RAM RATINGS
Redefining Excellence Celebrating 20 Years Of Leadership 1990 - 2010

CREDITPULSE

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OVERVIEW

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Most economies throughout the world endured a challenging time in 2009; Malaysia was no exception. On a brighter note, the 1.7% contraction in the country's gross domestic product ("GDP") last year is not as severe as we had anticipated[1], buoyed by a strong rebound in 4Q 2009. This mirrored the faster-than-expected recovery in global conditions, aided by government policy responses across the globe. "Better than feared" would be an apt description of the later part of 2009 – a welcome contrast to the "brace for impact" call that had dominated headlines earlier. Against this backdrop, the International Monetary Fund ("IMF") estimates that global economic output contracted 0.8% in 2009, compared to the earlier-projected 1.4% deceleration[2].

Looking ahead, the recovery is still fragile, with the threat of being derailed by a double-dip recession. It is clear, however, that the prospects for 2010 are much more encouraging than they were a year ago. World economic output is currently projected to expand 3.9%[3] this year. Closer to home, RAM Ratings forecasts a 4.9% GDP expansion for Malaysia in 2010, underpinned by positive growth for all broad industry categories (agriculture, mining, construction, manufacturing and services)[4].

As expected, industries and their sub-sectors experienced varied consequences from the downturn in 2009. Similarly, the more benign economic environment expected in 2010 would benefit some segments more than others. On this note,

[1] In July 2009, we projected a 3.3% contraction in the country's GDP.
[2] IMF World Economic Outlook Update (January 2010 vs July 2009).
[3] IMF World Economic Outlook Update (January 2010).
[4] Please refer to RAM Economics' *Malaysia's Economic Outlook 2010-2020* (published in February 2010) - available for downloading from RAM's website, www.ram.com.my.

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RAM Ratings believes that the turnaround staged by some sectors remains inadequate for a revision in outlook; their operating environments are expected to stay challenging.

For example, the pickup in global trade and consumption is expected to lag behind the capacity expansion in the shipping industry over the medium term, hence providing limited cheer to shipping operators in general. We have therefore maintained a negative outlook on this industry. RAM Ratings believes that the operating conditions for the broad manufacturing sector also remain tricky; there is a lot of ground to cover after the 9.3% plunge in economic output from this sector in 2009. We highlight, however, that the experience will vary within this very diverse playing field. While export-reliant manufacturers of electrical and electronic goods are still recovering from the global slump, those dealing with daily consumables (e.g. food and beverages) and medical products have escaped relatively unscathed. We observe that rubber-glove manufacturers have been especially resilient - a trend we rightly predicted last year[5]. The rubber-glove manufacturing industry is expected to continue shining this year.

At the same time, RAM Ratings has revised the outlook - from negative to stable - on several sectors, i.e. construction, residential property, hotel and tourism, and retail. There are of course still bumps on the road ahead, but the revisions reflect our expectation of a sustainable turnaround (or pick-up) for these sectors. Meanwhile, we also acknowledge the commendable resilience and flexibility exhibited by certain industries in 2009. For instance, the tourism industry posted a 7% increase in tourist arrivals last year, despite the global financial chaos and the A(H1N1) pandemic. The disbursement of fiscal packages had helped lift the construction sector to its strongest expansion since 2001, residential property sales had been aided by innovative financing packages while retail sales had held steady, bolstered by better-than-expected labour-market conditions.

On the other hand, the stable outlook on the other sectors under RAM Ratings' radar remains unchanged. We believe, however, that the marine-support and brownfield-services sub-sectors within the broader upstream oil and gas ("O&G") industry are potential gems. A summary of our views on the sectors we cover is tabulated on pages 1 to 3.

Credit concerns stemming from liquidity pressures were not overwhelming in 2009, as banks had kept lending – highlighting the strength and stability of the Malaysian banking sector[6]. Last year, RAM Ratings' rated issuers were generally able to secure the required financing for their working-capital needs. With the healthier economic environment this year, we do not envisage any deterioration in their

[5] *CreditPulse Credit & Sector Perspectives for 2009* (March 2009), and *Standpoint Commentary: Manufacturers Bear Brunt of Waning Global Demand* (April 2009).
[6] Please refer to RAM Ratings' *Banking Bulletin* (March 2010), available for download at www.ram.com.my.

ability to access funding. In fact, several previously rated issuers (some of which had had a negative outlook on their debt issues) have managed to refinance their outstanding debt securities in the last 15 months.

Although credit had not frozen on our shores, there was minimal activity on the expansion and acquisition fronts for most of our rated entities in 2009. Moving forward, we believe there are still opportunities to strengthen business positions via mergers and acquisitions and/or capital expenditure in 2010. New-found confidence from having weathered the turbulence last year, a more optimistic outlook for 2010 and the inevitable uptick in borrowing costs could well encourage companies to line their war chests sooner rather than later.

In conclusion, we believe that the principal themes in the near and medium term will revolve around the following:

- Reducing the country's fiscal deficit while sustaining economic growth.
- Steering Malaysia out of the oft-discussed "middle-income" conundrum.

These could mean short-term pain for some businesses; the phasing out of government subsidies and market liberalisation, for example, would mean keener competition and inflated costs. From a credit viewpoint, the manner in which affected businesses respond to these challenges matters, because the likelihood of ratings stability diminishes for companies which stagnate in an increasingly competitive environment. Overly-enthusiastic responses – e.g. rapid debt-funded expansions into entirely new markets – would also be viewed with caution. Meanwhile, RAM Ratings reiterates that circumstances which are specific or unique to each rated entity could help cushion (or exacerbate) the effects of industry-related conditions. As such, the ratings and/or outlook of the rated entities may not necessarily reflect those of the broader industry.

RAM RATINGS

Table of Contents

Summary of Sector Perspectives for 2010

Table 1: Summary of sector perspectives

Sector	Outlook	Key Points
Manufacturing	Negative	▪ The operating environment is expected to be more conducive for manufacturers in 2010, supported by a gradual pick-up in global demand. ▪ The rate of recovery may be dampened by possible inflationary pressures, a weakening greenback and economic uncertainties surrounding most of our major export markets. ▪ Management strategies are likely to remain relatively prudent given the subdued pace of recovery and potential increase in input costs. ▪ Capital spending may accelerate, although manufacturers are still expected to remain fairly cautious with their investment decisions.
Retail	Stable	▪ Unlike during the 1997/98 Asian financial crisis when retail sales slumped, the industry charted marginal growth in 2009 (2008: 5%). ▪ Consumer sentiment has rebounded quickly since 2Q 2009, on the back of better-than-expected domestic labour-market conditions. ▪ Retailers have had to deal with consumers' thrift mentality given the general shift in spending towards value-for-money goods, which had squeezed profit margins for some players. ▪ Challenges to the industry involve uncertainties vis-à-vis inflation and price structures that may affect consumer sentiment and retail spending. ▪ The majority of our rated issuers have been coping fairly well given their strong market positions and resilient financial profiles, despite the non-conducive business conditions.
Construction	Stable	▪ Ongoing pump-priming measures, remaining allocations under the 9MP, allocations under Budget 2010, and a pick-up for the property market should help spur economic activity and provide employment within this sector. ▪ Prompt project implementation and speedy disbursement remain crucial. ▪ Raw-material prices have eased and are expected to be less volatile, supported by increased demand which will somewhat offset the effects of liberalisation of the industry. ▪ Margins expected to be challenged due to open-tender system and competition from both local peers as well as foreign competitors. ▪ Construction firms who have ventured overseas face challenges and uncertainties vis-à-vis operational and regulatory matters.
Residential property	Stable	▪ The residential property market is poised for a recovery in 2010, supported by domestic economic growth, pent-up demand, and still-conducive interest rates. ▪ Potential rate normalisation this year may encourage buyers to commit earlier. ▪ The high percentage of young people in the population and generally low unemployment rates will continue anchoring broad-based demand. ▪ Developers are envisaged to roll out their new launches after having held back in the last 1-2 years. As such, the operating environment is expected to stay competitive in 2010. ▪ Some improvement in developers' credit quality is expected this year, in line with the sector's brighter prospects.

Table 1: Summary of sectoral perspectives (continued)

Sector	Outlook	Key Points
Commercial property	Stable	▪ The office segment will benefit from the anticipated recovery of both the domestic and global economies, further supported by the ongoing liberalisation of the financial and real-estate sectors. ▪ The imminent influx of office space in Kuala Lumpur and Selangor is expected to exert pressure on rental rates; owners of new office buildings may find it challenging to secure tenants, if they have not substantially pre-let their office space. ▪ The retail segment is also envisaged to benefit from the domestic economy's better prospects and potentially more tourist arrivals. ▪ With the sizeable upcoming supply of retail space, competition among retail malls is expected to remain stiff, capping any rise in rental rates. ▪ Established malls are still envisaged to retain an upper hand when setting rental rates.
Hotel & tourism	Stable	▪ The hotel and tourism sector is expected to maintain its positive momentum in 2010 supported by rapid regional expansion of low-cost carriers, low-fare promotions and growing intra-regional trade. ▪ While any potential upside to average room rates, particularly for 4- and 5-star hotels, will be constrained by the intense competition among local and regional players, average occupancy rates are expected to be sustained, if not gradually move up to the levels in 2008, supported by healthy intra-regional travel. ▪ With keener competition in the local arena, hoteliers are also expected to face margin squeezes given the inflationary pressures from the anticipated increase in electricity tariffs – which form one of the key cost components for hoteliers – and the impending removal of fuel subsidies.
Oil-palm plantations	Stable	▪ Better fortunes are envisaged for the plantation sector; CPO prices are expected to strengthen amid tighter supply due to the *El-Niño* phenomenon. ▪ The rise in CPO prices may be moderated by increased production in Indonesia and an anticipated rise in global soybean output in key producing countries such as Brazil and Argentina. ▪ Demand from burgeoning economies such as China and India is expected to be supported by stronger demand for processed food and lower domestic production of rival oils. ▪ Lofty CPO prices and supply constraints may negatively affect demand for palm-oil-based biofuel, posing further challenges to the implementation of the Government's proposed B5 biodiesel scheme. ▪ In tandem with strong CPO prices, plantation companies are envisaged to enjoy healthier bottom lines.
Oil & gas support services	Stable	▪ Domestic upstream O&G activities will be buffered by Petronas' ongoing investments. The national oil giant's domestic caital expenditure increased 27% y-o-y in 1H FY Mar 2010, in contrast to a 30% global decline. ▪ Oil prices are expected to hover around USD70-USD90 per barrel; potential upside will be capped by spare OPEC capacity. Meanwhile, prices are unlikely to decline substantially as the global economic recovery gains traction. Furthermore, the greenback is expected to remain weak, preventing a further slide in oil prices. ▪ Daily charter rates for offshore support vessels stayed relatively stable at around USD1.80-USD1.90 per bhp. ▪ Domestic upstream spending will remain supported by Petronas' ongoing reserve replacement and enhanced oil-recovery initiatives; hence the stable outlook for this sector. However, brighter prospects are seen for marine support services and brownfield services.

Table 1: Summary of sectoral perspectives (continued)

Sector	Outlook	Key Points
Shipping	Negative	▪ The operating environment is expected to remain challenging in 2010, with the sector experiencing surplus shipping capacity. ▪ Anemic demand growth and the influx of new capacity will constrain freight rates. ▪ Container trade will remain difficult as demand for finished goods is envisaged to stay weak. ▪ Nonetheless, dry-bulk shipping and regional tanker operators are anticipated to perform slightly better, supported by demand for commodities amid the recovery of
Telecommunications	Stable	▪ Industry resilient against economic downturns. ▪ Mobile segment remains dominated by 3 major incumbents. ▪ Broadband segment remains highly competitive as more players join the fray. ▪ Broadband to spur industry growth amid low penetration rates and more technological innovations.
Power	Stable	▪ Electricity tariff review in the limelight; viewed likely to be in tandem with price revision for natural gas. ▪ PPA renegotiations still on, albeit quiet of late. ▪ Imperative to attract more big-load customers to absorb additional hydro-powered capacity in Sarawak, or end up with an over-supply of generation capacity.
Tolled Roads	Stable	▪ Ten highways due for toll-rate reviews in 2010; form of compensation yet to be determined. ▪ Industry awaits sector-wide toll-rate restructuring; new framework will have to strike a balance between the impact of tariff hikes on the broader economy and reducing subsidies in the form of compensation to trim the country's fiscal deficit. ▪ However, the sanctity of existing concessions is likely to be preserved, with a view to equitable treatment of all stakeholders, including bondholders.
Water	Developing	▪ Full consolidation of water assets expected to be a long-drawn-out affair. ▪ The Federal Government's support is vital should there be further delays in the restructuring of Selangor's water sector. ▪ Early bond redemption for some concessionaires if restructuring is completed; many should retain operational roles. ▪ Fates of debt-laden investment-holding companies depend on outcomes for their water-sector subsidiaries.

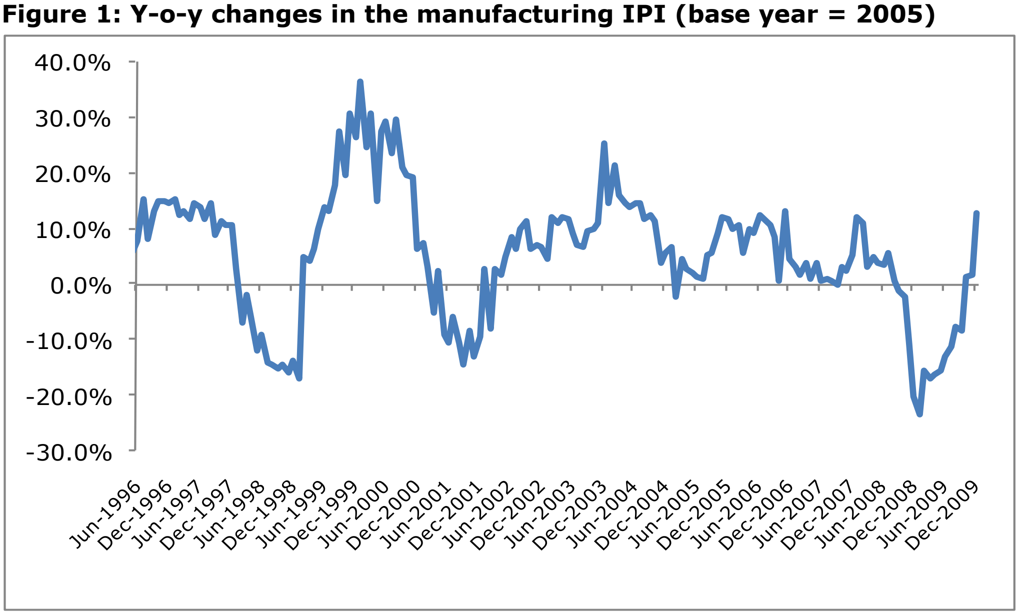
Manufacturing: Not completely out of the woods

➢ ***Overview***

Slowly recovering from trying times in 2009

Last year, RAM Ratings highlighted that a challenging operating environment for Malaysia's manufacturing sector would persist amid the global financial chaos. In retrospect, 2009 was indeed a trying year for the sector. Following the plunge in global consumption in the wake of the economic crisis in 2H 2008, domestic demand and the consumption patterns of Malaysia's major trading partners remained weak in 2009. This was evident from the monthly manufacturing industrial production index ("IPI"), which had been in negative territory on a year-on-year ("y-o-y") basis since September 2008. However, not all is doom and gloom for the manufacturing community as signs of recovery have begun to emerge. Global consumption has started picking up since 2H 2009, supported by improving demand, which is in turn partly driven by governments' stimulus spending across the globe and restocking activities after substantial inventory depletion in 2H 2008 and 1H 2009. The turnaround of the Malaysian manufacturing sector is illustrated in Chart 1, where the y-o-y changes in the manufacturing IPI trend upwards in 2H 2009. In fact, the monthly manufacturing IPI has been registering y-o-y growth since October 2009.

Figure 1: Y-o-y changes in the manufacturing IPI (base year = 2005)



Source: Department of Statistics Malaysia

Worst slump in over a decade

The downturn from mid-2008 to mid-2009 is perhaps the worst the manufacturing sector has suffered in over a decade, compared to previous economic slowdowns in 1997/98 and 2000/01. Being largely export-oriented, local manufacturers had been hit hard by the collapse of external demand amid the recent slump. In contrast, external demand from developed countries had remained intact during the 1997/98 Asian financial crisis, with exports further supported by the much weaker ringgit. Similarly, the effects of the 2000/01 dot-com bust were less harsh due to firmer external demand from developed countries.

Manufacturers exposed to cyclical industries profoundly affected

Manufacturers exposed to cyclical industries have been the hardest hit, including those in the electrical and electronics ("E&E"), automotive, construction and housing sectors. The E&E industry – the largest within the manufacturing sector (contributing 50% - 60% of Malaysia's exports of manufactured goods) – experienced a 21.7% y-o-y decline in production for the first 9 months of 2009[7]. Meanwhile, producers of building materials such as flat steel, wood products and tiles had also faced shrinking orders and sluggish inventory movements amid subdued construction and housing activity. The automotive sector had also taken a beating, with total industry volume estimated to have dropped by around 9% in 2009 along with weak consumer sentiments[8]. As global consumption dwindled, manufacturers had employed strategies to manage inventory levels and rein in costs, including reducing operating hours, temporarily shutting down plants and laying off employees. Capital-expansion plans had also been put on hold as most manufacturers dealt with overcapacity issues. In the first 9 months of 2009, employment in the manufacturing industry shrank 8.6% while approved investments for the sector plummeted 48%, from RM62.8 billion in 2008 to RM32.6 billion in 2009[9].

Slimmer margins despite generally lower input costs

Overall, manufacturers enjoyed lower energy, transportation and input costs in 2009, following the collapse of commodity prices in mid-2008 and reductions in natural-gas and electricity tariffs. However, most of them suffered narrower margins as the demand contraction had exerted pressure on selling prices, particularly for those facing stiff competition. Meanwhile, steel manufacturers such as Prestar Resources Berhad continued to face inventory write-downs in 1Q 2009, albeit not to the extent of those in late 2008.

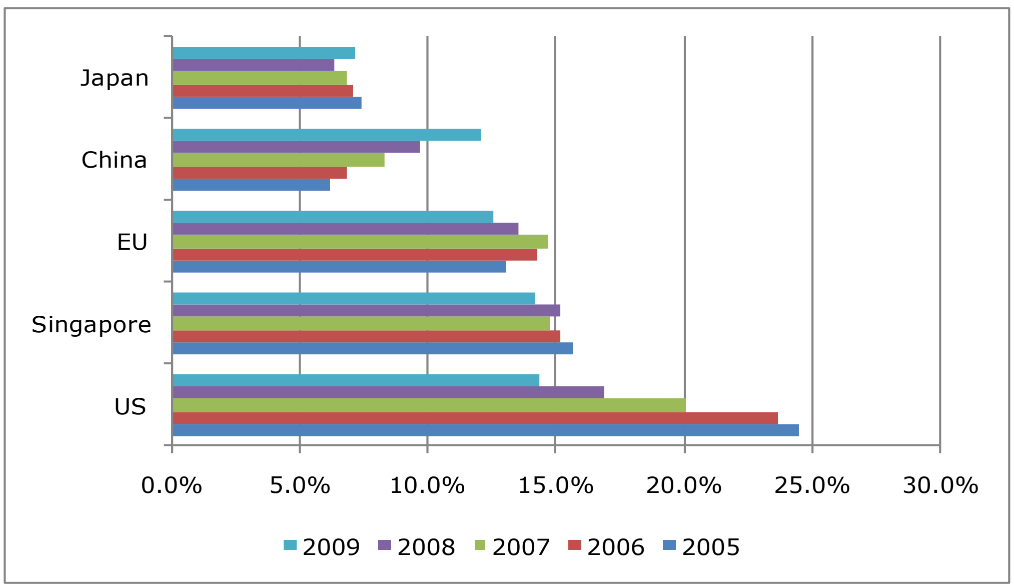
[7] Source: Department of Statistics Malaysia
[8] Source: Malaysian Automotive Association
[9] Source: Department of Statistics Malaysia; Malaysian Industrial Development Authority

➢ ***Outlook***

Rising external demand led by emerging Asian economies

Malaysia's major export markets – the US, Singapore, the European Union ("EU"), China and Japan, which collectively account for around 60% of our total exports – have been adversely affected by the global slump. In 2009, exports of manufactured goods from Malaysia declined 16.6% y-o-y[10]. Nonetheless, global consumption has been rising progressively since 2H 2009 amid improving market conditions, with the rebound led by emerging economies such as China and India. Although the US remains Malaysia's largest export market, we note a gradual shift in exports to China over the years. Meanwhile, the recent full implementation of AFTA and the ASEAN-China FTA (effective 1 January 2010) provides Malaysia with opportunities in respect of exports to South-East Asian countries and China. That said, it is vital that local manufacturers start moving up the value chain and differentiating themselves from their competitors, as it becomes increasingly more difficult to compete against the likes of Vietnam and China in terms of production costs.

