Dissecting the ETP Annual Report: Part 2
- The mystery of the disappearing entry point projects (EPPs)

The investments enigma. PEMANDU in its Annual Report claims that investments by the private sector were well above target last year. The headline claim may not withstand scrutiny though. Very large entry point projects (EPPs) appear to have faltered. We highlight just three examples here. If they had indeed faltered, which projects stepped up and more than filled their large shoes?

The shifting sands of LFoundry. PEMANDU gave itself full marks for the completion of construction of this 200 mm wafer fab. However, very strangely, elsewhere in the Annual Report, a much less significant RM100 million equipment refurbishment project was showcased instead of this RM1.9 billion fab. The uncharacteristic modesty by PEMANDU led us to do some digging, which suggests that this lab might never have been constructed at all, contrary to PEMANDU's claim.

What happened to Damansara City 2 and Marina Island Pangkor? These two EPPs announced last year were perhaps the most important in the Greater Kuala Lumpur/Klang Valley and Tourism NKEAs. But the ETP Annual Report omits any mention of them, focusing instead on modest `Heritage Trails' in Kuala Lumpur, and Penang, Klang and Kota Kinabalu as the three ports with the most tourism potential.

PEMANDU's chimera of perfection. Glossing over issues merely results in a growing gap between reality and delusions of grandeur, and the facade will ultimately come crashing down. Rather than prolonging the charade of infallibility, PEMANDU should be frank and confess to problems, and state the remedial steps it took. This may well help others avoid making similar mistakes and adds much more value to Malaysians.

- Some very large EPPs announced in the ETP Updates last year were strangely omitted in the recently released ETP Annual Report 2011.
- These include a RM1.9 billion wafer fab in Kedah, the RM1.9 billion GuocoLand Damansara City 2 project and the RM600 million Marina Island Pangkor Extension .
- Did these EPPs hit problems? If they did, PEMANDU should come clean and transparently explain the issues.
- Problems are part of the business landscape. PEMANDU would add far more value if it shared its experiences in surmounting obstacles instead of glossing over issues.

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PEMANDU’s unrealistically perfect world

PEMANDU[1] in its inaugural Annual Report[2] of the Economic Transformation Program (ETP[3]) claimed many successes including:

1. Economic growth being ahead of its target;
2. 72 out of 131 EPPs (entry point projects) taking off;
3. EPP investments totalling RM179 billion, creating RM130 billion of GNI and nearly 314,000 new jobs.

Last week, in Part 1 of our series, we gave PEMANDU an A+ for obfuscation, for being less than clear and truthful about its economic growth targets[4].

This week, we drill down to Execution - the first E in our DEEDS framework for evaluating the ETP. Acolytes of PEMANDU would surmise that business and economic management is effortless. Hardly a hint of difficulty is ever expressed in PEMANDU’s rhapsodic reports.

Those grounded in reality will not be surprised to learn that REFSA finds at least two major issues with the claim of entry point project successes:

1. Some major EPPs announced during the ETP Updates given by PEMANDU last year were strangely omitted in the Annual Report;
2. A number of projects, including big-ticket projects such as Karambunai Integrated Resort City, Tanjong Agas Oil and Gas Hub and LFoundry Wafer Fab, may not pass muster under close scrutiny.

Let us start with the wafer-thin foundations of the RM1.9 billion LFoundry Wafer Fab project in the Kulim High-Tech Park.

[1] The acronym that the Performance Management and Delivery Unit within the prime minister’s department is better known by. PEMANDU is the government agency that created and is now steering the ETP.

[2] The report was released on 2 Apr 2012. It can be downloaded at http://etp.pemandu.gov.my/annualreport/

[3] The ETP calls for 131 entry point projects (EPPs) within 12 National Key Economic Areas (NKEAs), which will pour RM1.4 trillion worth of investment into the economy and create 3.3 million new jobs by 2020.

[4] For a start, contrary to the claims of outperformance, the Malaysian economy, as measured by gross national income (GNI), grew by just 4.7% last year, well below the 6% per year average real growth called for by the ETP. For much more, please see Dissecting the ETP Annual Report: Part 1 - Grade A+ for Obfuscation! Available at www.refsa.org

The shifting sands of LFoundry

The very first entry point project (EPP) stated under the Electrical and Electronics NKEA (National Key Economic Area) is “Executing a smart follower strategy for mature technology fabrication[5].” In Update 1 on 25 October 2010[6], PEMANDU said LFoundry Sdn Bhd, a subsidiary of German-based Landshut Silicon Foundry GmbH would undertake this RM1.9 billion project[7].

