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Khazanah gains from shift in portfolio of investments

Alibaba proceeds used to invest in other technology firms

By **FINTAN NG and SHARIDAN M. ALI**
 starbiz@thestar.com.my

THE gradual shift in sovereign wealth fund Khazanah Nasional Bhd's portfolio of investments to include companies involved in the innovation and technology sector is bearing fruit with the proceeds from a partial divestment in Chinese e-commerce firm Alibaba Group Holding Ltd having been used to invest in other technology firms.

Khazanah made close to US\$1bil from the investment in Alibaba, which was listed in September 2014, 60% of the gains of which have been realised and have since been invested into other technology firms with an emphasis on the data analytics and e-commerce space.

Now the buzz is on Singapore's Garena Interactive Holding Ltd, an Internet and mobile platform mostly known as an online games distributor, which has picked Goldman Sachs Group Inc to lead what could be a US\$1bil (RM4.463bil) initial public offering. Garena raised US\$170mil from Khazanah last March, valuing the company then at US\$3.75bil but Garena could be worth more now after another round of fundraising of an undisclosed amount last September.

Khazanah managing director Tan Sri Azman Mokhtar says at a media briefing that this shift in investments have been reflected in the geographic reach of the fund's investments too. "When we started 12 years ago, practically everything was domestic and in the sectors of the old economy, over the years you can see the shift into different sectors and different geographical regions and this is reflected in our overseas offices too," he points out.

The sovereign wealth fund opened an office in San Francisco back in October 2013 to be close to the investment opportunities of the Silicon Valley as well as build relationships and business linkages while on the look out for investments in healthcare, life sciences, sustainable development, telecommunications and media.

As for Garena, Azman says Khazanah hopes to ride the wave and will make the decision on whether to exit fully, partially or hold on to the stake "as we go along". He gives the example of Edinburgh-based travel search engine Skyscanner Ltd, which was sold to Shanghai-based online travel operator Ctrip.com International Ltd for US\$1.75bil last November. Khazanah invest-

ed in Skyscanner early last year. Azman says the fund initially hoped to invest in Skyscanner for the medium- to long-term but decided to sell because of the compelling offer.

"Whenever there is some value creation, it's important to divest in a very gradual way," he explains. But Azman cautioned that technology companies' valuations tend to overshoot sometimes and that is when the fund need to take a gradual approach plus a whole lot of risk-management to investing in the sector.

He adds that the value of the remainder stake the fund still has in Alibaba continues to rise while the realised portion of the Alibaba stake was invested in 24 other innovation and technology companies, of which 15 were direct investments with the rest invested through other funds. Khazanah also invested in Alibaba's logistics arm, Cainiao Network Technology Co Ltd last March.

Azman also clarifies that the fund does not hold any direct stake in ride-hailing company Uber Technologies Inc but instead was an indirect investor through General Atlantic LLC, a private equity and venture capital firm.

However, Azman says that besides the catalytic investments, the focus of the core Khazanah companies, by and large, has not changed. The fund will continue to take a long-term view of its stable of listed companies including CIMB Group Holdings Bhd, IHH Healthcare Bhd and Axiata Bhd.

The fund sees 2017 as another volatile and uncertain year but the gradual shift in the funds will continue, with the regional offices hunting for opportunities. Azman says the fund will follow through in whatever it has done, with "more of the same" and have to be more "nimble" while being careful.

On that note, he says Themed Attractions, Resorts & Hotels Sdn Bhd, which houses the fund's leisure and tourism businesses, will not be ready for a public flotation this year despite steady growth. "We're open (to the listing), in all likelihood will depend on the market but 2017 is a bit premature," Azman says, adding that it could happen over the next three years.

With 20% of the fund's portfolio unlisted, there is always the temptation to float the shares but he says that even if a company is

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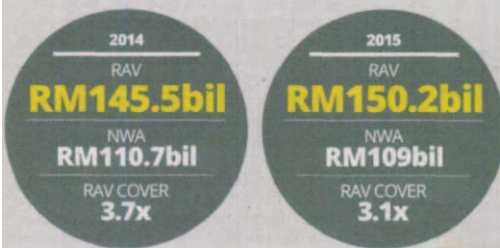
growing well, it may sometimes be too early to list it. "It depends on the readiness of the companies and market as well," Azman says.

