06 APR, 2024

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The Star, Malaysia

AUTHOR: Ganeshwaran Kana SECTION: STAR BIZWEEK PAGE: 1,8,12 PRINTED SIZE: 2072.00cm²
REGION: KL MARKET: Malaysia PHOTO: Full Color ASR: MYR 104,677.00 ITEM ID: MY0058343762

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INVESTMENT

Strengthening sustainability of GLCs and GLICs

A review of investment strategies is needed to ensure peak performance and continued growth

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BACK in 2017, a renowned economist shocked the nation when he revealed the government has shares in at least 68,000 companies.

Just last December, Prime Minister Datuk Seri Anwar Ibrahim disclosed that the total assets under management of the government-linked investment companies (GLICs) are worth RM1.84 trillion, up from RM1.7 trillion as of end-2020.

At RM1.84 trillion, it is almost as big as the Malaysian economy in 2023.

Via GLICs, the government is the largest investor in the Malaysian stock market.

As per data compiled by Maybank Investment Bank Research on July 7, 2023 **(see chart)**, just four GLICs and Petroliam Nasional Bhd controlled two-thirds of the FBM KLCI's market capitalisation.

That is how entrenched the government's presence is in the business world, even though many politicians would agree that the government has no business to be in business.

Are these investments performing well? Well, some are and some are not.

Take Khazanah Nasional Bhd for example. Its initial RM20mil seed capital in exchange for a 30% stake in Farm Fresh Bhd back in 2011 is estimated to have delivered a return of over 54-fold up to the point of debut on the Main Market of Bursa Malaysia in 2022.

On the other hand, Khazanah's previous investment into wafer fabrication firm Silterra ended up in accumulated losses worth billions of ringgit.

The fact that this asset was sold for RM273mil, which included the capitalisation of a RM718mil shareholder loan advanced by the sovereign wealth fund, clearly showed that the actual losses were much higher.

Its investments into the national carrier Malaysia Airlines were also stuck in losses for more than a decade.

While the airline finally returned to profitability in 2023, it remains to be seen whether the profits will be sustained.

Overall, the net asset value (NAV) of Khazanah's investment portfolio has been largely declining even before the Covid-19 pandemic.

For a fund with a NAV of RM85bil in 2023, one may argue that Khazanah's dividend of RM1bil was not substantial enough.

This raises the question of whether the sovereign wealth fund, run by well-paid professionals and chaired by the prime minister, has been getting optimum returns from its investments.

In a reply to *StarBizWeek*, Khazanah managing director Datuk Amirul Feisal Wan Zahir says the downtrend in portfolio NAV was in line with the decline of the FBM KLCI during the period, affecting not just Khazanah.

"Over the past two decades, Khazanah's portfolio NAV has shown positive growth and a steady increase in the overall value of our assets.

"Khazanah's NAV grew from RM33bil in 2004 to RM85bil in 2023, resulting in a compounded annual growth rate of 5.1%."

Despite the criticisms, Khazanah remains as one of the better managed GLICs out there.

The latest Auditor-General's Report found that the Armed Forces Fund Board (LTAT) has recorded a negative balance in its reserves since 2020.

The report also mentioned 41 old share portfolios with an unrealised loss of RM662mil and that action has yet to be taken. This has contributed to the negative balance of the reserves.

Following a public uproar, LTAT has clarified that the negative balance was just for one of the three components under the combined reserves.

However, one cannot ignore the elephant in the room – the financial woes and the mismanagement of key companies where LTAT holds substantial stakes such as Pharmaniaga Bhd and Boustead Holdings Bhd.

In the case of Boustead, which among others owns the Royale Chulan Hotels and BHPetrol, LTAT had to privatise the company to restructure the business.

Several years back, the Finance Ministry also had to jump in to rescue Lembaga Tabung Haji's (LTH) assets and to ensure that the savings of Muslim depositors were protected.

Under Lim Guan Eng, the former finance minister, Urusharta Jamaah Sdn Bhd (UJSB) was established to acquire underperforming assets and revive the financial standing of LTH's in late 2018.