Figure2: Percentage contributions to Malaysia's total exports



Source: Department of Statistics Malaysia

Commodity prices expected to be less volatile

In line with improving economic sentiments, prices of major commodities such as crude oil, steel, copper and natural latex have crept up again. From about USD40/barrel in January 2009, the price of crude oil had risen steadily to about USD80 by January 2010. Coupled with the recent increase in the price of sugar, the proposed withdrawal of subsidies for fuel and flour as well as an expected hike

[10] Source: Department of Statistics Malaysia

in gas tariffs this year, inflationary pressures may pose obstacles for Malaysian manufacturers vis-a-vis managing their cost structures. While some may be able to pass on the heftier costs with some time lag, others may have to absorb the additional expenses. Nonetheless, we do not expect sharp fluctuations in commodity prices given the gradual economic recovery.

Depreciating greenback dilutes exporters' profits

From its peak of RM3.73 per US dollar ("USD") in March 2009, the exchange rate for the greenback vis-à-vis the ringgit had fallen to a low of 3.43 by February 2010. As most export-oriented manufacturers quote their selling prices in USD while their production costs are mostly ringgit-denominated, they have had to contend with slimmer profit margins. However, others are fortunate enough to have some natural hedging as they procure a portion of their raw materials in USD to cushion their dollar-denominated sales. Moving forward, the RM/USD exchange rate may remain unfavourable to export-oriented manufacturers, as it is expected to hover around 3.20 to in 2010[11].

Modest recovery ahead for manufacturers

In summary, we expect the Malaysian manufacturing sector to perform better in 2010, supported by the gradual recovery of the global economy and continued exports to Asia and other emerging markets. In particular, the E&E sector appears to have experienced a strong rebound, led by the semiconductor segment, where sales rose 13.6% y-o-y in 2009 on the back of a stronger second-half performance. That said, the manufacturing sector is not completely out of the woods yet. Being export-oriented, its performance is still heavily dependent on the well-being of its major export markets. In this context, any pick-up in exports to the US - Malaysia's largest trading partner - is envisaged to be sluggish as the world's largest economy remains plagued by high unemployment and a still-weak financial system. Coupled with possible inflationary pressures and a weakening greenback, we expect the pace of recovery for the manufacturing sector to be modest at best. We have therefore maintained the negative outlook on this sector.

➢ ***Credit Trends***

Manufacturers to maintain prudent management strategies

Despite having adopted cautious measures such as the deferment of capital investments, cost-saving initiatives and working-capital management to preserve cash and control costs, some manufacturing companies still suffered deterioration in their credit quality last year. We have observed that smaller players, in particular, faced liquidity pressures due to slower collection of receivables and more difficult access to funding sources amid the gloomy economic climate. This year, manufacturers are expected to demonstrate gradual improvement in their performances amid the more conducive operating environment. Nevertheless, management strategies are expected to remain relatively prudent given the subdued pace of recovery and potential increases in input costs.

[11] Source: RAM Economics Research

Manufacturers of non-discretionary products enjoy stable demand

While most manufacturers are exposed to economic cyclicality, some are less vulnerable. The latter include those dealing with daily consumables and medical-related products that are largely non-discretionary purchases. For example, despite Rubberex Corporation (M) Berhad's ("Rubberex") heavy reliance on the European and American markets for sales and decelerating orders for its household and industrial gloves, the company enjoys steady demand for its disposable vinyl gloves – a necessity in the healthcare, food and beverage ("F&B"), and agricultural sectors. Likewise, the performances of F&B producers such as Fraser & Neave Holdings Berhad[12] are relatively stable due to their array of essential F&B items. These companies had been able to demonstrate their resilience during the downturn last year, and are expected to continue enjoying steady demand for their products.

Strong positioning and business diversification provide some buffer

On another note, companies such as British American Tobacco (Malaysia) Berhad, which are characterised by entrenched market positions, healthy balance sheets and robust cash-generating abilities, are better equipped to weather economic shocks. Elsewhere, entities such as Hong Leong Industries Berhad ("HLI") and Chemical Company of Malaysia Berhad ("CCM") benefit from business diversification and strong market positions. HLI's motorcycles division has helped moderate the poorer showing of its semiconductor and building-materials divisions. Meanwhile, CCM's pharmaceuticals division has helped cushion the weaker performance of its fertilisers and chemicals divisions to some extent; without this segment, there would have been greater downward pressure on its ratings.

Gradual uptick in capital spending

Moving on, RAM Ratings anticipates manufacturers' excess capacity to be absorbed by more robust orders this year while investments in capacity expansion and new technology should pick up. Apart from reopening manufacturing facilities that had temporarily ceased operations during the downturn, they are also expected to rejuvenate earlier expansion plans that had been put on hold. In this regard, CCM is expected to resume its expansion programme after the deferral of the completion date for its new fertiliser plant in Lahad Datu, Sabah, while HLI is investing in new lines that will enable it to carry out more value-added test services and to manufacture higher-density products. Elsewhere, we note that more manufacturers are expanding into emerging countries to take advantage of cheaper resources. For example, Rubberex is expanding its vinyl-glove facility in China due to cheaper labour and accessibility to resin, its main raw material. That said, manufacturers are still expected to remain fairly cautious in their investment decisions amid the subdued pace of recovery.

[12] F&N Capital Sdn Bhd, a treasury company wholly owned by Fraser & Neave Holdings Berhad, is the issuer of the latter's debt instrument.

Table 2: Key rating factors for manufacturers rated by RAM Ratings

Issuer	Sector	Issue rating(s)	Rating outlook	Key rating factors
Amat Suria Sdn Bhd	Calcium carbide and other lime-based products	P2	n/a	+ Dominant position in domestic calcium-carbide market. + Ownership of limestone quarry ensures stable supply, quality and cost. – Weak capital structure and liquidity position. – Cyclical industries. – Foreign-exchange risk.
British American Tobacco (Malaysia) Berhad	Cigarettes, pipe tobacco and cigars	AAA/P1	Stable	+ Leader in local tobacco-manufacturing industry. + Strong brand equity, particularly in premium segment. + Impressive cashflow-protection metrics. + Extensive distribution network. – Declining industry sales volume. – Tightening regulations.
Chemical Company of Malaysia Berhad	Pharmaceutical, fertilisers and industrial chemicals	AA_3/P1	Negative	+ Entrenched market position in core businesses. + Well-diversified business profile. + Strong financial flexibility from its indirect major shareholder, Permodalan Nasional Berhad ("PNB"). – Cyclical industries. – Volatile raw-material costs such as ammonia, potash and caustic soda. *The negative outlook reflects its weakened credit profile due to heightened debt obligations and a weaker financial performance amid the economic downturn.*
Esso Malaysia Berhad	Refined petroleum products	P1	n/a	+ Strong financial flexibility from Exxon Mobil Corporation. + Established operating track record and strong brand recognition in domestic market. + Fixed profits from automatic-pricing-mechanism-regulated products. – Volatility in prices of crude oil and refined products. – Hefty capital-expenditure requirements. – Thin operating margins due to limited refining capabilities.

Please refer to Appendix 1 for issue details.

Table 2: Key rating factors for manufacturers rated by RAM Ratings (continued)

Issuer	Sector	Issue rating(s)	Rating outlook	Key rating factors
FEC Cables (M) Sdn Bhd	Power and telecommunication cables	AA_2(s)/ P1(s)	Stable	+ Derives financial flexibility from its majority shareholder, PNB. – Weak balance sheet and debt-protection measures. – Cable industry is cyclical. – Volatility in prices of raw materials, mainly copper, aluminium, polyvinyl chloride ("PVC"), polyethylene and steel wires. *The ratings (and outlook) reflect the strongly worded Letter of Support from PNB.*
F&N Capital Sdn Bhd	Soft drinks, dairy products and glass containers	AA_1(s)/ P1(s)	Stable	+ Leader in several beverage sub-segments. + Diversified products and business operations. + Strong balance sheet and debt-protection measures. + Stable demand for its products. – Changed business landscape after the expiry of its licence to manufacture and distribute products under The Coca-Cola Company. – Volatility in prices of raw-materials and packaging, such as milk solids, palm oil, sugar and aluminium. – Licence-renewal risk of non-F&N-owned brands.
Hong Leong Industries Berhad	Semiconductor, building material and motorcycles	AA_3/P1	Stable	+ Leading positions in its diversified businesses – one of the largest independent semiconductor assemblers and test servicers in Malaysia, with significant market shares in building materials and motorcycles. + Strong balance sheet and debt-protection measures. + Substantial financial flexibility. – Operates in a cyclical industry. – Exposed to fluctuations in raw-material costs and foreign–exchange rates.
Malaysian Sheet Glass Sdn Bhd	Float and figure glass	AAA(bg)/ P1(bg)	Stable	+ Sole manufacturer of float and figured glass in Malaysia. + Synergistic benefits as wholly owned subsidiary of Nippon Sheet Glass Co Ltd. – Dependant on a limited supplier base. – Sizeable recurring capital expenditure. – Relies on cyclical property and automotive industries. *The ratings (and outlook) reflect the credit strength of the consortium of guarantor banks behind the debt issue.*

Please refer to Appendix 1 for issue details.

Table 2: Key rating factors for manufacturers rated by RAM Ratings (continued)

Issuer	Sector	Issue rating(s)	Rating outlook	Key rating factors
Pharmaniaga Berhad	Generic drugs, pharmaceutical and medical products	AA_2(s)/P1	Stable	+ Exclusive rights to the purchase, storage and distribution of certain pharmaceutical and medical products to government hospitals, via a Concession Agreement ("CA") with the Government of Malaysia. + Robust debt-protection measures and strong capital structure. + Resilient pharmaceutical industry. – Renewal risk vis-a-vis the CA. – Regional expansion plans still unclear.
Prestar Resources Berhad	Flat steel products	P2	n/a	+ Major downstream steel player with lengthy track record. + Diversified product spectrum. – Exposed to volatile steel prices. – Heavy working-capital requirements. – Vulnerable to interest-rate risk.
Rubberex Corporation (M) Berhad	Industrial, general-purpose and vinyl gloves	A_3	Positive	+ Diversified product range, with vinyl disposable gloves as its main earnings contributor. + Healthy financial profile. + Relatively resilient demand for disposable vinyl gloves. – Intense competition in core products. – Volatility in prices of raw-materials such as PVC and latex. – Foreign-exchange risk. – Loss-making industrial-supported gloves and condom businesses. *The positive outlook reflects RAM Ratings' expectation that the improvement in Rubberex's profitability and debt-servicing ability will be sustained, underscored by contributions from its enlarged capacity for disposable vinyl gloves, coming on-stream in 2010.*
Silver Bird Group Berhad	Bakery products	A_2/P2	Negative	+ Limited competition in Malaysian premium-bread market. + Resilient demand for staple food items. + Extensive distribution network. – Market share has declined over the last 3 years. – Volatility in prices of raw-materials, especially wheat flour. – Lower-than-expected profitability. *The negative outlook reflects the slower-than-expected improvement in its debt-protection measures and the lack of formal confirmation on the award of potential major contracts.*

Please refer to Appendix 1 for issue details.

Table 2: Key rating factors for manufacturers rated by RAM Ratings (continued)

Issuer	Sector	Issue rating(s)	Rating outlook	Key rating factors
Tan Chong Motor Holdings Berhad	Assembly, sale and distribution of passenger and commercial vehicles	AA_2/P1	Stable	+ Strong operating track record, one of the top non-national automotive players. + Robust cash protection measures. + Strong balance sheet and liquidity profile. - Vulnerable to economic cycles and regulatory policies. - Foreign-exchange risk.
Texchem Resources Berhad	Industrial products and chemicals, plastic packaging, household insecticides, frozen marine products and fishmeal	A_3/P2	Negative	+ Strong business fundamentals, with significant presence in each segment. + Business and geographical diversity – the more consumer-oriented family-care and food divisions had helped support it during the recent downturn. + Adequate cashflow protection metrics. – Balance sheet is relatively highly geared. – Exposed to fluctuations in input costs and foreign-exchange rates. *The negative outlook reflects the possibility of weaker profitability, particularly for its industrial and packaging divisions.*

Please refer to Appendix 1 for issue details.

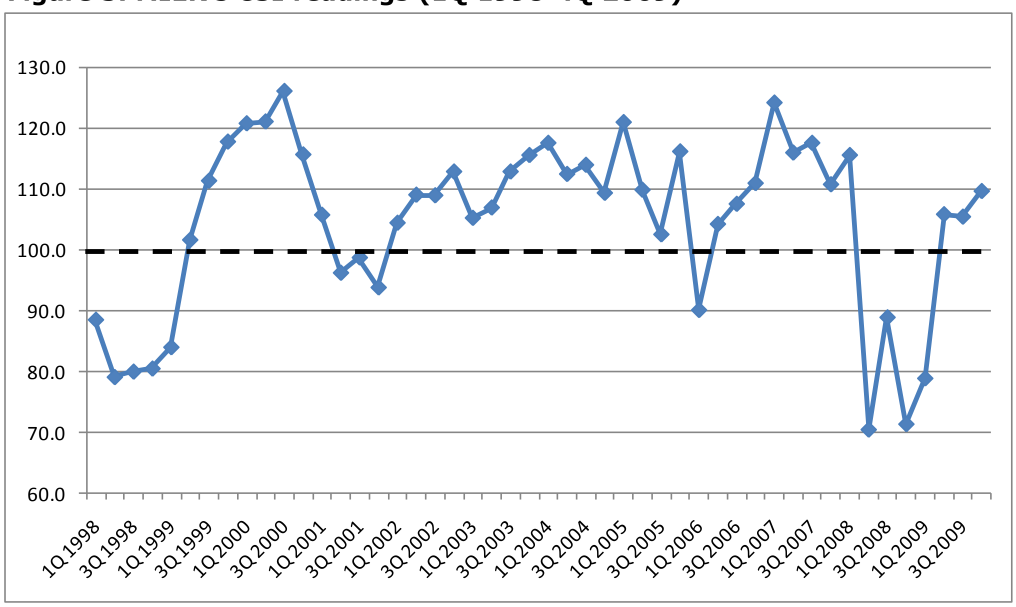
Retail: Gaining momentum but not all on spending spree

➢ ***Overview***

Retail sales held up better than expected in 2009

Retail sales are estimated to have recorded marginal growth in 2009 (2008: +5%[13]). Although unbridled lust for luxury goods was notably absent last year, promotional campaigns by retailers appear to have enticed bargain hunters into parting with their money. The overall situation had been better than expected; the retreat from discretionary and big-ticket items in favour of daily basic necessities had seemed less pronounced. In fact, signs of optimism emerged as early as 2Q 2009, when the Malaysian Institute of Economic Research's ("MIER") Consumer Sentiment Index ("CSI")[14] bounced back above 100 points. The more upbeat mood had been brought about by better-than-expected labour-market conditions. The CSI had earlier languished below the crucial 100-point mark for 4 consecutive quarters; notably, it had sunk even lower than the levels seen during the 1997/98 Asian financial crisis. During that period, retail sales had slumped an estimated 20% in 1998[15].

Figure 3: MIER's CSI readings (1Q 1998-4Q 2009)



Source: MIER

[13] Retail Group Malaysia
[14] The 100-point mark is generally regarded as the border line between consumer optimism and pessimism. The MIER's CSI reading in 4Q 2009 stood at 109.6 points.
[15] Malaysia Country Report, July 2001, adopted from www.mra.com.my.

Retailers had to deal with thrift mentality

As highlighted in last year's CreditPulse, the general shift in spending behaviour towards value-for-money goods had favoured some retailers more than others. In particular, hypermarkets and supermarkets had been the least affected by the leaner times. Many hypermarkets had in fact enthusiastically introduced cheaper products and house brands, ranging from groceries to household wares and apparel. Nonetheless, similar efforts to market "chic for cheap" items had been less beneficial to the performance of other retailers with smaller sales volumes. RAM Ratings observes margin squeezes for some of these players as they strove to sustain and increase their market shares through price-slashing initiatives and aggressive promotional campaigns. Moving forward, we expect retailers' profits to remain subdued as they continue catering to cautious consumers.

- ***Outlook***

Uncertainties vis-à-vis inflation and price structures

Such circumspect behaviour seems warranted. While the leading indicators such as the CSI point towards further growth for the retail sector, sales may again diminish once inflation sets in. On this note, RAM Ratings expects interest rates to gradually rise this year to curb inflation, which would in turn dampen retail spending. As it is, certain food and fuel subsidies are already being gradually phased out. Meanwhile, the introduction of the GST is being widely debated. Subject to the timing and implementation of the subsidy removals and the GST, there could well be a spike in prices that would ultimately crimp retail spending. RAM Ratings opines that in such a scenario, there would need to be an adjustment period before retail spending reaches a new "normal" level. Having said that, the retail scene is anticipated to be better this year than in 2009; sales are expected to increase 5% y-o-y to RM76.1 billion in 2010, supported by the anticipated recovery of the domestic economy[16].

Retail sales held up better than expected for 2 hypermarkets revisiting expansion plans

Another sign of recovery is that retailers, particularly hypermarkets, are now more committed to expanding their outlets. While they are again ready to strengthen their market presence, the Government is mulling new rules to govern foreign players. Retailers such as Tesco, Giant and Carrefour, which have been expanding aggressively in the last 5 years, are eagerly awaiting the revised guidelines as new store licenses for foreign players were frozen in 2009. Meanwhile, local hypermarket operators will not have to adhere to the restrictions imposed on their foreign counterparts. Despite the regulatory issues, the foreign hypermarket operators have announced their intentions of increasing their store counts. This includes 4 Carrefour hypermarkets slated for opening in 2010, and 6 new stores for Tesco by February 2011.

[16] Retail Group Malaysia

➢ *Credit Trends*

Credit profiles generally firm

Most of the retailers within RAM Ratings' portfolio have been coping relatively well – their credit ratings were reaffirmed in our 2009 annual reviews. The rating actions reflect their strong market positions and resilient financial profiles despite the non-conducive business conditions. For example, Poh Kong Holdings Berhad ("Poh Kong"), which operates the largest jewellery chain store in Malaysia, had managed to improve its performance and financial metrics in spite of the challenging landscape. Meanwhile, DFZ Capital Berhad's duty-free business is stable as it mostly sells alcohol and tobacco products (which are relatively price inelastic). On the other hand, Royal Selangor International Sdn Bhd's ("Royal Selangor") performance had been badly affected by more cautious consumer and corporate spending on pewter giftware in both the domestic and export markets. Although Royal Selangor has charted some progress in its recent performance, RAM Ratings remains concerned about the sustainability of the company's performance and timely collection of debts from its related corporations; we have thus maintained the negative outlook on its long-term rating.

Table 3: Key rating factors for retailers rated by RAM Ratings

Issuer	Sector	Issue rating(s)	Rating outlook	Key rating factors
DFZ Capital Berhad	Duty-free retail	A_2/P2	Stable	+ Leading position in local duty-free market. + Dominates border-town duty-free operations. + Firm foothold in tightly regulated sector limits competition. + Strong cashflow-generating ability. - Constrained by less robust credit profile of ultimate parent. - Exposed to regulatory and licence-renewal risks. - Vulnerable to factors driving tourism industry.
Poh Kong Holdings Berhad	Jewellery	A_2/P1	Positive	+ Established reputation and strong market position. + Healthy debt-protection measures. + Stronger balance sheet. + Gold inventory boosts liquidity. - Exposed to volatile commodity (gold) prices. - Hefty working-capital needs. - Competitive and trend-driven industry. *The positive outlook is premised on the improvements in Poh Kong's debt-protection measures and balance sheet over the last 3 years, along with the expectation that these will stay commendable.*

Please refer to Appendix 1 for issue details.

Table 3: Key rating factors for retailers rated by RAM Ratings (Continued)

Issuer	Sector	Issue rating(s)	Rating outlook	Key rating factors
Royal Selangor International Sdn Bhd	Giftware	A_3	Negative	+ Well-established brand and high-quality merchandise. + Manageable balance sheet. - Performance and debt-protection measures affected by economic downturn in 2008/09. - Lengthy receivables cycle vis-à-vis related companies. - Competitive and fragmented industry; demand susceptible to overall health and vibrancy of tourism industry.

