



13 Mar 2017

The Edge, Malaysia

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Local contractors feel the heat

It is apparent that Chinese state-owned companies are expanding their footprints in Malaysia's construction sector. They not only undertake mega infrastructure projects, such as rail and skyscrapers, but also residential high-rises and landed properties.

This is causing concern among the local developers and contractors. An increasing number of them are feeling the pressure as jobs, including property construction, are not as many as it was during the property boom.

Some developers are not happy with the incentives like tax exemptions that are given to foreign players.

The number of projects has declined in the past two years and the project value has been flat at RM140 billion to RM150 billion, according to the Construction Industry Development Board.

Some industry players are hoping that the government will establish some regulations so that they will not lose more ground to the deep-pocketed Chinese contractors, who are said to be backed by Beijing.

"It is true that the influx of China-based contractors is giving stiff competition to local contractors and property developers," Master Builders Association Malaysia president Foo Chek Lee tells *The Edge*, adding the appetite to engage Chinese companies has grown tremendously in recent years.

Citing Johor as an example, he says, several well-known local companies there are losing jobs to Chinese contractors.

No longer a level playing field

Real Estate And Housing Developers' Association Malaysia president Datuk Seri F D Iskandar Mohamed Mansor says the current landscape of the local property industry is no longer a level playing field.

"Malaysia is an open market and welcomes any foreign investment that can boost its economy. However, while we endeavour to bring in foreign investments, it should not be done at the expense of the local companies," he says, adding that the government should address this issue urgently.

According to Iskandar, foreign developers and contractors are given various incentives such as exemptions from bumiputera and affordable housing quotas,

tax rebates, a five-year tax holiday and pioneer status.

Local developers, on the other hand, are imposed with a list of requirements, quotas and taxes.

Iskandar, who is also the CEO and managing director of Glomac Bhd, says he is concerned because Chinese developers are building on a massive scale, resulting in an oversupply of properties.

"It is good to open the market to foreign investors, but there must be parameters to control the developments," he says, warning that the confidence level in the property market may be affected by the presumption of an oversupply when the properties are actually not targeted at local buyers.

Between 2013 and 2015, three prominent Chinese property developers — Country Garden Holdings Co Ltd, Greenland Group and Guangzhou R&F Properties Co Ltd, which has bought land from Iskandar

SUHAIMI YUSUF/THE EDGE



Waterfront Holdings Sdn Bhd (IWH) — flooded the market with thousands of high-rise residential units on the waterfront in Johor Baru.

Late last year, Country Garden launched another mega development — Forest City — which will be built on a reclaimed island with a gross development value of RM441 billion.

IWH, which is in the midst of a merger exercise, is owned by tycoon Tan Sri Lim Kang Hoo (63.1%) and Kumpulan Prasarana Rakyat Johor (36.9%).

Some quarters believe that the Chinese developers' projects are targeted at buyers from China, not Malaysians.

Hence, the new units are not flooding the Malaysian market, so this does not warrant a concern.

Priority for the locals, please

To win more jobs, Chinese construction firms are teaming up with local companies. Recently, a joint venture (JV) between Kumpulan Jetson Bhd and China Communications Construction Co Ltd's (CCCC)



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subsidiary, CCCCThird Highway Engineering Co Ltd, secured a RM202 million subcontract for the Sungai Besi-Ulu Kelang Elevated Expressway (SUKE) project. Last December, a JV between Econpile Holdings Bhd and CCCC's local unit, China Communications Construction Co (M) Sdn Bhd, clinched a RM389.07 million subcontract for the same project.

That said, there are complaints that many mega infrastructure projects have been directly awarded to Chinese companies, for instance, the RM55 billion East Coast Rail Link, which has been awarded to CCCC. Also, a consortium of three Chinese firms — China Railway Construction Corp Ltd (CRCC), China Railway Engineering Corp and CCCC — is the main contractor for the RM8.9 billion Gemas-Johor Baru double-tracking project.

However, in earlier interviews with *The Edge*, CCCC and CRCC have indicated that they will spin off jobs to local players, which will likely happen in the second half of the year.

Being main contractors, the Chinese companies still need to farm out jobs to local subcontractors as it is very unlikely that they could do everything on their own.

Nonetheless, the local companies hold the view that priority should be given to them.

"If we deal with Chinese contractors (forming JVs), they may want a bigger stake in the implementation, which means that they will play a bigger role, bringing their own people and equipment. We (local contractors) are hungry for work. If we can do it, we want to do it, we don't want to give the jobs to others," WZ Satu Bhd executive chairman and CEO Tengku Datuk Seri Uzir Tengku Ubaidillah tells *The Edge*.

To him, the construction market is already tough, and with the competition from Chinese contractors, it is even tougher.

