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ANNUAL REVIEW

KHAZANAH REPORTS FIRST LOSS SINCE 2005

Sovereign wealth fund to restructure portfolio after posting RM6.5 billion net loss last year

ZARINA ZAKARIAH
KUALA LUMPUR
zarinaz@mediaprima.com.my

REDUCED dividend income, higher impairments and fewer divestments last year have dragged Khazanah Nasional Bhd into its first loss since 2005.

The sovereign wealth fund posted a net loss of RM6.5 billion in 2018, but expects to return to profitability this year with a new investment strategy that classifies its portfolio into two separate funds: commercial and strategic.

Khazanah manages selected commercial assets of the government and undertakes strategic investments on behalf of the nation. It derives returns from dividends paid by companies it has a stake in, and sells assets at a higher value to maximise profits.

Impairments are losses reported in the income statement to reflect a drop in asset value. This can occur when the strategy implemented is not yielding the right results. An impairment loss reduces the profit reported for

the period, but has no immediate impact on a company's cash balance.

"The biggest impairment was due to Malaysia Airlines Bhd, which accounted for roughly half of the total impairment for last year," Khazanah managing director Datuk Shahril Ridza Ridzuan said at a briefing on its 2018 results here yesterday.

"Looking ahead into 2019, we should be able to return to profitability, given the fact that the clean-up we did in 2018 has gone through the books. We don't expect any more large impairments."

At pre-tax level, Khazanah registered a loss of RM6.3 billion to reverse a RM2.9 billion pre-tax profit in 2017. It set aside RM7.3 billion impairments last year against RM2.3 billion in 2017, while the dividends received were halved to RM1.4 billion.

"The government has initiated a reset of Khazanah, which involved significant changes, including refreshed mandate. The organisational restructuring we are undertaking will enable us to execute and deliver on our role of growing Malaysia's long-term



(From left) Khazanah Nasional deputy managing director Datuk Sri Tengku Azmil Zahrudin, managing director Datuk Shahril Ridza Ridzuan and chief financial officer Faridah Bakar Ali at the Khazanah Annual Review 2019 media briefing yesterday. PIC BY ASWADI ALIAS

wealth beginning from this year," Shahril added.

Khazanah, which has invested in more than 100 firms spanning more than 20 countries, will manage the investments via a dual-fund investment structure.

The commercial fund will include CIMB Group, Axiata Group, IHH Healthcare, Alibaba.com, The Holstein Milk Company, Sun Life Malaysia, WeLab and Palantir.

The strategic fund includes

strategic assets such as Telekom Malaysia, Tenaga Nasional, Malaysia Airlines, Malaysia Airports, PLUS Malaysia, Silerra, Iskandar Investment Bhd, Themed Attractions Resort & Hotels, Pinewood Iskandar Malaysia Studios and Medini Iskandar Malaysia.

Shahril said Khazanah's portfolio of stocks were affected by global economic uncertainty last year, which saw markets under-

perform due to geopolitical tensions and a pessimistic growth outlook for emerging markets.

"Our long-term portfolio performance, however, remains on an upward trajectory with our net worth adjusted (NWA) achieving an 11 per cent return per annum over the last 10 years."

Khazanah's NWA portfolio value fell 21.6 per cent to RM91 billion as at Dec 31 last year from RM116 billion in 2017. It saw losses in the value of its portfolio including Axiata (-26.9 per cent), Telekom (-56.9 per cent), Tenaga (-7.9 per cent), IHH Healthcare Bhd (-7.6 per cent), CIMB (-9.3 per cent) and MAHB (-3.3 per cent).

Despite the loss, Khazanah declared a dividend of RM1.5 billion for 2018. Last year, the government reorganised Khazanah by changing its board of directors and management, as well as introducing refreshed mandate and objectives.

Shahril said Khazanah would consider divesting its stakes in assets if the deals made sense, and for reinvestment and restructuring of its portfolios.

"For non-performing assets, we have a choice of holding on to the assets on the current value or, when the right valuation comes along, we can take it and reinvest in other assets that can give better outcomes."

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