Subsequently, the ETP Annual Report proclaimed that the ‘construction of the 200mm wafer fab’ had been completed by Dec 2011 and PEMANDU gave itself full marks for delivering on this EPP.

Oddly enough, nothing was mentioned in the ‘Achievements’ section of the ETP Annual Report. Instead, a much smaller RM100 million equipment refurbishment and training centre project was highlighted, as shown below.

Figure 1: In October 2010, PEMANDU announced the RM1.9 billion L Foundry project


Investments to date:

LFoundry

LFoundry Malaysia Sdn Bhd

LFoundry Malaysia Sdn Bhd will build a 200-mm wafer fab in the Kulim High-Tech Park (KHTP). Building work is expected to start in December and will be completed within 18 months. The wafer fab should start production of analogue, mixed-signal and high-voltage devices on a 130- to 110-nm process technology. It had set a target to set up five fabrication clusters in KHTP in the next 10 years. Investment: RM1.9 billion (USD543 million).

Source: Reproduced from the ETP website http://etp.pemandu.gov.my/25_October_2010-@-LFoundry_Malaysia.aspx

Figure 2: In the ETP Annual Report, PEMANDU gave itself full marks for completion

NKEA Electrical and Electronics		KPI (Quantitative)								
No.	KPI	Target (FY)	Actual (YTD)	Achievement						
				Method 1		Method 2		Method 3		
				%		%				
EPP #1	Per cent completion of construction of 200mm wafer fab	100% by Dec 2011	100%	100%	●	100%	●	1.0	●	
	Number of MoUs signed with local companies for vendor development program	1	1	100%	●	100%	●	1.0	●	

Source: Reproduced from ETP Annual Report (p123, Exhibit 7.2). Note that PEMANDU graded its NKEA achievements on 3 different methodologies, which we delved into in Part 1 of this series.

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[5] Chapter 11: Revitalizing the Electronics and Electrical NKEA, ETP Roadmap Report, page 362.

[6] LFoundry Malaysia Sdn Bhd will build a 200-mm wafer fab in the Kulim High-Tech Park (KHTP), 25 Oct 2010, PEMANDU. Available at http://etp.pemandu.gov.my/25_October_2010-@-LFoundry_Malaysia.aspx Retrieved 30 Oct 2012.

[7] LFoundry to help build Malaysian wafer fab. Peter Clarke, EE Times, 15 Oct 2010. Available at www.eetimes.com/electronics-news/4209645/Lfoundry-to-help-build-Malaysian-wafer-fab

Figure 3: But PEMANDU chose to highlight a small RM100 million project instead in its list of 'Achievements'

EPP 1 Executing a Smart Follower Strategy for Mature Technology Fabrication

As leading-edge business is capital intensive, there is currently a focus on fabrication using matured technology. However, smaller companies that focus on selected niche technologies (e.g. analogue, power) and use mature technology (defined as 90 nanometre or larger transistor feature size) are able to earn attractive returns. Apart from the most demanding logic, memory, graphics and field-programmable gate array applications, mature technology fabrication are competitive in a wide range of applications, accounting for 65 per cent of worldwide semiconductor revenue.

Refurbished equipment also provides an opportunity to provide a fabrication machine at a significantly lower cost. A mature technology fabrication using refurbished equipment can be built for an estimated cost of only RM1.8 billion, compared to RM11 to 18 billion for a leading-edge fabrication. The closure of fabrications in high-cost countries provides an opportunity to acquire refurbished fabrication assets at a low cost. Refurbished equipment currently accounts for about 11 per cent of equipment sales and the global growth rate of sales for refurbished equipment is expected to be 18 per cent per annum.