Uzir opines that the local players are losing out to Chinese contractors because most of the latter are able to tender for jobs without considering the need to make a profit as they are said to be backed by the Chinese government. "It is a different dynamic.

They have excess capacity in their country and the machinery is lying idle there. So, the cost structure is different from ours."

Although most Chinese contractors emphasise that they will award some of their jobs to their local counterparts, Uzir believes that most local players are unable to follow their pricing. For instance, the SUKE and Damansara-Shah Alam Highway projects, in which he sees the bidding prices going down.

"That's bad because they are actually pricing it extremely low. Even if they give us a chance to compete, I think the local contractors will find it difficult to match their prices," he says.

IJM Corp Bhd CEO and managing director Datuk

Soam Heng Choon concurs. He says public projects should be reserved for local companies.

"I think the government should ring-fence the mega projects for the local players," he says. However, he acknowledges that there are jobs that local contractors do not have the capacity to undertake, such as the construction of suspension bridges and super high-rise buildings.

"We hope the government can set the sizes of projects that they shouldn't give to foreigners. Unless they are a very complicated projects in terms of engineering, they should be awarded to local contractors," Soam says.

He adds that the Chinese contractors are more visible now partly because the Japanese have headed home due to the projects at home in preparation for the Tokyo Olympics in 2020. The South Koreans have also been quite subdued in the last couple of years.

Transformation for survival

However, not every local player sees the Chinese

companies in a negative light; some believe the local companies can tap the experience of well-established Chinese firms.

"As businessmen, if it makes commercial sense for us to form alliances with Chinese companies, we will do it. The world is borderless. If we want to be so principled in certain things, forgetting the basic so-called common sense, then we may lose out," MMC Corp Bhd managing director Datuk Seri Che Khalib said in an earlier interview.

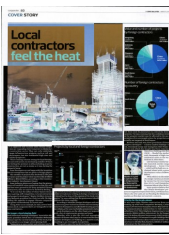
Citing the group's bridge project, which will connect the Port of Tanjung Pelepas and Tanjung Bin, as an example, he said MMC decided to partner a Chinese company as the latter had equipment in Malaysia and its construction cost was lower.

Econpile CEO Raymond Pang says local players need Chinese expertise in the construction of super high-rise buildings.

Pang, who has been working with Chinese companies in the past seven years, sees the piling company's Chinese partners complementing it, rather than competing with it.

Foreign companies winning construction jobs that the locals can do is unacceptable to many. Certainly, this raises the question of whether the multiplier effect of multibillion-ringgit projects will actually benefit the domestic economy when contracts are awarded to foreigners, not to mention the hiring of foreign workers at the sites.

That said, some property developers find the local contractors not as competitive in terms of cost and productivity. Is it true? This question inevitably leads to another: Is it time for the local players to rethink and learn fast to climb up the value chain? **E**



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Property projects that engaged Chinese developers/contractors

SOURCE: COMPANY DATA, MANAGEMENT, MEDIA REPORTS

DEVELOPER	PROJECT	DEVELOPER/CONTRACTOR	CONTRACT VALUE (RM)
Titijaya Land Bhd	The Shore mixed-used commercial hub in Kota Kinabalu	CREC Development (M) Sdn Bhd	400 mil
M101 Group	The M101 Skywheel in KL	China Huashi Enterprise Co Ltd	700 mil
Paramount Blossom Sdn Bhd	Residential development of former clubhouse and golf course in Seremban	China Railway Liuyuan Group Co Ltd	500 mil
Titijaya Land Bhd	The 3rd Venue mixed development in Jalan Ampang	CREC Development (M) Sdn Bhd	600 mil
TYL Land	TYL Land @ Semenyih	MCC Overseas (M) Sdn Bhd	100 mil
MKH Bhd	Saville at Cheras @ KL	MCC Overseas (M) Sdn Bhd	130 mil
Mulia Group (Indonesia)	The Signature Tower, KL	China State Construction Engineering Corp Ltd	-
Mah Sing Group Bhd	Lakeville Residence project in Taman Wahyu, Kepong	MCC Overseas (M) Sdn Bhd; China State Construction Engineering (M) Sdn Bhd	-
Mah Sing Group Bhd	Meridin at Medini @ Iskandar, JB	MCC Overseas (M) Sdn Bhd	400 mil
Eastern & Oriental Bhd	Land reclamation for Seri Tanjung Penang Phase 2	China Communication Construction Co Ltd	2.32 bil
Tropicana Corp Bhd	Tropicana Bora residential (Phase 1)	China State Construction Engineering Corp (Vietnam)	377 mil
Malton Bhd	Elite Pavillion Serviced Apartment	Beijing Urban Construction Group (M) Sdn Bhd	675 mil
R&F Properties Co Ltd	Princess Bay high-rise residential (Phase 1)	China State Construction Engineering (M) Sdn Bhd	1.57 bil
Country Garden	Country Garden residential development at Danga Bay Iskandar Malaysia, JB	MCC Overseas (M) Sdn Bhd	330 mil
Sunway Bhd	Sunway Velocity @ Cheras KL	MCC Overseas (M) Sdn Bhd	230 mil
Venus Assets Sdn Bhd	Four Seasons Place, KL	China Railway Construction Corp	950 mil
Permata Cermat (a JV between Pavilion Group & Kuwait Finance House)	Pavillion Hilltop, Mont'Kiara	China Railway Construction Corp	-
Tropicana Corp Bhd	Kuala Lumpur W-Hotel & Service Residences	MCC Overseas (M) Sdn Bhd	510 mil
Monday-Off Development Sdn Bhd	Mont'Kiara Luxurious Condominium @ KL	MCC Overseas (M) Sdn Bhd	240 mil
MYSG Prop	Paragon Suites @ CIQ, JB	MCC Overseas (M) Sdn Bhd	180 mil
Suiwah Corp Bhd	Sunshine Tower @ Ayer Itam Penang	MCC Overseas (M) Sdn Bhd	40 mil
Mah Sing Group Bhd	Medini high-rise apartment	China State Construction Engineering Corp Ltd	-
Tropicana Corp Bhd	Tropicana Avenue Mixed Development @ Petaling Jaya	MCC Overseas (M) Sdn Bhd	250 mil
OSK Property Holdings Bhd	OSK mixed development in Damansara Jaya, Petaling Jaya	Beijing Urban Construction Group (M) Sdn Bhd	1 bil



