



**Transcript of CNBC “Managing Asia” Interview with
Tan Sri Dato’ Azman Hj. Mokhtar**
Managing Director, Khazanah Nasional Berhad
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Welcome to Managing Asia. I’m Christine Tan. I’m here in Kuala Lumpur for an exclusive in-depth television interview with one of the most powerful and influential people in Corporate Malaysia, Azman Mokhtar, the man tasked to remake Khazanah Nasional, Malaysia’s Government investment arm.

Azman Mokhtar shot into the big time when he took the top seat at Khazanah Nasional. The former high flyer from UBS and Solomon Brothers was consulting on the restructuring of Malaysia Airlines when he was tapped by the former Prime Minister, Abdullah Badawi to revamp Khazanah, becoming the man to watch in Corporate Malaysia.

TAN SRI AZMAN MOKHTAR: When the call came to help strategise and think through restructuring plans and implement them, in both organic and inorganic way, it was hard to say “no” ... they felt that I was perhaps the right person to drive that.

CHRISTINE TAN: The state investment agency wheels substantial power in the country, holding large swords of the corporate sector, from banking to telecoms to airlines. But in 2004, many of these companies were floundering.

AZMAN: The setting in ‘04 was about cleaning up these companies. From ‘04 to ‘08, it’s a period of restructuring Malaysia Airlines, Celcom, CIMB and so on. Now it’s more about expanding the portfolio and helping with the New Economic Model (NEM) and not to forget to make money.

CHRISTINE: Over the course of past 7 years, the managing director began what some may call a ‘quiet revolution’. From his office right in the heart of Kuala Lumpur, the eloquent and sharp leader began remaking Khazanah.

AZMAN: We basically needed to grow certain things and also to exit certain other things. That’s all part of the structural transformation. I was lucky enough to come in at a time when there was a wave of both expectation as well as aspiration that people came forward and wanted to help.

CHRISTINE: You laid out key performing indicators, or KPIs, which linked performance to compensation. Was it hard initially to change the mindset and work culture at the GLCs?

AZMAN: For sure and this is still on- going. We don't claim that this thing is complete.

CHRISTINE: Did you face any opposition?

AZMAN: For sure. There were many kinds of labels being put on KPIs such as K- O- P- I, or coffee. Today, KPI is part of the mainstream and I would say an "unqualified yes" that mindsets have changed.

Under Azman's leadership, Khazanah has taken big strides, transforming companies like number two lender, CIMB and mobile phone giant, Axiata, and doubling the value of its assets to RM112 billion over the past 6 years. The investment arm has also made new forays into healthcare, education, leisure and tourism but the chief says the transformation is not complete though the wheels of change are set in motion.

CHRISTINE: Part of your plans also meant changing the way GLCs procured their business - an area a lot of observers say corruption was apparent. It meant challenging the traditional way of doing things and made some parts of the political establishment very unhappy. How did you deal with such a sensitive issue?

AZMAN: Well how we deal with sensitive or non- sensitive issues, we went out and decided to institutionalise these sets of processes and put together in a book called the Red Book, and this is not chairman Mao's red book. This is a book that talks about best practices of procurement. In there, we said the procurement must reduce the total cost of procurement - total cost of ownership. In the process when we put things properly by process and so on, then the possibility of arbitrary behavior whether in the form of rent-seeking or corruption is immediately reduced.

We have not eradicated it, however, I think there is clear evidence that a lot of things have improved especially the harder we're able to push this. So far there have been gains and if you asked me, I think it can certainly be better but I would submit that it's a 10- year journey that we've put forward.

CHRISTINE: But there's more transparency now?

AZMAN: There is certainly more transparency. Not just in procurement but when we divest an asset, for example, it is not done in small rooms, it is actually done through a proper process. We invite the key players, put out the key criteria very clearly, and then stay the course to execute that properly. So far, that has been our guiding policy.

CHRISTINE: Overall, you say your mission is to create shareholder value and part of the process, of course, involved hunting down captains of the industry to head your GLCs. Was it hard finding these key talent? And more importantly, how did you go about convincing them that you were serious about revitalizing the government-linked companies?