Achievements

The Malaysian Investment Development Authority (MIDA) has successfully relocated QT Hightech, an equipment refurbishment company, to Malaysia with the support from the Northern Corridor Implementation Authority (NCIA). QT Hightech Malaysia has decided to set up the QT Training Centre, a wafer fabrication equipment refurbishment and process training centre in Kulim High Tech Park. The centre aims to train a total of 2,500 skilled workers through programmes provided at their facilities. QT Hightech Malaysia will be investing RM100 million and creating 75 technical staff for the training centre at Kulim High Tech Park Construction of it's three-storey office and two-storey factory building was at 75 per cent completion at the end of 2011.

Moving Forward

The Government intends to leverage on the investment by QT Hightech as an enabler to attract fabrications refurbishment companies to set up or expand their production capacity using both QT Hightech's equipment refurbishment and training facilities. The goal is to bring in by the end of 2012 one new wafer fabrication company and approve one wafer fabrication expansion project.

Source: Reproduced from ETP Annual Report (page 125). Highlight, ours.

We were very surprised that this astounding execution of completing a wafer fab way ahead of schedule and within just 12 months[8] was not trumpeted. And indeed, we would have supported such publicity as well-founded and a wonderful example of Malaysian construction and engineering prowess.

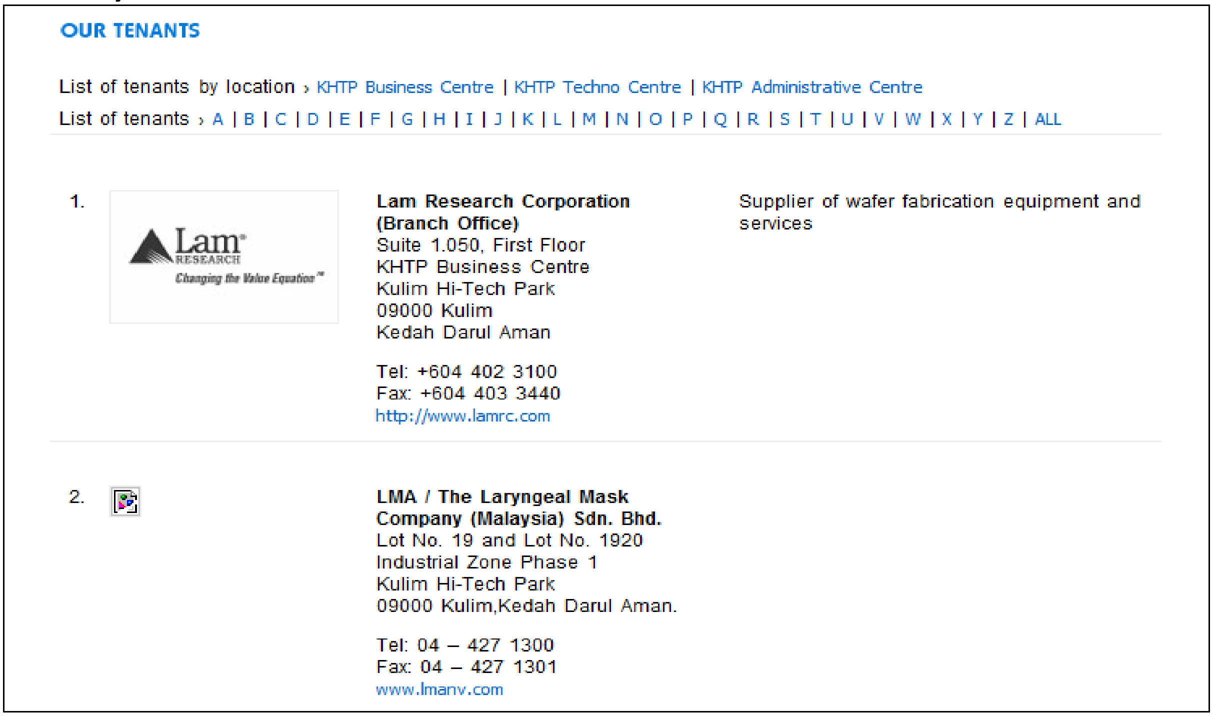
This uncharacteristic coyness of PEMANDU in choosing to highlight a much smaller RM100 million 'refurbishment' project instead of a spanking new RM1.9 billion wafer fab plant completed in record time spurred us to do more research. We found that LFoundry in Germany is declaring itself insolvent and going into bankruptcy proceedings[9]! In fact, there is no mention of this project on:

1. L Foundry's own website; or on
2. Kulim Hi-Tech Park's list of tenants.

[8] For comparison, Samsung Electronics and Siltronic took 18 months to build a S$1.36 billion 300mm wafer fab in Singapore. Available at www.sedb.com/edb/sg/en_uk/index/news/articles/Samsung_Electronics_And_Siltronic_Open_One_Of_The_World_s_Largest_300mm_Wafer_Factories_In_Singapore.html

[9] German foundry faces bankruptcy. EE Times, 7 Nov 2011. Available at http://confidential.eetimes.com/news-updates/4230393/German-Foundry-Faces-Bankruptcy Retrieved 24 May 2012.

