EPP 1: ANCHORING ON KOTA KINABALU INDUSTRIAL PARK (KKIP) AS A FOCUS TO DEVELOP THE MANUFACTURING INDUSTRY IN SABAH

KOTA KINABALU INDUSTRIAL PARK (KKIP)

DESCRIPTION
Kota Kinabalu Industrial Park to further capture potential investors to set up production plants.

Targets include setting up of:
- Automotive Cluster
- Rubber & Furniture Cluster

Investment targets from “Quick Wins” investors are as follows:

<table>
<thead>
<tr>
<th>INVESTORS</th>
<th>INVESTMENT QUANTUM</th>
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<tbody>
<tr>
<td>Benteng Motors Sdn Bhd</td>
<td>RM200.0 million</td>
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<tr>
<td>Hartalega Sdn Bhd</td>
<td>RM1.0 billion</td>
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<tr>
<td>Tan Chong Manufacturing (S) Sdn Bhd</td>
<td>RM400.0 million</td>
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<tr>
<td>Sabah Steel Industries Sdn Bhd</td>
<td>RM200.0 million</td>
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1 AUTOMOTIVE CLUSTER (IZ7 & IZ9)

2 RUBBER & FURNITURE CLUSTER (IZ12)

KEY OUTCOMES OF THE EPP / KPIs
- Boosts manufacturing sector in Sabah to surpass 20% in terms of GDP contribution in 2020 from currently 9%.
- Double the manufacturing output commensurate with the increase of GDP contribution by 2020.
- Grow the logistic sector with spin-off effect to the much wider auxiliary services of transportation sector.
- Substantial reduction in the price for doing business and conducive investment climate for the state.
- Encourage the growth of SMV/SME to capture the opportunity in the supply of raw materials and other related business to manufacturers.

WHAT NEEDS TO BE DONE?
- KKIP desperately have to secure constant natural gas allocation from relevant body - Petronas.
- Engagement with Petronas to secure the immediate supply of the required gas.
- Seek for government immediate funding to enable infrastructure development and manufacturing setup.
- Allow direct call shipment at SBIP to eliminate unnecessary delay in consignment, and high ports and shipping charges.
- Improve ports infrastructure and facilities to cater for Main Line Operators (MLO) operation at SBIP in the medium term.

KEY CHALLENGES
- Investors are unable to access raw materials at competitive price for production process.
- Shortage of natural gas supply to cater for industrial needs. Securing the gas supply of at least 200mmscf/d is very challenging as Petronas is the sole agent to provide the supply.
- High freight cost, longer shipping time, poor port services has contributed to the delay in business transaction, hampering investment motives in KKIP.
- Inadequate infrastructure also discourage private investment to setup factory in KKIP.

MITIGATION PLAN
- Provide SBIP with necessary infrastructure for the operation of MLO to enable direct call ensuring cheaper and speedy supply of raw materials.
- Make use of the abundant local natural resources to supply raw materials to manufacturer hence avoid reliance on imported materials.
- Seek government funds for the development of infrastructure to ease the manufacturing setup.
EPP 2: MAIN LINE OPERATOR (MLO) SET UP AT SAPANGAR BAY PORT

SAPANGAR BAY CONTAINER PORT (SBCP)

DESCRIPTION
SBCP will need to expand its container yard and jetty to attract MLO to set up base at SBCP.

MLO servicing SBCP will bring in international transhipment containers increasing the volume handled at the port, hence increasing the port’s revenue.

Export produce generated by Sabah can be shipped out by these MLOs, without being double handled by feeder ships to other hubs.

Similarly, goods bound for Sabah domestic use can be picked up by these MLOs and shipped directly to Sabah without having to go through Port Klang or PTP.

KEY OUTCOMES OF THE EPP / KPIs
• Increase in volume of containers to 1,000,000 TEU handled at SBCP by 2020
• Direct calls at SBCP eliminates double handling of inbound and outbound local containers
• SBCP able to function as hub for exchange of containers between north- and south-bound liners which can help achieve the 2020 TEU target and increase revenue from port activities
• Extensive reduction in the price of doing business that encourages business activities due to cheaper imports of raw materials, industrial products and consumer goods
• Greater socio-economic spin-off to the wider population in terms of employment generation, poverty reduction and better standard of living

WHAT NEEDS TO BE DONE?
• Form a working committee comprising of the stakeholders to plan strategic move, including securing the endorsement of the state government
• Approach immediately to the investors that have indicated willingness to participate in the JV and to deliberate further on the setup of base for the MLO
• Adhere strictly to the implementation plan and start working on the JV mechanism
• Start manpower planning to secure the right personal and talent
• Determine alternative approach to secure the EPP by considering some mitigation plan in case the intended JV approach does not materialise

KEY CHALLENGES
• Securing MLO to invest in the expansion plan proves to be very challenging. It requires full commitment from all stakeholders which is challenging to secure
• Limited capability of the owner to fund the EPP risks the whole EPP being abundant if there is no investor’s willingness to fund it
• Even if investor has been identified for the EPP, the business model for the JV may be subject to proving discussion to gain consensus from all parties. This will delay the implementation of the EPP

MITIGATION PLAN
In the event that the EPP fails to materialise due to failure in getting funding, few options are available as mitigating measures:
• The JV seeks external loan from private organisation or international bodies
• Secure funding through PPP approach with certain duration of concession period
• Form a consortium to pull financial resources with less burden to consortium members
• Suria Capital Holdings Berhad secures funding through either public offer or issuance of bond
• Sell the dedicated land with restriction only to develop it as port and ports related activities with the option to buy back after a certain period of time
• Fully privatise the port to allow the firm to run independently without the need for state’s assistance. However, the government can land stake in the port through state investment arm, if necessary