In a massive bailout plan, UJSB took over LTH's assets worth RM9.63bil in exchange for RM19.9bil.

But, the mother of all cases of mismanagement is the infamous 1Malaysia Development Bhd (1MDB) scandal involving a former prime minister who is now behind the bars.

Putting the problems behind, Sage 3 executive director Ravindran Navaratnam says it would "make sense" for the government to step in and recheck the relevance of GLICS and government-linked companies (GLCs).

"I believe there is a great opportunity for the new role to be incorporated into the five-year Malaysia plan," he says.

Ravindran was one of the earliest members of Pengurusan Danaharta Nasional Bhd, which was formed post-1997 Asian Financial Crisis to remove non-performing loans from the financial system.

Investment strategies

The numerous issues regarding the government's involvement in business, intertwined with criticisms about political patronage, constantly raise the same question – should the government leave business to the private sector players?

This is a double-edged sword. Private sector does not necessarily mean effective management and guaranteed profits.

FBM KLCI constituent ownership by GLICs/GLCs

Company	Market cap (RM bil)	EPF (%)	Khazanah (%)	PNB (%)	KWAP (%)	PETRONAS (%)	Total (%)	Total (RM bil)
Maybank	104.5	12.9		45.3	4.4		62.6	65.5
Public Bank	74.7	14.6		2.4	4.1		42.7	31.9
CIMB	55.0	13.0	24.1	14.1	6.5		57.6	31.7
Tenaga Nasional	52.4	15.7	23.7	17.8	7.3		64.5	33.8
IHH Healthcare	51.0	10.1	25.9	1.5	3.4		73.7	37.6
PETRONAS Chemicals	48.2	8.6		6.1	2.7	64.4	81.8	39.4
CelcomDigi	47.5	9.8		6.7	2.4		85.1	40.4
Hong Leong Bank	40.9	9.5		3.0	1.5		75.8	31.0
Press Metal	39.5				0.9		34.3	13.5
PETRONAS Gas	33.4	14.5		9.4	10.0	51.0	84.9	28.3
MISC	31.2	12.6		7.3	5.4	51.0	76.4	23.8
Maxis	30.9	11.9		10.4	1.5		85.9	26.6
Nestle (M)	30.6	8.7			1.1		82.5	25.3
Sime Plantations	29.6	13.8		55.5	6.6		75.9	22.5
Kuala Lumpur Kepong	24.3	10.2		7.8	ts		65.7	16.0
Axiata Group	23.6	16.7	36.7	18.0	2.9		74.4	17.6
IOI Corp	23.3	10.1		7.6	3.3		71.4	16.6
RHB Bank	23.1	41.2		7.4	5.3		64.1	14.8
PPB Group	22.6	9.9			0.9		61.4	13.9
PETRONAS Dagangan	21.7	12.1		9.4		63.9	85.5	18.6
Hong Leong FG	19.7	3.1			2.3		82.8	16.3
Telekom Malaysia	18.3	15.3	20.2	16.9	10.3		62.7	11.5
Genting Bhd	15.7						42.8	6.7
MR DIY	14.3	1.8		2.3			67.7	9.7
Sime Darby	14.0	10.8		48.6	7.9		67.2	9.4
Genting (M)	13.9						49.4	6.9
QL Resources	12.9	5.1		1.3	2.3		72.4	9.4
Westports	12.1	9.1		3.9	6.7		83.8	5.8
Dialog	11.9	14.4		3.1	9.3		46.0	5.5
AMMB Holdings	11.9	9.6		8.2	1.4		52.7	6.3
Total	**952.9**							**636.0**

Note: Compilation as of July 7, 2023
GLIC: Government-linked investment companies, KWAP: Retirement Fund Inc, GLC: Government-linked company, EPF: Employees Provident Fund, PNB: Permodalan Nasional Bhd
Source: Maybank IB Research

The Star graphics

Many of the government asset privatisations undertaken in the 1990s to individuals, whom critics say were cronies, ended in losses and even in huge debts.