Figure 4: Tenants beginning with the Letter "L" in the Kulim Hi-Tech Park - No mention of LFoundry


OUR TENANTS

List of tenants by location › KHTP Business Centre | KHTP Techno Centre | KHTP Administrative Centre

List of tenants › A | B | C | D | E | F | G | H | I | J | K | L | M | N | O | P | Q | R | S | T | U | V | W | X | Y | Z | ALL

1. **Lam Research Corporation (Branch Office)**
Suite 1.050, First Floor
KHTP Business Centre
Kulim Hi-Tech Park
09000 Kulim
Kedah Darul Aman

Tel: +604 402 3100
Fax: +604 403 3440
http://www.lamrc.com

Supplier of wafer fabrication equipment and services

2. **LMA / The Laryngeal Mask Company (Malaysia) Sdn. Bhd.**
Lot No. 19 and Lot No. 1920
Industrial Zone Phase 1
Kulim Hi-Tech Park
09000 Kulim,Kedah Darul Aman.

Tel: 04 – 427 1300
Fax: 04 – 427 1301
www.lmanv.com

Source: Kulim High Tech Park website as retrieved on 30 May 2012. Available at www.khtp.com.my/tenants/default.asp?letter=L

Note that L Foundry's financial woes had been in the news as far back as November 2011. But this fact was never mentioned in the ETP Annual Report published in April 2012 when PEMANDU took "100%" credit for the achievement in constructing a 200 mm wafer fab.

It was only later that Chris Tan, PEMANDU director for the Electrical & Electronics NKEA, revealed the following in the ETP blog:

> *"…the German partners ran into operational difficulties … and were forced to pull out. The project as originally envisaged was scrapped … MIDA … shifted to Plan B, and facilitated capacity increases via other companies.*[10]*"*

[10] Keeping it Real: The ETP as a Microcosm of Life. Chris Tan, Director of Electrical & Electronics NKEA, PEMANDU, 17 Apr 2012. Available at http://etpblog.pemandu.gov.my/posts/2012/04/17/keeping-it-real-the-etp-as-a-microcosm-of-life/ Retrieved 24 May 2012.

Taking Mr Tan's comments at face value, PEMANDU's achievements are even more breathtaking. It surmounted difficulties with the original German partners and managed to find 'other companies' and still complete a 200mm wafer fab factory all within 12 months!

The story behind such 'remarkable' execution should certainly be shared with all Malaysians. It would indeed help in transforming the economy if PEMANDU were to share its knowledge with all entrepreneurs:

1. Who are these 'other companies' who stepped in and filled the gap so quickly? Please name them so that we may study and emulate their abilities;
2. Better still, please set up a site office and a case study. How was construction fast-tracked? Our contractors might learn a thing or two about project management.

Or is the truth more prosaic, and the reality is that there is no 200 mm 100% completed wafer fab as claimed in the Annual Report?

We conjecture that PEMANDU gave itself full marks for completion on the basis that while the original projected floundered, it still managed to 'facilitate capacity increases via other companies'. We could debate this point further - are full marks deserved if the total investment is less than originally targeted? Furthermore, increasing capacity at existing companies is less valuable than introducing a new player who can broaden and deepen the industry.

However, there are other pressing issues - such as missing projects. These are EPPs which were proudly presented during PEMANDU's numerous ETP Updates in 2010 and last year, but which, very oddly, received no mention in the ETP Annual Report released in April this year.

We shall highlight just two examples - Damansara City 2 and the Marina Island Pangkor extension.

What happened to Damansara City 2?