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HARIS HASSAN/THE EDGE



Uzir: If we can do it, we want to do it, we don't want to give the jobs to others

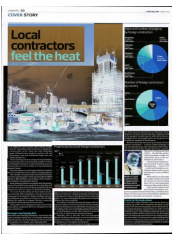


Pang says local players need Chinese expertise in the construction of super high-rise buildings

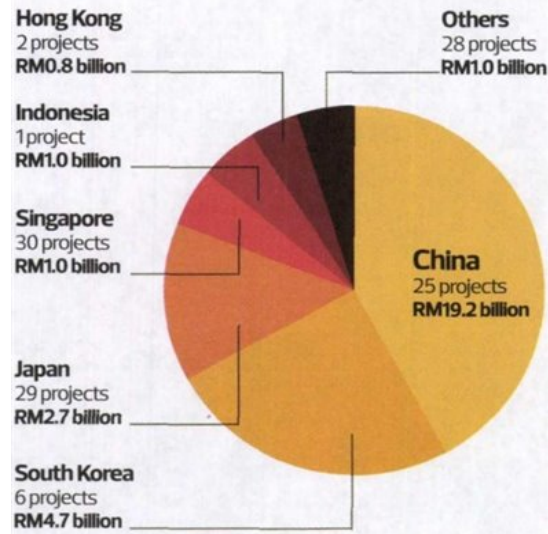
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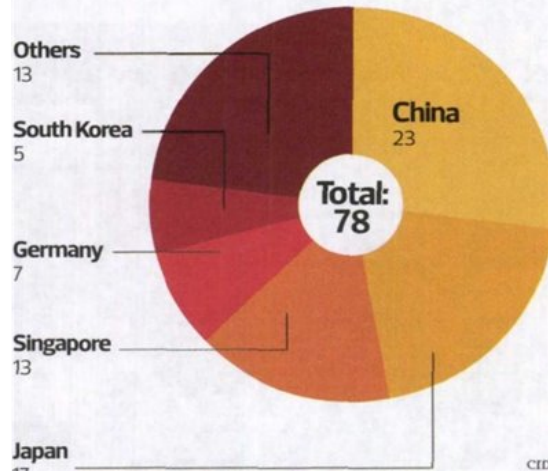
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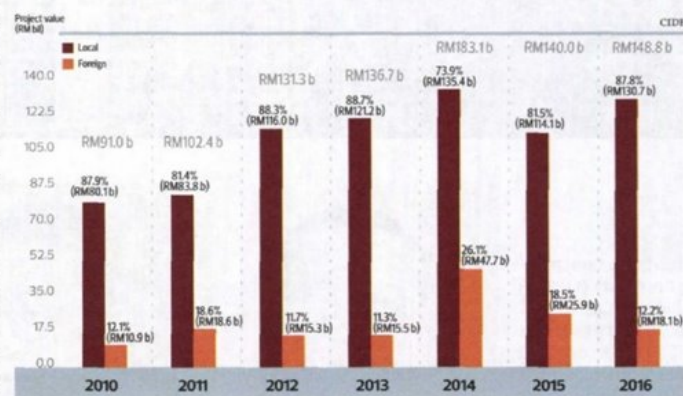
Value and number of projects by foreign contractors



