

8. INDUSTRY OVERVIEW

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20 JUN 2024

The Board of Directors
Azam Jaya Berhad
Lot 7, Jalan Kolam Centre 1
Hilltop
88300 Kota Kinabalu
Sabah
Malaysia

Dear Sir/Madam,

**INDEPENDENT MARKET RESEARCH REPORT ON THE CONSTRUCTION INDUSTRY IN MALAYSIA
("IMR REPORT") FOR AZAM JAYA BERHAD**

This IMR Report has been prepared for inclusion in the Prospectus of Azam Jaya Berhad ("**Azam Jaya Group**" or "**Company**") pursuant to the listing of Azam Jaya Group on the Main Market of Bursa Securities.

Mr. Leow Hock Bee is the Research Director of Infobusiness Research & Consulting Sdn Bhd ("Infobusiness Research"). He has a Bachelor of Science (Honours) Geology from the University of Western Ontario, Canada and a Masters of Business Administration from Massey University, New Zealand. For more than 15 years, Infobusiness Research has been providing independent market research reports on corporate exercises, including initial public offerings and reverse takeovers. He has more than 30 years of experience in market research, starting his career at Ban Hin Lee Bank Berhad where he spent 10 years. He has been involved in the research of a wide range of industries such as electronics, engineering supporting, furniture, rubber gloves, retreaded tyres, plastics packaging, oil and gas, oil-palm based, construction and property development, predominantly in corporate exercises for public listed companies.

This research is undertaken with the purpose of providing a strategic and competitive analysis of the construction industry in Malaysia. The research methodology includes both primary research, involving in-depth interviews with pertinent companies, as well as secondary research such as reviewing press articles, periodicals, government literatures, in-house databases, internet research and online databases.

This IMR Report contains information supplied by and analysis based on public and private sources. To the extent such sources have been cited herein, we hereby confirm that we are allowed to make reference to such sources. We believe that they are appropriate sources for such information and have taken reasonable care in extracting and reproducing such information.

Infobusiness Research has prepared this IMR Report in an independent and objective manner and has taken all reasonable consideration and care to ensure its accuracy and completeness. This IMR Report should not be taken as recommendation to buy or not to buy the shares of any company.

For and on behalf of
INFOBUSINESS RESEARCH & CONSULTING SDN BHD



Leow Hock Bee
Research Director

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IMR REPORT ON THE CONSTRUCTION INDUSTRY IN MALAYSIA

1.0 Introduction

Azam Jaya Group is a construction service provider in Sabah specialising in the construction of road infrastructure including roads, highways, bridges, flyovers, and tunnels. About 97.9% of Azam Jaya Group's revenue for the FYE 2023 was derived from construction.

2.0 Overview of the construction industry

The construction industry generally relates to the construction of physical infrastructure, buildings and special trade activities. It involves the full cycle of infrastructure and buildings, ranging from initial construction such as land reclamation, drainage and piling, to post-construction building services and maintenance such as refurbishments, renovations, retrofitting, repairs and maintenances, as well as their eventual demolition, dismantling or decommissioning.

Although it may be thought of as a single activity, construction is a feat of multitasking taking place across many diverse functions and segments. In many cases, construction services may be carried out by a sole contractor who complete the whole project for the project owner, or by several sub-contractors who undertake parts of the project under a main contractor. Most large construction companies undertake both infrastructure and building works as there is an overlap of the assets used such as earth-moving equipment, as well as the required technical expertise. In addition, there is considerable interchange of staff between the two disciplines.

Generally, the construction industry follows two broad business models, depending on the nature and complexity of the project:

- **Build-only projects** - traditionally, the design phase would be separated from the construction phase. During the design phase, the project owner would hire a design team comprising professionals such as quantity surveyors and civil engineers to determine a workable design for the project. Once it is completed, the construction phase is then launched, where the project owner engages a main contractor to construct the project. In turn, the main contractor may divide the project into several work packages with other construction companies acting as subcontractors. However, the main contractor will be responsible for the overall performance and progress of the project; or
- **Design and build projects** - the project owner may prefer a single point of responsibility by appointing a main contractor who would be responsible for both the design and construction of the project (design and build model). As well as being responsible for faulty workmanship in construction, the contractor is also liable for any deficiencies in design under this arrangement, such as compliance with design specifications. In some instances, the contractor may also agree to be responsible for acquiring land, financing the project and leasing the finished structure. This more comprehensive arrangement is often referred to as a "turnkey" contract.

