Headline	Khazanahs delicate balancing act		
MediaTitle	The Edge		
Date	19 Sep 2016	Language	English
Circulation	23,635	Readership	70,905
Section	Corporate	Page No	24
ArticleSize	422 cm²	Journalist	Ben Shane Lim
PR Value	RM 15,002		

Khazanah's delicate balancing act

BY **BEN SHANE LIM**

Over the past decade, Khazanah Nasional Bhd's portfolio has performed quite admirably. From RM40.5 billion in 2005, the fund's net worth adjusted (NWA) has grown 169% to RM108.9 billion as at Dec 31, 2015.

Last week, the state-owned fund decided to take some profit as it trimmed its holdings in Tenaga Nasional Bhd (TNB) by 1.45 percentage points. The disposal of 82 million shares, at RM14.30 per share, raised RM1.17 billion for Khazanah.

With TNB's share price up by almost 23% y-o-y, Khazanah certainly cannot be faulted for taking profit at these levels. But the timing of the disposal does raise questions about how the funds will be deployed.

The 2017 budget will be revealed in a month's time, and it is no secret that the federal government is walking a tightrope in keeping the budget deficit at 3.1% this year with the fall in petroleum revenues.

Recall that Khazanah last year paid out almost 100% of net profits in dividends — a record high. For FY2015, the fund paid dividends of RM1.05 billion against net profit of RM1.055 billion. Post-dividends, Khazanah only retained RM5 million.

Keep in mind that Khazanah also had to fund the RM6 billion turnaround of Malaysia Airlinen System Bhd, now known as Malaysia Airlines Bhd (MAB).

Against this backdrop, Khazanah's borrowings shot up to RM46.46 billion, up 9.54% y-o-y, giving it a net gearing of 1.2 times as at December 2015. Note that this takes into account the fact that Khazanah last year raised RM1.6 billion from the disposal of 112 million TNB shares.

Furthermore, it excludes the US$750 million (RM3.15 billion) in US dollar-denominated straight sukuk that was issued in February this year.

Khazanah declined to comment for this story.

A further cause for concern was the seemingly urgent nature in which the block of 82 million TNB shares were placed out last week. According to industry sources, the shares were placed via an "accelerated book-building exercise". On top of that, the transaction price of RM14.30 was at the low end of the book-building range.

It would be worrying if Khazanah was forced to make less-than-ideal disposals in order to maintain dividend payouts.

But to be fair, the TNB shares were disposed of at near-peak prices. Furthermore, Khazanah retains 28.26% equity in TNB worth RM22.9 billion. Beyond TNB, Khazanah's holdings in listed companies were estimated to be worth RM89.77 billion as at last Friday.

Other than TNB, Khazanah's seven listed stocks include Axiata Group Bhd in which it has a 37.77% stake, CIMB Group Holdings Bhd (29.81%), IHH Healthcare Bhd (41.12%), UEM Sunrise Bhd (66.06%), Telekom Malaysia Bhd (28.65%) and Malaysia Airports Holdings Bhd (MAHB) (36.71%).

Unlike TNB, however, the rest of the stocks on the portfolio have produced a lacklustre performance this year. MAHB was the only other stock to gain substantially, up 17.6% y-o-y. IHH Healthcare, UEM Sunrise and Telekom all gained less than 3% y-o-y. Meanwhile, CIMB and Axiata lost 5.46% and 12.41% of their market value in the same period.

In a nutshell, if Khazanah needs to trim its holdings in its listed companies to raise capital, this is not the right time.

Separately, Khazanah has also explored other means to raise fresh capital. At the beginning of the month, it raised US$398.8 million (RM1.62 billion) from the issuance of an exchangeable sukuk for Beijing Enterprises Water Group Ltd — an integrated water and sewage treatment solutions service provider in China.

To be fair to Khazanah, it does not appear to be milking its companies simply to "upstream" the dividends. The clearest example of this is the fact that Axiata reduced its interim dividend by 15%, from eight sen per share to five sen per share (see story on Page 20).

It is also important to point out that Khazanah's dividend contribution to the government is relatively small compared to the national budget's expenditure, which came to RM267 billion for 2016. In contrast to other revenue streams like the Goods and Services Tax, which is expected to rake in RM39 billion this year, Khazanah's contribution is also not significant.

However, dividends alone may not be the only demand on Khazanah's capital. MAB's turnaround, while on track, is far from complete and still requires support from Khazanah (see story on Page 28). On top of that, the fund earlier this month announced that it would be developing Taman Tugu — a 26.7ha rainforest park that will cost an estimated RM650 million.

Note that about RM100 million of that budget is set aside for the maintenance and operation of the park over the next 12 years.

Put it all together and it is clear that steering Khazanah is not an enviable task. (Interestingly, Khazanah last week saw a new addition to its board — Second Finance Minister Datuk Johari Abdul Ghani.)

The fund needs to pay dividends to a cash-strapped shareholder but paying too much could stifle the impressive growth that it has enjoyed over the past decade. ■

Dividend payout vs borrowings

KHAZANAH/BLOOMBERG

Khazanah's portfolio

Company name	Market cap (RM bil)	Khazanah's stake (%)	Khazanah's stake (RM bil)
Axiata	47.49	37.77	17.94
CIMB	40.5	29.81	12.07
Tenaga Nasional	81.04	28.26	22.90
IHH Healthcare	54.33	41.12	22.34
UEM Sunrise	4.9	66.06	3.24
Telekom	25.48	28.65	7.30
Malaysia Airports	10.83	36.71	3.98
Total	**264.57**		**89.77**