



23 MAR, 2023

Is Khazanah Nasional's star dimming?

New Straits Times, Malaysia



CHALLENGING YEARS

Is Khazanah Nasional's star dimming?



ZURAIMI
ABDULLAH

KHAZANAH Nasional Bhd, as a sovereign wealth fund, cannot avoid comparison with Temasek Holdings Pte Ltd, its peer across the Causeway.

After all, Khazanah's inception in 1994 to grow Malaysia's long-term wealth was modelled after Temasek.

But as Temasek gets stronger, Khazanah has seen muted performance over the years. This was blighted by "bad" investments (see: lingerie, private banks) and huge asset impairments.

One example: Khazanah's 2018 impairments stood at RM7.3 billion, with roughly half going towards sustaining Malaysia Airlines. More on the airline later.

Yes, Temasek had a 20-year head start. It kicked off in 1974 with an initial portfolio of S\$354 million in assets previously held by the Singapore government.

They reportedly included a bird

park, a hotel, a shoemaker, a detergent producer, naval yards that became ship repair businesses, a start-up airline and an iron and steel mill.

But Temasek has thrived and become bigger. It ended the financial year to March 31, 2022 with a net portfolio value of S\$403 billion, revenue of S\$134.9 billion versus S\$110.9 billion in financial year 2021 and S\$10 billion in net profit.

WHAT'S NOT RIGHT? WHAT HELPS?

Khazanah, which was seeded with RM2.6 billion in government assets at birth, performed better in 2022 than in 2021, but was way off from 2020.

Its profit from operations rose to RM1.6 billion last year from RM670 million in 2021. But this was much lower than the RM2.9 billion profit posted in 2020, already a 61 per cent slump from the preceding year.

Khazanah recorded an all-time-high realisable asset value of RM157 billion in 2017, which grew 8.2 per cent over 2016. The realisable asset value, a key indicator of financial performance, slipped to RM122.5 billion last year.

Khazanah's performance has been subdued in the past four years, at least. Fortunately, it has a swathe of assets for disposal to help prop up the (soft) numbers.

It used to own Kidzania KL and Singapore, as well as hospital assets in Turkey and stakes in IHH Healthcare Bhd and China's e-commerce giant, Alibaba.

In 2019, Khazanah sold assets worth RM18.8 billion. Its divestments shrank to RM13.2 billion in 2020, RM4.8 billion in 2021 and RM2.5 billion in 2022.

Should taxpayers be worried about this? Are Khazanah's assets severely depleted after years of divestment? Were the divestments intended to boost Khazanah's dividend to the government?

Does Khazanah have enough resources for asset rebuilding? Will Khazanah borrow more to partially fund growth? Will the government inject fresh capital into Khazanah?

The fund's investments in the same period: RM3.3 billion in 2019, RM9.7 billion in 2020, RM8.7 billion in 2021 and RM6.6 billion in 2022. The investments shrank in the last two years.

Khazanah's investments portfolio achieved a paltry four-year return of 2.2 per cent amid volatile global markets. Last year saw a negative 5.5 per cent return.

To be fair, 2022 was extremely challenging for global markets, with rising inflation, aggressive monetary tightening and the effects of the Russia-Ukraine war. It

was similar three years before due to the Covid-19 pandemic.

Khazanah blamed the negative performance last year on global market downturn, aligned to declines in MSCI EM Asia, S&P 500 and FBM KLCI indices at -22.8 per cent, -19.5 per cent and -4.6 per cent, respectively.

Global turmoil and adverse market conditions did cause losses for the fund's trading portfolio. However, the losses were cushioned by divestment gains and lower impairment.

MALAYSIA AIRLINES CONUNDRUM

The major listed companies in Khazanah's portfolio are some of the largest and most important in Malaysia. They include Axiata Group Bhd, CIMB Group Holdings Bhd, **Tenaga Nasional Bhd**, Telekom Malaysia Bhd and Malaysia Airports Holdings Bhd.

It also owns a "special situation asset" in unlisted Malaysia Airlines Bhd. Khazanah defines "special situation assets" as those requiring turnaround in terms of profitability and sustainable operating cash flows.

Khazanah managing director Datuk Amirul Feisal Wan Zahir talked about Malaysia Airlines more than any other asset during the fund's annual review on Monday.

After several failed rescue plans, the carrier has given Khazanah's past and present management a lot of headaches.

Khazanah took over Malaysia Airlines under a five-year RM6 billion turnaround plan launched in 2014. But the carrier's financial problems began years before.

A case in point is the 2002 wide asset unbundling exercise for the now-defunct Malaysian Airlines System Bhd after the government took over the loss-making airline from Tan Sri Tajuddin Ramli.

Before the last capital injection in 2021, worth RM3.6 billion until 2025, Khazanah and the government had reportedly pumped in RM28 billion to keep Malaysia Airlines afloat.

Amirul Feisal said Khazanah remained supportive of "cash-positive" Malaysia Airlines and had no immediate plan to dispose of its shareholding in the airline.

"I would prefer to get the airline in a stronger position before we even consider that (foreign strategic partnership). Once it's on a stronger footing, I think the options are much wider," he told reporters on Monday.

A stronger Khazanah will be a big catalyst for Malaysia's long-term wealth and socio-economic development. What about a stunt-ed Khazanah?