



RBC BlueBay
Asset Management

Malaysia: moving with the times

Notes from the road

For Professional Investors Only | Marketing Communication

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“Visiting these two markets that are currently out of favour – partially because other emerging markets have become so large that their stories have been dwarfed – was an eye opener.”

Arriving in Kuala Lumpur on a Sunday in February, I am hit with the humidity and heat that any country close to the equator tends to have. It’s been a very long time since I’ve been here.

The original Four Asian Tiger economies of the 1990s, Hong Kong, Singapore, South Korea, and Taiwan, were seen as the epitome of Asian economic success, as countries that underwent rapid growth and saw a sharp increase in standards of living. Today, these countries have inspired the Tiger Cub economies of Indonesia, Malaysia, the Philippines, Thailand and Vietnam, which have replaced them as symbols of the Asian economic success story.

Malaysia and the Philippines fell behind their closest neighbour, Singapore, many years ago. Today Malaysia is a large, multicultural nation of 30 million people, with a GDP per capita of USD11,993, while the Philippines has a population of over 113 million people but only has a GDP per capita of USD3,498. By comparison Singapore, which has been a developed market since the 1990s, has one of the highest GDPs per capita globally at USD82,807, higher than even the U.S. or U.K.¹

Visiting these two markets that are currently out of favour – partially because other emerging markets (“EM”) have become so large that their stories have been dwarfed – was an eye opener. They are large economies with young populations and an evolving outlook.

Malaysia has a new government under Prime Minister Anwar Ibrahim, a significant change after the 1Malaysia Development Berhad (“1MDB”) corruption scandal that hit Malaysia in 2015 and caused an economic backlash for years. Anwar finally assumed the post of Prime Minister in 2022 and has brought much-needed stability.

¹ GDP capita figures: World Bank.

Meanwhile, the Philippines has a new President under Ferdinand 'Bongbong' Marcos. Admittedly, the Marcos family history (which saw Bongbong's father rule the Philippines as a corrupt dictator in the 1980s) gives rise to feelings of foreboding but the hope is that his son, who grew up in exile in the U.S., has returned as a force for good.

I'm visiting these countries with my EM Equity team member to see what has changed, what we can invest in and what looks promising. While we have been invested in the Philippines over many years, because the story has remained so strong, we exited Malaysia as investors a few years ago and have now returned to do due diligence.

“As the world pivots away from China as a manufacturing hub, Malaysia is benefitting from friendshoring, nearshoring and the ‘China+1’ strategy.”

Clearly, much has changed. As the world pivots away from China as a manufacturing hub, Malaysia is benefitting from friendshoring, nearshoring and the 'China+1' strategy. We find three provinces particularly promising, namely Penang, Sarawak and Johor. Penang has built a tech supply chain over many years and is now reaping the rewards of being a tax haven. Multinational corporations (“MNCs”) are wanting to utilise it, as they relocate their assembly and lower end semiconductor supply chains there. Sarawak, on the island of Borneo, is particularly strong in renewable energy, and Johor has become a hub for datacentre support, given its proximity to Singapore.

Under Anwar, politics are now stable and FDI is coming back. Meanwhile the current account has stayed solid, while the capital account has suffered. Clearly, this has impacted the currency, but there are signs that this is reversing, now that capital flows are starting to return.

Our company visits include the stock exchange (“Bursa Malaysia”), one of the main banks that services the fastest growing segment of the market, namely SMEs, and also a tech company that benefits from the semiconductor supply chain diversifying. The returns are strong, and we are impressed by management quality.

As a testament to how Malaysia has changed and moved with the times, we visit a company which started its life in 1966 as a drill bit cleaning and coating business for the oil and gas industry. This was when Malaysia was strong as a commodities and commodity services country. Today, this same company provides cleaning and coating services for the semiconductor industry. It has moved up the value-chain and grown with its customers. “They are asking us to move to Arizona”, says its charismatic founder, and we can see that the future is bright for such dynamic and quick-minded businesses.



Blue sky in Kuala Lumpur and the bright yellow durian fruit.

A visit to one of the top three banks in the country aligns with this view. The bank is a large lender to the SME segment and it extolls the virtues of this area of the market, which is the fastest growing in terms of its loans. “Big corporates in Malaysia can be sleepy, SMEs are nimble and propagate”, they tell us.

At the stock exchange we hear a hilarious story of some foreign investors who visited in cycling shorts, as they finished a bike trip from Singapore to Kuala Lumpur, which leaves us wondering whether things are ever pressing here. Trading less than USD500 million a day, the stock market is rather illiquid and clearly investors don't seem to encounter any sense of urgency.

“We are encouraged by up to a 100% hit rate in meeting women in C-suite roles.”

We are, however, once again confronted by the fact that the way to invest in Malaysia is through SMEs, and we are encouraged by up to a 100% hit rate in meeting women in C-suite roles. The stock exchange is also one of the largest carbon exchange traders globally, and clearly, once again, Malaysia is looking to the future.

As we leave Malaysia, we are told that we cannot set off without trying durian, the national fruit. Its reputation is so bad that airlines forbid people from bringing it on board. The pungent smell is rather off-putting and, let's face it, we concede that it's probably more of an acquired taste!

We head north to the Philippines, and in our next 'Notes from the road', we share our thoughts on this final part of our trip.



Masjid Al-Bukhary, Kuala Lumpur.

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Veronique is a portfolio manager on the RBC GAM and is currently responsible for research in India. Prior to joining the firm in 2015, Veronique was at a large independent brokerage and investment group in Asia, where she was responsible for Asian ex-Japan equities for 15 years. During this time, she developed significant expertise in Asian equities, as well as a deep understanding of the region's corporate culture and economic development. Veronique began her career in the investment industry in 2000

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