IQOS product to bypass cost obstacles

FROM P1 Smokeless cigarettes

Malaysia has dwindled by more than 50% over the last 13 years, as illegal cigarette consumption rose to a record 57.1%, or 10 billion out of 18 billion sticks, consumed in the country last year.

In comparison, smuggled cigarettes were only 14.4% of total in 2004.

Smuggled cigarettes are far cheaper than legal cigarettes which are highly taxed in Malaysia, where it is the third-highest priced in South-East Asia, and one in two Malaysian smokers them.

Contraband cigarettes are three to four times cheaper, between RM4 to RM5 per pack, compared to retail brands at typically RM17 per pack.

While Philip Morris Malaysia managed to grow its market share to 19.2% in the second-quarter this year, the higher share represents only a larger slice of a significantly smaller pie.

Priced at RM12 per pack, the company's competitively priced Chesterfield brand was a key driver resulting in the higher market share. However, the bulk of the retail price is made up of excise, goods and services, and import duties, leaving very little left in terms of revenue and profit.

The IQOS product stands to bypass some of these cost obstacles, as the smoke-free technology is unlikely to be liable to the same category of taxes that traditional cigarettes are currently affected by.

Though a longshot, the product could also be in line with the government's mandate to discourage smoking in the country.

"It is clear that smoke-free products can have a massive impact on smoking rates in a very short time," Kang said.

"As such, making these types of products available can complement and enhance existing tobacco control measures."

In 2016, PMI sold 7.4 billion of its IQOS tobacco filler, representing only 0.9% of the total 812.9 billion units of cigarettes the tobacco the company sold that year across its 180 markets.

However, CEO Andre Calantzopoulos said the smoke-free technology could comprise 50% of the company's business in the next 10 to 15 years, which could spark a radical shift in the tobacco industry as a whole.

"Our existing competitors won't have a choice (but to follow suit). Otherwise, they are handing the market to us," Calantzopoulos was quoted as saying in *Asia Times* in July this year.

Though ambitious in scale and goal, how the IQOS is received by the Malaysian market.remains unclear, especially with an industry seemingly on the edge of collapse.

Budget hoteliers unequipped to handle tax mechanism

Pic by Afif Abd Halim

Deterioration in the industry is expected to significantly dampen the country's overall tourist footfall

FROM P1 Budgets hotels

frame given by the government, from the time the levy was first tabled in the Parliament to the date of its implementation.

The whole process has also been a shock in the low-budget hoteliers' day-to-day business operations.

"Everybody should be given adequate time to adapt to the new mechanism as most operators use software from a particular firm to run its database, which normally has a client list for up to 200 hotels.

"Due to the massive clientele, coupled with short timeframe given, they are unequipped to change the entire software system immediately to cater to the new mechanism, and quantum upon the levy's implementation," he explained.

Leong said that the deterioration in the industry is expected to significantly dampen the country's overall tourist footfall, as most foreigners would shorten their visit in view of additional accommodation costs they have to incur.

"The average stay for foreigners in Malaysia over the years has always been six nights per visit, but it might go down to four or less, as they will opt for other countries to maximise their vacation at a lower overhead margin," he said.

However, Leong said that it is too early to gauge the magnitude of the damage from the levy on the budget operators' occupancy rate, which is currently hovering at between 50% and 60%.

"We are gathering the complaints from our members from all states and will soon present them formally to the government for them to relook at the model of collection.

"We expect to submit the formal report to the authorities by the end of the month," he added.

Currently, there are about 63,000 available rooms offered by the low-cost accommodation owners, according to the association's data.

The Ministry of Tourism and Culture, together with the Royal Malaysian Customs Department, expects to collect approximately RM200 million a year and estimates to raise between RM20 million and RM30 million from the tax in 2017.

Property shows no sign of immediate recovery

Overall take-up rate, volume and transaction have remained low as the market needs more time for a full uptick

by IZZAT RATNA

DESPITE a few bright spots in the industry, the property sector will need at least two more years to recover because that will be how long the results of current industry adjustment will take to bear fruit.

