

Headline	Will Khazanah's assets be sold		
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PR Value	RM 95,774		



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**Will Khazanah's assets be sold to reduce government debt?**

54+55 COVERSTORY

# Will Khazanah's assets be sold to reduce government debt?



**BIG MONEY**  
**BY**  
**HO KAY TAT**

**A**fter the 1997/98 Asian financial crisis that wreaked havoc on Asian currencies and equities, the government created agencies like Danaharta and the Corporate Debt Restructuring Committee (CDRC) to rescue and restructure various companies that owned assets deemed to be of strategic and national importance.

The group of companies affected included the Renong/UEM conglomerate, the MAS/TRI/Celcom group and the trio of MRCB/TV3/NSTP. All were controlled by individual businessmen.

After their debts were restructured new capital was injected. The Employees Provident Fund (EPF) ended up in control of MRCB, TV 3 and NSTP.

The other assets, however, ended up with Khazanah Nasional Bhd, the country's sovereign wealth fund.

Khazanah was started in 1993 under the Minister of Finance Inc (MoF Inc) to play a "catalytic role in driving various strategic and national initiatives". Its involvement in the economy and corporate sector was transformed in a major way when it was tasked to take over those assets whose own-

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ership had to be shifted to the government after the AFC.

The term government-linked companies (GLCs) came into being in Malaysia after that. GLCs refer to privately incorporated companies (listed and unlisted) that are owned or controlled by the government.

Khazanah itself is deemed a government-linked investment company (GLIC), as are Permodalan Nasional Bhd (PNB), the EPF, Kumpulan Wang Amanah Pencen (KWAP), Lembaga Tabung Angkatan Tentera (LTAT) and Lembaga Tabung Haji (LUTH).

Collectively these GLICs control a large component of companies listed on Bursa Malaysia. PNB, EPF and Khazanah are the biggest GLICs.

The takeover of these companies and assets were not without issues and both Tan Sri Halim Saad (Renong/UEM) and Tan Sri Tajudin Ramli (MAS/TRI/Celcom) subsequently filed various lawsuits against the government and Khazanah, but lost.

With important assets under it, Khazanah modelled itself after Singapore's Temasek Holdings and over the past 12 years, grew its portfolio of both listed and unlisted assets and equities.

Its realisable asset value as of Dec 31, 2017, was RM157.2 billion ringgit. After deducting debts and other liabilities, Khazanah's net

worth would be around RM116 billion.

The value of its stakes in various listed companies on Bursa Malaysia as at July 10 was RM84 billion (see Table 1). These included controlling stakes in some of the country's biggest companies like Axiata Group Bhd, CIMB Group Holdings Bhd, IHH Healthcare Bhd and Tenaga Nasional Bhd.

Given that the stock market has taken a pounding in the last two months, the value of these holdings could be worth much more.

Khazanah also fully owns unlisted UEM Group Bhd and Malaysia Airlines Bhd (MAS). It has a 51% stake in PLUS Malaysia Bhd, with the EPF owning the remaining 49%.

In 2017, Khazanah received RM2.367 billion in dividends from its core listed holdings, up from RM1.757 billion in 2016 (see Table 2).

Since 2004, Khazanah has made accumulated profit before tax of RM28 billion and paid RM10.11 billion in dividends to MoF Inc (see Table 3).

Another jewel is Khazanah's 60% interest in the M+S joint venture with Singapore's Temasek Holdings. The JV developed two projects — Marina One in Marina Bay and Duo in Bugis — that were the result of a 2010 land swap deal between the two governments.

According to an M+S statement in January, the two projects had a gross development value of S\$11 billion or RM33 billion. The land cost and shareholders injection was around S\$4.0 billion and after deducting development costs, it is estimated that the profit could be as much as S\$3.0 billion

It is understood that M+S could generate around RM12 billion cash, including a profit of RM5.4 billion, for Khazanah if it sells the 60% stake.

Will Khazanah assets be sold to raise cash for the government?

In 2001, Khazanah was the vehicle used by the government to rehabilitate strategic assets back to good financial health.

Given that Khazanah is today sitting on assets easily worth more than RM120

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## But for individuals to borrow billions, the question of systemic risk to the banking system will arise. Do we want a repeat of what happened in 1997/98?

TABLE 6. **EPF's investment assets** (Dec 31, 2017)

Fixed Income Instrument	49.51%	391.86 billion
Equities	42.23%	334.24 billion
Real Estate and Infrastructure	4.06%	32.13 billion
Money Market Instrument	4.19%	33.16 billion
Total Investment Assets:	99.99%	791.48 billion

### Quoted Equities (Dec 31, 2017)

Domestic Equities Internally Managed	132,731,266			
Domestic Equities Managed by External FM	15,057,867	147,789,133	total domestic equities listed	48.9%
Global Equities Internally Managed	93,410,744			
Global Equities Managed by External FM	60,792,394	154,203,138	total global equities listed	51.1%
	301,992,271			

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billion, will the government again turn to its sovereign wealth fund for help? The difference now is that this means Khazanah selling its assets to raise cash for the government.

