Myanmar Thilawa SEZ Holdings Public Ltd. (MTSH)

Summary

Myanmar Thilawa SEZ Holdings Public, Ltd. (MTSH) is the private sector shareholder on the Myanmar side of Myanmar Japan Thilawa Development Ltd. (MJTD), the development entity of the Thilawa Special Economic Zone Development Project established by mutual agreement between the Japanese and Myanmar governments in December 2012. MJTD was established on January 10, 2014. Shareholders and percentage of shares are as follows: Government of Myanmar 10%, Myanmar private sector 41%, Japanese government 10%, Japanese private sector 39%. The 41% in Myanmar private sector shares is held by MTSH.

Not surprisingly, earnings of MTSH are effected by whatever the current situation is for development in the Thilawa Special Economic Zone. Development has, in fact, been going quite smoothly, with Zone A (approximately 400 hectares) almost complete, and Zone B (approximately 260 hectares) having commenced. The ground work, including site development for the industrial park, as well as the providing of infrastructure including electrical power lines, plumbing, and roads, is progressing. The development involves mainly Japan, with half of the corporations planning on locating there being Japanese companies.

Development of the Thilawa Special Economic Zone has been positioned as a model of the industrial park by the Myanmar government, and it is likely to continue to attract attention in the future as regards the method of developing industrial zones. Even now certain problems associated with new developments such as this remain to be resolved, such as eviction negotiations to make the development site available.

Hence the fact that both Zone A and Zone B are nearing completion is a sign that the development has reached a major milestone and is over the hump. In the future, the demands that MJTD will most likely meet with are mainly the need to control the cost to improve profitability. Therefore, MTSH business results will likely be dependent on whether or not MJTD can become a more efficient operation, as well as whether MTSH itself can come up with a new management strategy. These are the points to keep an eye on in the future.

1. How the Thilawa Special Economic Zone Project Came to be Established, and its Development Entity

The Thilawa Special Economic Zone Development Project was established by mutual agreement between the Japanese and Myanmar governments in December 2012. Then in May 2013, an alliance of trading companies made up of three major trading firms – Sumitomo Corporation, Mitsubishi Corporation, and Marubeni – performed a feasibility study of the Thilawa area. In June 2013, the Japan International Cooperation Agency (JICA) announced that it would grant an ODA loan to the project totaling 50 billion yen to cover development, including the building of infrastructure.

Later, the Japan-Myanmar joint venture, Myanmar Japan Thilawa Development, Ltd. (MJTD), was established on January 10, 2014 as the development entity. Meanwhile, on January 23, 2014 the Myanmar Special Economic Zone Law (SEZ), which deals with various issues associated with the development of industrial zones, was put into force, and full-fledged development began.

Percentage of shares is 51% Myanmar and 49% Japanese. The detailed breakdown is as follows: Government of Myanmar (Thilawa SEZ Management Committee) 10%, Myanmar private sector 41% (nine private sector corporations and individuals), Japanese government (JICA) 10%, Japanese private sector (Sumitomo Corporation, Mitsubishi Corporation, Marubeni, Bank of Tokyo Mitsubishi UFJ, Sumitomo Mitsui Banking Corporation, and a joint venture of Mizuho Bank) 39%. The 41% in Myanmar private sector shares is held by Myanmar Thilawa SEZ Holdings Public, Ltd (MTSH).

MTSH was established in May 2013, and has a shareholder breakdown made up of Myanmar private sector corporations and private individuals. The nine Myanmar private sector corporations mentioned above are First Myanmar Investment Company Limited, Golden Land East Asia Development Limited, Myanmar Agribusiness Public Corporation Limited, Myanma Agricultural & General Development Public Limited, Myanmar Edible Oil Industrial Public Corporation Limited, Myanmar Sugar Development Public Company Limited, Myanmar Technologies and Investment Corporation Limited, National Development Company Group Limited, and New City Development Public Company Limited.

As has been mentioned previously, MJTD shareholders include Japanese government and private sector companies, as well as Myanmar government and private sector companies. This is a most desirable shareholder makeup, as it is well-known that success cannot be achieved in the promotion of industrial park developments without the cooperation of both the public and private sectors. This is one of the major reasons that the Thilawa Special Economic Zone development has been progressing so smoothly. All interested public and private sector parties are participating, and this helps to promote a healthy discussion.

2. MTSH Earnings Breakdown

Earnings of MTSH, the private sector shareholder on the Myanmar side of the Thilawa Special Economic Zone Development Project, are accounted for almost entirely by the development entity of the Thilawa Special Economic Zone Development Project, MJTD. This is made up of share of profit from MJTD, as well as administrative fees, road maintenance fees, and other fees. The share of MTSH before tax profits accounted for by MJTD's share of profit was around 65% in FY2016 and approximately 74% in FY2017 – a considerable portion of its business. In addition, earnings from a subsidiary held by MTSH, Thilawa Property Development (TPD) are also central.