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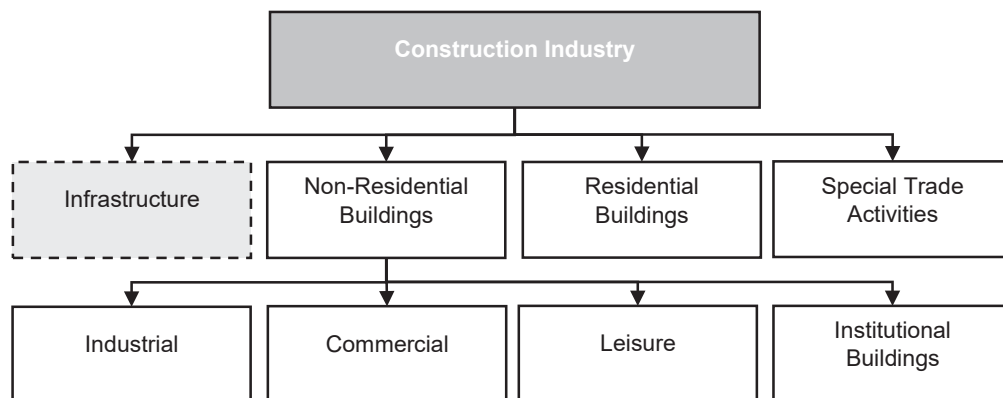
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Another advantage of a design and build contract is that the project can often be completed within a shorter period of time as compared to the conventional three-party arrangement, since the construction can begin before the entire plans and specifications are completed. This time saving results from designing the project in phases so that the contractor can begin work on the initial phase of the project while the later phases are being designed.

2.1 Segmentation of the construction industry

The construction industry in Malaysia can be segmented into four main segments as illustrated and described below (*Figure 1*).

Figure 1: Segmentation of the construction industry in Malaysia



Note:

Azam Jaya Group is mainly involved in infrastructure construction (also known as civil engineering), as indicated by the dotted box. Both non-residential buildings and residential buildings are categorised as building construction under the construction industry.

Source: Department of Statistics

- **Infrastructure (also known as civil engineering):** Construction of infrastructure such as expressways, highways, roads, bridges, tunnels, railways, utility plants, harbours, refineries, etc;
- **Non-residential buildings:** Construction of buildings for industrial, commercial (offices, shop units and shopping malls) and leisure activities (hotels), as well as institutional buildings such as schools, clinics, prisons, etc;
- **Residential buildings:** Construction of buildings intended for dwelling purposes; and
- **Special trade activities:** Construction activities such as demolition, drilling, drainage, piling, land reclamation, etc.

2.2 Value chain of the construction industry

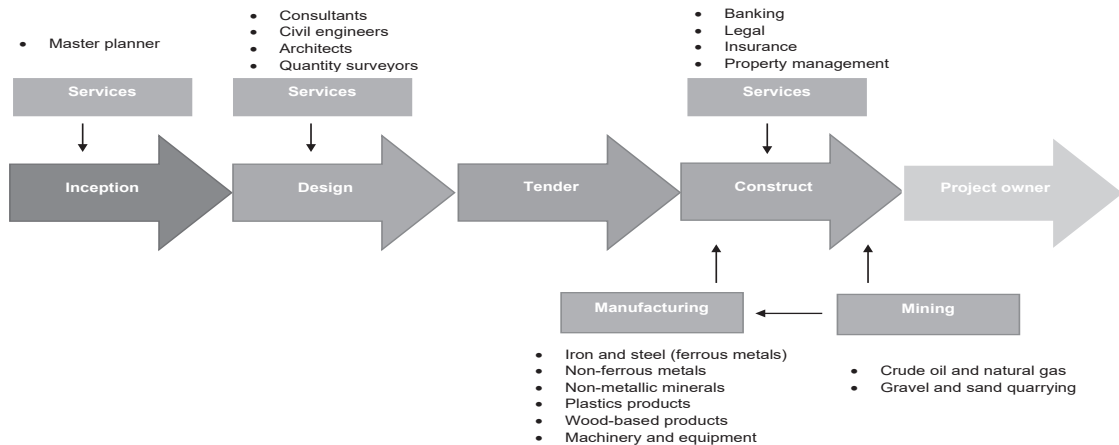
The construction industry is highly integrated with the other industries in Malaysia through both backward and forward linkages, such as the manufacturing, services and mining industries. It has high impacts and multiplier effects due to its extensive linkages with the other sectors of the economy, which have the potential to create high impacts and multiplier effects.