The Damansara City 2 project by GuocoLand (Malaysia) Berhad was unveiled in the 3rd ETP Progress Update on 11 Jan 2011. This mixed development comprising retail and office blocks and a hotel and service apartment was by far the largest project mentioned under EPP 7: Creating Iconic Places and Attractions in the Greater Kuala Lumpur/Klang Valley NKEA (National Key Economic Area).

We shall set aside the questions of how 'transformative' really are property development projects such as this, as well as the process which resulted in GuocoLand's proposal being granted EPP status and thus, at least implicitly, being more iconic and transformative than, say, the KL Eco City and Icon City projects by SP Setia and Mah Sing, respectively.

Figure 5: The massive RM1.9 billion Damansara City 2 was announced last year …

GuocoLand Malaysia will develop Damansara City 2, an integrated development in Pusat Bandar Damansara.

Investment
RM1.9 billion

This mix development will be the next iconic landmark as well as a driver for solid investment potential in its surrounding area.

The project will comprise two office blocks of 560,000 and 285,000 square feet each, a 290,000-square feet retail block, a 300-room hotel and a 260-unit serviced apartment.

Source: 3rd ETP Progress Update by PEMANDU, 11 Jan 2011. Available at http://etp.pemandu.gov.my/11_January_2011-@-Damansara_City_2.aspx

Figure 6: … but is not in the ETP Annual Report[11]

Moving Forward

Based on the blueprint for Heritage Trails, another three routes have been identified for development in 2012 and they are:

1. Heritage Trail Route 2 – Jalan Tun Perak to Bukit Nanas
2. Heritage Trail Route 3 – Jalan Tun Perak to Petaling Street via Central Market
3. Heritage Trail Route 4 – Petaling Street mall

Another project earmarked next year is the upgrading of Masjid Jamek, one of the oldest mosques in Kuala Lumpur. Specialised repair works will be carried out on this heritage building to restore it to its former glory.

What is shocking is that this EPP, which at RM1.9 billion is by far the largest project in EPP7 in the Greater KL/Klang Valley NKEA, receives no mention at all in the ETP Annual Report. There was no status report, and in fact, it was not even mentioned in the 'Moving Forward' section. Instead three additional Heritage Routes and the upgrading of Masjid Jamek were highlighted instead, as shown.

[11] Reproduced from update on EPP7: Creating Iconic Places and Attractions under the Greater Kuala Lumpur Klang Valley NKEA. ETP Annual Report 2011, page 31.

Marina Island washed away?

Moving on from the LFoundry and Damansara City 2 projects on the shifting sands of dry land, we come to seaside projects which may have been 'washed away'.

The Marina Island Pangkor's International Resort & Entertainment Extension Project was showcased in the 4th ETP Progress Update on 8 Mar 2011[12]. This 'World Class Integrated Passenger Seaport Transportation Hub and a World Class Waterfront Development' which 'will position Malaysia well into the future', appears to dovetail nicely with EPP6: Creating a Straits Riviera Cruise Playground in the Tourism NKEA[13].

Strangely though, no progress update was given in the Annual Report on this huge project which will require RM600 million of investments, and is expected to provide 27,000 jobs and contribute RM9 billion of GNI (Gross National Income) by 2020[14].

Figure 7: The important Marina Island project was announced in Mar 2011 …

Globalports Sdn Bhd, Bina Puri Properties Sdn Bhd and Marina Sanctuary Resort Sdn Bhd will work together as a Consortium to spearhead the development of the new 110 Acres Marina Island Pangkor 2nd International Resort & Entertainment Island.

Investment
RM600 million

These islands will be an extension of the existing 1st Island and will feature a World Class Integrated Passenger Seaport Transportation Hub and a World Class Waterfront Development.

This International Resort will position Malaysia well into the future as the Passenger Sea Travel for Malaysia is yet to be fully developed. This development will act as a Catalyst and as an Enabler to help better position Pangkor and Greater Lumut in Perak as one of the future International Tourism Destination for Malaysia

Source: 4th ETP Progress Update by PEMANDU, 8 Mar 2011. Available at http://etp.pemandu.gov.my/8_March_2011-@-Marina_Island_Pangkor%27s_International_Resort_-%E2%97%98-_Entertainment_Extension_Project_.aspx

