

1MDB will haunt capital markets, drive down ringgit, says DAP
The Malaysian Insider
March 15, 2015

Troubled 1Malaysia Development Berhad (1MDB) will haunt the capital markets and even hasten the depreciation of the ringgit, said DAP, as the government appears to be bailing out the company.

Party secretary-general Lim Guan Eng said the Kuala Lumpur Composite Index (KLCI) performed poorly last year despite Malaysia's commendable growth rate because of 1MDB, which has accumulated a mountain of debt.

"The future prospects for KLCI are negative due in part to many disturbing questions posed by the RM42 billion 1MDB scandal.

"(It) raises doubts not only on transparency and compliance in our capital markets, but whether Malaysia's credit ratings would be jeopardised should 1MDB unravel and default," said Lim, who is also Penang chief minister and Bagan MP.

Lim was the latest critic to question why the Finance Ministry has made available RM950 million in stand-by credit to 1MDB.

On March 12, Second Finance Minister Datuk Ahmad Husni Hanadzlah told Parliament that Putrajaya had extended funds to the company a day after the Singapore Business Times reported that Putrajaya had "loaned" money to 1MDB. Two days later, Astro Awani quoted Ahmad Husni as saying RM600 million of the standby credit had been used.

On the same day as Husni's announcement in Parliament, 1MDB president and group executive president Arul Kanda Kandasamy said in a statement the RM950 million was a loan to 1MDB by Putrajaya "on commercial terms".

The contradictory terms led PKR secretary-general Rafizi Ramli to call it a bailout to ease 1MDB's immediate cash flow woes.

Lim said investor confidence in Malaysian markets had been rattled by how the government had been evasive about the true problems the company faced and its threat to financial markets.

He chastised Ahmad Husni for downplaying 1MDB's troubles and insisting the company only faced a short-term cash-flow problem.

Other critics of 1MDB have claimed its debt woes were so acute, it could no longer get loans from financial institutions.

Sources claimed that the company even had to borrow from billionaire T. Ananda Krishnan in order to meet its debt payments. This claim has not been denied by 1MDB.

"Clearly, Ahmad forgets basic high-school accounting that bankruptcy is most commonly caused by insolvency in not having enough cash to pay your debts, even when your financial accounts show healthy accounting profits.

"There are many companies that have gone bust because they are unable to meet their short-term cash obligations despite having billions of dollars in assets," said Lim.

"For Ahmad to admit 1MDB to be unable to pay its short-term cash obligations is to concede that 1MDB would go bankrupt without the RM950 million standby credit provided by the BN federal government.

"Without this standby credit, 1MDB would be unable to pay its short-term cash obligations, become insolvent and hence bankrupt."

Ahmad Husni had also contradicted himself on the health of 1MDB when he admitted in Parliament that the company's debt-to-capital ratio or "gearing ratio" was 17 times, which was considered unsustainable, said Lim.

He added that 1MDB's financial health had pulled down the KLCI in 2014, where it became the worst performing stock market in Asia-Pacific.

"Despite recording economic growth of 6% last year, the KLCI in 2014 suffered a drop of 5.7%, the highest drop among all Asia-Pacific bourses.

"Thailand had a growth rate of barely 1% in 2014 yet the Thai stock exchange index rose by 15.3%, while Philippines was a star performer with a rise of 22.8% in its stock index in 2014.

"For this reason, it is crucial that 1MDB and the Finance Ministry come clean on the whole scandal so that everyone knows the true cost." – March 15, 2015.

Copyright © 2015 Edge Insider Sdn Bhd

Source:

<http://www.themalaysianinsider.com/malaysia/article/1mdb-will-haunt-capital-markets-drive-down-ringgit-says-dap>