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According to the Construction Industry Development Board (“CIDB”), the construction industry in Malaysia has linkages with over 120 different industries in the country (**Figure 2**). For instance, building materials are manufactured from various materials such as glass, cement, ceramics, iron and steel, wood and plastics. As a result, any slowdown in the construction industry would also affect activities in the ancillary and supporting industries in the ecosystem.

Figure 2: The Construction Industry Value Chain



Source: Infobusiness Research

3.0 Government Policy

National Construction Policy 2030

The National Construction Policy 2030 was launched in 2021 and aims to transform the construction industry towards the digitalisation era. In addition to Malaysia’s goal of achieving a digitalised construction industry that is comparable to that of developed countries by 2030, it also seeks to strengthen the industry in terms of its sustainability, competitiveness and skill enhancement of the workforce. The thrusts of the National Construction Policy 2030 are to strengthen quality and safety in project performance across the construction industry, embrace a sustainable built environment, improve construction productivity, strengthen infrastructure maintenance, strengthening internationalisation and competitiveness, and strengthening good governance and adoption of best practices.

4.0 Past performance of the construction industry In Malaysia

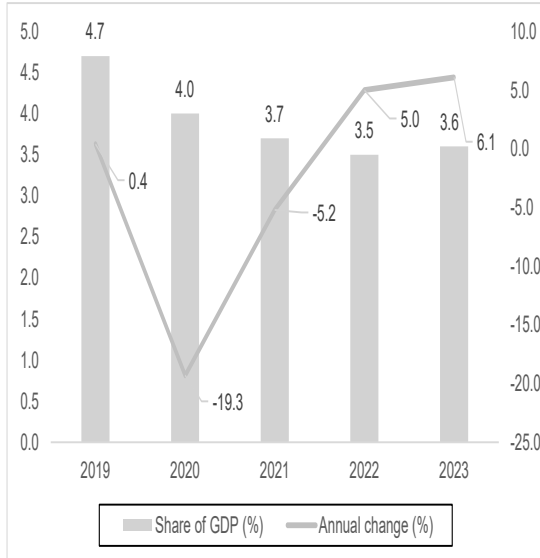
4.1 Share and contribution of the construction industry in the Malaysian economy

The construction industry constitutes an important component of the Malaysia’s economy as it acts as a catalyst to spur the economy, as construction activities will also spur the manufacturing of various building materials and provision of services locally. It has also played a key role in accumulating the nation’s capital stock such as buildings, roads, railways, ports and airports, which are necessary for the economy to expand. Between 2019 and 2023, the construction industry accounted for an average 3.9% share of the GDP (**Figure 3**). The construction industry rebounded by 5.0% in 2022 and 6.1% in 2023, after declining by 19.3% and 5.2% in 2020 and 2021, respectively, due to the various lockdowns associated with the COVID-19 pandemic. This was lifted by the continued progress of both infrastructure and building construction projects.

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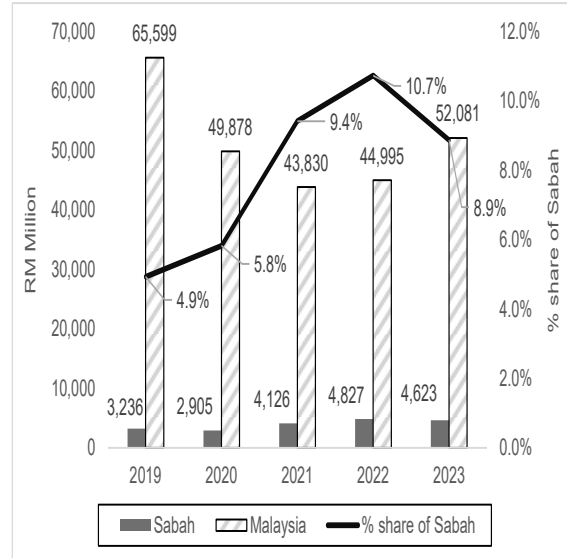


