

## MINORITY SHAREHOLDERS WATCH GROUP

BADAN PENGAWAS PEMEGANG SAHAM MINORITI BERHAD  
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# External oversight needed for GLC reforms

• Prime Minister Tun Dr Mahathir Mohamad exerts a towering influence over Corporate Malaysia

• One activist is calling for greater accountability among state-owned entities, especially with regard to asset sales



by  
Emmanuel Samarathisa

When Tun Dr Mahathir Mohamad returned as prime minister, talk naturally turned to the pervasiveness of crony capitalism during his first stint as Malaysia's leader (1981-2003).

Consequently, ever since his return to the country's top political seat after the 14th general election (GE14), Mahathir's coalition Pakatan Harapan (PH) had been working overtime to allay concerns of retrograded rule.

But more than a year has passed since PH formed the government. Some market observers still remain sceptical that the coalition has done enough to keep Mahathir in check. This is because as prime minister, Mahathir not only wields significant influence in politics but in business, too.

The prime minister is chairman of sovereign wealth fund Khazanah Nasional Bhd and Yayasan Pelaburan Bumiputera (YPB), the parent of Malaysia's largest unit trust Permodalan Nasional Bhd (PNB). Khazanah and PNB control a large number of entities known as government-linked companies (GLCs). University of Malaya's Prof Edmund Terence Gomez, an ardent critic of GLC reforms, notes that effective checks and balances are still lacking.

### Greater accountability

"As chairman of the board, the prime minister has enormous say in Khazanah," Gomez tells *FocusM*. "But to my mind the chairman should not be the prime minister. Some would argue that he should be there but I'd say that these entities have vast influence in the corporate sector and could be subject to abuse. We want to ensure that abuse does not happen but I have not seen major institutional reforms to highlight that we have accounted for this."

Gomez, together with think tank Institute for Democracy and Economic Affairs (IDEAS), had ruffled feathers over their GLC

Monitor 2019: State of Play report. At the launch on Oct 30, Gomez told attendees and the press that despite PH's promise of structural reforms, Mahathir is still "de facto" finance minister.

In its election manifesto, PH vowed to initiate a slew of good governance measures in the name of accountability and transparency. Among others, the decoupling of the finance minister and prime minister portfolios. The coalition has fulfilled that: Lim Guan Eng is finance minister.

But that day, Gomez argued that Mahathir had consolidated power since GE14. Despite not holding the finance minister portfolio, Mahathir made several questionable decisions. For starters, it is no longer the finance minister but the economic affairs minister who sits together with the prime minister on the board of Khazanah and YPB. Datuk Seri Azmin Ali, a purported Mahathir ally, is economic affairs minister.

Gomez also observed that the Ministry of Finance (Mof) had been "defanged" and its influence reduced in favour of the Prime Minister's Department (PMD), Ministry of Entrepreneur Development (MED), Ministry of Rural Development (MRD) and Ministry of Economic Affairs (MEA).

These ministries, which now oversee key GLCs, are led by either personalities from Mahathir's party Bersatu or his political allies such as Azmin, says Gomez. Datuk Seri Rina Harun and Datuk Seri Mohd Redzuan Yusof of Bersatu (a PH component of which Mahathir is chairman) lead the MRD and MED, respectively.

### Financial heavyweights

To be sure, GLCs are owned by government-linked investment companies (GLICs), a club of the largest institutional investors in the country. According to Mof, there are seven GLICs: Minister or Finance (Incorporated) or Mof Inc, Khazanah, PNB, private sector pension fund Employees Provident Fund (EPF), armed

forces pension fund Lembaga Tabung Angkatan Tentera (LAT), pilgrims fund Lembaga Tabung Haji (LTH) and civil servants' pension fund Kumpulan Wang Persaraan (Diperbadankan) or KWAP.