These include Perwaja Steel and Malaysia Airlines, just to name a few.

Experts say the sale of assets owned by GLCs to the private sector will only be successful if the transactions are free from "backdoor deals" and cronyism.

From another perspective, should some of the GLICs be merged with the mandate to invest as passive investors, focusing entirely on profits?

Also, why should the GLICs be pressured to keep delivering higher profits but at the same, be forced to invest in local assets that do not promise high returns compared to global assets?

In the case of the Employees Provident Fund (EPF), about 62% of its RM1.14 trillion investment assets, as at end-2023, was invested domestically with the remaining in foreign assets.

Interestingly, the 62% domestic investments generated only 47% of EPF's total investment income.

With global assets contributing the remaining 53% of 2023's investment income, it showed the stronger return on investment from foreign assets.

Perhaps, Anwar should relook his instruction for GLICs to increase their domestic investments.

The finance minister must also take into account that GLICs typically allocate the biggest chunk of their investment assets into equities, as they are easy to monetise and the higher return nature.

By asking the GLICs to invest domestically, more money will flow into equities.

What good will it do to boost the real economy? How significant is the multiplier effect on the productive assets?

Such considerations must be incorporated as the government overhauls the entire GLIC-GLC ecosystem.

Khazanah's Amirul Feisal believes that domestic investments are key to helping spur and sustain domestic consumption.

"That is where Khazanah plays a crucial role as we strive to fulfil our mandate to drive the nation's economic growth.

"For example, given the geopolitics of today's shifting global supply chains away from China, we see Malaysia is poised to benefit from our established and niched semiconductor industry.

"With more than 60% of our overall portfolio exposure in Malaysia, we have a role to play in identifying the major themes for domestic investments that will help grow Malaysia's long-term wealth."

Regardless, former Treasury secretary-general Tan Sri Mohd Sheriff Kassim says the government should let private players run the current businesses of GLCs "whenever possible".

"The less the government participation is in business, the better it is for the overall economy," he tells *StarBizWeek*.

Mohd Sheriff also urges the government to let GLICs invest with their own discretion.

"If they have better opportunities abroad, they should not be limited or stopped."

Economist Edmund Terence Gomez questions the need for a GLIC such as Khazanah to have a stake in a well-established and regulated sector like banking via CIMB Group Holdings Bhd.

"Khazanah should invest in strategic areas of the economy, where private sector players are not keen."

This is a view that is also shared by Datuk Seri Idris Jala, who once helped to turn around Malaysia Airlines.

Idris also led the Economic Transformation Programme (ETP) under the previous administration of Datuk Seri Najib Razak.

"The government's presence in business should be focused on large infrastructure projects like the High Speed Rail, where it is difficult to keep the ticket prices affordable without government intervention.

"GLCs can also be involved in sectors or projects with long gestational period, especially those that require heavy investments into research and developments as well as innovation efforts.

"In addition, GLCs can partake in projects that are nearly commercially viable yet require incentive or assistance to reach the 'tipping point'," he says.

Back in 2011, a key area of the ETP was to re-define the government's role in business.

The plan to divest 33 GLCs was announced, which involved the paring down of the government's stakes in five companies, listing of seven companies and the outright sale of 21 companies.

Ultimately, Idris and then prime minister Najib had wanted to ensure greater liquidity in the capital market.

However, until today, the extensive control of GLICs in public listed companies is blamed for the weak liquidity on the stock market.

Gomez, who was formerly the dean of the Faculty of Economics and Administration at the Universiti Malaya, criticises the current government for not doing its best to reform government-owned entities.

"If we can turn around the GLC ecosystem and make it well-functioning, we can put the economy back on track," he adds.

It is noteworthy that the Advisory Committee to the Finance Minister (ACFIN), established by Anwar in Feb 2023, has been tasked with reviewing and rationalising government-owned entities' roles and functions and to consolidate or restructure them where appropriate.