Figure 3: Construction Industry Indicators



Source: Bank Negara Malaysia

Figure 4: Value of Civil Engineering Works Done (RM Million)



Source: Department of Statistics

4.2 Value of civil engineering works done

Between 2019 and 2023, the average annual value of civil engineering works done in Sabah was recorded at RM3.9 billion, as opposed to RM51.3 billion in the case of Malaysia as a whole. However, measured in terms of percentage share, Sabah had progressively increased its share to the national figure from 4.9% in 2019 to 8.9% in 2023 (Figure 4). This was due mainly to the Government's recognition that infrastructure in the state is lagging behind Peninsular Malaysia. However, there was a slight decline in the value of civil engineering works done in Sabah in 2023.

The contraction in the value of civil engineering works done on the national level between 2020 and 2021, was due to the imposition of the MCO and its various iterations that impacted on the construction industry. The exceptions were critical works such as slope repairs, pothole repairs, tunnelling works, or any other works which if not completed, would result in dangers to the public. However, the value of civil engineering works rebounded in Malaysia in 2022 and 2023.

5.0 Demand conditions

5.1 Fiscal pump-priming

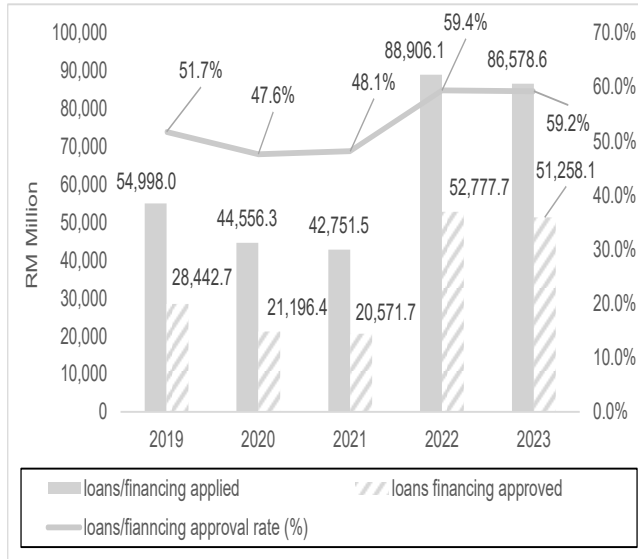
The construction industry in Malaysia has always been a prime economic mover and a frequent target for the Government's economic stimulus measures. Due to its high multiplier effects, it has been used to pump-prime the economy by the Government in the past, through the launching of public infrastructure projects such as the East Coast Expressway, Upgrading of Penang Bridge and the Senai-Desaru Expressway after the Global Financial Crisis in 2008/2009, as well as the Asian Financial Crisis in 1997/1998. As the economy was heavily impacted by the COVID-19 pandemic, the launching of the Mass Rapid Transit 3 project is viewed as critical due to its high impacts and widespread multiplier effects (estimated costs of RM45 billion over a period of 10 years). Other construction projects which have the potential to stimulate the economy include the Pan Borneo Highway and West Coast Expressway.

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5.2 Monetary Policy and Loans in the Construction Industry.

Figure 5: Loans/financing applied by and approved in construction industry (RM million)



In addition to internally generated funds to finance construction projects, construction companies constantly seek loans/financing from the banking system (commercial banks, Islamic banks and investment banks) to bridge the gaps between expenditures and obtaining payments.

Monetary policies such as money supply and interest rates may affect the volume of loans/financing applied. While the average annual volume of loans/financing applied by the construction industry was recorded at RM63,558.1 million between 2019 and 2023; the average annual volume of loans/financing approved was registered at RM34,849.3 million during the corresponding period. The loans/financing approval rate also rose from 51.7% to 59.2% during the similar period (**Figure 5**).

