

Gov't musn't treat Petronas as piggy bank, says DAP

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The government must cap the amount of money it takes from Petronas as this practice has ultimately led to the company's local currency outlook being downgraded by Fitch Ratings, said DAP's Damansara Utama state assemblyperson Yeo Bee Yin.

"Although Petronas maintains a strong standalone credit profile and Fitch believes that it is Malaysia's strongest foreign currency debtor, the government influence over its cash flow, financial policies and strategies have apparently impacted its credit ratings as shown by the Fitch downgrades," she said in a statement today.

At the moment, Yeo (right) pointed out that Petronas' dividend payout ratio by the government is not capped.

"The government has the authority to decide on how much to 'withdraw' from Petronas every year.

As of now, more than 50 percent of Petronas net profit is paid as dividends to the government, well above the average of 38 percent paid by national oil companies around the world.

"When the dividend payout is high, post-investment cash flow reduces, lowering Petronas ability to serve debts and hence affecting its Fitch rating," said Yeo who was a Petronas scholar and Cambridge graduate in chemical engineering.

On Thursday, Fitch Ratings revised Petronas' long-term local currency issuer default rating outlook from "stable" to "negative", just a day after the agency downgraded Malaysia and not long after the country's foreign currency outlook downgrade in September 2012.

"In times when the economy is good, Petronas' high dividend payout translates into less investment in oil exploration activities to maintain its reserve replacement ratio which is crucial for the long-term survival of an oil and gas company.

"Furthermore, when the economy is bad, usually in times of simultaneous falling oil prices and profits, Petronas is vulnerable to be forced to increase its dividend payout and to be treated like a piggy bank. In the event that Petronas does not have sufficient cash reserves, it will need to turn to the credit markets to raise

funds.

"The credit markets impose interest rates based on the credit ratings, which will potentially be downgraded then due to increased dividend payouts. Higher interest rates will in turn increase Petronas financing costs," said Yeo.

'Accountable to Parliament'

As such, Yeo said the government should re-consider a 2011 proposal by Petronas to cap the dividend payout ratio so that it will have sufficient cash to reinvest in oil and gas exploration.

"In addition, there is a need for the amendment of Petroleum Development Act 1974 so that Petronas will be accountable to Parliament and not only to the prime minister.

"Petronas accountability to Parliament is especially important in the time when the economy is bad, when the dividend payout cap may have to be lifted for bailouts or to stimulate the economy for the overall benefit of the country," she said.

Yeo said this is to avoid vested-interest bailouts, pointing to some infamous examples of the bailout of Bank Bumiputera in 1985 and 1991 as well as Konsortium Perkapalan Berhad during the 1997 financial crisis.

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