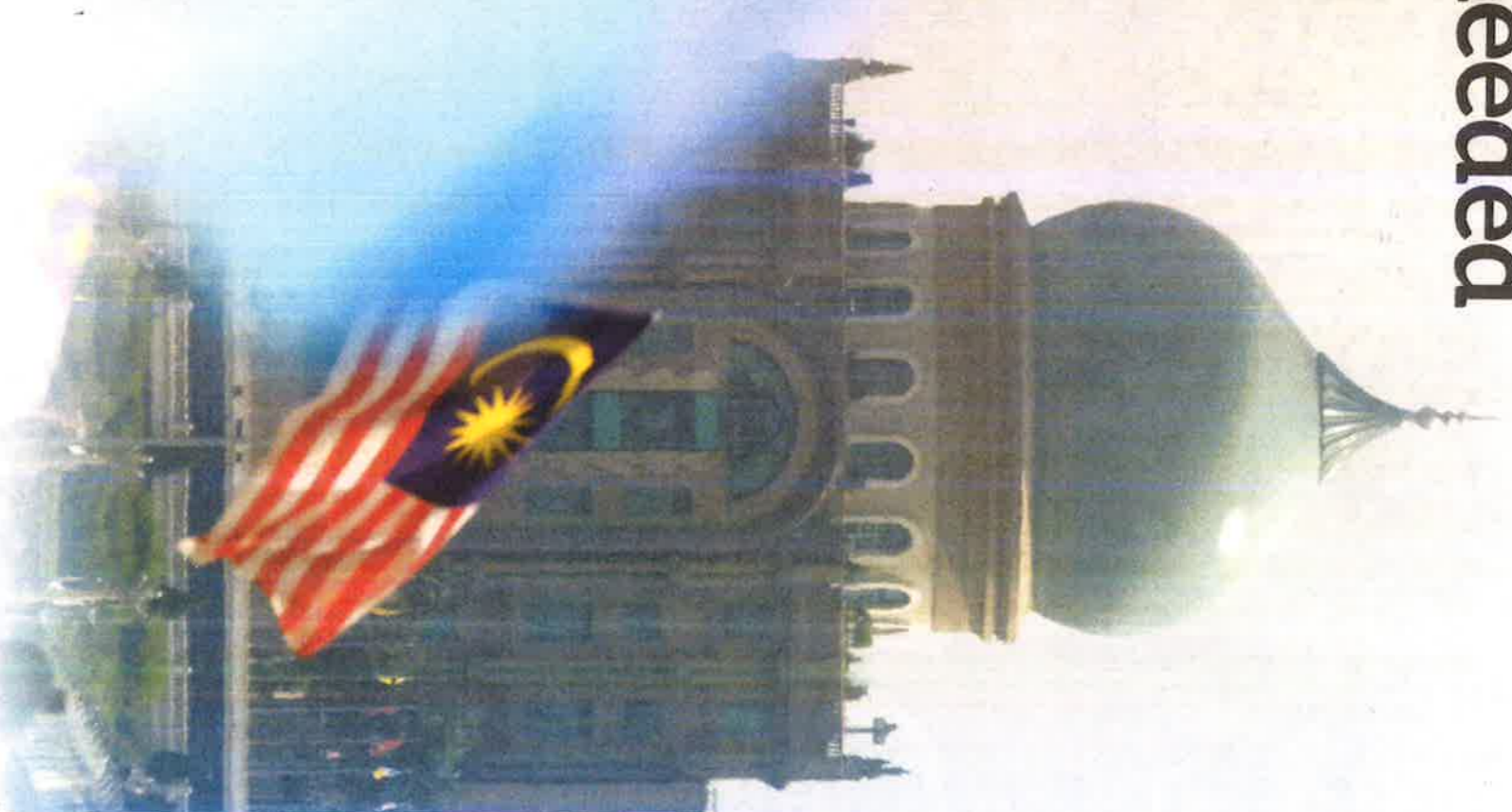
Each of them is unique with specific mandates and governance structures. For example, Mof Inc, according to Section 3 of the Ministry of Finance (Incorporation) Act 1975, refers to not an organisation or a special body but minister who has the power to act like a "body corporate" under the Mof Inc banner.

Not all of them are reliant on taxpayers per se such as the EPF. The pensions fund derives its fund base from the forced contributions of private sector employees or "members." LTH, on the other hand, serves to ensure Muslim pilgrims have enough saved up to perform the obligatory Haj. Unlike the EPF, opting into LTH is voluntary.