Consultants CBRE-WTW said developers are reacting to the slowdown in the sector by adjusting their products in line with current consumer needs.

CBRE-WTW MD Foo Gee Jen said while some correction is experienced by certain sectors, especially in the affordable housing segment during the first-half of 2017 (1H17), the overall take-up rate, volume and transaction have remained low.

"The market still needs more time for a full uptick, approximately two to three years from now, as currently, developers are mobilising and re-strategising their products to meet the market's demand.

"Industry players in key states such as the Klang Valley (Selangor), Johor and Penang are now concentrating their efforts to introduce more properties priced below RM500,000 in view of the booming demand following a shortage of supply in this segment," he told *The Malaysian Rerserve* when contacted.

Foo said the adjustment may take another six months, and the recovery period would only take place in 2018, where volume is expected to pick up.

"Value, however, may not accelerate as quickly as we hope because of the strong headwinds," he said.

National Property Information Centre latest statistics showed that unsold units for residential properties rose to 17,809 units in the first-quarter of 2017 (1Q17), from 12,268 units in the same period last year.

The House Price Index indicated that Malaysia's house prices continued to rise, but at a moderate pace in 1Q17 with about 5.3% year-on-year (YoY) appreciation compared to 7% in the preceding quarter.

One bright spot in the sector includes non-residential property.

Real estate consultancy Laurelcap Sdn Bhd ED Stanley Toh Kim Seng said in the immediate term, the affordable residential sector and industrial warehouse space are also expected to see further improvement.

"For industrial warehouses, the rise of the e-commerce has created a demand for physical storage facilities in good location, with good infrastructure and connectivity," he said.

MIDF Amanah Investment Bank Bhd analyst Jessica Low Jze Tieng said properties priced between RM500,000 and RM1 million were well-received in the first three months of this year with a 7% jump in transaction value, in tandem with a 9% increase in volume.

"On the flip side, property transaction value and volume for property prices below RM100,000 fell by double-digits," she said.

Many experts also stated that house prices have always been one of the main challenges for the recovery period, despite several policies and measures that are introduced to improve access to end financing, which essentially revolves around the demand.

PropertyGuru Malaysia's recent Property Market Index showed that in 4Q16 to 1Q17, following a decline in prices, a marginal increase of 0.2% for pro-perty prices in Malaysia indicating that the local property sector could be bottoming out.

Quarter-on-quarter, Kuala Lumpur, Selangor and Johor registered upward price movements with increases of 0.3%, 0.3%, and 3.4% respectively.

Penang's index showed a decline in property prices by 0.7%, which was largely attributed to a reduction in prices and a tapered supply.

The index saw Penang and Selangor record year-on-year (YoY) declines of 4.1% and 2.6% respectively, while Kuala Lumpur recorded 1% YoY growth.

A significant increase of 5.3% was seen for the Johor market, which was attributed to the various mega projects being developed there.

Bank Islam Malaysia Bhd chief economist Dr Mohd Afzanizam Abdul Rashid said the need to change the mindset among home buyers and potential owners to consider renting as an alternative for housing ownership is essential to stabilise price.

"In tandem with improving housing affordability in the future, buyers' income growth can also play catch-up with the house prices as their purchasing power will increase over time," he said.

ProperyGuru's consumer sentiment survey 2017 also revealed that higher property prices are one of the main concerns impacting Malaysians' overall decisions in 2017.

According to the survey, 69% of the respondents felt that the country's economy is underperforming.

The survey also cited that location, safety and unit size remain the top three considerations for property purchase, as 52% of Malaysians would like to buy a home within the next six months either for their own stay or for investment purposes.

Of which, 39% (38% in 2H16) will choose to buy brand new homes while 13% (15% in 2H16) would opt for the secondary market, and 36% intending to buy — indicating a budget of RM300,001-RM500,000.

