

Salient points

- PNB companies to look at internal growth from 2018
- Increase in foreign investments to be made
- Outlook for 2018 still rosy with economy expected to perform well

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PERMODALAN Nasional Bhd (PNB), which controls some of the largest companies on Bursa Malaysia, wants its strategic companies to look at growing their earnings organically next year after efforts to restructure those companies and improve their corporate governance were done this year.

The overhaul of the companies under PNB, such as the demerger exercises of Sime Darby Bhd into three separate listed companies, UMW Holdings Bhd from UMW Oil & Gas Corp Bhd, and the decoupling of Chemical Company of Malaysia Bhd (CCM) and CCM Daopharma Biotech Bhd, delivered in terms of returns to shareholders.

The acquisition of I&P Bhd by SP Setia Bhd, that had set a stage for the core companies of PNB to deliver and it did with much aplomb.

The strategic companies for PNB are Malayan Banking Bhd (Maybank), the three Sime Darby companies, SP Setia, UMW Holdings and UMW Oil and Gas, CCM and MNRB Holdings Bhd.

Getting the PNB-controlled listed companies to have the right structure and organisational focus saw the companies within the PNB stable deliver a weighted average total shareholders' returns of 18.1%. The FBM KLCI went up just over 7% year to date.

The restructuring translated to a growth of the market capitalisation of the PNB companies to a gain of RM27.1bil, and allowed the fund to declare a growth in net income of 7.1% to RM15.44bil for financial year 2017. During the year, assets under management as at November 2017 grew by 4.5% to RM276.5bil compared with RM264.3bil.

"The demerger will allow those companies to focus on their core businesses.

"They will better allocate resources to their core businesses and there will be transparency in their performances," says PNB chairman Tan Sri Abdul Wahid Omar.

"The focus is on fundamental performance from 2018 onwards."
Delivering on earnings is important for the companies PNB has invested in as higher profits will drive more institutional money into those companies.

It is also essential in delivering returns to unit holders.

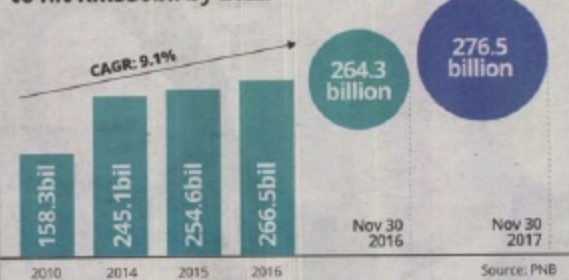
Apart from getting organic earnings growth from its companies, PNB is looking to invest more overseas next year.

PNB president and group CEO Datuk Abdul Rahman says any decision to invest abroad will be done judiciously and that

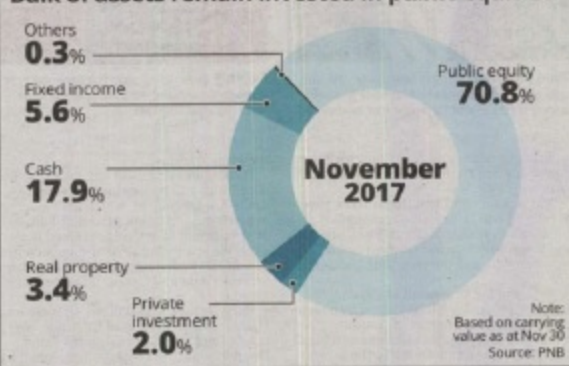
PNB companies to look at internal growth

Higher profits seen after structural improvements

PNB targets assets under management to hit RM350bil by 2022



Bulk of assets remain invested in public equities



will be in stocks and in global private investments funds.

"We will be maintaining our conservatism but if there are opportunities we will be happy to expand our portfolio," he says.

The fund has a small amount invested abroad, mainly in the United States and China, and that portfolio, according to Abdul Rahman, has performed well.

"We are looking at more public equities,

but since the US market been hitting all time highs, we are taking a cautious stance in the market," he says.

PNB, which has small exposure of around 2% of its funds invested abroad, has said it would only do so if the ringgit appreciated against the dollar and the local currency has crossed its internal threshold.

From its international investments, 48% is investment in stocks, 42% in property and 10% is in cash.

Wahid feels the ringgit's rise against the dollar has more room to move below RM4 to the dollar. PNB will also start to invest more of its cash holding, which is at 18% of its portfolio, into fixed income, private investments and property.

Private investments delivered big growth for PNB in 2017 as it generated a return of 23.1% and contributed 7.1% to its gross income as at the end of November.

As for its property investments abroad, the fund will redeploy its assets into better yielding assets.

Domestically, PNB will look at landbanking to build on its 10,000 acres it currently holds in the Klang Valley as those properties could be used to drive returns when future land prices rise higher.

On its proposal of carving out about 20% of shares in Maybank into Islamic shares, Wahid says that process is underway but more talks with syariah advisory panels of various authorities need to take place before that proposal materialises.

Wahid sees global economic growth improving in 2017 but there will be pockets of risks and challenges.

He thinks the Malaysian economy, which should grow by 5.8% this year, will expand by between 5% and 5.5% in 2018.

He says global equities have performed well this year on the back of the cut in corporate tax cuts in the US and also the resilience of China's economy.

Stocks on Bursa Malaysia have seen profit-taking by foreign investors in the second half of the year but overall net inflows for the year have been positive at RM11bil so far. He says that coupled with a strengthening ringgit, the US dollar return on Bursa Malaysia this year has hit 17.4% compared with a 6.7% return in ringgit terms.

"Some fund managers have taken advantage of the stronger ringgit," he says when explaining the sluggish performance of the benchmark FBM KLCI in the second half of the year.