Tabung Haji-1MDB land fiasco: Investment or bailout?
KINIBIZ ONLINE
May 13, 2015

Two major public funds – Lembaga Tabung Haji and Retirement Fund Inc (KWAP) – became embroiled in the 1Malaysia Development Bhd (1MDB) controversy through a hotly debated land purchase at the Tun Razak Exchange (TRX) development.

Tabung Haji is the pilgrim fund with about RM58 billion at its disposal. KWAP is a RM112 billion pension fund for government servants. Both were caught in the crossfire as buyers (or potential buyers) of TRX land.

In an astonishing series of reversals, Tabung Haji performed no less than three U-turns in less than a week on a RM188.5 million land purchase from 1MDB. Shortly thereafter, KWAP was also caught in the hoopla after news broke that it too was considering purchasing land in TRX for RM155 million to build its new headquarters.

There were also rumours that KWAP was one of the surprise candidates to purchase Tabung Haji's parcel of TRX land after the latter decided to sell it off soon after a severe public backlash. These rumours have not been verified.

After mounting speculation, KWAP clarified that no final decision has been made on the TRX land.

"KWAP confirms that no investment commitment has been made on TRX. KWAP continues to look at domestic property investments that meet the fund's mandate of delivering sustainable returns over the long term.

"All investments would have to meet KWAP's minimum investment returns and risk parameters as governed by its board," said KWAP in a media statement.

What led to these public funds entanglement in the 1MDB saga? The sequence of events (so far) is as follows.

Leaked documents

Last week, out of the blue, a little-known blog called 'The Benchmark' leaked the sale and purchase documents of a proposal by Tabung Haji for the RM772 million purchase of two parcels of TRX land.

One parcel worth RM194 million was marked for residential development at RM2,860 per square foot (psf), while the other parcel to be developed into an office building called Signature Tower was worth significantly more at RM578 million or RM3,900 psf.

Today, 1MDB announced the sale of TRX land for the Signature Tower project to an Indonesian developer Mulia Group, in a deal worth RM665 million, which is RM87 million higher than what Tabung Haji would have paid, if it was the same piece of land.

It was reported that 1MDB had purchased TRX land at a mere RM64 psf in 2011.

After news of the Tabung Haji-1MDB deal filtered out, speculation spread like wildfire. Why had neither Tabung Haji nor 1MDB made any statements on these massive land deals previously? Were the prices Tabung Haji was paying over inflated?

Is this land deal part of a bailout of RM42 billion debt-ridden 1MDB?

Denials, U-turns, silence

What followed was a series of denials, U-turns and silence that stoked public anger.

First, Tabung Haji chairman Abdul Azeez Abdul Rahim denied the deal on Twitter: "Wrong. TH (Tabung Haji) will issue a statement as soon as possible."

Then, the following day, Tabung Haji's deputy chief executive officer (CEO) Johan Abdullah issued a statement that contradicted Azeez.

Yes, a deal had indeed been made, albeit at a smaller scale, admitted Johan.

Tabung Haji had bought one parcel of land at TRX, instead of two. It was for a smaller sum – RM188 million, not RM194 million. The deal made perfect business sense and was not a bailout, said Johan. His rationale was that Tabung Haji expects to profit handsomely with the acquired land expected to appreciate up to 27% in the next three years.

Tabung Haji's chairman then backpedalled, seemingly blindsided by his own deputy CEO. Azeez claimed that his initial denial was a mere "miscommunication". Tabung Haji's belated admission did little to dampen the uproar.

Two days later, Tabung Haji announced that it would be selling off the disputed land, based on Prime Minister Najib Abdul Razak's own advice to avoid the issue being prolonged.

Najib also rued the fact that Tabung Haji would possibly make only between RM5 million to RM6 million from a quick resale instead of the potential long term profit of up to RM170 million if Tabung Haji continues to own and develop the project.

Subsequently, Pandan member of parliament Rafizi Ramli pointed out that Tabung Haji may actually gain very little or even lose money on a quick resale of the TRX land because it would have to pay up to 30% capital gains tax plus stamp duty fee.

Amidst all the hullabaloo over the price of the land and Tabung Haji's U-turns, there are other curiosities too.

Why the silence 1MDB?

1MDB, the seller in the transaction, only offered a token response.