Please refer to Appendix 1 for issue details.

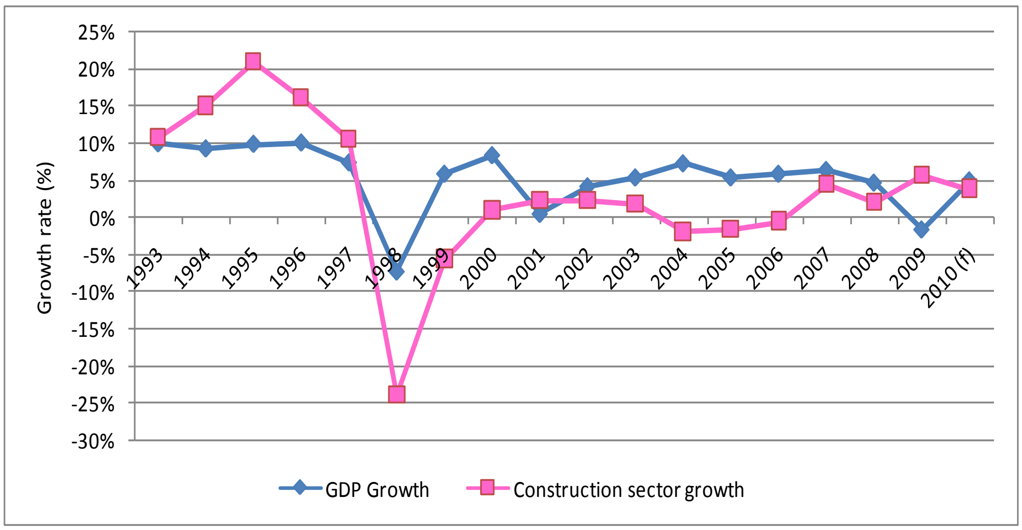
Construction: Public and private sector spending to spur growth

➢ ***Overview***

Stimulus packages and 9MP spurred construction activities in 2009

The construction sector achieved respectable growth in 2009, underpinned by the Government's pump-priming efforts to boost economic activity. The industry expanded 5.7% last year, against 2.1% in 2008. Contrary to our earlier expectation of a 0.5%[17] contraction in 2009 – premised on the effects of the decelerating domestic economy, the fiscal injections to date have brought about a significant turnaround for the construction industry. Construction has been one of the biggest beneficiaries among the various sectors that have received infusions from both stimulus packages (valued at RM67 billion in aggregate), chiefly due to the positive multiplier effect. The sector has also been supported by increased spending momentum as the Ninth Malaysia Plan ("9MP") draws to a close this year.

Figure 4: GDP and construction sector growth



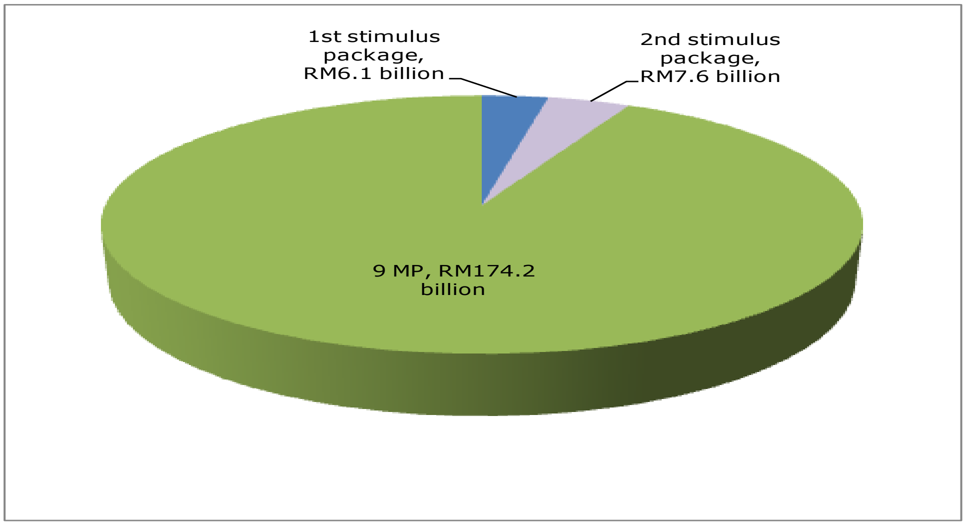
Source: Bank Negara Malaysia and RAM Economics

Main beneficiaries: small to medium-sized contractors

As at end-September 2009, a total of 84,729 projects worth RM13.7 billion had been awarded, comprising 53,571 jobs valued at RM6.1 billion under the first stimulus package and the remainder under the second one. The projects rolled out thus far have comprised smaller-scale jobs such as the upgrading of buildings and rural roads – generally benefiting small to medium-sized contractors. The ongoing launch of projects under both stimulus packages should provide opportunities to more players vis-à-vis replenishing their order books.

[17] RAM Economics

Figure 5: Funds utilisation under stimulus packages and 9MP as at end-September 2009



Source: Treasury Malaysia, Ministry of Finance

➢ ***Outlook***

Job opportunities unspent allocations under 9MP

As 2010 marks the last year of the 9MP (2006-2010), project implementation could be expedited; as of October 2009, only an estimated RM174.2 billion or 75.7% of the RM230 billion allocation had been utilised (end-November 2008: 47%). The 10MP (encompassing 2011–2015) is expected to be tabled to the Cabinet on 10 June this year. Under Budget 2010, more than RM9 billion of funds for the construction of various infrastructure projects will provide further leverage for this sector. As such, we expect the larger-scale projects (including the new RM2 billion low-cost carrier terminal, RM7 billion light-rail-transit extension works and RM7.7 billion Pahang-Selangor interstate water project) to gather momentum in the near term. While there has been recent news on the increased level of activity in the economic growth corridors, Iskandar Malaysia ("IM") and the Sarawak Corridor of Renewable Energy ("SCORE") remain the most active in terms of investments received and speed of implementation. IM has attracted RM55.6 billion of investments up to December 2009 (with 37.1% of its projects having already commenced); of this, 60% represented foreign direct investments. Elsewhere, SCORE was the recipient of some RM84 billion of investments as of early January 2010.

Contra-flow - foreign players seeking presence here, local ones exploring overseas opportunities

Besides competition among local players, foreign parties will also be vying for construction jobs in Malaysia. While foreign participation from China, India and Japan may alleviate funding woes - hence hastening the pace of implementation and also bringing in technical expertise that may be required for the projects - the bulk of the contracts (in terms of value) has been awarded to foreign players. The Second Penang Bridge, the Seremban-Gemas double-tracking project, and the Pahang-Selangor Interstate Water Project have set the precedence in this regard. Local players will, however, still be able to benefit from the sub-contracted work. Meanwhile, larger local construction companies with a proven foreign presence are also envisaged to continue bidding for overseas jobs, notably in the Middle East and India, where there are still opportunities. Job flows in the Middle East should resume after the slowdown in 2009 amid the Dubai crisis. We note that while having a presence abroad provides geographical diversity, such ventures also entail heightened operating and political risks due to their unfamiliar operating environments and foreign-exchange risks. Margins, meanwhile, are typically thinner than for local jobs.

More open tenders

Amid calls for transparency, construction jobs in Malaysia are now increasingly being awarded on an ”open tender” basis - as opposed to direct negotiations before, thus exerting pressure on margins. While cost-pushed pressures have eased as a result of lower fuel prices and cheaper building materials, contractors still face a tough operating environment given the fiercely competitive market. Experienced contractors with better-capitalised balance sheets and the ability to manage their costs efficiently are envisaged to be more resilient amid such a landscape, where job opportunities are still available.

Still-conducive input costs

Inflationary pressure on building materials eased in 2009; input prices are expected to remain relatively stable in 2010. While the liberalisation of the building-materials industry may result in a more competitive pricing environment, prices would still be supported by increased demand arising from the property market’s recovery and the award of projects under the Government’s various stimulus packages, 9MP and public-private initiatives.

Stable outlook on construction industry

With signs of a pick-up in the property market and jobs stemming from government as well as joint public-private initiatives in 2010, we envisage a stable outlook for the construction sector; the industry is expected to post a respectable 3.9%[18] growth this year. In the meantime, the construction industry in East Malaysia is also envisaged to gain prominence given the focus on building roads and infrastructure facilities in the rural areas, to improve accessibility and boost economic prospects. In spite of this, prompt implementation and speedy disbursement remain crucial to the sector’s health.

[18] RAM Economics

➢ ***Credit trends***

Pick-up in property market and continued roll-out of projects to support construction players' business and financial profiles

Despite the challenging operating environment, the credit quality of construction players in RAM Ratings' universe remained stable, supported by a combination of factors that include strong balance sheets, healthy order books and diversified business portfolios. This year should see similar credit trends for these construction players, underpinned by the continued fiscal and private-sector support that allows local construction and building-material companies to replenish their order books and sustain their revenue. While major beneficiaries would still be small to mid-sized players and those with an established presence in a particular niche or state, bigger companies may also benefit from the roll-out of larger projects as well as by venturing overseas. Nonetheless, margins will remain challenged by keen competition from both local and foreign players, regardless of whether the jobs are in their own backyards or on foreign soil.

Table 4: Key rating factors for construction related companies rated by RAM Ratings

Issuer	Sector	Issue rating(s)	Rating outlook	Key rating factors
Cahya Mata Sarawak Berhad	Cement, construction, construction materials	A_2	Stable	+ Integrated cement business, derives benefits of monopoly in Sarawak. + Favourable prospects for Sarawak's construction sector to have positive spill-over effects on group's businesses + Healthy balance sheet. – Dwindling construction order book amid slow replenishment. – Geographical-concentration risk (Sarawak). – Susceptible to economic cyclicality.
Gamuda Berhad	Construction, infrastructure concessions, property development	AA_3/P1	Stable	+ Established reputation, backed by strong operating track record. + Healthy outstanding order book of over RM6 billion to sustain the Group over medium term. + Diversified business profile. + Stable dividends from mature concession assets. – Foreign ventures entail added risks and uncertainties. – Higher gearing going forward, mainly due to large exposure in Vietnam. – Susceptible to economic cyclicality. – Regulatory risk.
Lafarge Malayan Cement Berhad	Production of cement, ready-mixed concrete and aggregates	AA_2/P1	Stable	+ Consistently improving financial performance. + Malaysia's largest integrated cement manufacturer, with access to international markets. + Sturdy balance sheet, very strong debt coverage. – Susceptible to economic cyclicality. – Recurrence of price war; moderated risk.

Please refer to Appendix 1 for issue details.

Table 4: Key rating factors for construction related companies rated by RAM Ratings (continued)

Issuer	Sector	Issue rating(s)	Rating outlook	Key rating factors
Muhibbah Engineering Berhad*	Construction, infrastructure concessions, oil and gas	A_1	Stable	+ Established and reputable contractor with international presence. + Earnings and geographical diversity. + Order book of more than RM3 billion to sustain the group for over 3 years. – Stretched balance sheet. – Susceptible to economic cyclicality. – Vulnerable to foreign-exchange fluctuations.
Naim Holdings Berhad	Construction, property development	AA_3/P1	Stable	+ Favourable market position in Sarawak's construction industry. + One of Sarawak's largest property developers and private landowners. + Fairly strong balance sheet. – Susceptible to economic cyclicality. – Geographical-concentration risk. – Potential expansion plans outside of Sarawak and Malaysia entail heightened operating, political and foreign-currency risks.

Please refer to Appendix 1 for issue details.

** Muhibbah Engineering Berhad is in the process of making variations to the terms and structure of its proposed RM130 million Mudharabah Bonds. The A_1 rating of the proposed bonds may be changed, pending our review of the relevant documentation on these variations.*

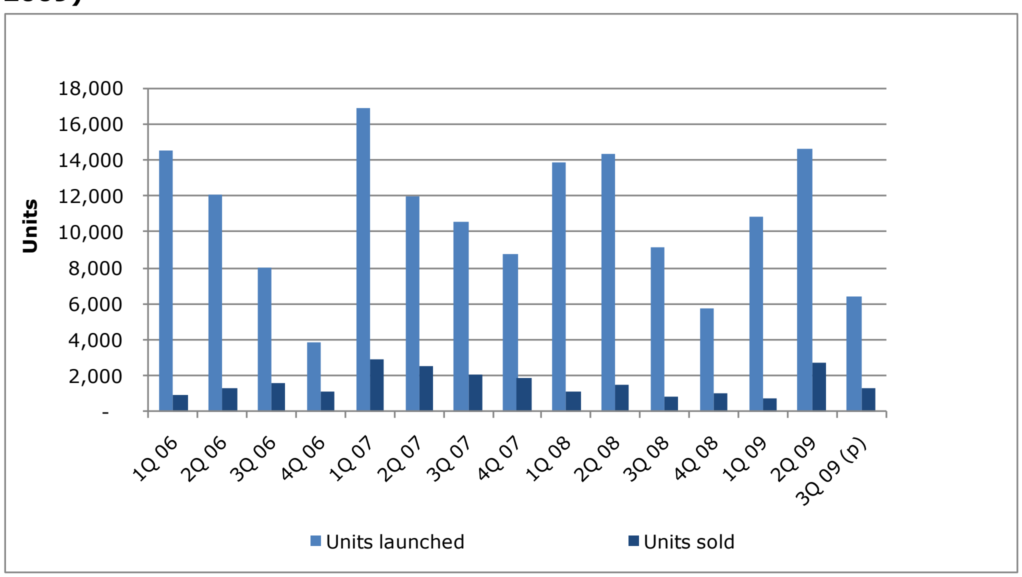
Residential Property: Poised for recovery

➢ ***Overview***

Property sector beset by generally subdued mood in 2009

As expected, the broad residential property sector was largely subdued in 2009; consumers and investors had stayed on the side lines, refraining from buying big-ticket items such as property. Expectations of a decelerating domestic economy and the possibility of retrenchments and lower disposable incomes had dampened buying interest, leading to a less active market. Discouraged by the weak sentiments, developers had been similarly cautious, deferring or scaling down new launches and focusing on clearing their inventories. The high-end property segment had also not been spared from the doom and gloom; new launches in areas like Kuala Lumpur city centre ("KLCC") and Mont Kiara had almost come to a halt. Amid this backdrop, the number of new residential units launched in the first 9 months of 2009 fell 15% y-o-y to 31,782 units.

Figure 6: New residential property launches in Malaysia (1Q 2006-3Q 2009)



Source: Valuation & Property Services Department
Note: The figures for 3Q 2009 are preliminary.

Attractive financing packages and incentives kept sales afloat

Nevertheless, financially stronger and more established developers had escaped the worst as they could afford to offer various incentives and attractive financing packages (via tie-ups with financial institutions) to lure potential buyers. As expected, this theme prevailed for a good part of 2009, and boosted the sales of some of these developers. On another note, there was no significant correction in property prices in 2009 despite the subdued market, save for locations with more speculative buying interest such as KLCC and Mont Kiara. The overall Malaysian House Price Index still showed y-o-y growth in the first 2 quarters of 2009 (Q1: +0.8%; Q2: +0.4%).

Some signs of demand recovery towards later part of 2009

The broad residential property sector showed some signs of demand recovery in the later part of 2009, in tandem with the more upbeat market sentiments. Genuine buyers had been encouraged by attractive housing packages amid low interest rate; their decisions to commit had also been aided by steady news flows on the gradually improving domestic and global economies. On the other hand, the reinstatement of a 5% real property gains tax ("RPGT") on profits gleaned from the disposal of assets through Budget 2010 (announced on 23 October 2009) threw an unexpected curveball at the sector. Nonetheless, the effect was cushioned somewhat by the Government's subsequent announcement on 23 December 2009 that the RPGT would only be imposed on properties sold within 5 years of being purchased.

➢ ***Outlook***

Recovery seen to be sustainable

Going forward, we expect the recovery of the local residential property sector to be sustainable. While the upward revision of mortgage rates by most financial institutions and the reinstatement of the RPGT are likely to influence demand, we still expect a slight pick-up in 2010. This is underpinned by expectations of domestic economic growth, pent-up demand and still-conducive interest rates. In addition, expectations of a rate hike this year may encourage buyers to commit earlier. To add to this, the high percentage of young people in the nation's population (with 58% below the age of 30[19]) and low unemployment rates (which ranged between 3.2% and 4.0% in 2006-3Q 2009[20]) will continue anchoring broad-based demand.

Keen competition amid buyers' market

In the meantime, developers are also envisaged to roll out their new offerings after having held back in the last 1-2 years. This is especially pertinent to those that stayed on the side lines last year while running down their unbilled sales. Under the circumstances, developers are expected to face tremendous competition in what is envisaged to be largely a buyers' market in 2010. While the planned supply in Malaysia already came up to 660,585 new units (or 15% of the existing stock) as at end-3Q 2009, we do not expect this to exert significant pressure on property prices, given the support from broad-based housing demand from the general population; in addition, housing demand is largely driven by fundamentals rather than for speculative-buying purposes. The size of the residential property overhang had also declined during the first 3 quarters of 2009; as at end-

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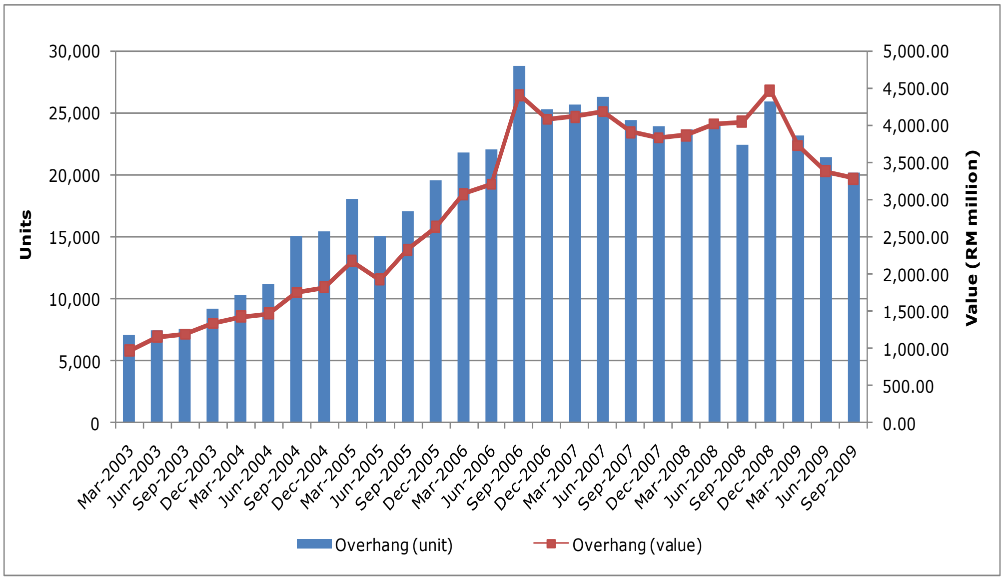
[19] CEIC Database
[20] Bank Negara Malaysia and the Department of Statistics

September 2009, this came up to 20,286 units (less than 1% of the existing stock in Malaysia), with a corresponding value of RM3.28 billion.

Figure 7: Residential property overhang



Source: CEIC Database

➢ ***Credit Trends***

Most developers' credit quality stayed intact in 2009; some improvement expected in 2010

We expect some improvement in developers' credit quality this year, on the back of our stable outlook on the residential property sector. Despite the tough operating environment, the credit quality of most developers within RAM Ratings' portfolio remained intact in 2009. These companies had benefited from healthy locked-in sales, strong balance sheets and recurring rental income from their investment properties. Some developers that had braved the storm and launched properties had also managed to elicit favourable demand, backed by a combination of factors such as their established names, prime locations and/or attractive housing packages. Going forward, the anticipated recovery of the property sector is expected to be felt across the various sub-segments, such as properties for the mass market and the upper-middle-income group, although high-end condominiums - especially in areas such as KLCC and Mont Kiara - will continue facing stiff competition given the large incoming supply. Developers' margins are also expected to show some y-o-y progress this year; margins in 2009 were crimped by slow sales, heftier marketing expenses, incentives (e.g. waivers on stamp duty and legal fees, and zero interest during construction) and freebies to entice buyers. While these incentives are likely to continue in the coming months, margin improvement is underpinned by expectations of more robust sales this year.