And each GLIC is responsible to a specific minister and governed by its own act. Khazanah and PNB are usually in the spotlight as they are the funds closest to the prime minister by way of his chairmanship.

Given their financial muscle, GLICs have the power to invest in listed and non-listed assets. With its goal to generate returns, they have the mandate to move into different asset classes, meaning that many of these investments may be far from the public eye. For example, KWAP's investment in ride-hailing service Uber Technologies Inc via private equity.

Also, it is worth noting that there are other statutory bodies acting like GLICs but are not captured in the Mof list. The most famous ones are: national oil company Petroliam Nasional Bhd (Petronas) and government agencies Federal Land Development Authority (Felda) and Majlis Amanah Rakyat (Mara). Petronas is answerable to the prime minister, Felda to MEA and Mara to MRD. But these three entities are large enough and command a sizeable pres-



Gomez: There must be open feedback for the entire process of divestment

**GLICs and their controlling/majority stakes\*\***

PERMODALAN NASIONAL BHD (PNB)	KHAZANAH NASIONAL BHD
<b>Malayan Banking Bhd</b> Owned: <b>48%</b> Market value: <b>RM47 bil</b>	<b>CIMB Group Bhd</b> Owned: <b>37.7%</b> Market value: <b>RM19.43 bil</b>
<b>Sime Darby Bhd</b> Owned: <b>52%</b> Market value: <b>RM8.09 bil</b>	<b>Axiata Group Bhd</b> Owned: <b>44.4%</b> Market value: <b>RM17.39 bil</b>
<b>Sime Darby Plantation Bhd</b> Owned: <b>56%</b> Market value: <b>RM19.08 bil</b>	<b>Malaysia Airports Holdings Bhd</b> Owned: <b>55.9%</b> Market value: <b>RM7.88 bil</b>
<b>Sime Darby Property Bhd</b> Owned: <b>57%</b> Market value: <b>RM2.94 bil</b>	<b>Tenaga Nasional Bhd</b> Owned: <b>48%</b> Market value: <b>RM38.05 bil</b>
<b>S P Setia Bhd</b> Owned: <b>60%</b> Market value: <b>RM3.39 bil</b>	<b>Telekom Malaysia Bhd</b> Owned: <b>26.15%</b> Market value: <b>RM3.71 bil</b>
<b>Velesto Energy Bhd</b> Owned: <b>60%</b> Market value: <b>RM1.95 bil</b>	<b>IHH Healthcare Bhd</b> Owned: <b>26.04%</b> Market value: <b>RM12.65 bil</b>
<b>UMW Holdings Bhd</b> Owned: <b>59%</b> Market value: <b>RM3.11 bil</b>	
<b>Total: RM85.56 bil</b>	<b>RM99.11 bil</b>

**Notes**

\*\* PNB and Khazanah are under the chairmanship of Prime Minister Tun Dr Mahathir Mohamad.  
 \*\*\* Market value as at Nov 7.  
 \*\*\*\* Companies selected are those with a market cap of more than RM1 bil.



The Prime Minister's Department

these itself is a monumental task.

So if the government wants to keep this system, fine, but there must be checks and balances. A parliamentary select committee is one of them. But these have to be outside the remit of the prime minister," he says.

Board accountability is equally important, too, stresses Gomez. "For example, when Khazanah divested a portion of its stake in IHH to Mitsui. The board has to explain the process and also publicly declare why, in this case, the assets were sold to Mitsui. Was there a process that led to the sale?"

Khazanah sold a 16% stake in IHH Healthcare Bhd to Mitsui & Co Ltd, one of Japan's largest sogo shosha, for RM8.42 bil. The deal was completed in March this year.

**GLICs: Political animals**

Prof James Chin, director of the Asia Institute, University of Tasmania, notes that some of Gomez's demands are too drastic to implement. "It is unrealistic to demand wholesale change," he says. "Yes, there has been restructuring i.e. the moving of agencies to, for example, the MEA. But what also happened was that PH reduced the federal budget and also the number of agencies."

