

1MDB's financials remain elusive as ever

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Financial reporting is a key component of building credibility and offering transparency to shareholders and stakeholders, what more if you are a government entity entrusted with public funds like 1MDB. Yet much to Tiger's annoyance, the sovereign fund seems determined to pull a cloak of secrecy around it.

In the jungle, life is governed by cycles – there are times when the herds migrate or when the rainy season starts. As this cat understands life in the concrete jungle is much the same: humans have their cycles which are similarly used to maintain order and ensure that things progress.

For example, governments are elected/re-elected every five years and companies have to submit their financials to the Companies Commission of Malaysia (CCM) and to their shareholders at regular intervals. Cycles are important because they mark progress, they enable you to scrutinise what has already occurred and what you might be able to expect in the future.

Unless of course, you are the 1Malaysia Development Fund (1MDB). Then cycles are not so important, nor is accounting or transparency – adhering to systems, procedures and processes are seemingly, not necessary.

Tiger is of course referring to news that KPMG is no longer 1MDB's auditors and that depending on who you ask KPMG either resigned for an unknown reason or that the accountants left by mutual agreement for no obvious reason.

While the top four accounting firm has held its peace on the matter, it has not taken many too long to draw their own opinions of the matter – it would appear that KPMG is not willing to lend its name to the nature of 1MDB's accounting standards.

1MDB instead focused on the fact that it had been given an extension by the CCM to file its papers late, as it recently decided to go in a new business direction and needed more time to get it financials together.

But does it really deserve more time for that? Tiger thinks not!

What makes 1MDB unique from the blue chip companies being traded on Bursa who manage to adhere to listing rules and publish their financials within the stipulated period, often even after being involved in listings or mergers and acquisitions, for example?

Of course some might say that 1MDB is not a regular company or one that is listed on Bursa after all, and that in fact it is a sovereign wealth fund – are the rules not different for a government linked institution?

To this Tiger will just say: Khazanah Nasional Bhd.

Khazanah which is also government entity, holds annual briefings where its results are presented to the public, dissected and discussed – giving the average Malaysian at least some indication of how public funds are being used and invested.

Furthermore none other than the Prime Minister himself affirmed that although 1MDB's financials were not required to be presented in Parliament, it was nonetheless required to submit its accounts to the CCM.

The Companies Act 1965 requires companies to hold its annual general meeting, file its annual returns and their audited financial report at regular intervals.

By both the Prime Minister's standards and the Companies Act 1965, 1MDB has fallen short.

But if you think that Tiger is getting all hot under the fur over a single event, then here are several other instances where 1MDB has entered into questionable deals and then failed or refused to provide answers or explanations with regards to deals they have done.

- **RM4billion in loan mispricing** – In calculations by Kinibiz it appears that bonds issued by 1MDB were mispriced. One such example being from May 2009 when 1MDB issued its first bonds worth RM5 billion at price to yield of 6.71%, when it should have been closer to 5.4% – resulting in a mispricing of RM1billion. It is estimated that in total 1MDB may have mispriced its bonds by almost RM4billion.
- **1MDB-PetroSaudi joint-venture (JV)** – Tiger found several things fishy about this deal, not least the fact that instead of accepting a cash settlement for its stake when it sold it back to PetroSaudi, 1MDB instead converted the payments into loans for PetroSaudi. It then continued to give PetroSaudi more loans after that for two years. It is estimated that in the first three years of its existence, 1MDB did little more than funnel about four out of every five ringgit it borrowed to PetroSaudi.
- **1MDB's purchase of power assets** – Purchasing power assets appear to be high on 1MDB's shopping list – so much so that it appears to be willing to pay what some might call 'silly money'. This includes paying RM2.3 billion for Genting Bhd's power assets even as Genting's concession was slated to expire in February 2016. No explanations on how 1MDB came up with its valuations or why they rushed to purchase assets that were fast approaching their use by date.
- **1MDB's land assets and questionable foreign JV's to develop them** – Aside from power assets, 1MDB also has focused heavily on real estate, and they have acquired some prime pieces of land from the government dirt cheap. For example it obtained the land for TRX and Bandar Malaysia at significant discounts. However instead of producing its own master plan or hiring local consultants, 1MDB chose instead to foreign investors, primarily from the Middle East such as Qatar Investment Authority (QIA) – who have minimal experience in such matters to do the work instead.
- **1MDB's revaluation of land assets** – In addition, it is expected that 1MDB will revalue these assets that it got at heavily discounted prices to more realistic current market value which will allow them to plump up their bottom line to reflect profits that are merely paper gains.

- **Investing overseas, rather than at home** – Following the sale of its 49% stake in PetroSaudi, 1MDB invested the money in the Cayman Islands rather than bringing the money home and investing it in safer and more important ventures.

A dodgy deal, followed by little or no explanation – seems like maybe 1MDB does follow some cycles. Unfortunately, just not the ones that would give them some credibility.

GRRRRR!

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