Table 5: Key rating factors for property companies rated by RAM Ratings

Issuer	Sector(s)	Issue rating(s)	Rating outlook	Key rating factors
Bandar Raya Developments Berhad	Property development, property investment and manufacture of particleboard	A_1/P1	Stable	+ Established reputation within the local property industry. + Favourable demand translated into healthy unbilled sales. + Stable recurring rental income from portfolio of investment properties. – Depleting prime land bank. – Its manufacturing arm still plagued by the challenging operating environment. – Susceptible to economic cyclicality.
BBN Development Sdn Bhd	Property development	AA_3(bg)/ P1(bg)	Stable	+ Healthy balance sheet. + Progressive developments in Putra Nilai. + Large land bank to sustain the company for another 10-15 years. + Several launches in pipeline to support cashflow. – Limited financial flexibility. – Single-project risk. – Susceptible to economic cyclicality.
Dar Al-Arkan Real Estate Development Company	Property development	AA_3/ P1*	Stable	+ Established reputation and strong market position within Saudi Arabia's property market. + Bright prospects of Saudi property sector. + Strong revenue growth, robust profitability. + Large tracts of land in prime suburban areas to sustain Dar Al-Arkan over the long term. – Geographical-concentration and inherent geopolitical risks given that its activities are entirely based in Saudi Arabia. – Hefty debt burden to fund its development projects, and lumpy debt-maturity profile. – Susceptible to economic cyclicality.
E & O Property (Penang) Sdn Bhd	Property development	AAA(bg)/ P1(bg)	Stable	+ Established name translates into healthy sales. + Future launches to elicit encouraging response. + Solid support from shareholder. – Competitive market in Penang. – Weak balance sheet. – Single-project risk. – Susceptible to economic cyclicality.

Please refer to Appendix 1 for issue details.
** Corporate Credit Ratings*

Table 5: Key rating factors for property companies rated by RAM Ratings (continued)

Issuer	Sector(s)	Issue rating(s)	Rating outlook	Key rating factors
LBS Bina Group Berhad	Property development	BBB_2(s)	Negative	+ Minimal land-holding costs via joint ventures. + Bond redemption covered by asset disposals. – Heightened liquidity pressure. – Increased debt burden to fund development projects – Additional risks vis-à-vis ventures in China. – Susceptible to economic cyclicality. *The negative outlook reflects the decline in the group's business and financial profiles. RAM Ratings is currently reviewing the company's credit rating and outlook.*
Pasdec Holdings Berhad	Property development, manufacturing and trading of building materials, and construction	AAA(s)	Stable	+ Established property player in Pahang, backed by more than a decade's presence in the business. + Large land bank to sustain Pasdec over the next decade. – Subdued property market in Pahang. – Any expansion in land bank will be at market rates. – Susceptible to economic cyclicality.
Perbadanan Kemajuan Negeri Selangor	Property development	A_1/P1	Stable	+ High degree of financial flexibility from pool of unencumbered assets. + Resilient balance sheet. + Planned projects in choice locations. – Striking a balance between commercial and social obligations could affect financial performance. – Susceptible to economic cyclicality.
South Malaysia Industries Berhad	Property development, manufacturing and trading	B_2	Negative	+ Diversification from manufacturing division. – Dependent on single major development to sustain its performance. – Bulk of land bank for future development located in less strategic areas. – Poor track record vis-à-vis its ventures in China. – Susceptible to economic cyclicality. *The negative outlook reflects the decline in its business and financial profiles given its minimal property launches and concentration on a single development project to sustain its performance.*

Please refer to Appendix 1 for issue details.

Table 5: Key rating factors for property companies rated by RAM Ratings (continued)

Issuer	Sector(s)	Issue rating(s)	Rating outlook	Key rating factors
SP Setia Berhad	Property development, construction and wood-based manufacturing	AA_3	Stable	+ Market leader with proven resilience against industry down cycles. + Geographical and product diversity. + Strategically located land bank to last another decade. + Substantial financial flexibility and healthy liquidity profile. – Foreign ventures in Vietnam and China entail uncertainties and added risks, given unfamiliar operating and regulatory environments. – Higher debt level over the next 2 years to fund development projects. – Susceptible to economic cyclicality.
Sunway City Berhad	Property development, property investment, leisure, hospitality and operation of a medical centre	Series 1 and 3: AAA(bg) Series 2 and 4: AA_2(bg) A_2/P2	Stable Stable Stable	+ Healthy unbilled sales aided by established name. + Investment properties generate recurring income. + Sizeable land bank mostly in strategic locations. + Financial performance supported by resilient rental income. – Heavy debt burden to fund ongoing and future developments. – Susceptible to economic cyclicality.

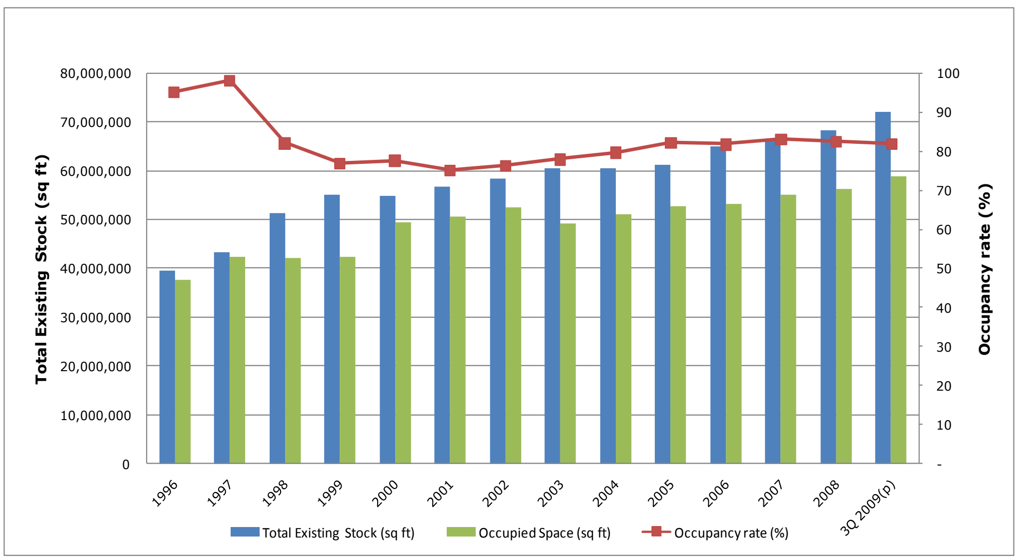
Please refer to Appendix 1 for issue details.

Commercial Property: Better prospects, moderated by increased supply

Occupancy and rental rates softened along with economic downturn

As anticipated, the economic downturn had had an adverse effect on the occupancy and rental rates of commercial properties. While the average occupancy rates ("AORs") of office buildings in Kuala Lumpur ("KL") only declined slightly to 81.9% as at end-3Q 2009 from 83.4% a year earlier, the AORs of offices in Selangor had fallen from 85.3% to 76.8% over the same period. The deceleration of the domestic economy had prompted the business community's cautious stance on expansion plans, compounded by the increased supply of office space in Selangor by 14% (KL: +5%). However, the dip in AORs is not overly severe, and certainly pales in comparison to the levels amid the Asian financial crisis in the late 1990s. The AOR for offices in KL tumbled from 98.1% in 1997 to 82.1% in 1998, largely due to an 18% increase in supply over the same period. Rental rates, meanwhile, softened in 2009 amid the challenging operating environment; those for offices in the Klang Valley reportedly slid 1% to 14%[21]. In addition, the economic slowdown had led to fewer *en bloc* office transactions, particularly in 1H 2009; there were also a couple of rescinded sales last year, because of pricing issues and non-payment of the remaining purchase consideration.

Figure 8: Supply, occupied space and occupancy rates of purpose-built offices in Kuala Lumpur (1996-3Q 2009)



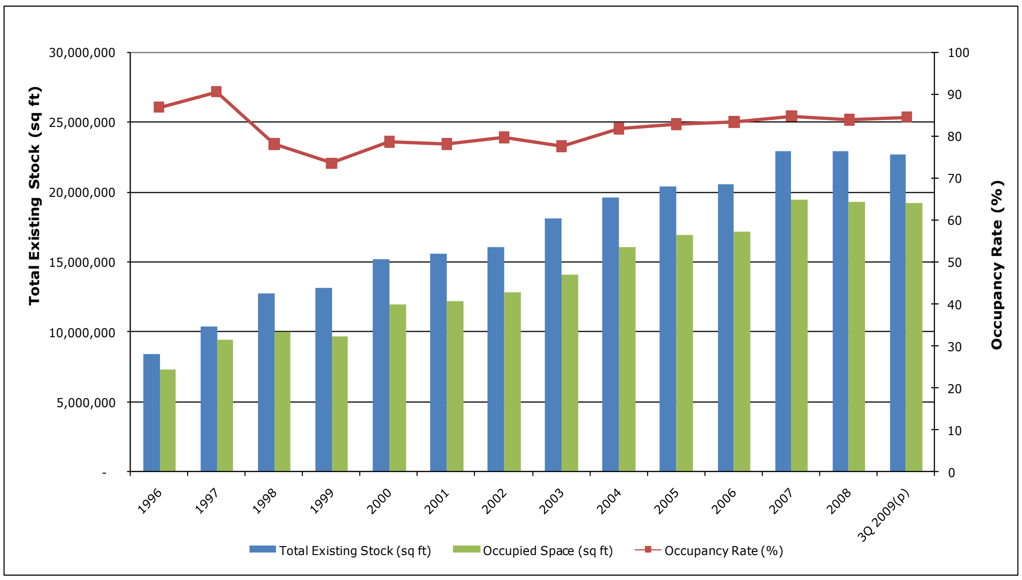
Source: Valuation & Property Services Department
Note: The figures for 3Q 2009 are preliminary.

[21] Knight Frank, Klang Valley Office Monitor 4Q 2009

Less severe impact on retail property

The impact on retail properties was, however, less severe; the AORs of shopping complexes in KL and Selangor only slipped to a respective 84.6% and 89.9% as at end-3Q 2009 (end-3Q 2008: 85.4% and 90.4%). This had been despite a 19% increase in retail space in Selangor (KL: -1%). Clearly, the effects of the global downturn and the A(H1N1) pandemic had not been as severe as expected. Notably, Malaysia still managed to attract some 23.65 million of tourists to its shores in 2009 – a 7.2% increase in spite of the widespread financial turbulence. Established malls also reportedly stayed resilient, posting more robust sales in 2009 vis-à-vis 2008.

Figure 9: Supply and occupancy rates of shopping complexes in Kuala Lumpur (1996 - 3Q 2009)



Source: Valuation & Property Services Department
Note: The figures for 3Q 2009 are preliminary.

➢ ***Outlook***

Economic recovery, ongoing liberalisation and more tourist arrivals to keep sector stable

RAM Ratings expects the commercial property sector to stay stable in 2010. The office segment will benefit from the anticipated recovery of the domestic and global economies, further supported by the ongoing liberalisation of the financial and real-estate sectors. The expansion of existing businesses and the entry of new foreign corporations will, in turn, create demand for office space. Nevertheless, we expect the upcoming supply in KL and Selangor over the next few years – estimated at 11.1 million square feet ("sq ft") as at end-3Q 2009 (or about 12% of the existing stock) – to exert pressure on rental rates and keep a check on any potential increase in rental rates. The owners of new buildings may also find it a challenge to fill up their buildings – if they have not already pre-let the space – amid the keenly competitive environment. In the meantime, the retail property sector is envisaged to ride on the wave of the better prospects for the Malaysian economy and also more tourist arrivals. All said, competition among retail malls – both existing and new – is expected to remain stiff given the influx of supply in KL and Selangor, which stood at 6.92 million sq ft as at end-3Q 2009 (or 14% of the existing stock); this will cap any prospective hike in rental rates. Some of the more established and popular venues have, however, demonstrated their resilience through down cycles, and may enjoy an upper hand in setting rental rates.

- ***Credit Trends***

Credit profiles of office-building owners to remain stable

Amid the stable outlook on the retail and office sectors this year, commercial-property owners are expected to deliver relatively steady operating and financial performances. On this note, the cashflow-generating ability of the owners of office buildings within RAM Ratings' portfolio should remain stable, underpinned by the strategic locations and sound quality of these properties. We note that these properties maintained stable AORs in 2009; their average rental rates had either increased or at least kept stable. While some of these building owners face tenant-concentration risk, this is partly mitigated by their tenants' strong business and credit profiles as well as the high likelihood of lease renewal due to the strategic importance of the respective tenants' operations, not to mention the significant capital expenditure invested in these buildings by such tenants.

Mall owners' credit profiles stayed intact last year; envisaged to maintain healthy performance this year

Meanwhile, retail mall owners should also post healthy performances this year. For those that have revenue-sharing arrangements with their tenants and whose rent structures are heavily dependent on the performance of their tenants (i.e. percentage of sales on top of base rent), rental income from these tenants is envisaged to increase on the back of more robust retail spending in tandem with the economic recovery - although such arrangements may lead to cashflow volatility. For structured issues that are backed by retail malls as underlying assets, credit enhancements supporting the ratings stayed intact despite the tough market conditions last year, and are anticipated to remain so in 2010. This is premised on expectations of healthy cashflow, underpinned by the malls' matured profiles and strategic locations. In addition, retail malls owned by property developers on our radar (such as Sunway Pyramid and Sunway Carnival) also stayed buoyant last year, underscored by their established market positions; they look set to maintain their healthy showing this year.

Table 6: Key rating factors for issues backed by commercial properties rated by RAM Ratings

Issuer	Assets	Issue rating(s)	Rating outlook	Key rating factors
Boromir Capital Sdn Bhd	Portfolio of 4 office buildings and 1 industrial property	Cls A: AAA/P1 Cls B: AA2/P1 Cls C: A_1/P1 Cls D: A_2/P1	Stable Stable Stable Stable	+ Locked in long-term tenancies with reputable multi-nationals boasting strong credit profiles across a diverse range of industries. + Stable and strong cashflow generated by the underlying properties continue to support its adjusted valuation, along with the cumulative loan-to-value ("LTV") levels and debt service coverage ratios ("DSCRs"). - Tenant-concentration risk.
Focal Quality Sdn Bhd	Seremban Parade Ipoh Parade Klang Parade	Cls A: AAA Cls B: AA_2 Cls C: A_2 Cls D: A_3	Stable Stable Stable Stable	+ Stable financial performance of Ipoh Parade and Klang Parade supported by strong occupancy and rental rates. + The combined cashflow of the 3 shopping malls continue to support its adjusted valuation along with the cumulative LTV levels and DSCRs. – Potentially thinner cashflow due to competition from other existing and new malls within the vicinity, particularly for Seremban Parade. – Tenant-concentration risk.
Menara ABS Berhad	Menara Telekom Wisma Celcom TM Taman Desa TM Cyberjaya	Tr A1: AAA Tr A2: AA_2 Tr A3: A_1 Tr A4: A_2 Tr B1, B2 and B3: AAA	Stable Stable Stable Stable Stable	+ Strong credit profile of the master lessee, i.e. TM Berhad, under the transaction. + Stable performance of underlying assets continues to support its adjusted valuation along with the cumulative LTV levels and DSCRs. + Relatively new properties within the portfolio, which reduces the need for material capital expenditure. – High asset-concentration risk, with a single asset making up approximately 80% of the assets' aggregate value. - Certain peripheral buildings only appeal to a limited group of tenants/investors.
Mid Valley Capital Sdn Bhd	Mid Valley Megamall	Cls 1: AAA*	Stable	+ Healthy financial performance of the underlying property underpinned by Megamall's higher ARR and strong AOR. + Structural features of the transaction and cumulative LTV levels and DSCRs that accord strong debt-protection measures. - Competition from existing and new malls in the Klang Valley.
Mid Valley City Sdn Bhd	Mid Valley Megamall	AA_1	Stable	+ Healthy financial performance of the underlying property backed by Megamall's higher ARR and strong AOR. + Property's cashflow continues to support its adjusted valuation, its cumulative LTV levels and DSCRs. – Competition from existing and new malls in the Klang Valley.

Please refer to Appendix 1 for issue details.
Cls = class
Tr = tranche
** Class 2 Bonds have already been redeemed.*

Hotel & Tourism: Opportunities amid challenging times

➢ ***Overview***

Travel twist in 2009

Last year proved to be a remarkable one for the hotel and tourism sector, which recorded 23.65 million tourist arrivals - surmounting both the official target of 19 million and the 22.05 million notched up in 2008. The 7.2% y-o-y increase against the backdrop of the global financial turmoil and the A(H1N1) pandemic certainly came as a pleasant surprise. This time, greater awareness and better precautionary measures had alleviated the skids on travel and holiday activity, in contrast to the sharp 20% y-o-y contraction in tourist arrivals amid the outbreak of Severe Acute Respiratory Syndrome (or SARS) in 2003. On the back of an expanded marketing and promotional budget of RM50 million in 2009, the number of tourists from China crossed the 1-million mark for the first time last year. Nonetheless, Singapore still topped the chart by contributing 12.73 million visitors (+16%), followed by Indonesia (2.41 million, -3%) and Thailand (1.45 million, -1%). Meanwhile, the Iranian market registered the highest growth of 61%. Other countries such as Vietnam, Cambodia, Australia, the Netherlands and France posted growth rates of above 20%.

Figure 10: Tourist arrivals and receipts in Malaysia

Source: Tourism Malaysia

Note: Tourist receipts in 2009 are an estimated figure.

Outlook

Positive momentum to continue in 2010

Under Budget 2010, the Government has allocated some RM899 million to intensify efforts to promote Malaysia as a preferred holiday destination. The ASEAN market, together with the fast-growing economies of China and India[22], will continue providing impetus for growth this year (these countries collectively accounted for 84% of tourist arrivals in 2009). The opening of new routes (to China and India) and greater cooperation between Malaysian and Chinese airlines (in terms of more frequent flights) are expected to boost tourist arrivals from these countries. In the meantime, the MICE (or meetings, incentives, conventions and exhibitions) segment will remain sustained by increasing intra-regional trade[23]. Looking ahead, the tourism sector is set to maintain its positive momentum in 2010[24], supported by the rapid regional expansion of low-cost carriers, new routes and competitive airfares.

Time to scale up value chain

However, the heat from competitors Singapore, Indonesia and Thailand is expected to intensify. Already host to the world's only Formula One night race, Singapore is envisaged to pose stiff competition; its 2 new integrated resorts - Marina Bay Sands and Resort World Sentosa (which features South-east Asia's first Universal Studios theme park) - are scheduled to open in 1H 2010. Meanwhile, Indonesia and Thailand are stepping up their efforts, targeting to draw some 7 million[25] and 16 million[26] tourists, respectively, to their shores in 2010. Given the relative similarity in the geographical, cultural and culinary experiences offered by these countries, Malaysia will need to distinguish itself more effectively to sustain its growth momentum in the long run. Although Malaysia has marketed itself fairly well as a shopping haven, the country has yet to effectively tap the immense potential in eco- and medical tourism[27], which have experienced tremendous growth in recent years.

Markedly lower AORs amid global gloom, but ARRs held firm

As expected, the AORs of 4- and 5-star hotels in the Klang Valley came under pressure in 2009, as more price-sensitive and frugal travellers opted for budget hotels and value-for-money alternatives. Although AORs did not fall below 60% (as seen during the SARS outbreak in 2003), they did sink slightly below 65% mark - a level last reached in 2002. Fortunately, however, average room rates ("ARRs") had held up, registering only a relatively slight decline of 3.6% as hotel rates in Malaysia are among the cheapest in the region. Although there is room for an increase in ARRs, we believe that the ability to raise prices will be somewhat capped by the stiff competition among hoteliers.