Frost & Sullivan and IRDA to develop Iskandar's Urban Observatory

by FARA AISYAH

THE Iskandar Regional Development Authority (IRDA) and Frost & Sullivan (M) Sdn Bhd inked a memorandum of understanding (MoU) at the Prime Minister's Office in Putrajaya yesterday to collaborate on the design, development and implementation of the Iskandar Malaysia Urban Observatory (IMUO).

The development plan includes the preparation and publication of IMUO World Class Reports and Smart City Iskandar Malaysia (SCIM).

Frost & Sullivan Malaysia MD Hazmi Yusof said that the company has been advocating smart cities as a global mega trend that will shape people's lives.

"We are excited to be able to play a part in the development and realisation of SCIM. We are confident that our expertise and experience in various smart cities planning and implementation globally will contribute in making SCIM a success," he said in a statement yesterday.

SCIM was endorsed by Prime Minister Datuk Seri Mohd Najib Razak on Nov 1, 2014, at the second inter-session of Global Science and Innovation Advisory Council meeting in Kuala Lumpur.

A mandate was given to the attending ministers to venture into smart-related projects which will be based in Iskandar Malaysia, as part of the effort towards recognising the Iskandar region as a pilot for Smart City projects in Malaysia.

SCIM's framework focuses on three areas which are economy, environment and social. It also promotes six dimensions including smart economy, smart governance, smart environment, smart mobility, smart people and smart living.

A total of 35 programmes have been identified which fit ideally into the dimensions. These programmes are guidance for IRDA to work with potential investors and players, such as Frost & Sullivan, to identify suitable projects for SCIM.

Apart from Frost & Sullivan, IRDA also signed MoUs with Telekom Malaysia Bhd, Esri Malaysia Sdn Bhd and Universiti Teknologi Malaysia which were witnessed by Najib and Johor Mentri Besar Datuk Seri Mohamed Khaled Nordin, who are both co-chairmen of IRDA.

IRDA CEO Datuk Ismail Ibrahim said the MoUs represent collaborations towards implementing a few components as Iskandar Malaysia is currently in its third phase of development (2016-2025), focusing on sustainability and innovation in line with the Iskandar Malaysia Comprehensive Development Plan II.

"These commitments in Iskandar Malaysia to collaborate together towards achieving Iskandar Malaysia's vision of becoming a strong and sustainable metropolis of international standing through evidence-based spatial planning and policy making.

"Iskandar Malaysia is on track to become the leading smart region within Asean," Ismail said in a statement.

Gamuda's Penang project extended to 2018

by MARK RAO

GAMUDA Bhd's involvement in road and public transportation projects under the Penang Transport Master Plan Strategy has been extended by the Penang state government to Aug 30 next year.

The extension was given by the state government on Aug 29 this year, before Gamuda accepted the offer yesterday, with the conditions of the initial award remaining unchanged.

"The company will make the appropriate announcement to Bursa Malaysia Securities Bhd as and when there is material development in relation to the project," the engineering, property and infrastructure company said in an exchange filing yesterday.

Gamuda first received the award back in Aug 14, 2015, via SRS Consortium, which was appointed the project delivery partner for the Penang-based development.

The company retains a 60% stake in the consortium, alongside Ideal Property Development Sdn Bhd and Loh Phoy Yen Holdings Sdn Bhd with 20% holdings respectively.

Reported to cost around RM46 billion, the project comprises a railway and highway network estimated to cost RM39 billion and three major roads and undersea tunnel collectively worth RM6.4 billion.

When the award was first announced, the initial cost of the development was estimated at RM27 billion, but has since risen exponentially to the current RM46 billion valuation after additional components were added by the Seberang Perai Municipal Council.

The project is part of the 2013 to 2030 Penang Master Transport Plan and the South Reclamation Scheme (SRS).

As part of the consortium, Gamuda is tasked in providing the necessary transport infrastructure and a new commercial hub — namely, SRS Smart City — with a shared supporting ecosystem to move manufacturing and services sectors up the value chain and attract foreign investments.

The company's share price closed flat at RM5.34 yesterday, with 6.67 million shares exchanging hands and a market capitalisation of RM13.1 billion.