PMD was among the departments that shrunk with only three ministers and deputies compared to 10 each before under Barisan Nasional (BN). The department also controls 40 agencies compared to 92 from before. Allocations-wise, the PMD received half of the annual allocation versus the BN period where

the department's allocation peaked at RM15 bil in 2017.

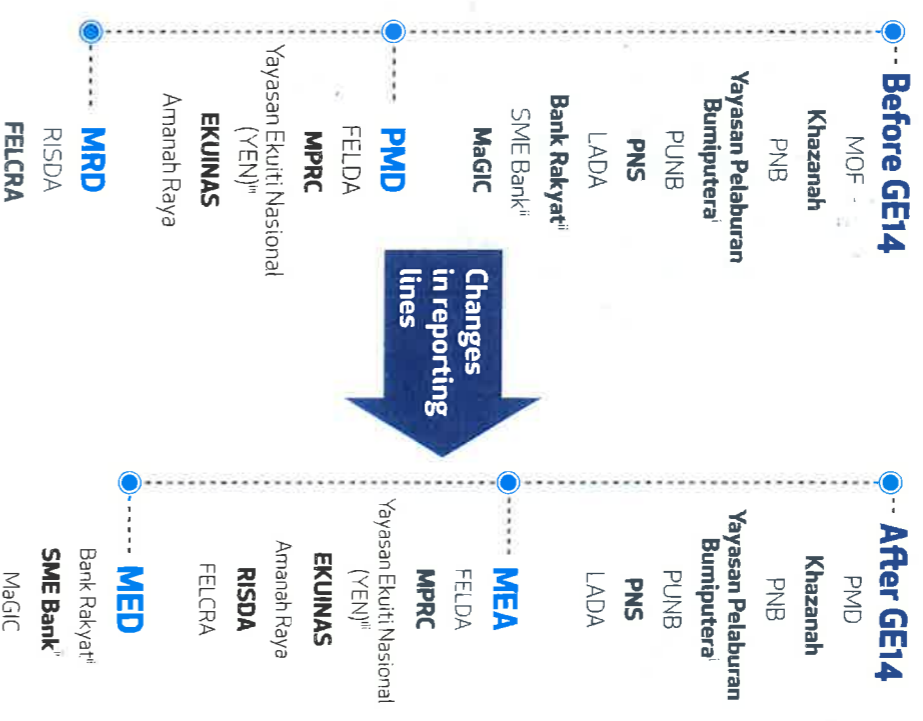
Chin notes that it is impossible to decouple politics from GLICs because "they are political animals." He believes that the coalition should be benchmarked since it took over Putrajaya after May 9 last year. "Has there been less abuse in GLICs and GLICs since the regime change? Yes. Are GLICs less political? Yes. Has PH made GLC independent? No."

He notes that the "Khazanah play" has to be focused not on Mahathir but his troubleshooter Tun Daim Zainuddin. In the run-up to the general election as well as during the early days of Mahathir's comeback, Daim played a central role in helping PH ease into governance.

Daim led the Council of Eminent Persons which was tasked to scrutinise a litany of economic matters during PH's first 100 days. He also led the negotiations between the Malaysian and Chinese governments over the East Coast Rail Link project. Some observers have raised the spectre of Daim's involvement in the Malaysian economy due to his business interests.

But changes to Khazanah would benefit PH-friendly business, says Chin. "As long as political parties rely on business for support, PH will reward its supporters." There is a caveat. "The wealth has to be widely spread. Then that would create less problems. Previously, it was only concentrated in the hands of a few businesspeople, so that was damaging. Real crony capitalism. But if they can widen the net I don't see a problem," he adds.

**Summary of changes in reporting lines for major GLC and state institutions**



- Notes**
- i. PNB is the investment vehicle for Yayasan Pelaburan Bumiputera.
  - ii. Bank Rakyat and SME Bank, among several development financial institutions (DFIs), are legally prescribed to be under the control of MoF. But, in this brief, it is changes in effective control by ministry that is considered.
  - iii. The government's fund granted to EkuNAS is held in trust by YEN.

SOURCE: IDEAS

He also foresees problems if Khazanah were used to monopolise certain industries, thus styming newer entrants into the market. "But I think we should give PH the benefit of the doubt for now. At least for one term," says Chin.

