1 July 2007, the rating operations were novated to a newly formed subsidiary, RAM Rating Services Berhad. Today, RAM Holdings spearheads the cultivation of new businesses and continues to provide training as well as economic research that promotes financial and credit expertise, in addition to soft skills.

For more information, log on to www.ram.com.my

About RAM Credit Information Sdn Bhd

RAM Credit Information Sdn Bhd (RAMCI) is Malaysia's leading and trusted credit and business information bureaus and has a comprehensive database that has been built over the past 25 years. The vast majority of RAMCI's clients are financial institutions, large multinationals, professional firms as well as business corporations, to whom it provides various products that assist them in making critical business and credit decisions. It also collaborates with associations and cooperatives to serve their members. RAMCI's core capabilities include online credit information, credit rating and credit scoring services, monitoring and international information services and trade bureau services.

For more information, log on to www.ramcreditinfo.com.my

For Enquiries Please Contact:

Analytical Contacts:

Woon Khai Jhek (Economist)
khaijhek@ram.com.my
+(603) 7628 1093

Kristina Fong (Head of Research)
kristina@ram.com.my
+(603) 7628 1011

Survey Compilation Contacts:

Rahila Omar Ali (Business Development Manager)
rahila@ramci.com.my
+(603) 2615 1120

Diana Nazri (Manager, Operations)
diana@ramci.com.my
+(603) 2615 1146

Published jointly by RAM Holdings Berhad and RAM Credit Information Sdn Bhd

RAM Holdings Berhad
Suite 20.01, Level 20
The Garden South Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur

T: (603) 7628 1000 / (603) 2299 1000
F: (603) 7620 8251
E: ram@ram.com.my
W: www.ram.com.my

RAM Credit Information Sdn Bhd
No 17-9 & 19-9, 9th Floor, The Boulevard
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur

T: (603) 2615 1128
F: (603) 2284 8808
E: enquiry@ramci.com.my
W: www.ramcreditinfo.com.my

Printer
Percetakan Zanders Sdn Bhd
No 16, Jalan BK 1/11
Bandar Kinrara
47180 Puchong
Selangor Darul Ehsan
Malaysia

RAM Holdings Berhad
Suite 20.01, Level 20
The Garden South Tower
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur
Malaysia

T: (603) 7628 1000 / (603) 2299 1000
F: (603) 7620 8251
E: ram@ram.com.my
W: www.ram.com.my

RAM Credit Information Sdn Bhd
No 17-9 & 19-9, 9th Floor
The Boulevard
Mid Valley City
Lingkaran Syed Putra
59200 Kuala Lumpur
Malaysia

T: (603) 2615 1128
F: (603) 2284 8808
E: enquiry@ramci.com.my
W: www.ramcreditinfo.com.my