ECONOMY

Growth in 2023 moderates to 3.7%

Slower trade, tighter monetary policies among factors

By DANIEL KHOO
danielkhoo@thestar.com.my

SLOWER global trade, the global tech downcycle, geopolitical tensions and tighter monetary policies globally had weighed on Malaysia's gross domestic product (GDP) growth for the fourth quarter of 2023.

The quarter's GDP growth at 3% came in lower than the 3.4% advance projection released last month, and compared with the 3.3% expansion in the preceding quarter, according to Bank Negara.

The quarter's slower-than-expected growth had also weighed on the whole year's GDP growth figure, coming in at 3.7% compared to 8.7% in 2022.

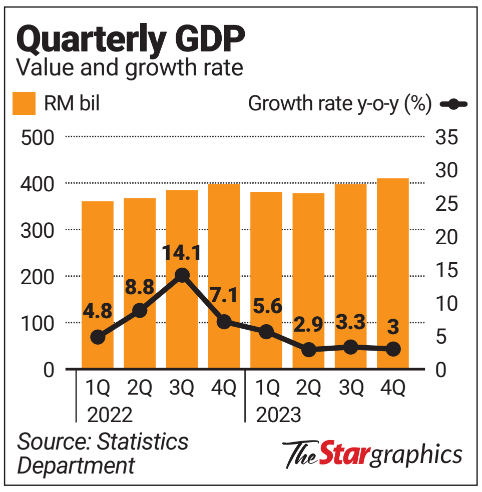
Commenting on the GDP data, Prime Minister and Finance Minister Datuk Seri Anwar Ibrahim said that the full-year growth for 2023 is slightly lower than Budget 2024's forecast of approximately 4%.

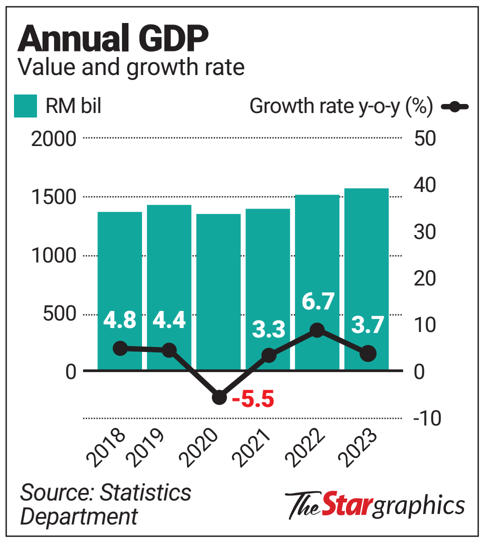
Anwar, who is also the Finance Minister, notes that the economy was supported by resilient domestic demand that rose 5.2% in the fourth quarter which helped cushion the 3.2% decline in Malaysia's trade, as exports softened on the back of cooling global demand.

"The continued growth in domestic demand signifies that the Madani government's reform agenda is starting to yield positive results.

"Aside from the ongoing fiscal restructuring, which mutually benefits the government and the people, efforts to enhance governance and ease of doing business have stimulated economic activities and progressively restored investor confidence in Malaysia," Anwar said in a statement.

He also highlighted the labour market, which registered positive growth momentum in the said quarter, with the unemployment rate decreasing to the pre-pandemic level of 3.3% from 3.4% in the previous quarter.





"The government is confident of achieving stronger growth of between 4% and 5% in 2024 on the back of strong fundamentals and reforms mapped out in the Madani plan and Budget 2024," Anwar says.

"The government is determined to further narrow the fiscal deficit to 4.3% this year, in line with commitments in the Public Finances and Fiscal Responsibility Act 2023. The government has successfully reduced the fiscal deficit to 5% in 2023 from 5.6% in 2022," he adds.

Economists are expecting that GDP growth might pick up and improve this year, premised upon any change in the above external factors – such as the normalising of demand from a global tech recovery.

They also note the resiliency of the local economy in the fourth quarter amid these external weaknesses, namely, the support from domestic demand.

However, there are some others warning that external demand will continue to be weak this year and that trading nations should brace for a prolonged slowdown.

Sunway University's professor of economics Yeah Kim Leng says the GDP growth recorded in the fourth quarter last year was softer than expected, but it is not surprising.

"Several economies including the United Kingdom, Germany and Japan have slipped into a technical recession and this indicates last year's global demand was very weak. There is only one engine powering GDP now – domestic demand – since the external exports engine had seen a decline," Yeah tells *StarBizWeek*.

"So, it is not surprising that Malaysia's GDP growth has slipped below the targeted or projected range of 4% to 5%. What is notable is that the manufacturing sector grew barely at 0.7% which means that over the last two quarters, it was technically in a recession, but nevertheless the decline/negative growth was relatively small largely due to the sharp decline in the export-oriented industries," he adds.

Yeah notes that the country's economy appears to be resilient, given that domestic demand was able to partially offset the downturn in external exports.

"So I think the expected revival of global demand this year will enable the economy to grow at closer to its trend level or average levels. An expected growth of 4.5% to 5% GDP growth this year is seen. While for the first quarter of 2024, we expect it to be above 4%," Yeah says.

