

LETTER | The foreign equity fix for Malaysia's corporate lapses

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LETTER | Recently, the Armed Forces Fund Board (LTAT) announced that it aims to assign 30 percent of its public equity allocation to foreign investments. For an entity that manages close to RM10 billion, this is a move in the right direction.

One does not have to look far to understand why. Malaysia's corporate sector can be notorious for mismanagement. In fact, our public equity and capital markets are going through much turbulence right now. The mess left by Sapura Energy and Serba Dinamik has eroded public confidence in corporate Malaysia due to a chronic lack of accountability.

By raising the ceiling for foreign equity, LTAT is sending the message that it is prepared to embrace the culture and corporate rigour that are often associated with foreign funds. While there are exceptions to the rule, foreign funds tend to gravitate towards corporate accountability and good governance. This stands in stark contrast with some of the local corporate shenanigans that have surfaced of

late.

One example is the Norges Bank Investment Management (NMIB), the world's largest sovereign wealth fund. It is no surprise that Malaysians are drawn to the Norwegian Government's pension funds, which reportedly hold, on average, one percent of the world's shares. The secret? It works with reason and facts, not succumbing to political pressure, greed and misguided priorities. It is managed in a transparent and open manner with a defined set of principles which guide investment strategy.

Malaysia's corporate shame #1: Sapura Energy

But in Malaysia, despite widespread unease among fund managers, the powers-that-be are able to make decisions to the detriment of depositors, such as when Permodalan Nasional Berhad's (PNB) board of directors decided to participate in a fund-raising exercise at Sapura Energy in 2019.

Once held up as a shining example of Malay entrepreneurship for being the world's second-largest integrated oil and gas service provider, the group has suffered greatly since oil prices crashed in 2014. However, it is clear that not every stakeholder has suffered equally, with ex-CEO Shahril Shamsuddin earning a whopping RM443.9 million from 2013 to 2021, or an average of RM49.3 million

per year for nine years, and this is excluding the “intellectual property rights, trademarks and branding” fees as well as related-party transactions.

While PNB’s 40 percent stake in the company is often cited as the key reason for a bailout, we should not ignore the bad strategic decisions made by the company. This includes the company’s acquisition of Seadrill’s drilling assets in 2013, which, while giving Sapura Energy a 55 percent share of the global tender rig market, also severely stretched the company’s finances.

Sapura Energy was a slow burn (and avoidable) crisis waiting to happen. In 2018, shareholders, including the Employees Provident Fund (EPF), voted against the reappointment of all the company’s directors, including Shahril, perhaps in an attempt to force accountability upon those who have made strategic mistakes. However, the bid to oust Shahril failed, and EPF ceased to be a substantial shareholder.

Malaysia's corporate shame #2: Serba Dinamik

The Edge had reported that the Securities Commission found 59 company and personal stamps of external parties in a box at Serba Dinamik Bhd’s office, with some of the stamps including prominent companies such as Petronas Gas Bhd,

ExxonMobil Exploration and Sabah Shell Petroleum Co Ltd.

Many other discoveries, which in the normal course of business would raise red flags, were also seen in the court documents filed last November by regulator Bursa Malaysia. Yet it seems that the number of red flags is clearly inferior to the number of closed eyes and empty skulls.

More regrettably is the attorney-general's failure to prosecute the perpetrators, although this is in line with Article 145 (3) of the Federal Constitution. The move to drop the charges against Serba Dinamik and its officials under the Capital Markets and Services Act 2007 (CMSA) in favour of a compound of RM3 million implies that Malaysia allows powerful individuals to allegedly falsify numbers and documents (to the tune of RM6 billion) and not serve a day in jail.

How do we promote accountability when bad decisions are tolerated, and those engaged in fraudulent practices are given a "get out of jail" card? Such (in)actions by those in power will simply reinforce a vicious cycle which promotes mediocrity and hinders progress.

Transparency, good governance and the rule of law, building blocks of trust and confidence, are severely lacking in corporate Malaysia today. This is partly a legacy issue, but foreign equity can help turn the tide.

For those reasons, kudos to LTAT for looking outwards and taking one step away from our domestic market whose integrity appears to be increasingly compromised. Godspeed, LTAT!

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