On paper, a sale of all Khazanah assets can raise over RM120 billion cash or around 12% of the governments RM1.0 trillion debt and contingent liabilities. This will certainly help shore up the government's balance sheet.

### Who will have the means to take over the Khazanah assets?

If the government does an open tender, there will be no shortage of tycoons who will be interested and who will say they can raise the money by gearing themselves up. After all, some of these companies are profit-making machines so banks will be prepared to provide loans.

But for individuals to borrow billions, the question of systemic risk to the banking system will arise. Do we want a repeat of what happened in 1997/98?

The better solution, however, is to turn to other GLICs like the EPF and PNB. They have the money and they are in fact also shareholders in some of the Khazanah companies (see Tables 4 and 5).

As at Dec 29, 2017, PNB had investments totalling RM198.9 billion on Bursa, including controlling interests in giants like Malayan Banking Bhd, Sime Darby Bhd and S P Setia Bhd. PNB also has shares in Khazanah-controlled GLCs like Axiata, Telekom and CIMB.

The EPF is probably the ideal GLICs to buy Khazanah's assets, if it is the intention of the government for Khazanah to divest.

The EPF had RM302 billion invested in quoted equities as at Dec 31, 2017, of which RM158 billion was in domestic equities. It has controlling interests in RHB Bank Bhd, Malaysian Resources Corp Bhd and Malaysia Building Society Bhd (MBSB) with a total value of almost RM14.0 billion (see Table 5).

EPF's total investment assets is almost RM800 billion (see Table 6), making it the largest pool of investment money in the country, and each month, it receives an estimated RM2.0 billion in contributions.

That is a whopping RM24 billion a year and EPF needs to continuously look for assets that can generate enough profits for it to pay its contributors dividends of at least 2.0 percentage points above inflation.

If indeed the government feels it has no choice but to pare down its debts by selling assets held by Khazanah, the best way to do it would be to sell them to the EPF, which has the money and has been a good money manager.

As the EPF is also a big holder of government debt, Malaysian Government Securities or MGS (see Table 6), the sale of, say RM120 billion worth of Khazanah assets can help retire an equivalent amount of MGS.

It should be noted, however, that should Khazanah sell its assets, it means that the government will no longer receive the sort of dividends it had been getting and will not benefit from any future increase in value of the GLCs that it sells. **E**

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TABLE 1. **Khazanah core holdings** (March 31, 2018)

COMPANY NAME	EQUITY STAKE (%)	MARKET CAP (RM) JULY 10, 2018	ESTIMATED VALUE OF STAKE (RM) JULY 10, 2018
Tenaga Nasional Bhd	28.9	81,197,981,696	23,466,216,710
CIMB Group Holdings Bhd	27.3	49,638,711,296	13,551,368,184
IHH Healthcare Bhd	42.2	48,313,303,040	20,388,213,883
Axiata Group Bhd	37.3	36,832,440,320	13,738,500,239
Malaysia Airports Holdings Bhd	33.2	14,551,112,704	4,830,969,418
Telekom Malaysia Bhd	26.2	12,589,081,600	3,298,339,379
UEM Sunrise Bhd (via unlisted UEMgroup)	66.1	3,221,579,520	2,128,175,431
Astro Malaysia Bhd	20.7	8,550,769,152	1,770,009,214
UEM Edgenta Bhd (via unlisted UEMgroup)	69.1	1,571,769,472	1,086,092,705
			<b>84,257,885,164</b>

Khazanah also owns 100% of Malaysia Airlines and UEM Group Bhd, and 51% of PLUS Malaysia Bhd

TABLE 2.

**Dividends Khazanah received from core listed companies**

RM MILLION	2016 MIL	2017 MIL
ASTRO	131	130
AXIATA	258	267
CIMB	464	580
IHH Healthcare	101	97
MAHB	53	67
Telekom	207	196
Tenaga	504	920
UEM Edgenta	39	165
UEM Sunrise	-	28
<b>Total</b>	<b>1,757</b>	<b>2,367</b>

TABLE 3. **Khazanah's financial performance**

RM MIL	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
PBT	282	(871)	1,014	5,110	127	791	2,081	5,342	2,071	3,128	3,217	1,181	1,566	2,892
DivPaid	30	30	100	1,000	100	100	500	3,000	1,000	650	900	1,050	650	1,000
Shareholders funds (bil)	13.2	12.2	13	17.8	17.1	17.6	21.4	25.6	26.9	29.4	35.3	36.3	37.8	40.5

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**TABLE 4. PNB strategic and core companies (Dec 29, 2017)**