“I’m afraid we don’t have anything to say on this at the moment,” said a 1MDB spokesperson in an email reply to KINIBIZ, just hours before Tabung Haji officially confirmed the deal to the media.

Did 1MDB and Tabung Haji close the deal in the few hours before Tabung Haji’s announcement, justifying 1MDB’s silence?

According to Tabung Haji themselves, the offer to buy the two parcels of land (out of which one was discarded) was made in December last year and the deal was sealed two weeks ago on April 23, 2015.

Bailout or investment?

Critics quickly condemned the land purchase as a 1MDB bailout. Tabung Haji defended it as a sound commercial investment.

The debate rages whether Tabung Haji grossly overpaid for the TRX land, on which Tabung Haji planned to build a 40-storey residential tower with a RM828 million gross development value (GDV).

The 1.55 acre TRX land was bought by Tabung Haji at RM188.5 million or RM2,773 psf, at a “discounted rate” that was trumpeted by Tabung Haji. Compared to the initial RM194 million offer, this amounts to slightly less than a 3% discount.

KINIBIZ’ own informal checks with a property valuer reveal that the current market price of land in the TRX area would only fetch between RM2,000 and RM2,500 psf. This would theoretically mean that Tabung Haji overpaid by between RM223 to RM773 psf.

Tabung Haji insisted it had done “professional valuations” and that it got a good deal for the land, despite 1MDB purchasing it for only RM64 psf only four years ago. But that was from the government.

Tabung Haji’s own internal investment risk assessment shows that “recent land transactions within the KL Golden area notably in Raja Chulan indicate that prices have indeed softened since 2013” and land prices there range between RM800 and RM2,286 psf.

“It is not in our interest whether they (1MDB) got it for cheap,” said Tabung Haji’s CEO at a press conference.

Were Tabung Haji’s arms twisted?

Tabung Haji’s own assessment, taking into consideration prevailing economic factors and variables, stated that “factoring all the above scenarios, it is expected that property prices to soften moving forward thus giving the opportunity to long-term buyers/investors like TH to scout around for bargain properties/land with better pricing and location”.

The assessment also adds that with the current developments at 1MDB which is said to be embroiled in financial woes, it is worried that the company would continue to face difficulties and thus may not be able to complete the overall development as planned.

Hardly a ringing endorsement of the TRX project. So why did Tabung Haji purchase the land, despite explicitly strong reservations by its own people? Were Tabung Haji's hands, somehow, twisted into sealing the 1MDB land deal?

There were also conflict of interest issues. Tabung Haji's group managing director and CEO Ismee Ismail is also on the board of directors of 1MDB. Tabung Haji's deputy CEO Johan is chairman of Edra Energy, 1MDB's power plants division. Abdul Samad Alias is a member of both 1MDB and Tabung Haji's investment panels.

Is KWAP the next Tabung Haji?

After a roller coaster turn of events, there was intense public pressure for Tabung Haji to nix the TRX land deal.

A few days ago, The Star (citing sources) reported that pension fund KWAP has signed a heads of agreement with 1MDB for the purchase of TRX at a price around 15% lower than what Tabung Haji had paid.

According to the report, KWAP will be paying about RM2,300 psf or a total of RM155 million for the land intended for its new headquarters, cheaper than what Tabung Haji had paid weeks ago.

KWAP clarified that no final investment decision has yet to be made on purchase of the TRX land.

So is it investment or bailout? Sure the land prices paid in the transactions may be close to market values but considering the financial state and the scandals surrounding 1MDB, the timing could not be worse.

And still there is considerable risk as the value of the land and development can only be fully realised if the entire TRX development takes off as planned and anticipated. That is by no means certain right now given 1MDB's poor state and insufficient information flow.

It does not help either that both Tabung Haji and KWAP are government-linked entities and especially for Tabung Haji, that there are serious conflict of interest situations. That will lead to conclusions that these are right-pocket-left-pocket transactions between government-controlled entities to give 1MDB what it seems to be sorely lacking now – money.

If less-than-palatable investments are being made by government-linked entities in 1MDB land, then that must count as a bailout. The question that still remains is why does 1MDB need all that money? What happened to all its borrowings? There are few physical assets to show for the massive debts.

© 2015 KINIBIZ. All rights reserved.
Source: http://www.kinibiz.com/story/issues/166719/tabung-haji-1mdb-land-fiasco-investment-or-bailout.html