Source: Bank Negara Malaysia

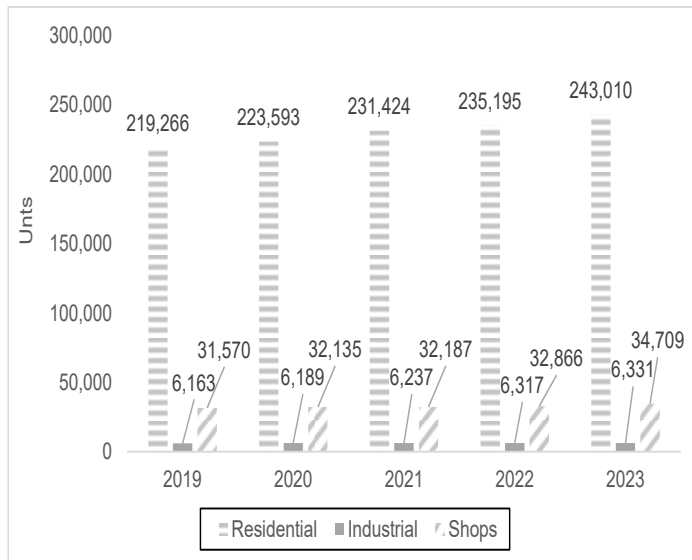
5.3 The need for good infrastructure

The provisions of good infrastructure play a vital role in attracting residents to purchase residential properties and move to new townships, supplemented by commercial and manufacturing establishments. In addition to the infrastructure facilities such as roads and flyovers provided by property developers, there are also continuous infrastructure expansions and improvements undertaken by government agencies to cope with an increase in traffic flows and population, as well as in maintenances. As towns expand and merge into larger urban areas and cities expand as well, the demand for more and improved infrastructure will inevitably expand in tandem.

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Figure 6: Stock of selected properties in Sabah



Source: National Property Information Centre

Residential properties dominate the stock of properties in Sabah, rising from 219,266 units in 2019 to 243,010 units in 2023, yielding a CAGR of 2.6%. Meanwhile, shop properties expanded from 31,570 units in 2019 to 34,709 units in 2023, registering a CAGR of 2.4. In the case of industrial properties, it recorded a CAGR of 0.7%, increasing from 6,163 units in 2019 to 6,331 units in 2023 (**Figure 6**).

6.0 Supply conditions

6.1 Supply chain disruptions

The COVID-19 pandemic and the Russian-Ukraine conflict has severely disrupted the global supply chain, including the construction industry. For example, Russia was the fifth largest producer of steel in the world in 2022 and the construction industry is the main end-user of steel products. The supply of building materials was also affected by the COVID-19 pandemic as most manufacturing plants ceased or suspended their operations, furloughed workers, faced disrupted logistics, etc. The availability of building materials is subject to demand and supply forces in the market, as well as logistics, payment terms and stock availability. Delivery times may increase for certain building materials if the domestic building materials suppliers do not carry ample stocks. Prices for major building materials have fallen off their peaks as supply chain pressure eases towards the end of 2022.

6.2 Supply of earth-moving equipment

The construction industry relies on the availability of earth-moving equipment. They encompass heavy equipment used in the construction industry to move large amounts of earth, dig foundations for buildings and to landscape areas. The availability of earth-moving equipment and their spare parts were also impacted by the lockdowns associated with COVID-19, as the operations of most manufacturing plants ceased or were suspended, ports confined to limited operations and reductions in air flights that inhibit the movements of skilled engineers and technicians from machinery suppliers overseas for consultation, guidance and training.

6.3 Supply of labour

Although the working condition and wages for construction workers have improved over the past decade, participation among locals in the construction industry remains low, causing a critical dependence on foreign labour. There were about 400,000 documented foreign workers working in the construction industry in Malaysia as at end-August 2023.

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For skilled labour such as experienced civil engineers, architects and quantity surveyors, the ability to attract and retain the best talents always provides a construction company with a competitive advantage.

7.0 Substitutes

There are no substitutes to infrastructure construction activities as they are essential for the expansions of both urbanisation and industrialisation. The process of urbanisation requires the construction of more buildings for residential, commercial and leisure purposes, while the industrialisation process requires the construction of more industrial buildings. In turn, more construction and maintenance of infrastructure facilities are needed for connectivity.

8.0 Industry reliance on and vulnerability to imports

The construction industry relies heavily on various building materials such as steel beams, steel bars, wire rods, sand, gravel, sand bricks, clay bricks, reinforced concrete piles, concrete culverts, ready-mixed concrete, etc. The average annual imports of building materials into Malaysia was recorded at RM7,945.2 million between 2019 and 2023.