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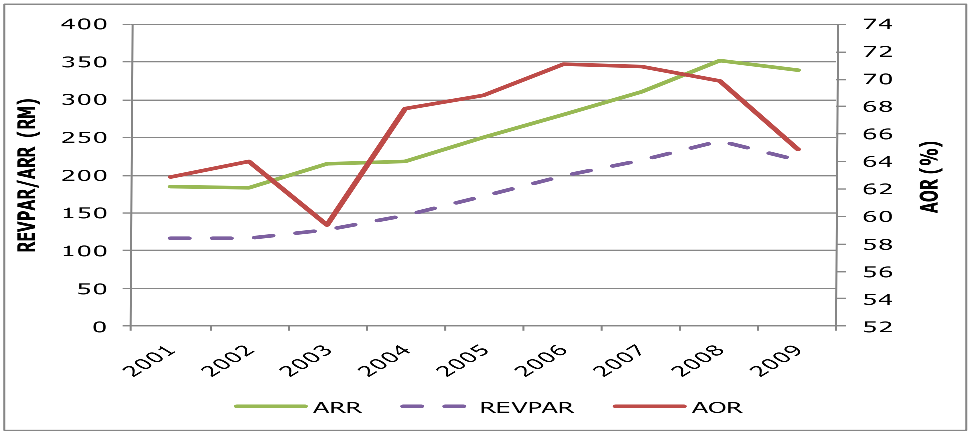
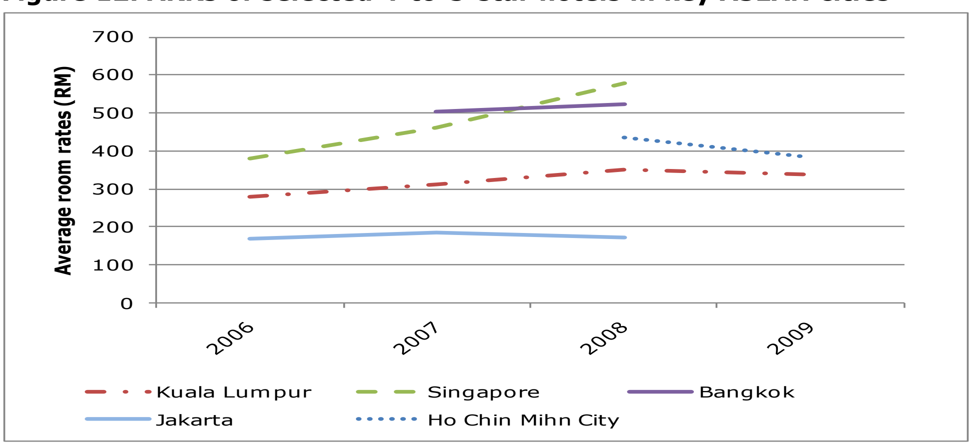
[22] The economies of China and India are projected to expand 10.0% and 7.7%, respectively, in 2010 (International Monetary Fund).
[23] RAM Economics Research.
[24] The World Tourism Organisation forecasts global tourist arrivals to increase 3%-4% in 2010.
[25] Indonesia sees 2010 tourist arrivals up 8.5%, Reuters, 30 December 2009.
[26] Thai Tourism Minister predicts 16 million tourists for 2010, Thailand Travel News, 28 December 2009.
[27] The number of tourists travelling to Malaysia to seek medical treatment more than tripled from 102,946 in 2003 to 341,288 in 2007 (Source: Association of Private Hospitals Malaysia).

Figure 11: AORs and ARRs of selected 4-to 5-star hotels in Kuala Lumpur



Source: MIHR Consulting Sdn Bhd
RevPar = revenue per available room

Figure 12: ARRs of selected 4-to-5-star hotels in key ASEAN cities



Source: Various property market reports

Hoteliers brace for challenging times ahead

As at end-September 2009, there were 103 hotels (3- to 5-star ratings) in the Klang Valley offering a total of 33,484 rooms. It is estimated that a total of 3,390 new rooms will come on-stream by 2012[28]. Meanwhile, the hotels slated to open this year include The Royale Bintang Damansara (300 rooms) and Doubletree (540 rooms). While any potential upside to ARRs, particularly for 4- and 5-star hotels, will be constrained by the intense competition among local and regional players, we believe that AORs are expected to be sustained if not gradually move up to the levels of 2008, supported by healthy intra-regional travels. Given this, RAM Ratings views the hotel and tourism sector to have a stable outlook.

[28] CH Williams Research

➢ *Credit Trends*

Credit profiles of hoteliers expected to hold steady

Within RAM Ratings' portfolio, Great Union Properties Sdn Bhd ("GUP") - the owner and operator of the Renaissance KL - has a debt rating with a positive outlook, reflecting that of its guarantor banks. Other rated companies with hotel operations include Sunway City Berhad (Sunway Resort Hotel & Spa in Bandar Sunway, and Sunway Hotel in Georgetown and Seberang Jaya, Penang) and Perbadanan Kemajuan Negeri Selangor (De Palma Hotel in Ampang, and De Palma Inn in Kuala Selangor, Sepang and Shah Alam). In addition to maintaining their existing AORs and raising their ARRs, these hoteliers are also expected to face margin squeezes given the inflationary pressures from the anticipated increase in electricity tariffs and the impending removal of fuel subsidies.

Table 7: Key rating factors for hoteliers rated by RAM Ratings

Issuer	Sector	Issue rating	Rating outlook	Key rating factors
Great Union Properties Sdn Bhd	Hotel operations (Renaissance KL)	A_1(bg)	Positive	+ Strong financial backing from its major shareholders, IGB Corporation Berhad and New World Development Co Ltd. + Established 14-year track record; professionally managed by the Marriott International Group. + Strategically located in the heart of Kuala Lumpur. – Heavy reliance on major shareholders to meet financial obligations. – Stiff competition in the 4-to-5-star category to affect ability to maintain AORs and raise ARRs. *The positive outlook is premised on the improving trend in the asset quality of the guarantor bank and the management's initiatives to turn around and drive the guarantor bank's growth.*

Rating reflects the credit strength of the guarantor banks.. Key rating factors takes into consideration GUP's fundamental credit profile. Please refer to Appendix 1 for issue details.

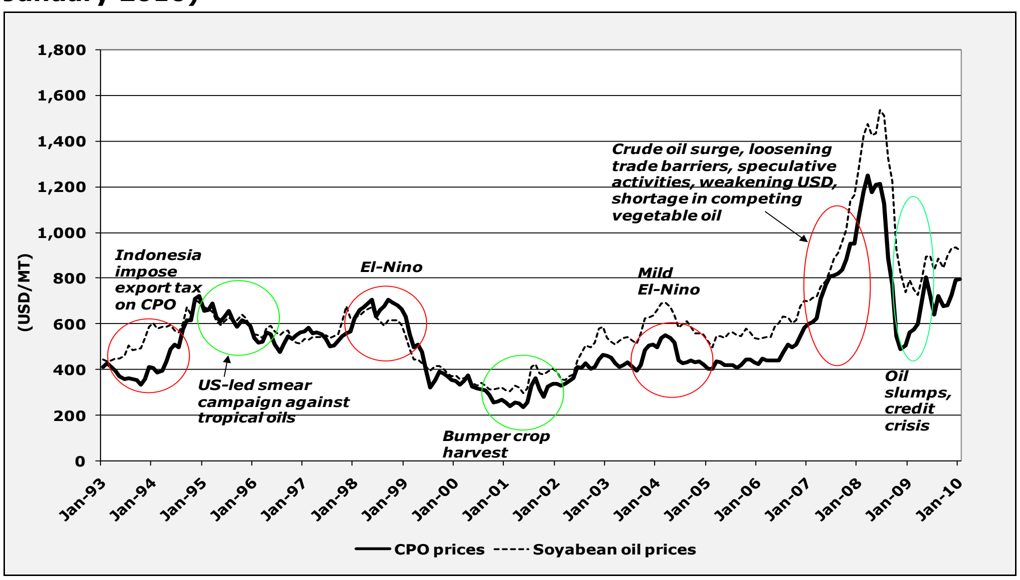
Oil-Palm Plantations: Better fortunes this year, partly moderated by rise in production of vegetable oils

➢ ***Overview***

Robust exports held prices firm amid dreary global landscape

Despite the global recession, prices of crude palm oil ("CPO") held steady in 2009, as burgeoning economies like China and India lapped up most of the available supply. Since sinking to a low of RM1,839 per metric tonne ("MT") at the beginning of the year, prices had recovered to RM2,456 per MT by last December, helped by robust exports and lower production of rival oils amid adverse weather conditions in key producing countries. Exports to China (which accounted for 25% of Malaysia's exports) increased 6% y-o-y to 4.03 million MT in 2009; poorer soybean harvests due to the monsoon season and favourable trade terms for palm-oil imports in India and Pakistan pushed exports up by some 40% y-o-y to an aggregate of 3.11 million MT[29]. However, exports to the EU, which made up 12% of the total export volume of 15.87 million MT, fell 8% y-o-y due to more prolific domestic production of rapeseed oil. CPO prices averaged at RM2,237 per MT in 2009, about 19% lower than the RM2,773 per MT in 2008.[30]

Figure 13: Monthly average prices of CPO vs soybean oil (January 1993 to January 2010)



Source: Malaysian Palm Oil Board

29 In India, import duty on CPO is waived, as opposed to a 20% duty on imported soybean oil. In Pakistan, i.e. the world's fourth-largest buyer of edible oils, tax on CPO from Malaysia is 15% lower than that from Indonesia - thanks to a preferential tariff agreement signed between Malaysia and Pakistan in 2007.

30 Malaysian Palm Oil Board

- ***Outlook***

El Niño to drive prices in 2010…

CPO prices averaged at RM2,515 per MT in January 2010. We expect further upside over the next quarter as production is anticipated to decline, largely on expectations of drier weather conditions due to the *El-Niño* phenomenon[31]. Malaysia's CPO production contracted from 17.73 million MT in 2008 to 17.59 million MT in 2009, despite a 5% expansion in planted area to 4.69 million hectare ("ha") - a result of biological tree stress and higher rainfall in East Malaysia. As a result, the national average yield on fresh fruit bunches ("FFB") decreased 5% y-o-y to 19.2 MT per ha.

…moderated by expected larger supply from Indonesia and bigger soybean crop

Elsewhere, CPO production in neighbouring Indonesia is anticipated to exceed 20 million MT this year, underpinned by increased matured hectarage, which had been advancing at an average annual rate of 10% or 250,000 ha from 2000 to 2009. Although CPO production is also likely to be affected by *El Niño,* it is still expected to rise in 2010, albeit by a lower quantum compared to its historic levels of about 17% or 1.25 million MT annually between 2000 and 2009[32]. Malaysia and Indonesia accounted for a respective 41% and 46% of global CPO output last year. On the other hand, CPO prices will be kept in check by the anticipated bigger soybean harvests in Argentina and Brazil due to increased acreage and more conducive weather conditions earlier this year. According to the forecast by the US Department of Agriculture ("USDA") in February 2010, global soybean output for the planting season beginning 1 October 2009 is expected to augment from 210.86 million MT to 255.02 million MT.

Demand from burgeoning economies expected to stay firm

Meanwhile, demand for palm oil will remain supported by nations with rising incomes and large population bases like China and India, given the stronger demand for processed foods and lower production of rival oils in their domestic markets; China and India are expected to chart even more robust GDP growth of 10.0% and 7.7%, respectively, in 2010 (2009: 8.7% and 5.6%)[33]. Demand from China may, however, moderate slightly this year due to government policies to manage inflation. According to the China National Grain & Oils Information Centre's announcement earlier this year, China's purchases of vegetable oils could fall below 9 million MT in 2010; it imported 6.4 million MT of CPO in 2009. Elsewhere, according to the Solvent Extractors Association of India[34], India is expected to buy over 9 million MT of palm oil this year (vis-à-vis 7 million MT in 2009 and China's 6.4 million MT of imports last year) - as production of local edible oils is expected to be hit by adverse weather conditions as well as the tax waiver for CPO imports. This, coupled with the anticipated improvement in global

[31] A climate pattern that occurs across the tropical Pacific Ocean every 3 to 7 years*. El Niño* causes drought in the West Pacific, sometimes associated with devastating bush fires in Australia as well as increased rainfall and flooding across South America.
[32] USDA Agricultural Services, 13 March 2009.
[33] International Monetary Fund World Economic Outlook, 26 January 2010.
[34] A non-governmental organisation based in Mumbai, comprising 835 members involved in the solvent-extraction/vegetable-oil industry in India.

sentiments, augur well for CPO prices. RAM Ratings estimates CPO prices to average at around RM2,400 to RM2,700 per MT this year.

B5 implementation may well be delayed

Given the assumption of higher prices and the anticipated tighter supply this year, the Government's proposal for petrol stations throughout the nation to sell B5 biodiesel this year will be greatly challenged. With no clear price mechanism or proper infrastructure in place, the implementation of this scheme may take time to materialise. Meanwhile, global demand for palm-oil-based biofuels may be hampered by lofty CPO prices. Biodiesel exports constitute 1% of total Malaysian exports of palm oil and palm-oil-based products..

- ***Credit Trends***

Healthier bottom lines for planters

There has been no rating movement in RAM Ratings' portfolio of plantation companies in the past year, despite their lower earnings compared to the record highs in 2008. Larger planters such as Genting Plantations Berhad ("Genting Plantations") have continued their expansion into Indonesia despite the softer market, thanks to their superior balance sheets.

Moving forward, these companies are expected to enjoy healthier profits this year, in tandem with stronger CPO prices. Although planters will have to contend with gradual increases in production costs due to more costly fuel, labour and fertiliser on top of the mandatory windfall tax (i.e. 15% on FFB produced in Peninsular Malaysia, should CPO prices breach RM2,500 MT; a 7.5% levy is imposed on FFB produced in Sabah and Sarawak, should prices exceed RM3,000 per MT) once CPO prices surpass a certain level, this is not expected to significantly affect the earnings of the larger players such as Genting Plantations and Kuala Lumpur Kepong Berhad, due to their strong plantation profiles and efficient cost management. Furthermore, these 2 companies have a significant presence in Sabah and Indonesia, which account for more than half of their total planted areas.

Table 8: Key rating factors for plantation companies and for issues backed by plantation assets rated by RAM Ratings

Issuer	Sector/ Assets	Issue rating(s)	Rating outlook	Key rating factors
Genting Plantations Berhad	Plantation and property development	AA_2/P1*	Stable	+ Established track record. + Robust financial profile. + Strong degree of financial flexibility. – Operational and regulatory risks in Indonesia. – Weaker property sector, particularly outside the Klang Valley. – Susceptible to fluctuations in CPO prices.
Golden Crop Returns Bhd	15 oil-palm plantations and 5 palm-oil mills under the purview of entities within the Boustead Holdings Berhad Group	Sr 1: AAA Sr 2: AA_1 Sr 3: A_1 Sr 4: A_2 Sr 5: BBB_1	Stable Stable Stable Stable Stable	+ Cashflow from assets that continues to support their LTVs and DSCRs that commensurate with the ratings. + Progressive deleveraging of the transaction if the call options are exercised, reducing balloon risk at the end of the transaction. – Assets' performance vulnerable to volatile CPO price movements. – A small portion of assets designated as native land and Malay reserve land, which may affect marketability of the land.
Kuala Lumpur Kepong Berhad	Plantations, manufacturing oleochemicals, property development and retailing of consumer products	AA_2/P1	Stable	+ Established track record. + Sturdy balance sheet despite potential new debt, supported by strong cashflow-generating ability. + Strong financial flexibility and healthy liquidity profile. – Aggressive expansion plans. – Operational and regulatory risks overseas. – Susceptible to fluctuations in CPO prices.
Lembaga Kemajuan Perusahaan Pertanian Negeri Pahang	Plantation	AAA(s)	Stable	+ Sturdy balance sheet. + Healthy FFB production backed by favourable tree-maturity profile. – High production costs. – Social obligations may hamper profit-oriented commercial operations. – Susceptible to fluctuations in CPO prices.
Midas Plantation Sdn Bhd	2 oil-palm plantations and 1 palm-oil mill	Cls A: AAA Cls B: AA_2 Cls C: A_2 CP/MTN: AAA(s)/ P1(s)	Stable Stable Stable Stable	+ Stable cashflow from underlying assets that continues to support their adjusted valuations and LTV ratios that commensurate with the ratings. – Assets' performance vulnerable to volatile CPO price movements. – Hefty operating costs.

Please refer to Appendix 1 for issue details.
**Corporate credit rating*
Sr = series
Cl = class

Table 8: Key rating factors for plantation companies and for issues backed by plantation assets rated by RAM Ratings (continued)

Issuer	Sector/ Assets	Issue rating(s)	Rating outlook	Key rating factors
RH Capital Sdn Bhd	3 oil-palm plantations and 2 palm-oil mills	Cls A: AAA Cls B: AA_2 Cls C: A_2 Cls D: A_3 CP/MTN: AAA(s)/ P1(s)	Stable Stable Stable Stable Stable	– Assets' performance vulnerable to volatile CPO price movements. – Unfavourable landscape as well as poor infrastructure and connectivity to the estates. – Hefty operating costs and capital expenditure as remaining plantable land is developed further. – Average FFB yields lower than those of the industry and the state (Sarawak).

Please refer to Appendix 1 for issue details.
**Corporate credit rating*
Sr = series
Cl = class

Oil & Gas Support Services: Domestic capital investment to support demand

➢ *Overview*

Global upstream capex contracted, but Petronas' ongoing investment aided domestic upstream O&G activities

Upstream O&G support services had been one of only 2 sectors with a stable outlook in our last edition of *CreditPulse;* this industry's performance has been largely in line with our predictions. Last year, global upstream spending contracted for the first time since 2000, after the price of crude oil plummeted 70% from its peak of over USD140/barrel in the second half of 2008. According to the the International Energy Agency ("IEA"), the global upstream capital expenditure ("capex") of O&G producers is estimated to have fallen USD90 billion[35] or around 19% y-o-y. The decline in activity, however, was not as severe as the steep fall in oil prices as most of the major O&G players' capital spending had been unaffected by the credit crunch; they continue to take a long-term view of oil prices by investing through the cycle. Despite the negative global undertones, Malaysian upstream spending had bucked the trend, underscored by the 27% y-o-y spike in national oil giant Petronas' domestic capex in 1H FYE 31 March 2010; this had insulated many local O&G support-service providers from weaker demand. That said, the award of some projects had been delayed when crude prices had nose-dived while daily charter rates ("DCRs") had softened, albeit marginally, from their peaks.

➢ *Outlook*

Encouraging key indicators; recovery expected to be much faster than post-1986 O&G slump

Despite crude-oil consumption falling for a second consecutive year[36], prices staged a strong rally in 2009, along with those of other major commodities. Having started the year at around USD40/barrel, oil prices had doubled to about USD80/barrel by end-2009. The sharp recovery can be attributed to the success of coordinated global fiscal stimuli and monetary easing in lifting the world economy from its worst slump since the Great Depression in 1929. The technical corrections in the commodity markets and the weakening US dollar have also played a role. In our view, the better-than-expected price performance of crude oil will prevent further declines in upstream spending. Rising global rig counts and stabilising DCRs for oil rigs and marine support vessels indicate that the worst is over for this industry. This contrasts starkly against the last industry slump that had started in 1986 and lasted for 15 years, when crude-oil prices had consistently dipped below USD20/barrel.

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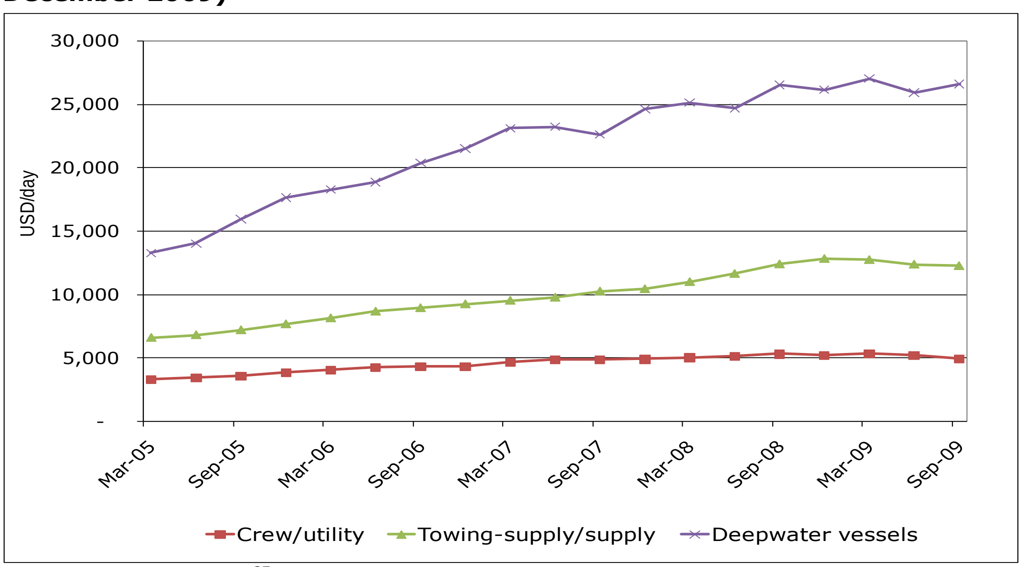
[35] Source: World Energy Outlook 2009, IEA.

[36] From a peak of 86.5 million barrels per day ("mbpd") in 2007, global oil demand declined 0.3% to 86.2 mbpd in 2008, and a further 1.5% to 84.9 mbpd in 2009. Source: IEA, Oil Market Report, 11 December 2009.

Figure 14: Daily Brent crude prices (2007–2009)

Source: Bloomberg

Figure 15: Quarterly average DCRs for Tidewater Inc (March 2004–December 2009)



Source: Tidewater Inc[37]

[37]Tidewater Inc is a global market leader in the provision of marine support vessels and has an extensive fleet of around 400 vessels covering all specifications, age profiles and geographic locations. Hence, Tidewater Inc's DCRs can be used as a proxy to the global market for marine support vessels.