AZMAN: Sometimes, I am reminded by Marx, not Karl, but Groucho, who said that you should not enter a club that would have you. First of all, we do our homework to know whether the person is suitable for the job. Generally, we hire people who don't want to join, if you get what I mean.

CHRISTINE: Who's the hardest candidate to get?

AZMAN: At the risk of maybe embarrassing him, I think it is Idris Jala. He had a wonderful career in Shell - 22 years. I asked three trusted contacts in the market, who was the best turnaround artist in Malaysia. And two out of the three came back with his name.

CHRISTINE: How did you convince him?

AZMAN: Shell is a very good firm, a fantastic company as we know but I suspected that it did not have enough adventure or excitement, and I can certainly have that in spades in Khazanah's companies. Once we crossed that rubicon, so to speak, I said here are two or three companies - I shall not name those he didn't choose - but he chose Malaysia Airlines, one of our icons and I knew Idris is crazy enough to take on this job, but was not crazy enough to take on the other jobs.

CHRISTINE: The transformation programme that you put in place in a way shielded or made the GLCs less vulnerable to the full impact of the global financial meltdown but has the crisis forced many of the companies to go back to the drawing board and rethink their strategies? Did you have carry out many crisis management as a result?

AZMAN: We did some back testing. Had we not started the transformation programme from 2004, by the time the global crisis hit in '08 and '09 where a lot of industries contracted, at least 5 or 6 major companies in our stable, would have been in trouble. Instead, we went through that essentially with not much damage. So that gave us some confidence that these companies indeed became more resilient and now, two years after the crisis, they're very much on the growth trajectory, with the exception of 1 or 2 which are in more regulated and difficult industries which we've stated publicly, like auto, electricity and airlines.

CHRISTINE: You have a grand plan for GLCs where you hope to have five regional champions by 2015. There are skeptics who say, you know what, that is a very ambitious target. You think you can make it a reality?

AZMAN: I think we are getting there.

CHRISTINE: Ok, which of your nine main holdings or K9 companies are you betting on?

AZMAN: Axiata is touching 150 million subscribers. It is profitable and growing in the range 15% to 20%, the sustainable kind of growth. They also have been disciplined. So they have been doing well not just on the organic side but in the M&A market.

CIMB, in a very short space of time of five to six years, has grown to be among the largest banks in the region, and if I'm not mistaken, certainly the largest by number of branches in the region.

The third one is perhaps the healthcare franchise. This came from nowhere, and this perhaps gives a bit of insight on how we think actually. Integrated Healthcare Holdings - under IHH is Parkway, which we bought last year. And Pantai. I think there are others - a stake in Apollo in India as well as a medical university and so on.

I think the other two, we have an internal debate on whether we shall be darwinian and let the companies come out or shall we play 'god' and start picking winners. We said 'god' and darwinian are wrong in this case. We're going to be men, which mean we're going to provide a framework and let them fight it out. We've got four more years and my job is to give the framework and tools and then try very hard.

CHRISTINE: So you really don't want to play 'god'?

AZMAN: We shouldn't play god.

(Commercial break) Don't go away, up next, we ask Azman Mokhtar for the latest on his divestment plans of Khazanah Nasional. We'll be right back.

Welcome back to Managing Asia. My guest in Kuala Lumpur today is Azman Mokhtar, Managing Director of Khazanah Nasional. The Government investment arm of Malaysia is gradually off-loading non-core assets.

AZMAN: We're on record very clearly, we will sell companies that we consider non-core such as Time dotCom, or by now, after 6 years of restructuring, if they are still non-competitive - i.e. we can't make them competitive companies - we will hold our hands up and maybe somebody else can do a better job and we get out, we exit.

CHRISTINE: Still there's some confusion as to what you consider as core and non-core. Recently you divested a 30% stake in Integrated Healthcare Holdings Sdn Bhd to Japan's second largest trading company, Mitsui. Clarify for us your asset disposal strategy.

AZMAN: It's very simple actually. