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Unveiling Khazanah

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FEW people know the track record of Khazanah Nasional Bhd, the investment arm of the Malaysian Government. With shareholders' funds amounting to RM14.3 billion as at Dec 31, 2002 at the group level, it has at its disposal billions of ringgit to invest in a wide range of businesses.

Perhaps, that is why Khazanah, incorporated in September 1993, is the epitome of Malaysia Incorporated. After 10 years, it has amassed stakes in several top listed entities in terms of market capitalisation, such as Maxis Communications, Telekom Malaysia, Tenaga Nasional, PLUS Expressways and Perusahaan Otomobil Nasional, in line with its corporate objectives.

Unknown to many, Khazanah has been recording steady profits since it began operations in 1994. According to its FY02 financial report, a copy of which was obtained by Malaysian Business, Khazanah made a net profit of RM4.4 billion at the consolidated level. Excluding exceptional items totalling RM3.6 billion from gain on disposal of PLUS Expressways and a waiver of interest on government support loan, the net profit is still a whopping RM792.6 million.

Under the new chairmanship of Datuk Seri Abdullah Ahmad Badawi, who is also the Prime Minister and Minister of Finance, how will the state investment company perform in the future? Observers say Khazanah may see some fine-tuning in its investments under Abdullah, but is likely to stick to its current objectives.

As a wholly owned company of The Minister of Finance (Inc), the objectives of Khazanah are two-fold. One is to hold and manage the investments entrusted to it by the Government, while the other is to undertake new investments in sectors of strategic, high technology and of national interest and/or any other investments which meet the financial criteria as defined.

Still, according to critics, Khazanah is increasingly being seen as a vehicle to rescue ailing companies. The debate over its investments resurfaced when the company recently invested in a special-purpose vehicle (SPV) belonging to the beleaguered property company, Country Heights Holdings Bhd (CHHB).

Under the deal, Khazanah is paying RM125 million for loan stocks and a golden share in the SPV, East Vision Leisure Group, that owns three properties in the Mines Resort City in Seri Kembangan, Selangor. The SPV is part of a re-organisation plan by CHHB to clear its debts amounting to RM1.2 billion and it sparked off questions whether the investment is in line with Khazanah's objectives.

However, Khazanah's managing director and chief executive officer Datuk Anwar Aji tells Malaysian Business the investment is based purely on commercial considerations. 'We did our assessment and found that the investment provides a reasonable return. The cashflow from the three assets is more than enough to service the loan stocks. This is not considering that the rental may increase in future,' he says.

Similarly, CHHB's managing director and substantial shareholder Tan Sri Lee Kim Yew denies that it was a bailout exercise. 'People should have the wisdom and knowledge. Look at the quality of assets we have,' he explains. (See page 28 for story on the issue.)

The public's perception of Khazanah being involved in bailouts is not a new phenomenon following its role in the rejuvenation of the UEM-Renong Group and the listing of Time dotCom Bhd two years ago.

In fact, Tan Sri Mohd Sheriff Kassim, Khazanah's former managing director and chief executive officer, had stated then that since he joined Khazanah in 1994, there were no instances of the working committees' proposals being overruled by the board of directors and so 'it is not right to accuse Khazanah of trying to save any individual or personality based on investment decisions'.

Sheriff was a director of the nine-member Khazanah board, comprising representatives from the public and private sectors, until August last year.

Anwar echoes his predecessor's sentiments. Dismissing insinuations that Khazanah is a bailout vehicle, he says it was created to invest in areas where opportunity arose to make money to enhance the investments of the Government.

'We are independent in our decision-making process and even engage external experts to confirm our findings,' he says.

It is understood that in the late 90s, Khazanah rejected an offer to acquire assets in loss-making Taiping Consolidated Bhd, which owned the Lot 10 and Star Hill shopping centres and the JW Marriott hotel in Kuala Lumpur's Bukit Bintang area. The assets were subsequently acquired by the YTL Group.

At present, Khazanah has seven subsidiaries and 16 associate companies. It also has investments in 14 other companies. They are involved in various sectors such as power, telecommunications, broadcasting, automobile, finance and banking, engineering and construction, airport management, venture funding, infrastructure and wafer fabrication and LCD manufacturing.

For the record, Khazanah has a 33.3% stake in Valuecap Sdn Bhd, an investment company set up with the purpose of buying undervalued stocks on the Kuala Lumpur Stock Exchange.