TPD handles the development and maintenance of commercial facilities in the

Thilawa Special Economic Zone, as well as housing. The main sources of its earnings land leasing fees and facility maintenance fees. Income from this subsidiary is included on the MTSH consolidated report, but the amount is small in comparison to that of MJTD's share of profit. The share of MTSH consolidated profits accounted for by TPD was (-) 0.4% in FY2016, and (+) 17% in FY2017. Trends in MTSH earnings are effected by whatever the current situation is for development in the Thilawa Special Economic Zone. In the following section of this report we consider the characteristics of the Thilawa Special Economic Zone and the current status of its development, along with the outlook for the future.

3. Characteristics of the Thilawa Special Economic Zone

The Thilawa Special Economic Zone is located about 23 kilometers southeast of Yangon. It is not that distant, but roads are narrow and in many places unpaved. This leads to traffic congestion and delays, so normally driving there by car from Yangon take 40-50 minutes. In some cases, it can take over an hour. The Thilawa Special Economic Zone Development Project is a large one, covering occupying a total approximately 2,400 hectares. The basic policy of the project is to provide not only an industrial park, but commercial facilities, housing, schools, and a hospital on its periphery, thereby also providing an environment where the people working in the industrial park can live.

In operating an industrial zone development project, it is important to provide not only hard infrastructure, such as site development for factories, but soft infrastructure as well. Soft infrastructure includes everything required for the industrial park to function smoothly, including paperwork involved in carrying out investment, and employee training. Hence the project involves all of these activities.

Corporations moving into the industrial park are required to fill out forms associated with investment in the zone, and so a one-stop service center has been set up inside the zone to help them with paperwork. Representatives from the various Myanmar government ministries are located at the centers so that all the government related paperwork required can be done right there in one spot close to the factories. As for employee training, companies offering professional training have been invited to set up right inside the industrial park.

The governing law allowing corporations to set up in Thilawa is the Myanmar Special Economic Zone Law (SEZ) discussed earlier in this report. In comparison with the Foreign Investment Law established in 2012, it contains the following unique characteristics: (1) deregulation of certain industries which were previously regulated, (2) no restrictions on ratio of foreign ownership of Myanmar corporations, and (3) paperwork required in order to invest in Myanmar is simplified. As for paperwork required in order to gain authorization for investment, the SEZ law stipulates that the government’s decision on whether or not to authorize an investment shall take place within thirty days of application.

Until now, this process could require up to five months under the stipulations of the Foreign Investment Law. Hence the SEZ law has shortened that timeframe for investment considerably. The new rules require foreign corporations which have been authorized to invest in Myanmar to commence operations within three years after authorization. As is the case with other industrial zones, this rule is meant to prevent land within the industrial park remaining vacant.

Corporations which have set up operations in the Thilawa Special Economic Zone generally fall into two categories. The first are export-oriented companies (75% of products are exported, or more than 80% of products are sold to other export companies located within the free zone). This is the free zone category. The second category is industries oriented toward the domestic market. This is referred to as the promotion zone category. Both of these types of industry have land leases lasting for periods of up to 75 years. The tax exemption incentive goes for a period of seven years for the free zone category, but only five years for the promotion zone category. The free zone category clearly has the better terms.

4. Current Status of Development in the Thilawa Special Economic Zone

As has been mentioned previously in this report, the Thilawa Special Economic Zone Development Project has grown to an area of 2,400 hectares. Development has been progressing in stages. Currently, development has taken place in Zone A and Zone B. The Zone A development covers an area of 405 hectares. Of this, 370 hectares encompasses the industrial zone, while the remaining 35 hectares is taken up by housing and a commercial zone. The 35 hectare housing and commercial zone is handled by MTSH subsidiary TPD. Work began on Zone A in December 2013, and corporations located there opened business in September 2015. Development of Zone A is nearly complete.

Zone B takes up an area of 262 hectares, all of which is industrial. Development is taking place in three phases: Phase 1 was start of work in February 2017 with business operations to begin in August 2018. Start of work on Phase 2 was in December 2017 with start of business operations expected to be in August 2019. Work on Zone A and Zone B is being performed by the following companies: Penta-Ocean Construction (civil engineering), Kinden Corporation (power grid), Kubota Corporation (water and sewage system, and water purification), and KDDI (laying of optical fiber).

Development has been progressing smoothly since 2014. As of 1st November 2018, the number of corporations which have already signed land reservation contracts in Zone A and Zone B reached 97 from 19 countries, including three companies which plan on renting factories (in addition, there is one company which has yet to complete the signing of its contract). Of these, work has begun on construction of factories in the case of 80 corporations, and 56 companies including 3 rental factories have already commenced operations.

Looking at product sales by target market, 36 companies are export oriented, 60 are oriented toward the domestic market, and one company is listed as “other”. In the beginning the outlook was for 70% export oriented corporations and 30% domestic market oriented, but it has actually turned out to be 40% export oriented and 60% domestic market oriented. The ratio of corporations oriented toward the domestic market is higher, revealing the extent to which there is a shortage of domestic supply in Myanmar.