Number of foreign contractors by country



Projects by local and foreign contractors





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MORID SHARIN / YANPA THE EDGE



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Category: Industry News

Brand: Tropicana Corp Bhd

Company: Tropicana Corp Bhd

Industry: Property & Construction > Building & Construction Contractor & Developer

Category: Company News > Corporate News

Brand: Real Estate And Housing Developers Association Malaysia (REHDA)

Industry: Property & Construction > Property & Construction Associations

Category: Company News > General News

Brand: Glomac Bhd

Company: Glomac Bhd

Industry: Property & Construction > Developer & Property Estate

Category: Company News > Corporate News

Brand: Kuwait Finance House (Malaysia) Berhad

Company: Kuwait Finance House (Malaysia) Berhad

Industry: Banking & Finance > Islamic Finance

Category: Company News > Corporate News

Brand: Port of Tanjung Pelepas (PTP)

Company: Port of Tanjung Pelepas (PTP)

Industry: Travel, Tourism & Transport > Port & Sea Freight

Category: Company News > General News



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Category: Company News > General News

Brand: Kumpulan Jetson Bhd
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Industry: Property & Construction > Property & Construction Corporate & Company
Category: Company News > General News

Brand: Mah Sing Group Berhad
Company: Mah Sing Group Berhad
Industry: Property & Construction > Property & Construction Corporate & Company
Category: Company News > Corporate News

Brand: Shah Alam Expressway
Company: Konsortium Expressway Shah Alam Selangor Sdn Bhd (KESAS)
Industry: Property & Construction > Road & Highway Construction
Category: Company News > General News

Brand: Tanjung Bin
Company: Tanjung Bin
Industry: Utilities > Electricity
Category: Company News > General News

Brand: Japan International Co-Operation Agency (Jica)
Company: Japan International Co-Operation Agency (Jica)
Industry: Political & Government > Political & Government Associations
Category: Company News > Corporate News



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Company: Eastern & Oriental Bhd
Industry: Property & Construction > Developer & Property Estate
Category: Company News > General News

Brand: Kumpulan Prasarana Rakyat Johor (KPRJ)
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Category: Company News > General News

Brand: Pavilion Kuala Lumpur
Company: Kuala Lumpur Pavilion Sdn Bhd
Industry: Retail > Shopping Centre
Category: Company News > Corporate News

Brand: Multimedia College
Company: Multimedia College
Industry: Education > University & College
Category: Company News > General News

Brand: Gamuda Bhd Industry News
Company: Gamuda Bhd
Industry: Special Issue > Special Topic
Category: Company News > Corporate News

Brand: The Edge
Company: The Edge Communications Sdn Bhd
Industry: Publishing & Media > Newspaper
Category: Company News > Corporate News



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Category: Company News > General News

Brand: Centurion Corporation
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Brand: Construction Industry Development Board Malaysia (CIDB)
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Industry: Property & Construction > Property & Construction Associations
Category: Company News > General News

Brand: Mont Kiara
Company: Sunrise Berhad
Industry: Property & Construction > Property & Construction Corporate & Company
Category: Company News > General News

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Category: Company News > Corporate News

Brand: Sunway City Bhd
Company: Sunway Berhad
Industry: Property & Construction > Building & Construction Contractor & Developer
Category: Company News > Corporate News



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Industry: Property & Construction > Developer & Property Estate

Category: Company News > General News

Brand: Expressway Lingkaran Tengah Sdn Bhd (ELITE)

Company: Expressway Lingkaran Tengah Sdn Bhd (ELITE)

Industry: Property & Construction > Road & Highway Construction

Category: Company News > Corporate News

Brand: Four Seasons Inc

Company: Four Seasons Hotels Inc

Industry: Travel, Tourism & Transport > Hotel & Resort

Category: Company News > General News

Brand: OSK Properties Sdn Bhd

Company: OSK Properties Sdn Bhd

Industry: Property & Construction > Building & Construction Contractor & Developer

Category: Company News > General News

Brand: Suiwah Corp Bhd

Company: Suiwah Corp Bhd

Industry: Retail > Retail Corporate & Company

Category: Company News > General News

Brand: Sunway Velocity

Company: Sunway Berhad

Industry: Property & Construction > Industrial Park & Business Park Property

Category: Company News > General News



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Brand: Country Garden Pacificview Sdn Bhd
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Category: Company News > Corporate News

Brand: Forest City
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Company: Master Builders Association of Malaysia
Industry: Property & Construction > Property & Construction Associations
Category: Company News > General News

Brand: IJM Corporation Berhad
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Category: Company News > Corporate News

Industry: Special Issue > Special Topic

Category: Company News > Corporate News

Brand: Country Garden

Company: Country Garden

Industry: Property & Construction > Property & Construction Corporate & Company

Category: Company News > Corporate News