

1MDB a castle built on very thin ice
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MP SPEAKS In 1Malaysia Development Bhd (1MDB)'s rebuttal to my statements published in The Malaysian Insider on Feb 21, the company and its sources were crowing about the fantastic achievements of the company.

The report quoted one source as saying that "with RM1 million in equity and cash, 1MDB has built up its capital structure with, now, in excess of RM1 billion in equity from its profits generated over the years in a very challenging environment."

The source even ridiculed other government investment vehicles, saying that 1MDB's achievement "is measured against Khazanah and other institutions that started with billions and billions of cash".

The attempt to polish the image and performance of 1MDB cannot be more laughable, even if the numbers cited are true.

Firstly, the global investment markets have been on a "bull run" over the past five years, generating record levels of percentage gains for all creeds of investors. Hence, I have no clue how 1MDB found itself to be stuck "in a very challenging environment" in the past few years of its existence.

Secondly, it is absolutely disingenuous of 1MDB to claim that it was given only RM1 million in equity and cash for it to build its castle over the past four to five years.

Besides seed money, guarantees too

While the federal government may have given the company only RM1 million in seed money, it has provided government guarantees for 1MDB to raise its first RM5 billion sukuk (Islamic loan)!

Why would any financial institution lend 1MDB so much money if it had only RM1 million in the bank, if not for the fact that the company is 100 percent government-owned and, better still, the loan is 100 percent guaranteed?

Thirdly, the federal government has pumped into 1MDB well in excess of RM1 million.

When 1MDB purchased the Sungei Besi military air field from the federal government for a cut-price RM1.6 billion, the federal government in turn paid 1MDB a sum of RM2.7 billion to shift the air force out of the site.

Hence 1MDB had a net cash receipt of RM1.1 billion. This RM1.1 billion has since mysteriously "vanished" because the company has gone to the banks to borrow an additional RM2.4 billion to fund the RM2.1 billion contract (awarded to the Armed Forces Fund (LTAT)) to shift the air force.

Fourthly the so-called "excess of RM1 billion in equity from its profits generated" is pure bunkum because it is derived entirely from sweetheart land deals given by the federal

government to 1MDB.

RM1.396 billion profit just by land revaluation!

From just a single land transaction where 1MDB was sold the land for Tun Razak Exchange at RM194.1 million in 2011, the land was immediately revalued to RM1.02 billion to recognise a revaluation gain of RM826.6 million - or a 426 percent "profit"!

Despite the massive gain, 1MDB recorded only a net profit of RM544.3 million for its financial year ending March 2011. It means that without the revaluation, 1MDB would have made RM282.3 million in losses.

And if 1MDB could get away with it for 2011, it did the very same in 2012. The company managed to revalue the same land again in 2012 to RM1.59 billion, to record another RM569.9 million revaluation "profit".

However, despite the massive revaluation, 1MDB recorded only a meagre profit of RM44.7 million in the financial year ending March 2012.

This means that again, without revaluation gains, 1MDB would have made RM525.2 million of losses that year. The land has since been pledged to AmInvestment Bank Bhd as part of the collateral to raise RM2.4 billion in new debt.

Hence, the entire "excess of RM1 billion in equity from its profit generated" is a complete sham, resulting from the federal government selling super-prime land to 1MDB at dirt cheap prices.

The ice is cracking

Had the federal government decided to auction the land openly, it would have generated at least RM1.59 billion in cash, based on the valuation, without suffering the hundreds of millions of losses suffered by 1MDB.

It is therefore not an exaggeration to describe 1MDB as a castle built on thin ice and barely held together by a very generous and protective federal government.

The ice is cracking under the sheer weight of 1MDB's estimated RM30 billion debt burden.

The federal government is, on the other hand, desperately attempting to glue the ice together with sweetheart land deals.

The latest is for the government to award a new 2,000MW independent power producer contract to 1MDB, despite the company charging a higher tariff rate than the lowest-priced competitor.

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