

Air Freight Market in Malaysia (JULY 2018)

Although air freight traditionally benefits from low base effects, Malaysia's air freight sector is well developed, meaning that growth opportunities are few and far between in the country. The air freight in Malaysia is expected to register relatively muted annual growth over the short and medium term (under 1.2%) as capacity issues limit growth opportunities. On the plus side, lower fuel costs and increased tourist numbers are supporting growth in the sector.

Latest Updates:

- Malaysia is seeking to enhance connectivity with Cambodia in the coming years, specifically in terms of air travel, according to the country's deputy transport minister Datuk Aziz Kaprawi, Khmer Times reported in January 2018. The new Bassaka Air flight, which connects Phnom Penh and Kuala Lumpur, was launched on January 31 2018.
- Netherlands-based **CEVA Logistics** has expanded its footprint in Malaysia, opening up a new 70,000 square metre multi-user warehouse in the Bayan Lepas Free Industrial Zone Phase IV Penang. The warehouse is just a 10-minute drive away from both Penang International Airport (PEN) and the Penang bridge, which connects the island to mainland Malaysia. The new facility will provide temperature-controlled and ambient-temperature storage space, as well as 'advanced equipment for materials handling, an advanced radio frequency (RF) warehouse management system, on-site customs and modern office space'.
- **DHL Express** has recently launched its inaugural passenger-to-freighter (P2F) Airbus 330-300, serving the fast-growing markets of Malaysia, Vietnam and Hong Kong, STAT Times reported in March 2018. Freight capacity will increase by 33% per flight on the new service.

Consumer spending in Malaysia will benefit from a youthful and increasingly urbanised population, rising household incomes and low levels of unemployment. Relatively low inflation and a growing middle class will help generate demand for nonessential items and luxury goods. The country is also experiencing a shift in retail formats, with the government supporting the development of 'big-box boulevards' - concentrated centres of shopping outlets on the outskirts of cities. This is helping to attract retailers, both domestic and international, who are keen to capitalise on the forecast rise in household spending in the retail sectors.

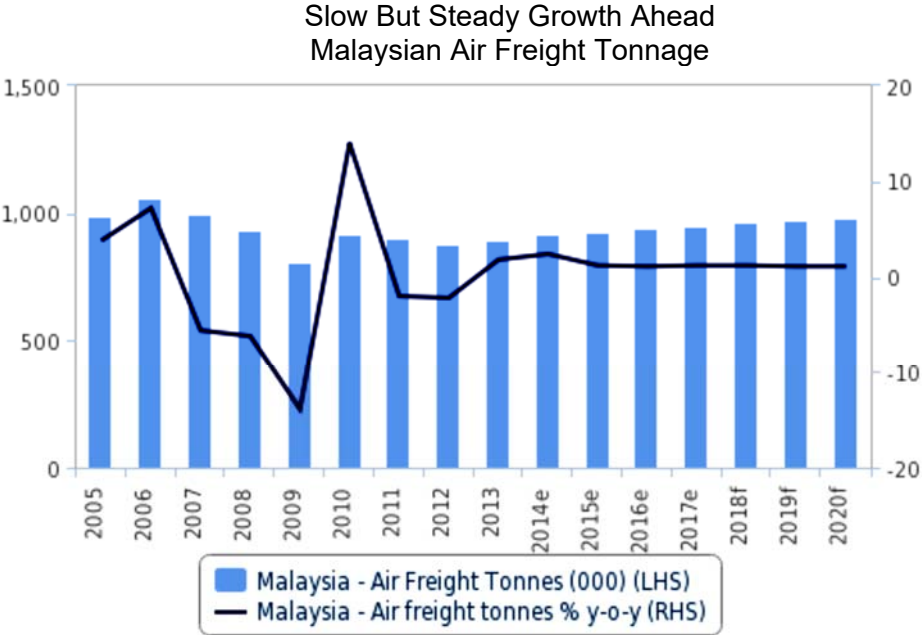
Malaysia's air freight sector is set to register y-o-y growth of 1.2% in 2018, similar to the level of growth seen in 2017. This scenario will see tonnage handled come in at 2.8mn tonnes. Low base effects are currently not proving enough of a factor to compensate for the fact that the small amount of cargo space available in plane's bellyholds limits the total amount of tonnage that can be handled. Malaysia's primary international gateway is Kuala Lumpur International Airport (KLIA), with secondary hubs being Kota Kinabalu International Airport, Penang International Airport, Kuching International Airport, Langkawi International Airport and Senai International Airport. Demand for low-cost airports is especially prevalent in Malaysia. The country is separated into two parts by the South China Sea, making low-cost air travel the most practical way of travelling between them.

Malaysia's consumer electronics market is undergoing a transition, as the growth engine switches to the increase in higher value sales, while volume growth is playing a smaller role due to approaching saturation and diminished potential in categories such as PCs, flat-panel TV sets and smartphones. Vendors will therefore benefit from ringgit appreciation and purchasing power growth forecast for 2018-2021.

Malaysia has a large and externally oriented consumer electronics industry, and consequently trade flows are high value in per capita terms. The industry is centred on packaging and the assembly of semiconductors, and inward investment remained solid through to 2016, but the device assembly and manufacturing industry is in decline due to a squeeze from lower-cost locations such as China and Vietnam. Total consumer electronics spending - including PCs and peripherals, TV sets, digital cameras and camcorders, audio devices and mobile handsets - is forecast to increase by 6.5% in 2018 to reach almost USD5.2bn, thus providing support for Malaysia's air freight sector. A stronger growth than in 2017 is expected, in part because of the ringgit forecast after depreciation 2014-2017, but also due to more supportive product trends in the computer and AV segments.

Pharmaceuticals is another sector of interest to air freight as this mode is key in transporting drugs to and from Malaysia. The Malaysian government will remain firmly committed to improving healthcare quality and access across the country as part of the 11th Malaysia Plan. In recent years, the healthcare sector has seen increased government expenditure, with an increase in medical facilities and higher-quality treatments. The Malaysian healthcare sector will experience robust growth driven by the country's concerted effort to improve the health and wellbeing of its population. In 2017, healthcare expenditure in Malaysia was valued at MYR60.12bn (USD14.15bn) and is expected to grow by 9.6% in 2018 to reach MYR65.90bn (USD16.47bn).

Greater accessibility to healthcare services in Malaysia and guarantees of greater public funds towards healthcare mean that medicine sales are highly likely to experience a tailwind, thus underpinning air freight growth, with the mode key to their transportation. However, we note that innovative drug makers will continue to struggle due to the country's challenging regulatory environment. In addition, with an expansion of access to healthcare services, we anticipate a greater generic substitution rhetoric as rationalisation of the pharmaceutical budget becomes more important.



Source: Department of Statistics Malaysia, BMI