Due to the higher cost factor of imported building materials and the price-sensitive nature of most building owners, the main bulk of building materials are sourced domestically. However, certain building materials are also sourced from overseas as some project and building owners may prefer certain products with specific specifications which are not manufactured domestically. Examples of such imported building materials include certain steel products such as steel concrete reinforcing bars (rebars) and wire rods of different grades and yield strengths, insulation materials for glass products and dimension stones such as granites of specific colours. As a result, the construction industry is also reliant on and is vulnerable on imports of building materials.

9.0 Competitive landscape**9.1 Factors of competition**

In general, construction companies compete based on factors such as competitive pricings, proven track records, quality construction works and timely delivery of projects, as well as the ability to retain professional and technical talents.

The G7 contractors represent the highest grade of contractors recognised by the CIDB and can undertake construction works without any limit to the value of projects. There were 3,206 local G7 contractors specialising in road and pavement construction under the civil engineering category in Malaysia as at 14 June 2024, out of which 326 contractors were located in Sabah (Source: CIDB). The number of specialised contractors would affect the intensity of competition in a particular category.

9.2 Industry players

Azam Jaya Group is a construction service provider in Sabah specialising in the construction of road infrastructure including roads, highways, bridges, flyovers, and tunnels. About 97.9% of Azam Jaya Group's revenue for the FYE 2023 was derived from road infrastructure construction.

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The criteria for the selection of comparable companies to Azam Jaya Group are as follows (**Table 1**):

- Listed on Bursa Malaysia;
- Must be involved in infrastructure construction in Malaysia;
- Revenue between RM100 million and RM1 billion in the latest FYE; and
- Operations (and revenue) derived within Malaysia only, in the latest FYE.

Table 1: Business Activities and Financial Comparisons of Comparable Companies to Azam Jaya Group

Company	Business Activities	Latest FYE	Revenue (RM '000)	GP (RM '000)	GP margin (%)	PAT/LAT (RM '000)	PAT / LAT margin (%)
Azam Jaya Group	The Azam Jaya Group is a construction service provider in Sabah specialising in the construction of road infrastructure including roads, highways, bridges, flyovers, and tunnels.	31/12/23	280,766	77,578	27.6	25,983	9.3
Advancecon Holdings Berhad	It is involved in building and infrastructure construction, as well as quarrying.	31/12/23	449,765	368	0.1	-45,875	N. A.
Gabungan AQRS Berhad	It is involved in building construction and infrastructure construction, as well as property development.	31/12/22	337,771	61,048	18.1	20,140	5.9
MGB Berhad	It is involved in both building construction and infrastructure construction.	31/12/23	971,828	148,560	15.3	50,462	5.2
Nestcon Berhad	It is involved in both building construction and infrastructure construction.	31/12/23	775,146	28,314	3.7	3,901	0.5
Pesona Metro Holdings Berhad	It is involved in both building construction and infrastructure construction.	31/12/23	515,414	39,728	7.7	12,389	2.4
TCS Group Holdings Berhad	It is involved in both building construction and infrastructure construction.	31/12/23	374,481	-17,184.5	N. A.	-32,885	N. A.
Vestland Berhad	It is involved in both building construction and infrastructure construction.	31/12/23	349,242	51,326.5	14.7	27,765	7.9
Vizione Holdings Berhad ¹	It is involved in both building construction and infrastructure construction, as well as property development.	31/05/23	391,779	13,110	3.4	-94,578	N. A.

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Company	Business Activities	Latest FYE	Revenue (RM '000)	GP (RM '000)	GP margin (%)	PAT/LAT (RM '000)	PAT / LAT margin (%)
WCE Holdings Berhad	It is involved in infrastructure construction and toll concessions.	31/03/23	506,770	-15,936	N. A.	72,594	14.3
Widad Group Berhad	It is involved in infrastructure construction, facilities management and concessions.	31/12/23	230,612	16,446	7.1	-16,633	N. A.

Notes:

1 = For the cumulative 18-month period between 1 December 2021 and 31 May 2023.

N. A. = Not Available / Not Applicable

Source: Comparable companies' annual reports.

9.3 Market size and market share

The value of civil engineering works (infrastructure construction) done amounted to RM4,623 million in Sabah in 2023 (Source: Department of Statistics). As Azam Jaya Group recorded a revenue of RM274.8 million in civil engineering works (infrastructure construction) in 2023, its market share amounted to 5.94% in the same year (**Table 2**).