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[12] It was announced under the Tourism NKEA, but interestingly, was not identified with any specific EPP.
[13] Page 331 of the ETP Roadmap Report, PEMANDU, 26 Oct 2010.
[14] Economic Transformation Programme (ETP) Update #5 …. Maybank IB Research 20 Apr 2011 (page 12). Available at http://maybank.xinhua08.com/yjbg/201104/P020110420386774981517.pdf

Figure 8: … but seems to have been forgotten in the ETP Annual Report[15]

EPP #6	Passenger Sea Ports Infrastructure and Cruise Tourism Blueprint	Formulation of a Cruise and Ferry Integrated Sea-port Infrastruc-ture Blueprint for Malaysia	Blueprint completed	100%		100%		1.0	

Achievements

The *Cruise and Ferry Integrated Seaport Infrastructure Blueprint for Malaysia* was commissioned by the Economic Planning Unit (EPU) in 2011. This blueprint provides the vision and strategic recommendations on developing the cruise industry in Malaysia by evaluating the suitability of existing infrastructure and identifying the requisite locations to be developed as cruise terminals.

The blueprint has identified three ports as having potential to contribute significantly to the Malaysian cruise industry, namely, Penang, Klang and Kota Kinabalu. These ports currently have existing cruise infrastructure, a network of cruise arrivals and/or access to immediate tourism products.

Instead, the ETP Annual Report points out that the *Cruise and Ferry Integrated Seaport Infrastructure Blueprint for Malaysia* identifies Penang, Klang and Kota Kinabalu as the three ports with 'potential to contribute significantly to the Malaysian cruise industry'.

Whatever happened to Marina Island Pangkor? The Blueprint, no doubt, was commissioned by the Economic Planning Unit. But surely PEMANDU in its Annual Report should have stated where this important EPP stands in the overall scheme of things.

[15] Extracts from EPP6: Creating a Straits Riviera, Tourism NKEA. ETP Annual Report 2011, page 112.

Let's be frank

Uncertainty and adjustments are part and parcel of the business landscape. It is normal for projects to be varied, postponed or even abandoned. Companies do get into financial difficulties. Some go bust. It would be irrational to expect *all* the entry point projects (EPPs) under the ETP to progress with smooth precision. Problems are to be expected, which good project managers recognise and surmount.

Glossing over and ignoring issues as PEMANDU is wont to do is a terrible approach. Plans, assumptions and forecasts must accommodate changing circumstances. Pretending that all is going perfectly to plan merely results in an escalating divergence between reality and delusions of grandeur, and the facade will ultimately come crashing down.

PEMANDU must be transparent about the EPPs which are facing difficulties. The contribution of these troubled EPPs to investment, GNI and jobs created should be stated clearly and transparently so that shortfalls caused by the affected EPPs and the effects on their respective NKEAs can be addressed and given extra attention moving forward.

In addition, it is also good practice and would be very helpful to other entrepreneurs if PEMANDU were to disclose what went wrong and the remedial steps taken. PEMANDU's experience and knowledge gained may well help others avoid making similar mistakes.

This kind of transparent evaluation regarding the execution challenges faced by entrepreneurs and entry point projects was sadly lacking in the ETP Annual Report. The pace of private investments is well behind the ETP targets in terms of the share of private to public investments[16].

In the next installment of this series which will cover Enterprise, the second E in our DEEDs framework to dissect the ETP Annual Report, we shall uncover more evidence showing why the gaudy investment figures highlighted under the ETP should not be taken at face value.

[16] The 35% share of private investments in the ETP up to that point was well below the 60% target. In contrast, government investments at 25% were more than thrice the 8% target. Details in A Critique of the ETP: Part 4 - Enterprise - Private enterprises are rejecting the ETP. Ong Kian Ming and Teh Chi-Chang, REFSA, 15 Feb 2012. Available at www.refsa.org

About this series and DEEDS

Earlier this year, we published a series assessing PEMANDU and the ETP on the goals, plans and targets stated in the ETP Roadmap document. To facilitate constructive discourse and in keeping with the spirit of the alphabet soup of NKEAs, NKRAs, SRIs, EPPs, and GNI surrounding the entire GTP, we evaluated PEMANDU and the ETP on its DEEDS - Data transparency, Execution, Enterprise, Diversity and Socio-Economic Impact. The 8 Focus Papers in this Critique of the ETP Series, together with related infographics and a powerpoint presentation can be found at www.refsa.org.

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