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Post-Election Malaysia Aims For More Divestment

Malaysia's move to privatise a series of major government-linked companies first raised investor interest in 2010. After a chill earlier this year before national elections, analysts and officials in the Southeast Asian country say the unusually aggressive divestment drive is coming back. The program to divest the government of its interest in 33 firms will move forward once Prime Minister **Najib Razak** secures a position in the ruling **United Malays National Organisation** after his coalition dominated by that party won a 60% parliamentary majority on May 5, analysts forecast.

Malaysia's divestment programme, part of an awkward effort to raise incomes across the nation of 28.3 million people, has gained attention from institutional global equity investors as shares of large companies suddenly went up for grabs. "We expect the institutional investor interest to be higher, now that [Razak] is firmly in charge," said **Wai Ho Leong**, regional economist at **Barclays Capital** in Singapore. "Malaysia is widely seen as a structural transformation story. Instead of attracting just portfolio capital like it has, it is now winning foreign direct investment or stickier money."

Of the 33 companies, 21 were set for outright sale, seven for public listing and five for "pare-downs," the prime minister's Performance Management & Delivery Unit said in a written statement to *GMMQ*. Malaysia had divested from 17 companies as of mid-June. No moves have been made since the elections, and the government unit declined to say in June which was next or when it would be restructured. Eleven companies were divested in 2011. Last year, investors offshore were drawn to the massive IPOs of **Felda Global Ventures Holdings** and **Integrated Healthcare Holdings**. The Felda listing raised MYR9 billion (GPB1.83 billion) in capital and the Integrated Healthcare IPO generated MYR6.3 billion, boosting the **Bursa Malaysia** stock exchange's market capitalisation by MYR39 billion.

"With these listings, among others, Malaysia's equity market captured the spotlight in 2012 amid uncertainties in the global economy and markets," the government unit said. "The attractiveness of the market also saw foreign investors emerge as net buyers on Bursa Malaysia at the end of December 2012." But Razak's government remained under fire for economic problems such as one of Asia's largest budget shortfalls last year and overdependence on commodities.

Malaysia's **Pakatan Rakyat** coalition, backed by three opposition parties, had said it would put divestment under review if it won. That risk is off. "GLCs [government-linked companies] are a fiscal drag, they crowd out private investment. Conversely, this divestment will lead to churning of the stock market, attract FDI and should ultimately contribute to growth," said **Greg Lopez**, visiting fellow at the **College of Asia** and the Pacific's Department of Political and Social Change at **Australian National University**.

Although the Malaysian government says it will continue with divestment plans, Razak still must secure a post in his party to hold on to the prime minister's seat, analysts say. Until then, they say, aggressive divestment may be on hold.

Jalil Rasheed

In the short term, Malaysia is expected to keep divesting, though perhaps not at the scale of 2011 and 2012, analysts say. The country faces other, possibly more pressing, economic issues. "I think the bigger challenge for Malaysia is economic problems, especially its fiscal position," said **Jalil Rasheed**, Singapore-based investment director at **Invesco**.

Rasheed expects announcements of new infrastructure projects, good for the construction sector, but little attention is being given to subsidy cuts or to the creation of a wider tax base as both might be found unpopular despite macroeconomic payoffs. "So far, there have been no announcements on these, and I doubt any will be made, given that they will be unpopular and the government's majority in government is also slim," he explained.

The opposition that campaigned on better government accountability won more of the May 5 popular vote than the ruling coalition, though it missed a parliamentary majority and has alleged election fraud. Despite its intent to divest, between 2009 and 2013 Razak's government also allowed state-linked firms to enter new areas of business, Lopez noted. However, the pace of divestment eventually will resume, generating a "broader wave" of state pullouts than before, once the ruling coalition's major party holds its general assembly later in the year, Leong predicted.

Barclays expects USD15 billion in non-core assets to be divested over the next two years, with targets including the country's armed forces pension fund, with total assets of about MYR7.5 billion, and the state-owned oil and gas company **Petronas**. The government also has proposed listing state investment corporation **1Malaysian Development Berhad**'s power assets. Other analysts agree additional divestment is just a matter of time.

"[Razak] will most likely continue the government's privatization drive, and possibly with greater force as he would have the mandate to back him," said **Liam Hanlon**, political analyst at **Cascade Asia Advisors**, a research firm focused on Southeast Asia. "He has made no indications of changing course." ***—Ralph Jennings***