This is one of the four areas under the purview of the ACFIN, which is chaired by Tan Sri Mohd Hassan Marican.

GLC Transformation 2.0?

This is the 10th year since the 10-year GLC Transformation Programme (GLCT) concluded.

Malaysia initiated the programme beginning 2004 to address some of key issues plaguing the GLC ecosystem, which include underperforming their peers and the broader market on numerous operational and financial indicators.

As previously noted by Tan Sri Azman Mokhtar, former managing director of Khazanah, some GLCs at that time were poor in managing costs and did not employ labour or capital as effectively as the competition.

Under the GLCT, six Initiative Books, also known as "Coloured Books," were introduced to provide best practices and to act as a guidance for continued good corporate governance.

While the programme has been hailed as a major success, resulting in higher market capitalisation and net profit of the G20, it is fair to say that some GLCs have not utilised the lesson learnt from the programme, given the governance issues in the past decade.

The 1MDB scandal erupted not long after Najib announced the "graduation" of the GLCT in 2015.

G20 is a selection of large GLCs controlled by GLICs under the programme and is used as a proxy for performance of the GLCs.

Not long ago, in Aug 2021, the administration of Tan Sri Muhyiddin Yassin launched the Perkukuh Pelaburan Rakyat programme, with the aim to re-state the role and renew the capabilities of Malaysian GLICs.

It is unclear how successful Perkukuh has been, given that Muhyiddin stepped down days after the launch of Perkukuh.

Perhaps, it is high time to reintroduce a new version of the GLCT, or GLCT 2.0 with a long-term horizon.

The main intention behind GLCT 2.0 should be about significantly reducing the government's presence in business.

Gomez says GLCT 2.0, if it is undertaken, must not repeat the biggest mistake in the 2004-2014 GLCT, which left out the unlisted GLCs.

These include the statutory bodies that are often used as "rewards" for ruling parties' politicians until today, he argues.

"The allowances received by the politicians for being the listed GLCs, unlisted GLCs and statutory bodies are one form of political financing.

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Greater check and balance needed for revamp

"We need more transparency and reforms on the unlisted companies owned by the government, including through the ministries.

"If we are serious about revamping the GLC ecosystem, we must undertake massive institutional reform for greater check and balance, and not just a piecemeal move like appointing a certain individual to the board," says Gomez, referring to the recent appointment of Tan Sri Abdul Rashid Hussain as LTH's chairman.

Meanwhile, GLCT 2.0 could also look into rewriting a new mandate for Khazanah, requiring the sovereign wealth fund to focus only on long-term strategic investments where private sector involvement has been weak.

Gomez says Khazanah should focus on areas that are capital-intensive and fundamental for economic development.

This includes the technology and food security sectors.

"Once GLICs are expected to be profit- and social impact-driven, either one of these will suffer," he says.

Amirul Feisal notes that Khazanah's Malaysia strategy for 2024 will focus on four key areas, namely, connectivity, energy transition, digitalisation and catalytic or new growth areas.

"With various companies in our portfolio, rather than trying to look at each company independently, we are now grouping the companies into clusters.

"This allows us to see how we operate within these clusters more holistically.

"These clusters will also help us identify investment gaps that Khazanah can initiate or strengthen to bolster the overall domestic economy," he says.

Beyond Khazanah, the mandate of LTAT and LTH should also be reconsidered.

Gomez suggests these two GLICs to be merged and to function only as investment funds like the Employees Provident Fund and Permodalan Nasional Bhd.

When asked to comment about GLC divestments, Gomez appears pessimistic, especially in cases where GLC assets change hands to a non-bumiputra firm.

"Just look at the uproar caused in the Parliament when Kuala Lumpur Kepong Bhd (KLK) wanted to buy the stake in Boustead Plantations Bhd," he says.

When the RM1.15bil takeover move by KLK collapsed, industry observers said it was a missed opportunity for Boustead Plantations to ride on the former's outstanding operations.

Regardless, one cannot deny the importance of the government reducing its presence in the business world.