Oil price to settle at around USD70-USD90 per barrel

After a rollercoaster ride over the past 2 years, crude-oil prices are expected to be less volatile and to generally hover around USD70-USD90 per barrel for most of 2010; the commodity is currently trading at just under USD80/barrel. After the sharp rally in 2009, there is not much likelihood of prices climbing significantly as global demand is expected to only inch up 1% y-o-y to 86.3 million barrels per day ("mbpd") in 2010. Moreover, there is still ample spare production capacity among members of the Organisation of Petroleum-Exporting Countries ("OPEC"), to the tune of some 6 mbpd[38]. On the other hand, oil prices are also unlikely to decline substantially as the global economic recovery gains traction, preventing a further slide in demand while the greenback is expected to remain weak.

Outlook remains stable for O&G support services

With oil prices stabilising at a viable level, we expect O&G support services to resume their growth. In fact, global rig counts point to a recovery that started in mid-2009. However, the pace is not envisaged to match that of the pre-crisis period, when O&G producers had expedited projects to production phase at all costs. Looking ahead, domestic upstream spending is likely to remain supported by Petronas' reserve replacement and enhanced oil-recovery ("EOR") initiatives. RAM Ratings has therefore reiterated the stable outlook on this sector as a whole.

Brighter prospects for marine-support and brownfield services

RAM Ratings has indentified 2 sub-sectors, i.e. marine support services and brownfield services, which are expected to enjoy brighter prospects amid the current crop of domestic upstream activities. This is because demand for Malaysian-flagged vessels is anticipated to stay strong in light of the enforcement of cabotage law, which reserves maritime operations in local waters for Malaysian-flagged vessels. At present, more than 60% of the vessels plying Malaysian waters are still foreign-flagged; temporary licences are only granted to these vessels if Malaysian-flagged ones are unavailable. This is further supported by the increased demand for offshore support vessels ("OSVs") to meet the requirements of new oilfields. DCRs are also envisaged to be stable as the risk of oversupply from upcoming new vessels would be largely mitigated by the decommissioning of old ones[39]. Meanwhile, as numerous production platforms are more than 20 years old, Petronas is expending efforts on rejuvenating these ageing facilities and embarking on EOR initiatives to boost its declining crude production. This augurs well for contractors providing brownfield services, including structural maintenance, work-over services and retro-fitting works.

[38] Source: IEA, Oil Market Report, 11 December 2009.

[39] The global anchor handling tug supply ("AHTS") and platform supply vessel ("PSV") fleet is estimated to be 2,322 units. Of this, 335 units are over 30 years old while another 500 are between 25 to 29 years old. Meanwhile, 579 units of AHTSs and PSVs are expected to join the global fleet over the next few years. Source: ODS Petrodata and Tidewater, Inc.

➢ ***Credit Trends***

Marine-support players to enjoy stable, recurring income

Rated marine-support companies such as Syarikat Borcos Shipping Sdn Bhd ("Borcos") and Tanjung Offshore Berhad ("Tanjung") enjoy stable and recurring charter income, as about 80% of their OSVs have been locked into time-charter contracts over the medium term. Meanwhile, these companies have also been able to secure charter contracts for their new vessels commissioned in 2009 and early 2010, albeit at DCRs that are marginally lower than their record highs.

Outlook divergence due to company-specific factors

Supported by its improving debt protection measures amid contributions from its expanding fleet, Borcos has a positive rating outlook. We also note that Borcos has boosted its shareholders' funds through the issuance of irredeemable convertible preference shares in late 2009. On the contrary, Tanjung has a negative outlook despite having benefitted from stable and recurring charter income from its marine support services; this is largely due to its weaker debt-protection measures arising from its aggressive debt-funded expansion plan. Tanjung's performance has also been dampened by unexpected losses from its newly acquired waste-heat-recovery-unit ("WHRU") business in the United Kingdom, which has experienced cost overruns due to poor project execution. As such, the divergence in outlook among these upstream O&G support-service providers is mainly attributable to company-specific factors.

Table 9: Key rating factors for O&G support companies rated by RAM Ratings

Issuer	Sector	Issue ratings	Rating outlook	Key rating factors
Syarikat Borcos Shipping Sdn Bhd	Marine support services	A_1/P1	Positive	+ Stable, recurring revenue from time-charter contracts. + Sizeable fleet, with a strong niche in fast crew boats and utility vessels. + Shielded from foreign competition by the enforcement of cabotage law. – Heightened exposure to construction risk in near term. – Balance sheet to weaken after debt-funded expansion. *Positive outlook reflects RAM Ratings' view that Borcos' financial profile is anticipated to strengthen going forward, supported by its expanded fleet.*
Tanjung Offshore Berhad	Marine support services, rig services, engineering and maintenance	AA_3/P1	Negative	+ Stable, recurring revenue from time-charter contracts. + Young fleet provides competitive edge. + Shielded from foreign competition by the enforcement of cabotage law. – Aggressive fleet expansion compromised debt-servicing measures. – Loss-making WHRU business eroded profits. *Negative outlook reflects Tanjung's aggressive fleet expansion, its loss-making overseas subsidiary and the possibility that it may incur further debt-funded capex in the immediate term, which would continue to suppress its debt-servicing ability.*

Please refer to Appendix 1 for issue details.

Shipping: Still navigating turbulent seas

- ***Overview***

Industry struggled with subdued trading activity and weak freight rates; container trade hardest hit

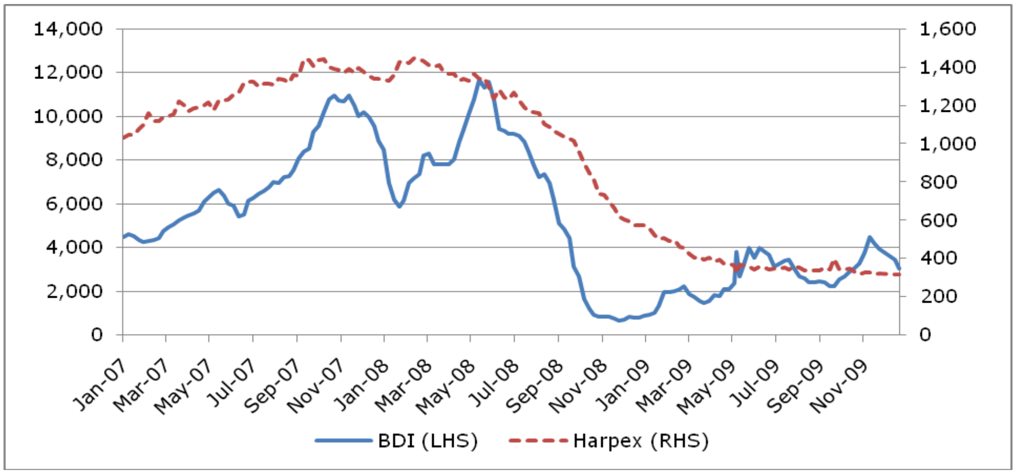
As highlighted in our last edition of CreditPulse, the shipping sector faced a challenging operating environment in 2009, depressed by weak freight rates and poor demand for shipping services amid the global financial turbulence. In line with our previous expectations, the container-shipping segment had been hardest hit, adversely affected by poor demand for finished goods, especially from the US and Europe. Meanwhile, the influx of new vessels[40] had exerted further pressure on freight rates. This is clear from the Harper-Petersen Index ("Harpex")[41], which sank to an average of only 382 points in 2009, from an average of 1,137 points in 2008.

Volatile and weak bulk-shipping segment, but relatively resilient demand for regional tankers

The global downturn had also affected the dry-bulk shipping segment, as reflected by the 93% plunge in the Baltic Dry Index[42] ("BDI"), from its unprecedented high of 11,793 points in May 2008 to a mere 774 points as at end-December the same year. Charter rates for bulk carriers were generally weak and volatile in 2009, despite a slight upturn due to rising demand from China for iron ore as Chinese steel production picked up after a period of de-stocking; the BDI ascended to an average of 3,823 points in June 2009, before settling at 3,000 points as at end-December. Based on our survey, however, tankers that operate within this region had been relatively resilient, supported by time-charter contracts and minimal decline in demand for crude oil and petroleum products.

[40] Shipping companies had earlier embarked on aggressive expansion programmes when rates had been lofty. Total global tonnage is estimated to have experienced a 7% compounded annual growth rate over the last 3 years.
[41] The Harpex provides an assessment of the prices of moving goods using containerships.
[42] The Baltic Dry Index provides an assessment of the price of transporting major dry commodities by sea. The index indirectly measures the demand for shipping capacity versus the supply of dry-bulk carriers.

Figure 16: BDI and Harpex (January 2007–December 2009)



Source: Bloomberg and www.harperpetersen.com

Supply-cutting measures failed to keep players profitable

With unattractive freight rates and low load factors, shipping operators had laid up their vessels or cut back on chartered tonnage to reduce operating costs. Meanwhile, older vessels had been scrapped while newbuild deliveries had been postponed or cancelled. Despite such strategies, the double-whammy impact from the global financial turmoil and the shipping industry's overcapacity situation had adversely affected most players. Our study of 5 domestic and regional players in the container and dry-bulk shipping segments show that most of them suffered operating losses in the first 9 months of 2009. However, regional participants had been less severely affected than main line operators ("MLOs"), cushioned by their focus on "protected" routes due to cabotage law, smaller vessel capacities and correspondingly lower fixed costs.

➢ ***Outlook***

Operating environment remains challenging; recovery to take longer than previous shipping crisis in 2004/05

The operating environment for the shipping industry is expected to stay challenging in 2010. Amid the signs of recovery in the global markets, we expect some pick-up in shipping volume. On the supply side, however, the shipping sector will continue experiencing an influx of new capacity; major shipyards have order books stretching beyond 2012, and about 65%[43] of the 185 million dead weight tonnes[44] ("dwt") are estimated to be delivered this year. With the burgeoning excess capacity, world trade will need to expand substantially to absorb the new deliveries. Hence, the recovery of the global shipping industry is envisaged to take longer than the 2 years after the last shipping crisis in 2004/05. While the shipping industry had also faced falling freight rates then, the twin threats of surplus

[43] Source: Clarkson Research Services Limited.
[44] On average, the global tonnage only enlarged by about 61 million dwt from 2005 to 2007.

shipping capacity and a lethargic global economy have led to a steeper downturn this time.

Anemic demand growth further constrains freight rates

Looking ahead, RAM Ratings expects container trade to remain difficult as demand is envisaged to stay weak for finished goods delivered to consumer markets in the US and Europe; these economies may require some time before returning to their pre-crisis levels. While shipping operators, particularly those in the containership segment, will attempt to delay new deliveries to tighten their capacity, freight rates are unlikely to rise significantly as the container business will still experience a 5%–10% capacity expansion. Meanwhile, demand for dry-bulk shipping and tankers is anticipated to be slightly better, supported by demand for commodities amid the recovering global economy. While the dry-bulk segment also faces sizeable new capacity, bulk carriers are envisioned to benefit from China's import of iron ore for steel production. Meanwhile, tanker shipping is expected to stay resilient, supported by stable demand for crude oil and petroleum products. Moreover, the phasing out of single-hull tankers[45] will help offset the increase in newbuild deliveries.

Heftier operating costs from elevated bunker prices

Bunker prices have been increasing, from an average of USD280 per MT in January 2009 to about USD500 as at end-December. Given the higher bunker costs, the margins of shipping companies are expected to face further pressure this year. However, we note that shipping companies will still be able to pass on their heftier bunker costs – albeit with a time lag – via bunker surcharges. Nonetheless, shipping operators usually refrain from imposing additional charges to retain their existing customers. All said, crude tankers will have the advantage of long-term charter contracts that have bunker-adjustment clauses.

- ***Credit Trends***

Hubline: regional carrier, niche routes, favourable cargo mix

Despite the challenging operating environment for the shipping industry, RAM Ratings has maintained a stable outlook on the long-term rating of Hubline Berhad ("Hubline'" or "the Group"). Hubline's operations are envisaged to stay fairly resilient, as demonstrated in the past. The Group is a regional carrier that has carved a niche in serving smaller ports vis-à-vis intra-Asian trade. Hubline is expected to enjoy steady utilisation of its fleet, as its dry-bulk and container vessels' capacities are smaller and the Group generally transports consumer staples and coal for electricity generation. Furthermore, Hubline's recent rights issue has strengthened its balance sheet and liquidity profile, which should help it weather this difficult period.

[45] International Maritime Organisation rules prohibit the using of single hull tankers beyond 1 January 2010.

Table 10: Key rating factors for shipping company rated by RAM Ratings

Issuer	Sector	Issue ratings	Rating outlook	Key rating factors
Hubline Berhad	Container and dry-bulk shipping	A_2/P1	Stable	+ Regional player with extensive network and niche routes. + Strong liquidity profile. + Cargo mix consists of staples and coal for electricity generation. – Exposed to cyclical nature of shipping industry. – Vulnerable to volatile bunker costs. – Hefty capital outlay.

Please refer to Appendix 1 for issue details.

Telecommunications: Competition intensifies as more players join the fray

➢ ***Overview***

Telecommunication industry resilient against economic downturns

Last year had started with myriad uncertainties amid the rapidly worsening global financial crisis; operators had been concerned about the impact of weaker consumer spending on their earnings. Nonetheless, they had managed to weather the storm with minimal damage to their financials, even managing decent top-line growth while maintaining their profitability via cost-management initiatives. These operators had also been able to preserve their balance sheets and debt-servicing abilities.

Broadband continues stealing limelight; DiGi last to jump on broadband bandwagon

With its promise of a fresh earnings base for the operators and Malaysia's low penetration rate of 31.7% for households as at end-December 2009, broadband looks set as the industry's growth driver. In 2009, broadband subscriptions surged 53% y-o-y to 2.62 million (2008: 1.71 million). Notably, net cellular additions accounted for 74% of the growth for that period - suggesting that Telekom Malaysia Berhad ("TM") must up its ante or risk losing ground to the cellular majors. We believe take-up has been largely driven by more competitive and innovative pricing for services as competition has intensified. The proliferation of affordable broadband-enabled devices has also encouraged subscription. Nonetheless, DiGi Telecommunications Sdn Bhd ("DiGi") only joined the competitive broadband landscape in March 2009, via its alliance with TIME dotCom Berhad ("TIME dotCom") as opposed to 2005 for the 2 other majors.

Industry waiting with bated breath for HSBB

Meanwhile, TM has announced that it is on track towards rolling out its high-speed broadband ("HSBB") network by end-March 2010, in 4 areas within the Klang Valley. We opine that market response will hinge on pricing and also product packages. Nonetheless, we believe that they will be charged at a premium to offerings from *Streamyx* - therefore less appealing to price-sensitive consumers. In any case, the HSBB investment is only expected to yield substantial returns over the longer term, once there is greater appreciation for high-speed broadband among the public.

➢ ***Outlook***

Incumbents still dominate; no dramatic shift in operating landscape

While Maxis Communications Berhad ("Maxis") and TIME dotCom have gone head-on against TM vis-à-vis providing fixed-line services to business enterprises, they have yet to become a real threat to the national telecommunication giant's dominant position to date. Although competition in the cellular and broadband markets remains rife with new players such as U-Mobile Sdn Bhd, participants offering Worldwide Interoperability for Microwave Access ("WiMAX") and mobile virtual network operators ("MVNOs") have also joined the fray. Nevertheless, the younger “debutantes” have not made any waves to date despite the buzz that Packet One Networks (Malaysia) Sdn Bhd (“P1”) – the most active WiMAX player – has seemingly created via its aggressive advertising campaign; it has only managed to capture some 5% of the broadband market. Going forward, we expect the key trends that have been prevalent over the last year to persist; the telecommunication sector is expected to remain dominated by the incumbents despite intensifying competition; we do not envisage any dramatic shift in the operating landscape.

Operators expected to be rational in pricing

Despite the increasingly keener competition, we expect the operators to be rational in their pricing propositions. While average revenue per user (“ARPU”) may remain under pressure, we believe that the operators will strike a balance between subscriber acquisition and retention amid price slashing, in a bid to preserve their top lines and profitability.

Broadband still life of party

In the meantime, we expect broadband to stay in the limelight amid the fierce competition, as both fixed-line and cellular incumbents will capitalise on it as a new revenue source. In this regard, the market will also keep a lookout for surprises and exciting offerings, e.g. such as YTL Communications Sdn Bhd’s 4G-WiMAX network. On the whole, broadband pricing may slip further, depending on the new products and services making their debut throughout 2010. While the major cellular incumbents have an advantage in terms of network, service coverage and financial muscle, the prize would still go to the party with the most effective marketing strategy, best-priced offerings and top service quality.

Cost efficiency to remain centre-stage

To preserve their margins, operators are expected to continue focusing on cost-management initiatives. It would come as no surprise if their marketing and advertising expenditure augment with heightened promotional activities vis-à-vis broadband development and customer acquisition as well as retention initiatives. On this front, optimising other operations-related expenses may somewhat counter the impact of heftier advertising expenditure.

- ***Credit Trends***

Broadband bundling helps shore up TM’s financial performance

By and large, TM – the dominant fixed-line operator - is still grappling with fixed-to-cellular migration and declining penetration rates. Nonetheless, fixed-line broadband bundling had enabled TM to expand its subscriber base in 2009, albeit by less than 1% (or 24,000 subscribers). Meanwhile, its broadband offerings - *Streamyx* and *Hotspot* – continue to offer the earnings diversity it needs amid shrinking voice-based revenue. In this regard, we expect TM to maintain a healthy financial profile in spite of its many challenges.

Cellular incumbents to maintain strong operating and financial showing in interim

Maxis, Celcom Axiata Berhad and DiGi – the 3 major incumbents - dominate the Malaysian cellular scene, capturing some 98.2% of the country’s mobile subscribers. As such, we expect them to stay profitable despite the intensifying competition - although slight margin erosion would not be surprising. In the meantime, other credit considerations include each operator's capital-management practices and their aggressiveness when venturing abroad. While foreign endeavours provide future growth prospects, they could also entail excessive leverage and persistently high capex besides uncertainties in an unfamiliar operating environment.

Table 11: Key rating factors for telecommunication service providers and other telecommunications-related entities rated by RAM Ratings

Issuer	Sector(s)	Issue rating(s)	Rating outlook	Key rating factors
Binariang GSM Sdn Bhd ("BGSM") (investment-holding company ("IHC")of Maxis Communications Berhad)	Cellular telecommunications	AA_3/P1 (Senior Sukuk), A_2 (Junior Sukuk)	Stable	+ Sole operating subsidiary, Maxis, is the country's largest cellular service provider. + Steady business profile and commendable financial performance of its Malaysian operations. – Competitive landscape in both Malaysia and India exacerbated by Maxis' aggressive expansion plans and capex needs in India.
DiGi Telecommunications Sdn Bhd	Cellular telecommunications	AA_1/P1	Stable	+ Strong operating track record and commendable financial performance. – Competitive operating landscape and limited growth potential.
Hijrah Pertama Berhad (funding vehicle for TM)	Fixed-line telecommunications	AAA	Stable	+ TM's strategic position as the national telecommunication service provider; firm regulatory support. + TM's healthy financial profile vis-à-vis stable revenue and operating margins, and well-managed balance sheet. – Declining voice-based revenue and intense competition in broadband segment.
Maxis Communications Berhad (IHC of telecommunications operators)	Cellular telecommunications	AAA/P1 (bg)	Stable	+ Irrevocable and unconditional bank guarantee from DBS Bank Limited and Malayan Banking Berhad.
PINS Capital Sdn Bhd (funding vehicle of Perak Integrated Network Services Sdn Bhd)	Telecommunication infrastructure	AA_3/P1	Stable	+ Transaction structure eliminates demand and construction risks. + Ratings reflect major cellular operators' credit strengths, supported by stringent financial covenants. – Exposed to rollover and interest-rate risks.

Please refer to Appendix 1 for issue details.

Power: Tariff review a balancing act

Electricity demand recovered in Peninsular Malaysia

The trials faced by the power industry in Peninsular Malaysia mostly took place in 1H 2009. Firstly, electricity demand had suffered a 6.02% contraction amid the global financial chaos, which had in turn dampened the domestic commercial and industrial sectors. This had been followed by a 4% reduction in average electricity tariffs following a 25% cut in the price of natural gas supplied to the power industry. This demand contraction represented the first for Tenaga Nasional Berhad ("TNB") since its listing on the local bourse in 1992. Responding pragmatically to the softer demand and hefty coal costs, TNB had prioritised the despatch of cheaper gas-fired power plants, thus causing coal-fired facilities to run at lower load levels (third-generation independent power producers ("IPPs") with some exposure to demand risk). While this may impinge on the financials of the third-generation coal-fired plants within RAM Ratings' portfolio, the impact is not expected to be significant unless load factors fall substantially for an extended period. Meanwhile, signs of recovery had already emerged by the second half of 2009, as electricity demand was lifted 3.32% by a more robust domestic economy.