Looking at companies setting up in the zone by industry (including the one company which has not yet signed a contract), there are 16 construction related, 10 in packaging, 8 sewing, 8 in logistics, 8 food and drink industry, 8 agriculture related, 5 automobile related, 5 electric power related, 6 medical related, and 3 shoe and parts manufacturing, 4 in paint industry, 2 in industrial gas, 4 in services and 1 land development. In addition, there is one corporation each invested in the area of Animal Feeds, Tanks, Conveyance Machinery, Lubricant, Telecom Tower, Tripod, Homecare Products and Plastic Molding.

By nationality, 50 companies are Japanese, 14 Thai, 6 Korean, 5 Taiwanese, 3 Singaporean, 3 Malaysian, and 4 Myanmar, Hong Kong 2, while there is one corporation from each of the following countries: the U.S., Switzerland, Germany, the Netherlands, France, Australia, China, Vietnam, India, and Indonesia. Japan is the major nation involved and is performing much of the development work, with half of the corporations moving in being Japanese. The shareholder breakdown is as follows: wholly owned foreign companies 82, joint ventures 13, and Myanmar wholly owned 2.

5. Providing Infrastructure on the Thilawa Special Economic Zone Periphery

The area now occupied by the Thilawa Special Economic Zone was originally populated by local residents, and lacked the infrastructure needed for an industrial park. There was no access road, and the supply of electrical power was insufficient. There were no water supply or sewerage facilities. Hence in order to function as an industrial park, providing infrastructure to the areas adjacent to the Thilawa Special Economic Zone as well as the industrial area itself was a critical issue.

As for infrastructure on the periphery of the Thilawa Special Economic Zone, plans are to provide electrical power, water supply, and distribution facility with the help of international yen loans from Japan. As for electrical power, a 33kV power grid has been completed, as well as a gas power plant (50MW), a gas pipeline and a substation are completed. 230 KV transmission line was long completed. As for water supply, plans are to install a water treatment station and a water pipeline (supply of an additional 42,000 m3/day) from the Lagunbyin Reservoir.

As for distribution, a 4-lane highway is being built at Thanlyin Bridge, and from there an access road is being installed (9 kilometers, 4-lanes). Plans are to also build an international container port and the new No.3 Thanlyin Bridge over the Bago River connecting Thanlyin Township and Thaketa Township at the end of year 2018. It is expect to be finished by March, 2021. Building this infrastructure will have the effect of increasing the value of the Thilawa Special Economic Zone, and once it is complete, corporate activities will become much more convenient.

Moreover, the Thilawa Property Development Company Limited, a subsidiary company of MTSH is currently developing Residential and Commercial area at the Thilawa Special Economic Zone. MTSH has established Thilawa Property Development Limited (TPD) in March 2015 to develop, construct, market, lease and operate 35 hectors of Residential and Commercial Area in Thilawa SEZ. It is situated between the main access corridor to Thilawa SEZ and Thilawa Reservoir making it a prime location for Urban Development such as Condominium, Serviced Apartment, Office Space, Shopping Mall, Supermarket, Hyper-mart, Shop House, Hotel, School, Bank, and Hospital. TPD has obtained investment permit in July 2015.

Residential and Commercial Area of Thilawa SEZ is about 19 km from Yangon's Central Business District (CBD) through Thanlyin Bridge, and 36 km through Dagon Bridge. TPD Business & Development Works in Residential and Commercial Area of Thilawa SEZ includes Thilawa Garden City, Shop houses and Workers' Accommodation. TPD development pipeline for near term includes a food court and a community mall, and shopping mall & office tower, serviced apartment, condominium and villa for mid-term future.

6. Future Direction of the Thilawa Special Economic Zone

Development of the Thilawa Special Economic Zone is progressing smoothly, including construction of infrastructure on its periphery, and corporate operations are becoming more convenient. Corporations which have moved into the zone are contributing to the Myanmar economy through capital investment and the employment of local workers. In the future, as the number of companies commencing operations increases, the extent of this contribution will also increase. Due to the progress made in the development of the Thilawa Special Economic Zone, it is now considered to be the model of industrial park development by the Myanmar government.

It will likely be used as a textbook case in the future in the development of other industrial zones. Hence, the Thilawa Special Economic Zone will likely continue to attract interest in the discussion of methods of industrial zone development. At the same time, development of the Thilawa Special Economic Zone can be said to have reached its peak for the time being with the completion of Zone A and Zone B. The total area of the development is huge, having grown to 2,400 hectares, and leaving plenty room for more growth in the future.

However, certain problems associated with new developments such as this remain to be resolved, such as eviction negotiations to make the development site available, and problems such as this take time to resolve. Hence in the future, the demands that MJTD will most likely meet with are mainly the need to control the cost to improve profitability. MTSH business results will likely be dependent on whether or not MJTD can become a more efficient operation, as well as whether MTSH itself can come up with a new management strategy, including investment in other industrial zone developments. These are the points to keep an eye on in the future.