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Populist policies come at a price

They cannot be used as a permanent political tool to gain voters' attention

The alternative view
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THE headline number of Khazanah Nasional Bhd losing RM6.3bil is eye-catching. However, a cause for deeper concern is the 21.6% drop in the value of its portfolio, which translates to some RM25bil.

The loss of RM6.3bil is due to provisioning, which is a non-cash-flow item, and a substantial amount comes from investments in the beleaguered Malaysia Airlines (MAS).

The airline is the pride of the nation and investment decisions pertaining to MAS are not always done with commercial considerations. Remember, Khazanah wanted a merger between MAS and AirAsia, but there was no political will to see it through.

When Khazanah proposed a rescue plan costing RM6bil in August 2014, some within Khazanah were not convinced it could revive the airline. To improve its chances, Khazanah brought in a non-Malaysian to head the airline and hoped that a new name would help reverse the fortune of the airline.

Not one but two foreign CEOs came and left MAS – both before the expiry of their contracts.

With the latest round of provisioning, the government would have pumped in an estimated RM23.6bil into MAS since June 2001 and has not seen any reversal of fortune.

On hindsight, for that kind of money, the country could have started a brand new airline and it would probably have had a better chance of surviving the tough industry.

However, on the bright side, the latest round of provisioning on MAS should bring down the value of the airline in Khazanah's books to a bare minimum.

In fact, the real value of MAS is probably higher than what is booked in the books of Khazanah.

That is what many would describe as



Big amount:

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kitchen sinking by the new boss of Khazanah.

Khazanah's new managing director Datuk Shahril Ridza Ridzuan is a good manager of portfolio investments and has an impeccable record from his tenure at the Employees Provident Fund. He will surely have his reasons for the aggressive provisioning of MAS and other investments that have caused Khazanah to record a loss before tax of RM6.3bil.

Beyond the loss, the drop in the value of its portfolio is more of a concern. It is a staggering RM25bil.

The losses largely came from the dip in value of Telekom Malaysia Bhd (TM), whose market capitalisation had dropped from RM18.7bil in June to RM11bil as at end-December last year.

The other stocks in Khazanah's portfolio that saw a large drop in value are Axiata Group Bhd, Tenaga Nasional Bhd (TNB) and CIMB Group Holdings Bhd.

The decline in value of these stocks is due to the populist policies of the new government that favoured the people, which is only to be expected.

For instance, when the government announced that service providers needed to double their broadband speeds at half the

price, TM and Axiata were hit. When the government talked about electricity producers taking on more risk instead of passing all of it to consumers, it affected stocks such as TNB.

When infrastructure projects are reviewed with the objective of cutting down on the excesses, they affect the contractors.

The latest sector to see upheaval is toll road operators. The government has talked about taking over toll highways – even if it means through expropriation methods – in its efforts to reduce or do away with toll rates.

Taking over highway operators through “expropriation methods” rattles investors, especially fund managers. But to those supporting the government, they feel such “market-unfriendly” terms are meant to bring the concessionaires to the negotiating table.

Nevertheless, most of the populist policies instituted so far by the government come at the expense of value destruction of stocks, while the beneficiaries are consumers and the people in general.

The reduced cost of toll roads and access to cheap broadband comes with a cost.

Previously, the cheapest high-speed broadband package was more than RM100. Now, starter packs begin at RM79. This would have a short-term impact on the earnings of

TM. But over time, the operators are expecting the earnings to normalise.

As for toll road operators, in the past, the government compensated concessionaires when there was a freeze in the hike of toll rates. But now, the government wants to take over the concessionaires to avoid paying compensation.

Special-purpose vehicles (SPVs) issuing debt paper guaranteed by the government can do so at a rate of about 40 basis points above the 10-year Malaysian Government Securities (MGS). Hence, the SPV is able to borrow at a cost of 4% or less.

The concessionaires' cost of funding the highways is anywhere between 5.5% and 7%.

The government's favourable cost of financing covers its cost of acquiring and maintaining the toll roads. This explains why the government wants to take over the concessionaires, especially those operating urban highways.

While politicians favour populist policies, it is not a zero sum game. Khazanah and some toll operators are feeling the heat now. It used to be contractors in the middle of last year when several infrastructure projects were reviewed.

Populist policies force owners of capital to make better use of their money. What entrepreneurs and investors do not want to see is a permanent value destruction of the assets by continuous changes in policies.

For instance, if the government can better handle the toll roads, so be it. The operators would take their money and put it elsewhere.

TM should show growth in its numbers when the cost structure is brought down to suit the new operating environment. Given time and an improved global investment environment, the value of the stocks hit by populist policies would improve.

However, there should not be new statements from ministers hitting out at these companies in order to gain popularity among voters. Populist policies cannot be used as a long-term political tool or they will cause permanent value destruction to the assets.