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CORPORATE

OSK attracts interest on consistent robust showing

By ELIM POON
elimpoon@thestar.com.my

OSK Holdings Bhd has attracted some buying interest in its shares in recent months, thanks in part to the company's ability to consistently deliver strong financial performance, particularly over the last three quarters.

The company's shares have been climbing steadily, up by almost 60%, since the end of May 2023 following the revelation of its robust results for the first quarter (1Q) ended March 31, 2023.

At its close of RM1.54 yesterday, the counter has gained around 24% year-to-date alone.

As a well-diversified conglomerate, it operates across five core business segments, namely, property (property development and property investment), construction, financial services (capital financing and shareholdings in RHB), industries (cables and industrialised building systems or IBS) and hospitality (hotels, resorts and vacation clubs).

The general outlook for the group remains positive over the medium term, underpinned by higher demand from local and export markets, even as it continues to seek out new market opportunities for its cables and IBS division on top of implementing strategic measures to bolster its profit margins.

Under the industries division, OSK manufactures high-quality cables in Malaysia via Olympic Cable Company (OCC), where the plant is based in Melaka.

The group largely supplies its cable products to local companies and projects such as Tenaga Nasional Bhd, Kuala Lumpur International Airport, Westports Holdings Bhd, Mass Rapid Transit and the Intermark Mall, while about 5% are exported to foreign jobs in countries like Singapore, Vietnam and Cambodia.

> **"The jewels in OSK include the firm's stake in RHB Bank and its strong management team."**
> Vincent Lau

Speaking to *StarBizWeek*, the management of OSK says the group's cable business benefited from steady demand from the renewable energy sector and data centres, as these segments have helped to buffer the slowdown in demand from the housing sector in recent years.

"Looking ahead, while we do not foresee a rapid expansion in the domestic cable market, we do think that the market demand for cables will remain stable in the medium term.

"Under OCC, we will continue to focus on supplying power cables to the domestic market while we try to break into export markets around the Asean region. We are also expanding into fibre optic cables, and hope to begin supplying them in financial year 2024 (FY24)," it says.

On the other hand, OSK manufactures and sells IBS hollow core precast wall panels through Acotec Sdn Bhd, with three factories located in Nilai in Negri Sembilan, Taiping in Perak and Bandar Tenggara in Johor.

With regards to the group's Acotec IBS business, OSK says the performance in 2023 was supported by a recovery in demand from the Singapore market, and from increased interest among Malaysian developers for a cost-efficient and proven IBS solution.

"Over the past two decades, we have been able to create a high-quality product that meets the cost expectations of developers and the quality expectations of home buyers, but adoption by the local market has been a slow process.

"We foresee that Acotec's business can grow in the coming years if more developers start to realise that there is a locally produced IBS solution that is both cost effective and proven to work in the local market," the company says.

The management adds that Acotec's focus for the next few years is to develop lightweight concrete products and to further improve the company's Acobuilt home building system, which the company believes is one of very few turnkey IBS solutions that really works from a quality and cost perspective in Malaysia.

Analysts say property and capital financing segments as well as OSK's strong management team along with its stake in RHB Bank Bhd are expected to remain as key catalysts to the company's earnings going forward.

Notably, OSK has a 10.24% stake in RHB Bank providing the group with recurring dividend income.

Tradeview Capital Sdn Bhd portfolio manager Ng Tzyy Loon says OSK's share price is severely undervalued and this can be reflected through the company's stake in RHB Bank.

"OSK is trading at a discount of around 10% to 20% relative to its stake in RHB Bank. With OSK's market capitalisation currently at around RM3.1bil and its stake in RHB Bank valued at around RM2.5bil, investors are essentially buying OSK's other business portfolios at a discounted value, at just over RM600mil.

"As such, it is actually a very cheap deal," he says.

Ng adds that should RHB Bank's future earnings become more consistent and deliver a better-than-expected performance, this would benefit OSK and contribute to its rerating catalysts leading the share price to potentially go up further.

"However, this may not happen in the next one or two quarters due to the expected stability of the overnight policy rate this year. Hence, RHB Bank's net interest margin expansion is unlikely.

"Nevertheless, it has been providing lesser provisions for its book in recent quarters which could lead to better-than-expected earnings if it continues to do so this year.

"In terms of valuation, be it price-to-earnings (PE) ratio or price-to-book ratio, OSK remains quite undervalued.

"OSK's share price has been buoyed by its property side, and developments like the PJ Development Holdings merger, as well as its capital financing business.

"Regarding the cable business, although it has garnered attention due to the increasing demand for low-wattage cables and data centres, the profit margin is not as impressive compared to other segments," he says.

Moreover, Rakuten Trade head of equity sales Vincent Lau says the jewels in OSK include the firm's stake in RHB Bank, its property arm that has substantial landbank, and its strong management team.

"In terms of the property business, there are quite a fair bit of companies that have exposure in Malaysia as well as overseas.

"Hence, what sets OSK apart is the management team that they have.

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