COMPANY NAME	EQUITY STAKE (%)	MARKET CAP (RM) JULY 10, 2018	ESTIMATED VALUE OF STAKE (RM) JULY 10, 2018
<b>PNB strategic companies</b>			
Malayan Banking Bhd	48	99,251,240,960	47,640,595,661
Sime Darby Plantation Bhd	54	36,044,447,744	19,464,001,782
Sime Darby Bhd	52	15,913,964,544	8,275,261,563
SP Setia Bhd	65	11,359,809,536	7,383,876,198
Sime Darby Property Bhd	55	7,956,982,272	4,376,340,250
UMW Holdings Bhd	58	6,986,397,696	4,052,110,664
Velesto Energy Bhd (formerly UMW Oil & Gas Corp Bhd)	64	2,382,523,904	1,524,815,299
CCM Duopharma Biotech Bhd	51	839,666,560	428,229,946
MNRB Holdings Bhd	55	719,109,568	395,510,262
Chemical Company of Malaysia Bhd (CCM)	65	325,061,792	211,290,165
			<b>93,752,031,788</b>
<b>PNB core companies</b>			
Telekom Malaysia Bhd	21	12,589,081,600	2,643,707,136
Axiata Group Bhd	18	36,832,440,320	6,629,839,258
MMC	20	4,080,378,368	816,075,674
IJM Corp	18	6,172,530,176	1,111,055,432
BIMB Holdings	16	6,401,679,360	1,024,268,698
Tenaga	15	81,197,981,696	12,179,697,254
Gamuda	14	8,218,403,328	1,150,576,466
Sapura Energy	13	3,685,175,296	479,072,788
DiGi	12	32,654,999,552	3,918,599,946
Maxis	11	41,193,631,744	4,531,299,492
RHB	10	21,453,744,128	2,145,374,413
F&N	10	13,818,610,688	1,381,861,069
Petronas Gas Bhd	10	33,994,614,784	3,399,461,478
Petronas Dagangan Bhd	10	24,756,873,216	2,475,687,322
CIMB	10	49,638,711,296	4,963,871,130
IOI Corp	9	27,234,734,080	2,451,126,067
			<b>51,301,573,622</b>
			<b>145,053,605,410</b>

**PNB's total investment on Bursa RM198.9 billion = 10.4% of Bursa Malaysia's total marketcap as at Dec 29, 2017.**

**TABLE 5. EPF top 30 equity investments (March 31, 2018)**

COMPANY NAME	EQUITY STAKE (%)	MARKET CAP (RM) JULY 10, 2018	ESTIMATED VALUE OF STAKE (RM) JULY 10, 2018
RHB Bank Bhd	40.7	21,453,744,128	8,731,673,860
Malaysia Building Society Bhd	63.2	6,887,925,248	4,350,413,587
Malaysian Resources Corp Bhd	34.9	2,634,463,744	918,637,508
			<b>14,000,724,954</b>
Telekom	17.88	12,589,081,600	2,250,927,790
Axiata	16.72	36,832,440,320	6,158,384,022
DiGi	16.39	32,654,999,552	5,352,154,427
MBM Resources Bhd	15.87	934,221,504	148,260,953
Genting Plantations	15.48	7,316,056,064	1,132,525,479
Axis REIT	15.20	1,811,520,384	275,351,098
IJM Corp	14.71	6,172,530,176	907,979,189
United Plantations	14.56	5,568,838,656	810,822,908
IJM Plantations	14.24	1,849,218,944	263,328,778
Sunway REIT	14.04	5,036,083,200	707,066,081
Sime Darby Plantation	13.73	36,044,447,744	4,948,902,675
CIMB Group	13.50	49,638,711,296	6,701,226,025
Public Bank	13.49	87,503,396,864	11,804,208,237
KLK	13.47	25,686,972,416	3,460,035,184
Media Prima	13.22	565,691,648	74,784,436
KPJ Healthcare	12.83	4,256,609,792	546,123,036
Yinson Holdings	12.81	4,894,907,904	627,037,703
BIMB Holdings	12.76	6,401,679,360	816,854,286
Hong Leong Bank	12.67	37,311,746,048	4,727,398,224
Bermaz Auto	12.54	2,579,221,760	323,434,409
Syarikat Takaful Malaysia	12.30	3,214,450,944	395,377,466
Alliance Bank Malaysia Bhd	12.17	6,223,385,600	757,386,028
IOI Corp	12.01	27,234,734,080	3,270,891,563
Maybank	11.97	99,251,240,960	11,880,373,543
Maxis	11.96	41,193,631,744	4,926,758,357
Tenaga	11.85	81,197,981,696	9,621,960,831
Malakoff	11.69	4,204,583,168	491,515,772
			<b>83,381,068,499</b>
			<b>97,381,793,453</b>

**EPF also owns 49% of PLUS Malaysia Bhd**