He considers the ringgit as undervalued but says the fund will just have to manage the foreign exchange exposure. An example of the currency risk is Khazanah's investments in Turkey, where the lira has been hit by a combination of the strengthening US dollar and political uncertainties. The fund has investments in insurance, healthcare and airports in Turkey.

"Some of our companies get hit by realised and unrealised losses that we're also exposed to," Azmans says, pointing to upcoming elections in France and Germany as risks besides Britain's exit from the European Union and the incoming administration of US president-elect Donald Trump.

Portfolio performance

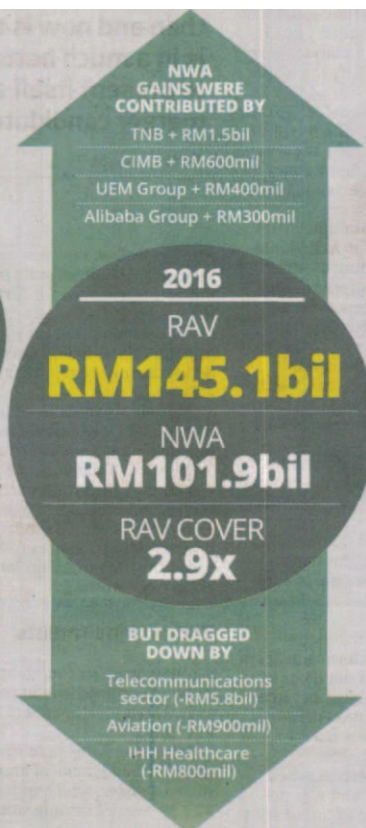
The value of Khazanah's portfolio of assets minus liabilities, as measured by net worth adjustable (NWA) value, fell for a second year in a row. The drop in NWA was attributed to volatile currency swings and lower stock prices in major markets. Malaysia remained the largest component of Khazanah's portfolio in 2016, accounting for about 55% of its realisable asset value (RAV).



Financial highlights

Profit after tax increased 32% in 2016, but dividend payout to the Government was down by about a third.

2014	2015	2016
RM3.13bil Profit before tax	RM1.18bil Profit before tax	RM1.56bil Profit before tax
RM900mil Dividends declared	RM1.05bil Dividends declared	RM650mil Dividends declared
RM129mil Taxation	RM136mil Taxation	RM123mil Taxation



Sovereign venture fund

Khazanah continues to focus its new investments on the innovation and technology sectors, funded primarily by recycling returns from earlier investments in Alibaba Group. Meanwhile, its investee companies also expanded their international presence.

Selected new investments in 2016

- > **Garena Interactive** (a game publisher)
- > **Fractal Analytics** (a data analytics company)
- > **Farfetch** (online luxury fashion marketplace)
- > **Infosys** (a global leader in technology services & consulting)
- > **DaVita Kidney Care** (an Asian renal healthcare platform)
- > **Cainiao** (a technology-based logistic firm)

	INVESTMENT		DIVESTMENT		
	No of deals	Amount	No of deals	Proceeds	Gain
2015	23	RM8.7bil	10	RM5.3bil	RM2.9bil
2016	17	RM6.9bil	13	RM4.7bil	RM2.6bil

Harvesting value created

- Placement of shares in:
- > IHH Healthcare
 - > Tenaga Nasional
 - > Telekom Malaysia

Divestments

- > IDFC Bank, a finance company in India
- > Skyscanner, a travel search engine

Selected overseas transactions:

- > TNB acquired stakes in energy firms in Turkey and India.
- > Axiata acquired a telco in Nepal and merged units operating in Bangladesh.
- > UEM Edgenta acquired a facility solution company in Singapore.
- > CIMB entered into a strategic partnership with a Chinese brokerage and investment bank. It was also awarded a banking licence in Vietnam.

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