At present, Khazanah has agreed to sell its 70% held Bank Muamalat Bhd to Bukhary Capital Sdn Bhd for RM206.8 million, but has yet to find a buyer for wholly owned BBMB Securities Sdn Bhd, which was unsuccessfully courted by a host of brokerages looking to become universal brokers. Khazanah acquired the Bank Muamalat stake in 1999 from Commerce Asset-Holding Bhd for about RM92.8 million after the latter acquired Bank Bumiputra Malaysia Bhd during the consolidation of the banking industry. Khazanah had in 2000 divested its stake in Bumiputra Merchant Bank Bhd for a profit of RM47.1 million.

So far, Khazanah has been keeping mum over its future strategies. However, recent news reports indicate the company is looking to expand its range of investments and not just concentrate on high technology projects, which require a huge capital outlay and are often risky.

'To balance this out, it makes sense for Khazanah to look at other areas that offer stable, medium-term returns,' a source was quoted as saying.

Indeed, the company's main investments in the high-tech sector, Silterra Malaysia Sdn Bhd and Crystal Clear Technology Sdn Bhd, are still in the red and were badly hit by the worldwide electronics slump in 2001. Silterra is involved in wafer fabrication while Crystal Clear is in the manufacture and assembly of liquid crystal display and liquid crystal monitors.

Following the adverse market conditions, Khazanah injected some RM418.0 million into Silterra in 2002 via a shareholders' advance to meet its working capital and capital expenditure requirements. Silterra's current product range consists of 0.25 and 0.18 micron CMOs (Complementary Metal Oxide Semiconductor) digital and mixed process technologies, but according to industry observers, the fast changing technology has resulted in wafer demand being biased towards 0.18 micron and below.

As former prime minister and Khazanah chairman Tun Dr Mahathir Mohamad aptly decribed the past and future performance of the two companies:

`In order for these companies to remain competitive, continued financial nurturing may be required for them to further strengthen their position in the intensely competitive global electronics market and to keep abreast with the many advances in technology. Being start-ups, companies such as Silterra and Crystal Clear may take some time to recover from the recent slump before being able to become financially independent and profitable,' he said in Khazanah's 2001 annual report.

Silterra posted a net loss of RM969 million in 2002, on the back of RM226 million in revenue. It has been reported that Khazanah hopes to recoup some of its investment in Silterra by listing the company on the stock market, but the status of the proposal is not known at this juncture.

At the end of 2002, Khazanah assets were worth RM50.9 billion. Apart from being backed by the Government, its growing asset base has also given the company flexibility to raise cheaper funds from the capital market such as the covered warrants issue done last year.

Khazanah's involvement in the property business also increased post-1998. Its wholly owned subsidiary STLR Sdn Bhd that is involved in the land business and had a stake in light rail transit company Sistem Aliran Ringan Sdn Bhd, took over Wisma Time for RM62 million from financially troubled Time Engineering.

So while the latest cash injection into CHHB has raised concerns, one has to keep in mind that its investment into property is nothing new per se. Khazanah also partly owns the profitable Putrajaya Holdings Bhd, which is involved in the development of the new Federal Government Administrative Centre in Putrajaya.

Is Khazanah's performance at par with state investment arms of other countries? Its closest counterpart in the region is Temasek Holdings (Pte) Ltd in Singapore, but as the latter's financial performance is not in the public domain, it is not possible to make a comparison between the two.

Furthermore, Khazanah's consolidated results for 2001 were not available given that 2002 was the first time the financial statements of all its subsidiaries, with the exception of Aerospace Industries Malaysia Sdn Bhd, were consolidated. At company level, Khazanah registered RM106.9 million in net profit, a deterioration from the RM197.4 million recorded in 2001 and RM427.3 million in 2000. In 2001, interest income on loans made up 35.5% of the net profit, while dividend income accounted for 37.5%.

A research head says Khazanah's group net profit of close to RM800 million excluding exceptional items would rank it among the top Malaysian companies in terms of profits, but its net gearing level is slightly on the high side.

As at Dec 31, 2002, Khazanah had cash and bank balances of RM3.9 billion at the group level, while total borrowings (comprising long-term and short-term borrowings) as well as bonds (comprising Khazanah bonds and bonds payable) amounted to RM27.1 billion. Based on a group shareholders' funds of RM14.3 billion, its net gearing ratio stands at 1.6 times.

`As a rule of thumb, a gearing ratio of above 1.0 is considered high, but this would also depend on the sector average. There are instances where a gearing of more than 2.0 times is acceptable if the nature of business involves high capital expenditure. In Khazanah's case, what's important is whether the cashflow from operating activities is enough to pay for the finance costs,' she says.