**Waning influence**

But will such corporate influence matter when some market participants are flagging an unappealing appetite for listed GLICs, despite their sizeable presence on the bourse?

UOB Kay Hian head of research Vincent Khoo notes that the demand for GLICs has not been "positive" over the past few years. "Most GLICs are too big to ignore and form an integral part of asset allocation, particularly the index heavyweights which collectively form the bulk of the FBM KLCI's index market capitalisation. But the investment sentiment has not been very positive," he tells *FocusM*.

According to Khoo, two factors govern sentiment: corporate restructuring or reforms. "Unfortunately most GLICs' corporate earnings trends have not been particularly exciting, which mirrors corporate Malaysia's growth malaise (2019 represents the fourth consecutive year of flat corporate earnings). Meanwhile, the only potentially exciting corporate restructuring at the GLC front – Axiata's proposed merger with Telenor – was earlier scuttled."

But he denies that the problem of GLICs "crowding out" the market is an issue. "Investors are always on the lookout for quality companies (be they GLC or non-GLICs) having good earnings growth prospects or ones which can sustain high dividend yields," notes Khoo.

Areca Capital founder and CEO Danny Wong Teck Meng is also "selectively looking" at dividend-paying GLICs, GLICs and government-related funds with oversold positions. "We believe that they are required to declare more dividends over the next two years or more," he says. Some of the noteworthy ones that fit this bill are the companies that carry the Petronas badge such as Petronas Dagangan Bhd and Petronas Chemicals Group Bhd.

**A not-so-golden deal**

Minority Shareholders Watchdog Group CEO Devaness Evanson notes three areas which interest minority shareholders when it comes to GLICs and GLICs. They are the golden share, active politicians on boards and more liquidity in the stock market.

The "golden shares" in GLICs confer power on the government to appoint or veto certain decisions. This is a legitimate shareholding as it is contained in the constitution of a certain company. Examples of "golden share" companies are MISC Bhd and Pos Malaysia Bhd. These "golden shares" are acceptable in a listed

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## 'Dealing with structural reforms hugely important'

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company as it might involve national interests or security.

But golden shares go against the principle of "one share-one vote" and may be construed as dual-class shares, argues Evanson. "Golden shares should be kept to a minimum. Typically, the golden shareholder is the Ministry of Finance and sometimes it could be some other Minister, and as such, only that Minister should exercise the golden share-vote.

"For a start, the government should re-examine the publicly listed companies (PLCs) in which they have golden shares to really determine if it is meaningful for the government to have golden shares in these PLCs," he says.

As for active politicians on the board, that might signal a conflict of interest, primarily between shareholders' interests and political interests. "Politics and business

form a potent brew of heightened risk and they should be kept separate, as we have seen in the past in the Malaysian corporate scene," Evanson says.

Finally, on market liquidity, GLICs should look to investing abroad and divesting some of their investments in GLCs, notes Evanson. "GLICs should also be discouraged from holding substantial equity interest in GLCs in the same industry sector as there is prone to be conflicts of interest," he says.

### Wealth in a few hands

Still, the urgency to deal with structural reforms is of paramount importance, stresses Gomez. If left unattended, "are we going to see a similar trend in the past where divestments are handed to well-connected people in the corporate sector with financing coming from GLC banks?"

He points to Mahathir's insistence to

reinstate the Bumiputera policy which is believed to typically favour the Malays. The Shared Prosperity Vision 2030, the government's blueprint for 2021-2030, is looking to achieve, among others, the 30% Bumiputera equity ownership target. Divestments of key assets have long been anticipated to be on the cards.

"Currently the top Bumiputera businessmen we have are (Tan Sri) Azman Hashim and (Tan Sri) Syed Mokhar Albukhary. Azman has moved out of the spotlight, which leaves us with Syed Mokhtar who is now consolidating the media beast Media Prima," says Gomez. Azman is the chairman of AmBank Group.

Whether GLC banks would be forced to lend to these selected Bumiputera businessmen who may not have the money but yet are called upon to fulfil Mahathir's policies is a development worth watching, says Gomez. "But ultimately there must be

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