Table 2: Market Share of Azam Jaya Group in 2023

	Value (RM Million)	Market Share (%)
Civil engineering works in Sabah	4,623.0	-
Azam Jaya Group's revenue in civil engineering works in Sabah	274.8	5.94

10.0 Outlook and prospects of the construction industry

Under the Mid-Term Review of the Twelfth Malaysia Plan 2021-2025, the construction industry in Sabah is anticipated to expand by a revised target of 3.1% in its average annual growth rate between 2021-2025, a decline from the original target of 4.4% in its average annual growth rate set during the launching of the Twelfth Malaysia Plan 2021-2025 in 2021. In the case of Malaysia as a whole, the construction industry is expected to grow at a revised average annual growth rate of 3.9% between 2021-2025, a decrease from the original target of 4.2% in its average annual growth rate. This is due to the impact of the COVID-19 pandemic and the associated series of lockdowns.

The provision of basic infrastructure will be intensified in Sabah, such as the upgrading and construction of roads and bridges. Around 700 km of roads would be constructed or upgraded in Sabah between 2021-2025. The implementation of the infrastructure projects will unlock development opportunities as well as further develop the connectivity network in Sabah and they have been expedited under Budget 2024. The Sabah Pan Borneo Highway stretching 1,236 km has three phases of construction. The first phase, with 35 work packages, spans 706 km; the second phase, 98 km; while the third phase, covers 432 km. Approvals have been granted for the 19 work packages of Phase 1B of the Sabah Pan Borneo Highway covering 366 km and costing RM15.7 billion under Budget 2024.

In addition, 33 high priority flood mitigation projects costing RM11.8 billion are planned to be undertaken in 2024 under Budget 2024, including one project in Kota Kinabalu, Sabah.

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There is substantial growth potential in the construction industry, as infrastructure plays a pivotal role in the development of Malaysia. In addition, it has a tremendous impact on benefitting the population and on bridging the economic gap between the urban and rural population. The country is pursuing ambitious transport infrastructure plans, including the modernisation and expansion of the rail network, improvement of roads in rural areas and development of new ports to facilitate trade. Overall, the growth of the construction industry is strongly correlated with the economy's performance. The Government's macroeconomic policy is also crucial to the construction industry, given its role as a major component of originator of demands.

Infrastructure construction, particularly in highway construction, assists to open new corridors of growth. More people and businesses, including commercial and industrial activities, would be encouraged to relocate to a new area when there is ease of access in terms of transportation. In turn, business opportunities would expand in tandem with improved connectivity and mobility of goods and services. The major infrastructure projects (multi-billion ringgit in value) currently undertaken, or in the pipeline in Malaysia, are listed in the table below (**Table 3**).

Table 3: Major infrastructure projects undertaken or in the pipeline, in Malaysia

Project	Location	Expected completion year	Estimated cost (RM Billion)
Rail			
East Coast Rail Link	Tumpat-Kuantan-Mentakab-Jelebu-Port Klang	2027	74.9
Electrified Double Track Project	Gemas-Johor Bahru	2025	9.6
Rapid Transit System	Bukit Chagar-Woodlands, Singapore	2026	10.0
Light Rail Transit Line 3	Bandar Utama-Klang	2025	16.6
Mass Rapid Transit 3	Kuala Lumpur	2033	45.0
Bayan Lepas Light Rail Transit	Penang	2030	9.5
Highway/Expressway			
Pan Borneo Highway	Tanjung Datu, Sarawak-Tawau, Sabah	2028	29.0
Sarawak-Sabah Link Road	Lawas-Lopeng Pa'Berunut -Lopeng	2026 (Phase 1) 2030 (Phase 2)	7.4
Trans Borneo Highway	Miri-Limbang-Lawas	2028	Under proposal
West Coast Expressway	Banting-Taiping-Sabak Bernam-Changkat Jering	2025	5.0
Central Spine Road	Kuala Pilah-Kuala Krai	2026	11.0
Others			
West Port Expansion	West Port, Port Klang	2040	10.0
Kuching Urban Transport System	Samarahan Line and Serian Line	2025/2026	6.0
Silicon Island	Penang	2032	6.0
Penang International Airport	Penang	2028	1.5

Source: Infobusiness Research