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Raising stakes

M Shanmugam

PRIVATISATION, which has been in place since the mid-term review of the Fourth Malaysia Plan (1981-1985), has been an important means of enhancing Bumiputera participation in the corporate sector.

While individuals and Bumiputera companies have been allocated shares in privatised projects, the retention level remains dismal. And this is despite efforts by the authorities to stem any equity dilution. In April this year, even Prime Minister Datuk Seri Dr Mahathir Mohamad called on Bumiputeras to stop the practice of disposing shares allotted to them. He said that the 30 per cent equity ownership target in the corporate sector for Bumiputeras under the Third Outline Perspective Plan (OPP3) will not be met if this practice were to continue.

The government has been trying hard to stem this activity. Among the measures that have been taken since 1990 are a stricter selection criteria of eligible Bumiputera individuals and companies, and the imposition of a three-year moratorium on the sale of equity. Despite such measures, the ability to hold on to the stakes remains weak, especially when viewed on a longer-term basis.

Take, for example, the latest announcement by Gamuda Bhd that it was proposing to acquire a 80 per cent stake in a water privatisation project from The Sweet Water Management Sdn Bhd. The vendor, Puan Sri Nik Anida Nik Manshor, will realise cash of RM71.6 million from an investment with a net tangible asset of only RM2 million after a relatively short period of about 18 months. While it might be a 'sweet' deal for her and Gamuda, it, to a certain extent, dilutes Bumiputera holdings in privatised projects, reducing the 30 per cent target in the process.

But as Dr Mahathir pointed out, Bumiputeras are not selling their shares because they want to but rather out of necessity because of the financial crisis. If this is the case, then what can be done to assist them to hold on to their stakes?

The Eighth Malaysia Plan spells out steps to retain their interest. Besides the three year moratorium on the disposal of equity, any changes to the equity structure or disposal of interest will need to be approved by the government. The government, on its part, will re-allocate the equity to another Bumiputera individual, company or agency to ensure there is no dilution.

For privatised projects without any concession period, such as property development, a moratorium on equity structure will be imposed until the project is completed.

In a recent workshop on the economy organised by Umno Selangor, Datuk Salleh Majid, the president of the Kuala Lumpur Stock Exchange said that the dilution of Bumiputera equity has been evident for a long time. He said an analysis of 101 companies that were privatised before December 1994 revealed that between 1991 and 1994, equity ownership decreased from 49.7 per cent (at the point of privatisation) to 42.2 per cent as of Sept 30, 1995. Over a longer period, between 1983 and 1990, Bumiputera ownership in privatised entities decreased from 65.3 per cent (at the point of privatisation) to 38 per cent as of the same period.

Among the reasons for the dilution are the disposal of equity for short-term capital gains and corporate restructuring exercises. The government, noted Salleh, has, over the years, invested a lot of time and resources in increasing Bumiputera participation at all levels of the economy but these

efforts have not meet with much success.

The efforts to raise the Bumiputera equity ownership in the corporate sector to 30 per cent traces back to 1971. Then, the government unveiled the New Economic Policy (NEP), which among others sought to increase the Bumiputera ownership in the corporate sector to 30 per cent. According to the Second Malaysia Plan, the Bumiputera equity ownership in the corporate sector in 1969 was a mere 1.5 per cent. The majority share was held by foreigners with 62 per cent, followed by the Chinese with 22.8 per cent. The Indians' stake was a paltry 0.9 per cent.

However, after 30 years and the unveiling of eight five-year Malaysia Plans and three Outline Perspective Plans (OPPs), plus the establishment of government agencies and unit trust funds, the target remains unmet. The OPP3 puts Bumiputera ownership of share capital in the corporate sector at 19.1 per cent, a marginal decrease from 19.3 per cent in 1990. The 199-page report states that concerted efforts will be taken to increase effective Bumiputera participation to 30 per cent by 2010.

But can this target be achieved in a mere 10 years?

Based on the present methods of share allocations and privatised projects, it is highly unlikely that the target will be reached. As evident from statistics, the Bumiputera ownership of equity in the corporate sector has remained stagnant for the past 10 years (see table).

Salleh suggests some measures to prop up the retention ability of Bumiputera individuals and companies. Among them:

- * Blacklisting those unable to hold on to their allocations and not allocating new issues to the same individuals,

- * Allocating a higher portion to Permodalan Nasional Bhd and other trustee agencies that are able to hold on to the shares for a longer period, and

- * Imposing a condition that shares cannot be pledged at prices higher than the issue price.

It is a normal practice for those allocated shares to pledge the asset to raise funds. However, in good times, the shares are pledged at market prices that are higher than the issue price. But when the bears swarm the market, the prices tumble and the pledged shares are forced sold by banks. By restricting financing to the issue price, the individual gets his funds while, at the same time, there will be no unnecessary forced selling unless the prices dip far below the issue price.

Salleh also spoke about Bumiputera holdings in listed companies. According to company filings of 756 listed entities, Bumiputera equity holdings was 33.6 per cent or RM44 billion as of 1999. However, under the OPP2, where 4,000 listed and non-listed corporations were surveyed, the Bumiputera holding was only 19.1 per cent, valued at RM59 billion.

As evidenced by statistics, past measures to prevent the dilution of Bumiputera individuals and companies have not produced results. For instance, those allocated shares have been advised to get the Ministry of International Trade and Industry's approval before selling the shares. But whether this `advice' will be heeded remains to be seen.

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