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Khazanah posts 3.4% portfolio value loss

This is due to big movements in the equity market and weakness of EM currencies

by ALIFAH ZAINUDDIN

MALAYSIA'S sovereign wealth fund Khazanah Nasional Bhd posted a 3.4% portfolio value loss in 2016, due to big movements in the equity market and the weakness of emerging-market (EM) currencies.

The state-owned investor's realisable asset value fell RM5.1 billion year-on-year to RM145.1 billion last year, compared to RM150.2 billion in 2015.

MD Tan Sri Azman Mokhtar said its financial assets are exposed to the uncertainties surrounding Brexit, US President-elect Donald Trump's inauguration on Jan 20 and impending major elections in Europe.

"I would say interest-rate sensitive assets, which are mostly financial assets, seem to be exposed.

"All these (political developments) may seem at a distance but as we have experienced, they do have a connection and it impacts our markets," Azman told reporters at a media briefing last Friday on Khazanah's financial and strategic performance for 2016 and outlook for 2017.

"Khazanah is well-invested in a market like Turkey where we have made solid returns in healthcare, airports and insurance. But when the Turkish lira falls, those gains get erased," he emphasised.

Azman further said that the investment arm must be focussed on the long-term value of its investments and not be distracted by short-term to medium-term movements.

In line with the weakness in

most benchmark equity markets and currencies, Khazanah's portfolio net worth adjusted declined by 6.4% to RM 101.9 billion as at Dec 31, 2016, from RM108.9 billion in the corresponding period.

This was largely due to losses recorded in the telecommunications sector (-RM5.8 billion), aviation sector (-RM900 million) and IHH Healthcare Bhd (-RM800 million).

Meanwhile, portfolio gains were contributed by electricity utility Tenaga Nasional Bhd (+RM1.5 billion), banking provider CIMB Group Holdings Bhd (+RM600 million), property developer UEM Group Bhd (+RM00 million) and China's e-commerce giant Alibaba Group Holding Ltd (+RM300 million).

Mobile services provider Axiata Group Bhd — in which Khazanah owns a 38.2% stake — took a sharp dive in its third-quarter of 2016 performance as net profit stood at RM256.55 million, a 70% decline from RM891.38 million recorded in the corresponding quarter.

In a filing to Bursa Malaysia, the group said this was partly attributed to the weakening ringgit and higher depreciation charges.

"Some of our companies were hit more heavily by the nature of volatile currencies, as seen in the results of Axiata. Naturally, some of these currency losses flow into their share prices," Azman explained.

He said in past annual reviews, the equity house has classified some of its invest-

ments under restructuring and reorganising — such as Malaysia Airlines Bhd (MAB), Silterra Malaysia Sdn Bhd and TIME dotCom Bhd.

With the exception of MAB, Azman said most of the issues in the said companies have been resolved.

"Most of this has been resolved. The big one is of course MAB, but as I've said, they are making good progress. By next year or the year after, I believe they can come out publicly to say that they are on track to break even and be profitable," he noted.

Azman pointed out that MAB has performed well in 2016 and is on track for recovery, as outlined in the five-year 12-point MAS Recovery Plan. The RM6 billion strategy was introduced in 2014 to revive the national carrier.

He acknowledged that other underperforming entities in Khazanah's portfolio comprises mainly tech companies that were at their initial developmental stage.

"Some of these tech companies that we invest in the early stage are actually still loss-making, but the valuation is very high.

"We do not want to highlight too much on some of our catalytic investments because

they are still in the developmental stage," he said.

"It is important that we focus on the long-term outlook, otherwise it will be a knee-jerk reaction to what is a needed period of growth."

In 2016, Khazanah made investments totalling to RM6.9 billion, which included 17 new

investments and 13 divestments, providing proceeds amounting to RM4.7 billion with gains on divestment totalling to RM2.6 billion.

It recorded a 32% increase in unaudited profit before tax of RM1.56 billion and declared dividends of RM650 million for 2016.

Nonetheless, Khazanah expects continued volatility and uncertainty in 2017. According to Azman, the focus is on long-term value creation within the portfolio and ensuring that risk management standards are strong.

"We must make sure that the portfolio does not take excessive risks and that we put in strong prudential standards within provisioning. That way, we will be able to ride the volatility out."



Pic by Afif Abd Halim

The focus is on long-term value creation within the portfolio and ensuring that risk management standards are strong, says Azman