TNB facing several issues, e.g. tariff structure and Bakun project

The power industry is set to experience some vital developments in the near term. The Government's initiatives to reduce subsidies have prompted a review on electricity tariffs. However, a rate increase for TNB this year is still uncertain. As before, RAM Ratings believes that any tariff review should be in tandem with an evaluation of the price of natural gas as a total package. Meanwhile, the limelight has also been focused on talk of a tariff formula that incorporates fuel-cost pass-through - which would benefit TNB if formalised. On this note, RAM Ratings opines that approval from the Government may not be secured anytime soon. Although the current reserve margin is high, plans are afoot to transport power from the Bakun dam via an undersea cable, to reinstate some of the installed capacity once the first-generation IPPs' power purchase agreements ("PPAs") expire between 2015 and 2017. Nonetheless, the dynamics of the Bakun project are still fluid, ranging from off-take and tariff-related issues to the laying of the undersea cable. Until there is more clarity on such matters, it is difficult to ascertain the financial impact of the Bakun project on TNB.

Regulatory risk still lingering concern

The IPPs and IPP-related entities rated by RAM Ratings have generally maintained their credit profiles, except for a few that are affected by their respective company-specific issues. We maintain our view that IPPs face persistent regulatory risk in the form of potential PPA renegotiations, even though sporadic attempts by the Government to renegotiate PPAs have not succeeded since the retraction of the windfall profit levy in 2008.

Need to attract more big-load customers to absorb additional hydro-powered capacity in Sarawak

While Peninsular Malaysia appears to have seen the last of its IPP plant-ups, Sarawak is only just starting to develop its hydropower capacity, via SCORE. At present, the construction of a 900-MW hydroelectric power plant is taking place in Murum while feasibility studies and planning are currently underway for other hydro-powered plants such as Pelagus (410 MW), Baram (1,200 MW), Baleh (1,400 MW), Limbang (245 MW) and Lawas (100 MW). As Sarawak's current installed capacity is more than sufficient to cater to its organic electricity consumption, it is imperative that Syarikat SESCO Berhad ("SESCO") secures more big-load customers to boost energy consumption vis-à-vis absorbing the additional hydro-powered capacity. Otherwise, SESCO could end up with excessive generation capacity. So far, State Grid Corp of China, joint ventures between GIIG Holdings Sdn Bhd and Aluminium Corp of China Ltd, Rio Tinto Alcan and Cahya Mata Sarawak Berhad, and Tokuyama Corp have expressed interest in undertaking projects within SCORE. The entrance of these big-load customers bodes well for SESCO as they could substantially boost energy consumption.

Demand certainty, pricing crucial to sustaining SESCO's cashflow

To realise Sarawak's ambition of attracting energy-intensive industries, substantial capex is required to augment its generating capacity. At the same time, sizeable investments are needed to improve transmission and distribution assets; in this regard, funding plans have yet to be firmed up. Furthermore, future capacity expansion via IPPs also represents a deferred burden to SESCO, because PPA obligations will be imputed as financial obligations on the part of the utility company as the purchasing party. In light of the larger plant-ups, demand certainty and pricing for big-load customers remain crucial to SESCO's cashflow.

Table 12: Key rating factors for IPPs, IPP-related entities and utilities rated by RAM Ratings

Issuer	Sector	Issue rating(s)	Rating outlook	Key rating factors
GB3 Sdn Bhd	Power generation (gas)	AA_1/P1	Stable	+ Absence of demand risk due to fixed capacity payments ("CPs") under its PPA. + Commendable operating performance. + Strong cashflow and debt-servicing ability. – Exposed to regulatory and single-project risks.
Jimah Energy Ventures Sdn Bhd ("JEV")	Power generation (coal)	AA_3	Stable	+ Strong business profile backed by favourable PPA terms. + Sturdy debt-servicing ability underpinned by favourable tariff rates and well-structured debt-repayment profile. – Exposed to regulatory and single-project risks.
Special Power Vehicle Berhad (funding vehicle for JEV)	Power generation (coal)	A1 (Class A IMTN), C1 (Class B IMTN)	Stable	+ Adequate subordinated debt-service coverage levels for Class A IMTN. – The Class A IMTN is subordinated to JEV's debts in terms of cashflow priority. – The Class B IMTN is viewed to have a higher level of subordination as its rights over the security and priority in the cashflow waterfall rank after those of the Class A IMTN.
Magna Segmen Sdn Bhd (IHC of an IPP, Sandakan Power Corporation Sdn Bhd)	Power generation (diesel)	BBB_3/P3	Negative	+ Absence of demand risk due to fixed CPs under its PPA. – Substantially weakened debt-servicing ability. – Exposed to regulatory and single-project risks. *Negative outlook on the long-term rating reflects the uncertainties vis-à-vis the timing and value of its land sale, which is critical towards the repayment of Magna Segmen's debt issues.*
Malakoff Corporation Berhad (IHC of power-generation and power-related assets)	Power generation (gas and coal)	AA_3/P1 (Senior Islamic Note), A_2 (Junior Sukuk)	Stable (Senior Islamic Note), Negative (Junior Sukuk)	+ Core IPP assets operate within a regulated environment, with sound business and financial profiles anchored by their respective PPAs with TNB. – Exposed to regulatory risk. – Highly leveraged balance sheet. *The negative rating outlook on the Junior Sukuk reflects concerns about Malakoff's eroding cash buffer following the persistent operational hiccups of Kapar Energy Ventures Sdn Bhd, the company's historically generous dividend payments and possible loss of tax refunds under the present single-tier tax system.*
Mukah Power Generation Sdn Bhd	Power generation (coal)	AA_3 (Senior Sukuk), A_2 (Junior Sukuk)	Stable	+ No demand risk, partial energy guarantee and full pass-through of fuel costs. + Robust debt-servicing ability. + Strategic importance to Sarawak; clear state support. – Plant specifications vis-à-vis PPA requirements leave little room for operational glitches. – Single-project risk.

Please refer to Appendix 1 for issue details.

Table 12: Key rating factors for IPPs, IPP-related entities and utilities rated by RAM Ratings (continued)

Issuer	Sector	Issue rating(s)	Rating outlook	Key rating factors
Musteq Hydro Sdn Bhd	Power generation (hydro)	A_2	Negative	+ Continuous improvement in operational performance. – No fixed CPs under single-tariff structure, rendering earnings less predictable. – Inherent transmission risk caused by faults along TNB's Dabong-Kuala Krai transmission line. – Operations depend much on weather conditions. – Exposed to regulatory and single-project risks. *Negative outlook is premised on Musteq Hydro's eroding cash balances owing to hefty interest payments on shareholders' advances and earlier upward revision of operations and maintenance ("O&M") fees.*
Pahlawan Power Sdn Bhd	Power generation (gas)	AA_1	Stable	+ Absence of demand risk due to fixed CPs under its PPA. + Strong debt-servicing ability. – Exposed to regulatory and single-project risks.
Panglima Power Sdn Bhd	Power generation (gas)	AA_1	Stable	+ Absence of demand risk due to fixed CPs under its PPA. + Satisfactory operating performance. + Strong debt-servicing ability. – Exposed to regulatory and single-project risks.
Powertek Berhad (IHC of power-generation assets)	Power generation (gas)	AA_1	Stable	+ Stable revenue from power operations. + Consistently good operating track record. + Strong cashflow-generating ability. – Potential contributions to ongoing expansion of sole shareholder Tanjong Energy Holdings Sdn Bhd. – Exposed to regulatory risk. – Despite multiple income sources, still exposed to single-project risk given the substantial contributions from Teluk Gong power plant.
Prai Power Sdn Bhd	Power generation (gas)	AA_3	Stable	+ Absence of demand risk due to fixed CPs under its PPA. + Performance has improved in the past 2 years, but operations risk not fully mitigated. – High technology risk given the vulnerability of its gas turbines to operational complications. The risk is compounded by the single-shaft design of the plant. – Exposed to regulatory and single-project risks.
Ranhill Powertron Sdn Bhd	Power generation (gas)	AA_2	Stable	+ Absence of demand risk due to fixed CPs under its PPA. + Sound operating track records of open-cycle and combined-cycle gas-turbine operations. + Stronger post-completion debt-servicing ability. – Risk of PPA termination remains, although remote (due to failure to achieve the stipulated scheduled commercial operations date under the PPA). – Exposed to regulatory and single-project risks.

Please refer to Appendix 1 for issue details.

Table 12: Key rating factors for IPPs, IPP-related entities and utilities rated by RAM Ratings (continued)

Issuer	Sector	Issue rating(s)	Rating outlook	Key rating factors
YTL Power International Berhad (IHC of power-generation, water and communication assets)	Power generation (gas)	AA_1	Stable	+ Robust business profile stemming from regulated assets. + Established operating history in Malaysia, the United Kingdom and Singapore. + Company-level debt supported by stable dividends from core businesses in regulated industries. – Capital structure constrained by significant debt burden. – Continually acquisitive mood could introduce new risks. – Regulatory risk.
Sarawak Power Generation Sdn Bhd	Power generation (gas)	AA_1(s)	Stable	+ Absence of off-take and fuel-supply risks; Supplementary PPA provides higher energy tariff for Unit 9. + Strong debt-servicing ability. + Strategic importance to Sarawak as both a state-owned entity and a critical power source for the Bintulu area. – Construction-related risk. – Exposed to operations risk with absence of formal OMA. – Vulnerable to regulatory and single-project risks. *The enhanced rating remains supported by the strongly worded letter of support ("LoS") from SESCO. The LoS will be voided if the company's rating is reinstated to AA1.*
Segari Energy Ventures Sdn Bhd	Power generation (gas)	AA_1	Stable	+ Absence of demand risk due to fixed CPs under the PPA. + Consistently satisfactory operating performance. + Debt-servicing ability remained intact despite heftier sukuk principal redemption and investment in commercial papers. – Exposed to regulatory and single-project risks.
Serudong Power Sdn Bhd	Power generation (diesel)	AA_2	Stable	+ Absence of demand risk due to fixed CPs under its PPA. + Robust debt-servicing ability. – Operating glitches for the past 3 years. – Exposed to regulatory and single-project risks.
Syarikat SESCO Berhad	Power generation and transmission	AAA	Stable	+ Exclusive provider of electricity in Sarawak. + Strong implicit support from Sarawak State Government. + Formidable financial profile. – Potential significant increase in CPs to new IPPs. – Heavier debt-funded capex.
Tanjung Bin Power Sdn Bhd	Power generation (coal)	AA_3	Stable	+ Strong business profile backed by favourable PPA terms. + Satisfactory operating performance. + Robust debt-servicing ability. – Fuel-supply risk. – Exposed to regulatory and single-project risks.

Please refer to Appendix 1 for issue details.

Table 12: Key rating factors for IPPs, IPP-related entities and utilities rated by RAM Ratings (continued)

Issuer	Sector	Issue rating(s)	Rating outlook	Key rating factors
Teknologi Tenaga Perlis Consortium Sdn Bhd	Power generation (gas)	AA_1	Stable	+ Absence of demand risk due to fixed CPs under its PPA. + Strong operating performance. + Robust debt-servicing ability. – Exposed to regulatory and single-project risks.
Tenaga Nasional Berhad	Power generation and transmission	AA_1	Stable	+ Malaysia's sole national utility company. + Strong government support translates into superior financial flexibility. – Heavy debt burden. – Margins may be compressed by fluctuating coal costs, higher CPs and weaker electricity demand.
YTL Power Generation Sdn Bhd	Power generation (gas)	AA_1	Stable	+ Take-or-pay arrangement. + Solid operating track record. + Strong debt-servicing ability. – Less stringent distribution covenants allow substantial outflows to shareholders. – Exposed to regulatory and single-project risks.

Please refer to Appendix 1 for issue details.

Tolled Roads: Awaiting toll-rate restructuring, but sanctity of agreements likely to be preserved

Traffic on tolled roads had generally remained resilient despite the economic downturn

Last year, the global economic downturn only had a minimal impact on the toll concessionaires rated by RAM Ratings. For instance, the highways under Projek Lebuhraya Utara-Selatan Berhad, i.e. the North-South Expressway ("NSE"), the New Klang Valley Expressway ("NKVE"), Federal Highway Route 2 ("FH2") and the Seremban-Port Dickson Highway, achieved a combined traffic-volume growth of 7.1% in 2009[46]. While the Government had deferred toll-rate increases for 5 highways that had been scheduled to take place on 1 March 2009, it had paid RM287 million to compensate those companies - in line with the terms of their respective concession agreements. Overall, we note that the financial profiles of the rated toll concessionaires have generally remained intact.

Ten highways due for toll-rate reviews in 2010

While 10 highways are scheduled for toll-rate revisions this year, no decision has yet been made. These are NSE, the East Coast Expressway 1, the NKVE, FH2, the SPRINT Highway (Kerinchi Link, Penchala Link and Damansara Link), the Sungai Besi Highway, the New Pantai Highway, the Kajang Ring Road, the Ampang-Kuala Lumpur Elevated Highway, and the Penang Bridge. Although it had been announced through Budget 2010 that the Government has allocated RM394 million to compensate toll concessionaires this year, it remains to be seen which of them will be the recipients, the mode of such compensation, and which concessionaires will be allowed to increase their toll rates. While the compensation packages offered in the past have been equitable and in line with the spirit of the relevant concession agreements, any future cash and/or non-cash compensation from the Government in lieu of changes to existing concession terms will need to be assessed for credit implications.

Toll rates in final stages of restructuring

Elsewhere, we understand that the industry is awaiting the finalisation of a sector-wide toll-rate restructuring that is expected to be announced soon. While we note that historical traffic volumes have customarily experienced temporary declines after toll rates have been elevated - due to motorists' knee-jerk reactions – we have yet to witness the effects of any steep spikes across the board. In any case, RAM Ratings opines that the new structure will have to strike a balance between the impact of toll-rate hikes on the broader economy and reducing subsidies in the form of compensations to trim the country's fiscal deficit. All said, we still believe that the sanctity of the existing agreements is likely to preserved, with a view to equitable treatment of all parties, including bondholders.

[46] PLUS's announcement, made to Bursa Malaysia, dated 22 January 2010.

Table 13: Key rating factors for toll concessionaires and toll road-related entities rated by RAM Ratings

Issuer	Sector	Issue rating(s)	Rating outlook	Key rating factors
Besraya (M) Sdn Bhd	Toll road (Klang Valley)	AA_3/P1	Stable	+ Matured traffic flows of the Sungai Besi Highway. + Strong debt-servicing ability. – Exposed to regulatory and single-project risks. – Vulnerable to rising short-term interest rates.
Cerah Sama Sdn Bhd (IHC of a toll concessionaire, Grand Saga Sdn Bhd)	Toll road (Klang Valley)	AA_3	Stable	+ Strong business profile underscored by stable traffic volume of the Cheras-Kajang Highway. + Cashflow from debt-free subsidiary supports sukuk repayment. – Exposed to regulatory and single-project risks. – Potential expansion could alter credit-risk profile.
Kesas Sdn Bhd	Toll road (Klang Valley)	AA_3	Stable	+ Steady traffic growth of the Shah Alam Expressway. + Strong debt-coverage measures. – Competition from other routes. – Exposed to regulatory and single-project risks.
Konsortium Lebuhraya Butterworth-Kulim Sdn Bhd	Toll road (Penang - Kedah)	AA_3	Stable	+ Steady traffic growth of the Butterworth-Kulim Expressway. + Robust debt-servicing ability, supported by stringent covenants. – Exposed to regulatory and single-project risks.
Lebuhraya Kajang-Seremban Sdn Bhd	Toll road (Selangor – Negeri Sembilan)	AA_3 (Senior Sukuk Istisna'), A_1 (Junior Sukuk Istisna'), B_3 (RULS), B_3 (RCULS) (All ratings under Rating Watch, negative outlook)	n/a	+ Ready traffic pool from Kajang and Seremban. + Satisfactory debt-servicing ability. + IJM Corporation – sturdy project promoter. – Pre-completion risk. – Exposed to regulatory and single-project risks. *Rating Watch premised on the cessation of construction work on the Kajang-Seremban Highway in the Taman Bukit Margosa area.*
Lingkaran Trans Kota Sdn Bhd	Toll road (Klang Valley)	AA_2 (Sukuk Musharakah IMTN I), AA_2 (Sukuk Musharakah IMTN II), P1 (ICP)	Stable	+ Robust traffic flows of Lebuhraya Damansara-Puchong underscored by its strategic alignment and surrounding matured townships. + Strong debt-protection measures. – Exposed to regulatory and single-project risks.

Please refer to Appendix 1 for issue details.

Table 13: Key rating factors for toll concessionaires and toll road-related entities rated by RAM Ratings (continued)

Issuer	Sector	Issue rating(s)	Rating outlook	Key rating factors
MRCB Southern Link Berhad (funding vehicle for toll concessionaire MRCB Lingkaran Selatan Sdn Bhd)	Toll road (Johor)	AA_3 (Senior Sukuk), A_2 (Junior Sukuk)	Stable	+ Favourable tolling concept – reflects all existing traffic entering and exiting Malaysia via the Johor-Singapore Causeway. + Cashflow offers strong coverage over senior debts, adequate for junior obligations. – Risk of delays and cost overruns. – Exposed to regulatory and single-project risks.
New Pantai Expressway Sdn Bhd	Toll road (Klang Valley)	BBB_3 (Senior Bai' Bithaman) (Rating Watch, positive outlook), AA_3(s) (Junior Bai' Bithaman)	Stable (Junior Bai' Bithaman)	For senior debt: *Rating Watch premised on the cash compensation from the Government for the abolishment of the PJS 2 KL-bound toll collections, received by the company in FY Mar 2009, which has substantially boosted its cash reserves.* For junior debt: *Enhanced long-term rating of the Junior Notes reflects the explicit credit support from IJM pursuant to a Payment Guarantee that was executed on 22 May 2008.*
Penang Bridge Sdn Bhd	Toll road (Penang)	AA_2	Stable	+ Strong traffic flows supported by strategic position as the sole road link to Penang island. + Strong debt-servicing ability. – Regulatory risk; stagnant toll rates since the bridge began operations in 1995. – Potential traffic leakage from Second Crossing. – Single-project risk.
PLUS SPV Berhad (funding vehicle for PLUS Expressways Berhad)	Toll road (Kedah – Johor)	AA_1	Stable	+ Largest toll-road operator in Malaysia, with 7 expressway concessions. + Domestic toll-road assets underscore strong business profile. + Well-established toll-road operator in Malaysia – little operations risk. + Dependable dividend income from Projek Lebuhraya Utara-Selatan Berhad. – Overseas expansion entails added risks. – Likely to gear up further for future acquisitions and investments. – Exposed to regulatory and project-concentration risks.

Please refer to Appendix 1 for issue details.

Table 13: Key rating factors for toll concessionaires and toll road-related entities rated by RAM Ratings (continued)

Issuer	Sector	Issue rating(s)	Rating outlook	Key rating factors
Projek Lebuhraya Utara-Selatan Berhad	Toll road (Kedah – Johor)	AAA	Stable	+ Robust traffic flows derived from the NSE, which is of strategic importance as the backbone of connectivity for Peninsular Malaysia. + Strong cashflow. + Low likelihood of competing routes. – Exposed to regulatory and single-project risks.
Projek Lintasan Shah Alam Sdn Bhd	Toll road (Klang Valley)	A_1 (Sukuk Ijarah), A_3 (Sukuk Mudharabah)	Stable	+ Ready catchment area to drive near-term traffic growth on Lebuhraya Kemuning-Shah Alam; Alam Impian township expected to yield longer-term traffic potential. + Adequate support for junior payment obligations. + Implicit support from Permodalan Nasional Berhad, its ultimate shareholder. – Risk of delays and cost overruns. – Exposed to regulatory and single-project risks.
Seafield Capital Berhad (funding vehicle for Expressway Lingkaran Tengah Sdn Bhd)	Toll road (Selangor – Negeri Sembilan)	AA_2	Stable	+ Steady traffic growth underscored by strategic alignment - primary link between the NKVE and Kuala Lumpur International Airport to the NSE. + Sukuk obligations amply covered by project cashflow. – Exposed to financial risks vis-a-vis future debts. – Vulnerable to regulatory and single-project risks.
Senai-Desaru Expressway Berhad	Toll road (Johor)	AA_3 (Rating Watch, negative outlook)	n/a	*Rating Watch premised on the delayed commencement of tolling operations for the expressway's Packages 1 and 2, and the consequent impa ct on its traffic volume and future cashflow.*

Please refer to Appendix 1 for issue details.

