

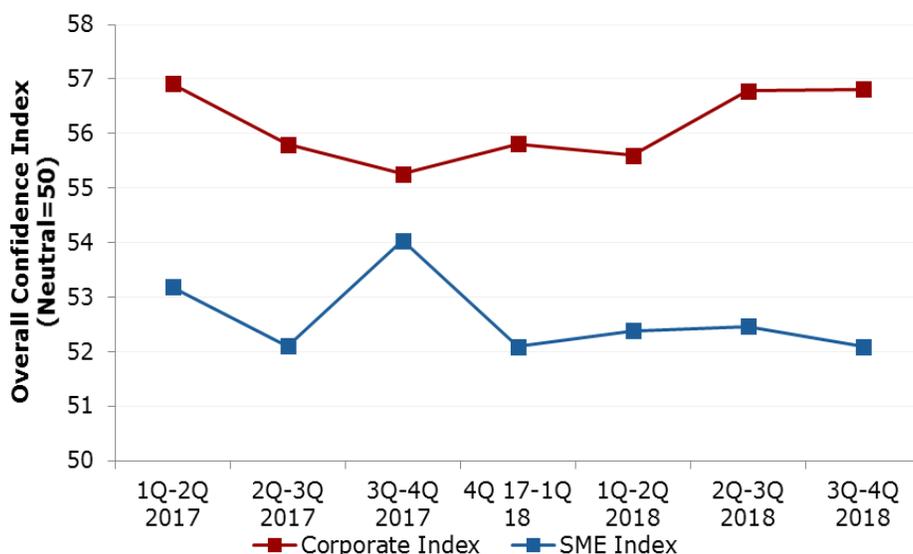


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RAM Business Confidence Index: Firms surveyed post-GE14 generally more optimistic about business outlook

The latest RAM Business Confidence Index (RAM BCI) readings suggest that firms remain upbeat about their business outlook going into the third and fourth quarters of 2018. The Corporate and SME indices again charted positive sentiment at a respective 56.8 and 52.1, with continued improvement in their turnover and profitability sub-indices. The sustained positive readings (refer to Figure 1) indicate Malaysia's economic resilience in 1H 2018 is likely to carry through to the second half of the year, supported in particular by the Corporate segment's firm optimism.

Figure 1: RAM BCI overall index values

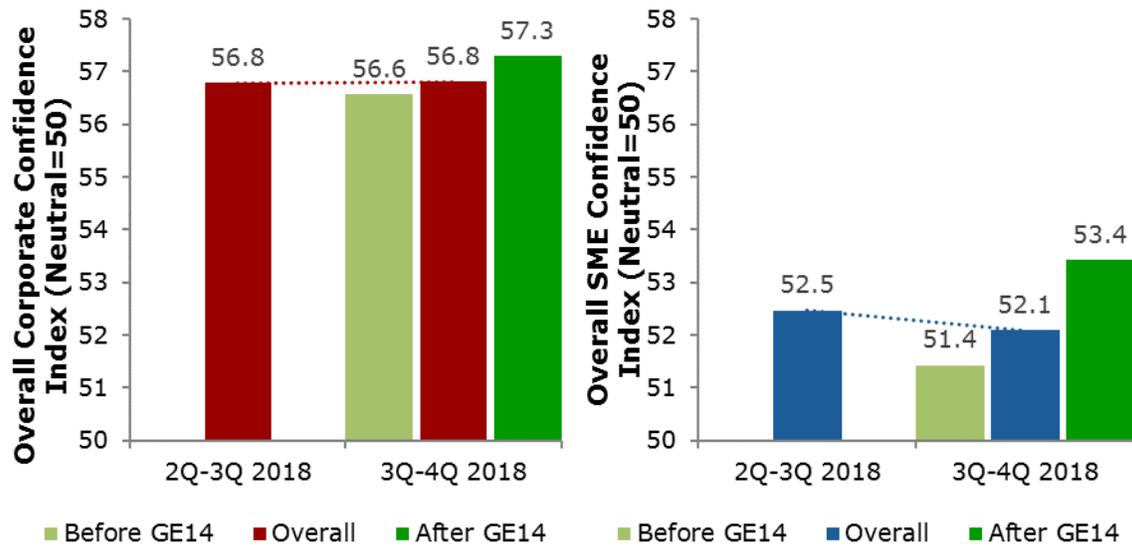


Source: RAM BCI

Generally more upbeat business sentiment following GE14

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

Figure 2: Business sentiment improved among firms surveyed after GE14



Source: RAM BCI

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

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

SMEs still pessimistic about access to bank financing

Drilling down to SMEs’ ability to access bank financing, the RAM BCI sub-index covering this aspect has been hovering within the “negative sentiment” territory for the last four surveys; it stands at 48.1 (-0.4 points) for 3Q-4Q 2018. This suggests some concerns over their funding conditions. This appears to also be an issue pertinent to only SMEs, as their larger Corporate counterparts have consistently recorded positive readings for this sub-index in the last six surveys, suggesting generally less difficulty in obtaining bank financing.



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In the latest survey, 28% of SMEs indicated that they expected it to be more difficult to access bank financing. This is roughly double the proportion of Corporates (14.3%) with the same response. This issue is especially prominent for the SME construction sector, where 33.4% of firms expected increased difficulty in this area. In view of our findings, it is important to ensure SMEs' better access to funding, to support the country's economic growth. Furthermore, SMEs' turnover and profitability expectations have risen in the last three surveys - a sign pointing to potentially a greater need for financing.

Moving forward, short-term economic uncertainties remain. On the domestic front, a slew of potential new measures, such as the change in tax regime, the review of major government-linked projects and the proposed increase in minimum wages, by the new administration may impact domestic businesses. Meanwhile, on the global front, the impact of the US Federal Reserve's rate hikes and the repercussions of the ongoing US-China trade war also present challenges. While businesses have shown more positive confidence following the results of GE14, these prevailing uncertainties may dampen the prospect of business optimism translating fully into eventual tangible results.

The RAM Business Confidence Index is a comprehensive survey jointly conducted by RAM Holdings Berhad and RAM Credit Information Sdn Bhd, on business sentiment in Malaysia. Released quarterly, the index is based on data from a survey of close to 3,500 SMEs and Corporates across 5 main industry segments respectively. The index, designed to measure forward-looking expectations, offers a timely barometer of future economic activity to guide businesses' investment decisions and planning as well as provide inputs for strategic policymaking by various stakeholders of the economy. This is done through the indication of positive and negative sentiment on 7 key aspects that are pertinent to their business operations over the next 6 months. The 7 business aspects surveyed are turnover, profitability, business expansion, hiring, capital investment, capacity utilisation and access to bank financing. An index value of 50 is the neutral benchmark while a value above 50 indicates positive sentiment by the firm; below 50 shows negative sentiment.

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About RAM Holdings Berhad

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

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