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Khazanah's 10 years of reform

BY **MADIHA FUAD**

Over the past decade, Khazanah Nasional Bhd has seen some hits and some misses in its efforts to transform the government-linked companies (GLCs) in its stable into regional champions.

Khazanah expects to see the seven GLCs in its stable — CIMB Group Bhd, Axiata Bhd, Telekom Malaysia Bhd, Malaysia Airports Holdings Bhd, UEM Sunrise Bhd, Tenaga Nasional Bhd and Malaysian Airline System Bhd (MAS) — "graduate" in July 2015 and become high-performing entities.

Many are likely to point out that loss-making MAS has yet to qualify for graduation. The national carrier is still a long way from the finishing line in its transformation journey.

Nonetheless, Khazanah managing director Tan Sri Azman Mokhtar says MAS will graduate and Khazanah will not lower its passing grade to give the airline a pass.

However, he did not disclose the passing criteria for the public-listed GLCs. In a media briefing last week for the release the 10th annual review, Azman says MAS should concentrate more on improving productivity and yield in order to break even.

"Currently, MAS' yield is at 20 sen and for every sen shift in yield and productivity, there will be a RM100 million shift in revenue," he says.

The national carrier is among the bigger challenges Khazanah faces in transforming the GLCs.

The national investment arm's proposal to swap its stake in MAS for shares in AirAsia Bhd held by Tune Air Sdn Bhd was called off amid concerns that the government would risk losing the support of the airline's 20,000 employees and their families in the general election last year.

The exercise, announced in August 2011, involved the swapping of Khazanah's 20.5% interest in ailing MAS for a 10% stake in profitable low-cost carrier.

The back-pedalling dealt a blow to corporate reform.

Meanwhile, Khazanah's sale of its 42.74% stake in Proton Holdings Bhd to Tan Sri Syed Mokhtar Albukhary drew criticism. The price tag of RM1.29 billion, or RM5.50 per share, was deemed too low considering the national carmaker's landbank in Shah Alam.

Then, Khazanah also sold its 32.21% stake in Pos Malaysia Bhd, which was then granted a hike in postal fees, to Syed Mokhtar.

When it comes to GLC reforms, old-timers won't forget the UEM/Renong group, which had to be bailed out by the government due to its mounting borrowings.

In the restructuring of the UEM Group, UEM Land Bhd took over the listing status of UEM World Bhd and emerged as a property player. UEM Land was listed on Bursa Malaysia in 2008 after the privatisation of UEM World.

In 2010, Khazanah also took toll concessionaire PLUS Expressways Bhd private for RM23 billion at RM4.60 per share through a special purpose vehicle (SPV) with the Employees Provident Fund (EPF).

Khazanah then initiated the development of Iskandar Malaysia in southern Johor where UEM Land has a massive landbank. Later, UEM Land took over Sunrise Bhd and emerged as UEM Sunrise.

Iskandar is the crown jewel of UEM Land. Land values have soared as developers flocked to the region.

However, apart from the appreciation of land prices, Khazanah also needs to show that there are sufficient economic activities to sustain the region's development as Iskandar is more than just land sales and property launches.

Khazanah's demerger exercise of the former Telekom Malaysia Bhd, which then housed both fixed line and mobile services, in 2008 also drew some flak. There were concerns that Telekom would become a dinosaur without mobile services — the telco's growth driver.

But Khazanah has been proven right. In fact, Telekom had higher total shareholder returns (TSR) of 18.9% a year since May 2004, compared with Axiata Bhd's 6.8%. UEM Sunrise has the highest TSR of 37.1% per annum among the seven GLCs, while CIMB Group Holdings' was 15.9%, Tenaga Nasional's 9.6% and MAHB 's 24.2%. MAS averaged -15.6% in terms of TSR.

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Transformation programme now at tail end

Khazanah's overall realizable asset value (RAV) nearly tripled to RM134.9 billion as at Dec 31, 2013 (FY2013) from RM50.9 billion in May 2004, the year the government investment arm began a revamp of its operations.

Khazanah, which means treasury, has seen profit before tax grow over the years to RM3.1 billion in FY2013 from RM282 million in FY2004.

The group declared a cumulative dividend of RM6.5 billion in the 10-year period. It declared a payout of RM650 million in FY2013, RM1 billion in FY2012 and RM3 billion in FY2011. At the beginning of Azman's tenure, the group paid out RM30 million in dividends in FY2004.

Currently, the group's largest investment sector is media and communications, making up 24.2% of its overall RAV.

Investments in financial institution groups account for 17.6% of RAV, power (15.6%), healthcare (11.1%), property (10.9%) and transport (6.7%).

The GLC Transformation Programme, which started in 2004, is now at its tail end. This raises the question as to what Khazanah's next task in next 10 years will be.

Azman's term will end in May 2016. Has he put in place a succession plan? Who will fill his shoes if his term is not renewed?

Already, Khazanah has seen a shift in management. Head of investments Ganen Sarvananthan is leaving to join US-based private equity firm TPG Capital as a partner and managing director of its Asia business.

Dominic Silva, executive director of investments, will assume the role of head of investments effective Feb 1. E

Khazanah financial highlights

	PROFIT BEFORE TAX (RM MIL)	DIVIDEND DECLARED (RM MIL)
2004	282	30
2005	-831	30
2006	1,014	100
2007	5,110	1,000
2008	128	100
2009	791	100
2010	2,081	500
2011	5,342	3,000
2012	2,077	1,000
2013	3,089	650
Cumulative	**19,083**	**6,510**