Water: Restructuring - slower in some states than others

Industry restructuring continues…

The restructuring of the water sector continued last year with Johor, the third state that has agreed to transfer its water assets to the Federal Government – via Pengurusan Aset Air Berhad ("PAAB") in March. Under the restructuring programme, the likes of SAJ Holdings Sdn Bhd ("SAJH") – involved in the treatment and distribution of water in Johor – enter into sale-and-leaseback agreements with PAAB vis-a-vis their encumbered assets, but retain their roles as operators. In effect, the ownership and maintenance of state water infrastructure will be transferred to the Federal Government.

…though Selangor at standstill; SPLASH's debt-servicing ability intact

However, the progress of restructuring efforts in Selangor has been slower than expected, given the fragmented nature of the state's water-supply chain. Three missed deadlines and just as many offers from the Selangor State Government ("SSG") later, the restructuring remains at a standstill. Acceptance of the SSG's last offer (in July 2009) by only half of the state's concessionaires, i.e. Syarikat Pengeluar Air Sungai Selangor Sdn Bhd ("SPLASH") and Konsortium Abbas Sdn Bhd, has done little to address the mismatch between the high cost of treated water being sold to Syarikat Bekalan Air Selangor Sdn Bhd ("SYABAS") and increases in its water tariffs. As such, the ball is now in PAAB's court, although with little apparent progress thus far; the situation looks set to become a long-drawn-out saga. Meanwhile, even though SPLASH's immediate debt-servicing aptitude appears intact, its longer-term financial well-being depends on SYABAS's ability to pay its dues. Should the consolidation of the state's water assets be delayed further, the Federal Government's support for SYABAS – as demonstrated in the form of a RM320.8 million soft loan in December 2009 - would become crucial towards ensuring the continued supply of water in Selangor, Kuala Lumpur and Putrajaya.

Early redemption expected by some concessionaires; many should retain O&M roles

For some investors, this new regime may well mean early redemption of their portion of up to RM8.55 billion[47] of water-related bonds - as in the case of SAJH. To date, PAAB's offers have covered the cost of acquiring water assets, along with the retirement of the associated debts. In this context, concessionaires that had funded the construction of water assets are in the most advantageous position. For instance, SPLASH is likely to retire its bonds upon the disposal of its water assets. It also looks increasingly more likely that SPLASH's current sub-operators may still be involved in the operation of its former Sungai Selangor Water-Supply Scheme Phase 1 and Phase 3 plants in some capacity. Given the sound operating track records of many of these companies, we see little reason why they should not be able to continue as state water operators, so long as new operation and maintenance ("O&M") rates can be agreed upon.

[47] Comprises all private debt securities rated by RAM Ratings and MARC as at 31 January 2010.

Fates of water operators' IHCs less certain

Meanwhile, the fates of the investment-holding companies ("IHCs") of water concessionaires and operators are less certain. Some of these IHCs had tapped the bond market to fund their general investments, albeit predominantly backed by the cashflow generated by their subsidiaries in the water sector. This raises questions on their ability to service such debts, following potential reductions in O&M tariffs. As such, any downward revision would have a direct impact on the debt-servicing aptitudes of these IHCs, although this can only be accurately assessed once the new O&M rates and terms have been finalised.

Table 14: Key rating factors for water concessionaires and water-related entities rated by RAM Ratings

Issuer	Sector(s)	Issue rating	Rating outlook	Key rating factors
Berjaya Infrastructure Sdn Bhd (IHC of water and water-related assets)	Water	AA_3	Stable	+ Stable concession-driven business profile. + Established water operator in Malaysia. + Steady cashflow from domestic concession assets. – Potentially gearing up for future investments abroad. – Uncertainties vis-a-vis the potential amendments to the existing concessions, arising from the ongoing restructuring of the water sector. – Slow collections from the Kedah State Government.
Pengurusan Air SPV Berhad (financing conduit in relation to the obligations, responsibilities and role of PAAB)	Water	AAA	Stable	+ Strategic importance of PAAB's role as the owner of water infrastructure in Peninsular Malaysia and Labuan, pursuant to the restructuring of the water industry. + Implicit support from the Government.
Syarikat Pengeluar Air Sungai Selangor Sdn Bhd (O&M of water-treatment plants)	Water	AA_2	Stable	+ Strong business profile backed by favourable terms of privatisation agreements. + Longer-term debt-servicing capacity still intact. + SYABAS's strategic importance moderates counterparty risk. – Uncertainties vis-a-vis the potential amendments to the existing concessions, arising from the ongoing restructuring of the water sector.

n/a = not applicable

Please refer to Appendix 1 for issue details.

Table 14: Key rating factors for water concessionaires and water-related entities rated by RAM Ratings (continued)

Issuer	Sector(s)	Issue rating	Rating outlook	Key rating factors
Taliworks Corporation Berhad (IHC with primary interests in the O&M of water-treatment plants and toll-road operations)	Water and toll road	AA_3 (Rating Watch, negative outlook)	n/a	+ Sound business profile underscored by participation in stable and defensive water industry. + Debt-servicing ability still intact. – Uncertainties vis-a-vis the potential amendments to the existing concessions, arising from the ongoing restructuring of the water sector. – Additional risks from overseas investments. *Rating Watch is premised on Taliworks' proposed financing exercise, which will involve the assumption of additional debt for business expansion.*

n/a = not applicable
Please refer to Appendix 1 for issue details.

Appendix 1: Issue Details

Issuer	Issue amount and issue type
Amat Suria Sdn Bhd	▪ RM40 million Murabahah Unsecured Notes Issuance Facility (2005/2012)
Bandar Raya Developments Berhad	▪ RM200 million Nominal Value Commercial Papers/Medium-Term Notes Programme (2007/2014) ▪ RM100 million Bonds with Warrants (2007/2012)
BBN Development Sdn Bhd	▪ RM86 million Bank-Guaranteed Murabahah Commercial Papers/Medium-Term Notes Programme (2004/2011)
Berjaya Infrastructure Sdn Bhd	▪ RM400 million Medium-Term Notes Programme (2008/2028)
Besraya (M) Sdn Bhd	▪ RM100 million Commercial Papers/Medium-Term Notes Facility (2005/2012)
Binariang GSM Sdn Bhd	▪ RM2 billion Islamic Commercial Papers Programme (2007/2014)RM100 million Bonds with Warrants (2007/2012) ▪ RM19 billion Islamic Medium-Term Notes Programme (2007/2027) ▪ USD900 million (Ringgit Malaysia equivalent) Cumulative Non-Convertible Islamic Junior Sukuk (2007/2057)
Boromir Capital Sdn Bhd	▪ RM134 million Commercial Papers/Medium-Term Notes Programme (2008/2015)
British American Tobacco (Malaysia) Berhad	▪ RM300 million Commercial Papers/Medium –Term Notes Programme (2004/2011) ▪ RM700 million Medium-Term Notes Programme (2007/2020) ▪ RM100 million Commercial Papers/Medium-Term Notes Programme (2004/2014)
Cahya Mata Sarawak Berhad	▪ RM400 million Serial Bonds and the Conditional Payment Obligations of the Facilitator Bank, CIMB Bank Berhad (2005/2012)
Cerah Sama Sdn Bhd	▪ RM600 million Islamic Medium-Term Notes Programme (2007/2025)
Chemical Company of Malaysia Berhad	▪ RM250 million Musharakah Commercial Papers Programme(2008/2015) ▪ RM250 million Musharakah Medium-Term Notes Programme (2008/2023)
Dar Al-Arkan Real Estate Development Company	▪ Corporate Credit Ratings
DFZ Capital Berhad	▪ RM60 million Commercial Papers/Medium-Term Notes Programme (2007/2014) ▪ RM60 million Medium-Term Notes Facility (2007/2017)
DiGi Telecommunications Sdn Bhd	▪ RM700 million Commercial Papers/Medium Term Notes Programme (2008/2015)
E & O Property (Penang) Sdn Bhd	▪ RM350 million Bank Guaranteed Commercial Papers/Medium-Term Notes Programme (2007/2014)
Esso Malaysia Berhad	▪ RM300 million Islamic Commercial Paper Issuance Facility (2004/2011)
FEC Cables (M) Sdn Bhd	▪ RM20 million Murabahah Underwritten Notes Issuance Facility (2006/2013) ▪ RM130 million Islamic Medium-Term Notes (2006/2019)
F&N Capital Sdn Bhd	▪ RM1 billion Commercial Papers/Medium-Term Notes Programme (2008/2015)
Focal Quality Sdn Bhd	▪ RM190 million Sukuk Ijarah Islamic Debt Securities (2005/2012)
Gamuda Berhad	▪ RM800 million Islamic Medium-Term Notes Programme (2008/2028) ▪ RM100 million Islamic Commercial Papers Programme (2008/2015)
GB3 Sdn Bhd	▪ RM850 million Senior Secured Al-Bai Bithaman Ajil Bond Facility (2001/2014)
Genting Plantations Berhad	▪ Corporate Credit Ratings
Golden Crop Returns Sdn Bhd	▪ RM442 million Sukuk Al-Ijarah (2005/2014)
Great Union Properties Sdn Bhd	▪ RM105 million Bank Guaranteed Serial Bonds (2002/2012)
Hijrah Pertama Berhad	▪ RM2 billion Stapled Sukuk (2007/2013) ▪ RM924.07 million Stapled Sukuk (2007/2018)
Hong Leong Industries Berhad	▪ RM500 million Musyarakah Commercial Papers/Medium-Term Notes Programme (2008/2015)
Hubline Berhad	▪ RM150 million Murabahah Commercial Papers/Medium-Term Notes Programme (2005/2012) ▪ RM70 million Al-Bai Bithaman Ajil Islamic Bonds (2005/2012)

Appendix 1: Issue Details (continued)

Issuer	Issue amount & Issue type
Jimah Energy Ventures Sdn Bhd	▪ RM4.85 billion Senior Islamic Medium-Term Notes Facility (2005/2024) ▪ RM895 million Junior Debt (2005/2034) (Not rated)
Kesas Sdn Bhd	▪ RM800 million Al-Bai' Bithaman Ajil Islamic Debt Securities (2002/2014)
Konsortium Lebuhraya Butterworth-Kulim Sdn Bhd	▪ RM247 million Secured Bai' Bithaman Ajil Islamic Debt Securities (2005/2022)
Kuala Lumpur Kepong Berhad	▪ RM500 million Sukuk Ijarah Commercial Paper/Medium-Term Notes Programme (2007/2012)
Lafarge Malayan Cement Berhad	▪ RM350 million Al-Murabahah Commercial Papers/Medium-Term Notes (2003/2010)
LBS Bina Group Berhad	▪ RM65 million Secured Serial Bonds (2006/2011)
Lebuhraya Kajang-Seremban Sdn Bhd	▪ RM785 million Senior Istisna' (2007/2022) ▪ RM633 million Junior Istisna' (2007/2025) ▪ RM240 million Redeemable Convertible Unsecured Loan Stocks Programme (2007/2026) ▪ RM50 million Redeemable Unsecured Loan Stocks (2007/2027)
Lembaga Kemajuan Perusahaan Pertanian Negeri Pahang	▪ RM300 million Bai' Bithaman Ajil Islamic Debt Securities (2005/2015)
Lingkaran Trans Kota Sdn Bhd	▪ RM1.15 billion Sukuk Musyarakah Islamic Medium-Term Notes I Programme (2008/2023) ▪ RM300 million Sukuk Musyarakah Islamic Medium-Term Notes II Programme (2008/2023) ▪ RM100 million Islamic Commercial Papers Programme
Magna Segmen Sdn Bhd	▪ RM45 million Fixed-Rate Serial Bonds (2003/2017) ▪ RM25 million Commercial Papers Programme (2003/2010)
Malakoff Corporation Berhad	▪ RM600 million Islamic Commercial Papers/Islamic Medium-Term Notes Programme (2007/2014) ▪ RM5.6 billion Islamic Medium-Term Notes Programme (2007/2027) ▪ RM1.7 billion Cumulative Non-Convertible Islamic Junior Sukuk (2007/2057)
Malaysian Sheet Glass Sdn Bhd	▪ RM200 million Bank-Guaranteed Commercial Papers/Medium-Term Notes Programme (2007/2012)
Maxis Communications Berhad	▪ RM500 million Commercial Papers/Medium Term Notes Programme (2007/2014) ▪ RM500 million Medium Term Notes Programme (2007/2037)
Menara ABS Berhad	▪ RM1 billion Sukuk Ijarah (of which RM500 million is not rated) (2008/2023)
Mid Valley City Sdn Bhd	▪ RM200 million nominal value Medium-Term Notes Programme
Mid Valley Capital Sdn Bhd	▪ RM400 million Class 1 and 2 Redeemable Secured Bonds (2004/2015)
Midas Plantation Sdn Bhd	▪ RM93 million Sukuk Ijarah (2005/2014) ▪ RM50 million Sukuk Ijarah Commercial Paper/Medium-Term Notes Programme (2005/2012)
MRCB Southern Link Berhad	▪ RM845 million Secured Senior Sukuk (2008/2025) ▪ RM199 million Junior Sukuk (2008/2027)
Muhibbah Engineering Berhad	▪ RM400 million Mudharabah Commercial Papers/Medium-Term Notes Programme (2008/2015)
Mukah Power Generation Sdn Bhd	▪ RM665 million Senior Sukuk Mudharabah Programme (2006/2021) ▪ RM285 million Junior Sukuk Mudharabah Programme (2006/2031)
Musteq Hydro Sdn Bhd	▪ RM108 million Al-Bai' Bithaman Ajil Fixed-Rate Serial Bonds (2002/2017)
Naim Holdings Berhad	▪ RM500 million Islamic Commercial Paper Programme/Medium-Term Notes Programme
New Pantai Expressway Sdn Bhd	▪ RM490 million Senior Bai' Bithaman Ajil Notes (2003/2013) ▪ RM250 million Junior Bai' Bithaman Ajil Notes (2003/2016)
Pahlawan Power Sdn Bhd	▪ RM450 million Al-Bai Bithaman Ajil Islamic Debt Securities (2002/2012)
Panglima Power Sdn Bhd	▪ RM830 million Redeemable Secured Serial Bonds (2003/2016) ▪ RM306 million Commercial Papers/Medium-Term Notes Programme (2003/2010)
Pasdec Holdings Berhad	▪ RM150 million Rainbow Exchangeable Bonds (2006/2013)

Appendix 1: Issue Details (continued)

Issuer	Issue amount and issue type
Pembangunan Bandar Mutiara Sdn Bhd	▪ RM100 million Commercial Papers/Medium-Term Notes Programme (2003/2010)
Penang Bridge Sdn Bhd	▪ RM785 million Al-Bai' Bithaman Ajil Facility (2000/2013) ▪ RM695 million Redeemable Zero-Coupon Serial Sukuk Istisna (2006/2019)
Pengurusan Air SPV Berhad	▪ RM20 billion Sukuk Musharakah and Ijarah Commercial Papers/Medium-Term Notes Programme (2009/2039)
Perbadanan Kemajuan Negeri Selangor	▪ RM300 million Murabahah Commercial Papers/Medium-Term Notes Programme (2004/2011)
Pharmaniaga Berhad	▪ RM60 million Islamic Medium-Term Notes Programme (2005/2010) ▪ RM40 million Islamic Commercial Papers Programme (2005/2012)
PINS Capital Sdn Bhd	▪ RM150 million ICP/IMTN Programme (2007/2014)
PLUS SPV Berhad	▪ RM4.0 billion nominal value Sukuk Programme Islamic principle of Musyarakah (2008/2026)
Poh Kong Holdings Berhad	▪ RM200 million Commercial Papers/Medium-Term Notes Programme (2006/2013)
Powertek Berhad	▪ RM350 million Redeemable Unsecured Bonds (2001/2011)
Prai Power Sdn Bhd	▪ RM780 million Al-Istisna Fixed-Rate Serial Bonds (2001/2016)
Prestar Resources Berhad	▪ RM120 million Commercial Papers (2005/2012)
Projek Lebuhraya Utara-Selatan Berhad	▪ RM3.55 billion Senior Sukuk (2007/2017) ▪ RM2.26 billion Sukuk Musharakah Series 1 (2006/2016) ▪ RM2.41 billion Sukuk Musharakah Series 2 (2006/2019) ▪ RM4.5 billion Sukuk Musharakah Medium-Term Notes (2006/2031)
Projek Lintasan Shah Alam Sdn Bhd	▪ RM330 million Sukuk Ijarah (2008/2027) ▪ RM415 million Sukuk Mudharabah (2008/2037)
Ranhill Powertron Sdn Bhd	▪ RM540 million Islamic Medium-Term Notes Programme (2005/2019)
RH Capital Sdn Bhd	▪ RM85 million Sukuk Ijarah (2005/2016) ▪ RM50 million Sukuk Ijarah Commercial Paper/Medium-Term Notes Programme (2005/2012)
Royal Selangor International Sdn Bhd	▪ RM30 million Redeemable Unsecured Bonds (2001/2014)
Rubberex Corporation (M) Berhad	▪ RM50 million Medium-Term Notes Programme (2006/2013)
Sarawak Power Generation	▪ RM215 million Serial Sukuk Musharakah (2006/2021)
Seafield Capital Berhad	▪ RM1.5 billion Sukuk Musharakah Programme (2009/2027)
Segari Energy Ventures Sdn Bhd	▪ RM930 million Sukuk Ijarah (2006/2012)
Senai-Desaru Expressway Berhad	▪ RM1.46 billion nominal value Bai Bithaman Ajil Islamic Debt Securities (2005/2024)
Serudong Power Sdn Bhd	▪ RM75 million Fixed-Rate Serial Bonds (2000/2010)
Silver Bird Group Berhad	▪ RM70 million Serial Bonds (2005/2012) ▪ RM30 million Commercial Papers/Medium-Term Notes Facility (2005/2012)
South Malaysia Industries Berhad	▪ RM183.5 million Redeemable Convertible Secured Loan Stocks (2002/2010)
Special Power Vehicle Berhad	▪ RM800 million Class A Islamic Medium-Term Notes Facility (2005/2022) ▪ RM215 million Class B Islamic Medium-Term Notes Facility (2005/2034)
SP Setia Berhad	▪ RM500 million Nominal Value of 2% Redeemable Serial Bonds with 168,151,302 Detachable Warrants (2007/2012)
Sunway City Berhad	▪ RM250 million nominal value of Bank-Guaranteed Bonds with 155,805,276 rights to allotment of warrants (2007/2010) ▪ RM500 million Murabahah Commercial Papers/Medium-Term Notes Programme (sub-limit of RM100 million for the Murabahah Commercial Paper) (2007/2022)
Syarikat Borcos Shipping Sdn Bhd	▪ RM160 million Sukuk Ijarah Medium-Term Notes (2008/2014)

Appendix 1: Issue Details (continued)

Issuer	Issue amount & Issue type
Syarikat Pengeluar Air Sungai Selangor Sdn Bhd	▪ RM1.407 billion Al-Bai Bithaman Ajil Debt Securities Issuance Facility (2000/2016)
Syarikat SESCO Berhad	▪ RM605 million Al-Bai Bithaman Ajil Islamic Debt Securities (2001/2012)
Tan Chong Motor Holdings Berhad	▪ Corporate Credit Ratings
Taliworks Corporation Berhad	▪ RM225 million Convertible Bonds (2007/2012)
Tanjung Bin Power Sdn Bhd	▪ RM5.57 billion Istisna Medium-Term Notes Programme (2003/2018)
Tanjung Offshore Berhad	▪ RM150 million Redeemable Serial Bonds (2006/2014) ▪ RM400 million Islamic Medium Term Notes Programme (2008/2023)
Teknologi Tenaga Perlis Consortium Sdn Bhd	▪ RM1.515 billion Al-Istisna' Fixed-Rate Serial Bonds (2001/2016)
Tenaga Nasional Berhad	▪ USD500 million equivalent Murabahah Medium-Term Notes Programme (2005/2025)
Texchem Resources Berhad	▪ RM100 million Commercial Papers/Medium-Term Notes Programme (2005/2012)
YTL Power Generation Sdn Bhd	▪ RM1.30 billion Medium-Term Notes Programme (2003/2014)
YTL Power International Berhad	▪ RM2 billion Commercial Papers/Medium-Term Notes Programme (2007/2014) ▪ RM2.2 billion Serial Redeemable Bonds (2008/2013)

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