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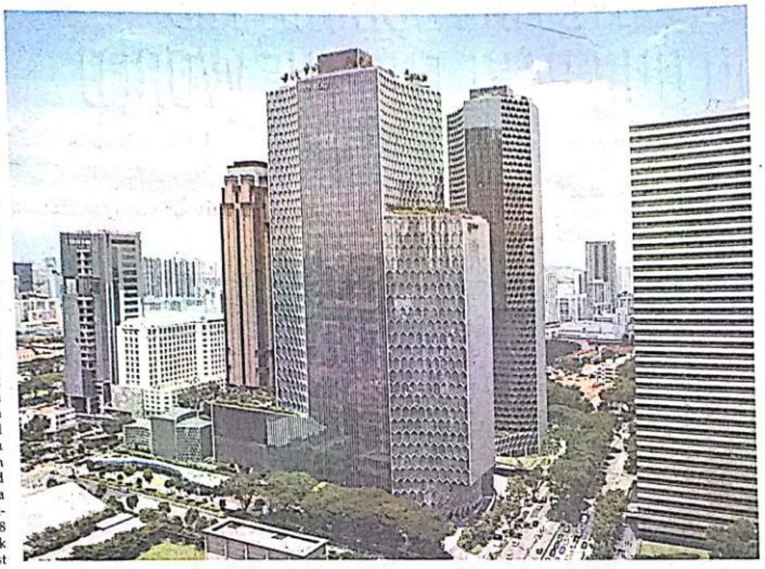
Khazanah asset sales could top more than RM9b

A local market analyst expects Khazanah to continue to divest its assets within its commercial bucket indirectly

by MARK RAO



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KHAZANAH Nasional Bhd's divestment of equities in listed companies, shareholding in partnership and asset sales in the last six months may have topped more than RM9.6 billion as the fund continues to decouple from non-strategic assets.

Based on *The Malaysian Reserve's (TMR)* analysis, the fund stake sales in IHH Healthcare Bhd were RM8.42 billion, RM288 million from 40% stake in Malaysian Shoaiba Consortium Sdn Bhd and about RM1 billion from the disposal of 85 million shares in Tenaga Nasional Bhd (TNB). The fund still retains a 27.27% stake in the utility company. It also disposed of 10.78 million shares in penny stock Key Asic Bhd in October last year, but retains a 9.88% stake in the company.

Last week, Khazanah's joint-venture (JV) company in Singapore disposed of office and retail portion of the Duo property development in Singapore for RM4.7 billion. Khazanah is the majority shareholder of the assets via its 60%-owned JV company, M+S Pte Ltd. The sale confirms *TMR's* report last year that the fund would sell some of its assets in Singapore.

A Special Parliamentary Select Committee report, which listed down the country's debt, showed that Khazanah has RM15 billion debts, maturing between 2007 and 2032. The same report also listed Projek Lebuhraya Usahasama Bhd, which Khazanah is a majority shareholder through UEM Group Bhd with a 51% stake, has RM11 billion debts.

Khazanah is operating under a new mandate which includes rebalancing its commercial fund while developing strategic assets.

A local market analyst expects Khazanah to continue to divest its assets within its commercial bucket indirectly, either via exchangeable bond exercise for CIMB Group Holdings Bhd or in outright sales.

"The recent sale of property assets in Singapore is a smart move given that the country's economy is showing signs of slowing," the source told *TMR*.

"At the reported price of RM4.7 billion, it is a good opportunity for Khazanah to monetise on the asset's value," said the analyst who declined to be named.

It is not known how much the net proceeds are from the sale of the Singapore's assets.

The overarching question is whether Khazanah will continue to divest and, if it does, how fast and serious the fund will endeavour to do so, the analyst asked.

"The strategy will be to divest only if good opportunities at attractive valuations are available.

"Having completed several divestments recently, the fund freed up a lot of additional firepower whereby it has no reason to carry out a fire sale for any of its assets," said the analyst.

The state-owned fund that has Prime Minister Tun Dr Mahathir Mohamad as its chairman is undergoing an internal restructuring and is kitchen-sinking its books.

Under the new mandate, the sovereign wealth fund will focus on growing financial assets and diversifying the country's revenue streams as part of its commercial objective. For strategic funds, the fund will hold on to assets that bring long-term economic benefits.

Khazanah's investments in public commercial assets include Malaysia's second-largest banking group by assets, CIMB Group; leading regional telecommunications company Axiata Group Bhd; and e-commerce giant Alibaba Group Holding Ltd. Private assets under this same category include The Holstein Milk Co Sdn Bhd, Sun Life Malaysia, WeLab Holdings Ltd and Palantir Technologies.

Khazanah is targeting a return equivalent to Malaysia's Consumer Price Index plus 3% on a five-year rolling basis for its commercial fund.

The fund, meanwhile, is targeting a return equivalent to the yield for 10-year Malaysian Government Securities on a five-year rolling basis for its strategic fund. This category includes investments in Telekom Malaysia Bhd, TNB and Malaysia Airports Holdings Bhd, as well as in loss-making national carrier, Malaysia Airlines Bhd (MAB).

It was reported that Khazanah had hired Morgan Stanley, a US-based investment bank, to advise the fund on the strategic options for the ailing airline.

MAB struggled with losses since 1998 which a RM6 billion restructuring plan undertaken by its sole shareholder, namely Khazanah, and billions of ringgits in government bailouts failed to alleviate it.

The airline contributed to half of Khazanah's RM7.3 billion impairments in 2018, resulting in the latter to post a hefty RM6.27 billion loss before tax. The impairments recognised that year are part of the fund's strategy to hit the reset button and position itself in a better growth path moving forward. Khazanah had RM66.64 billion in assets under its belt in 2018.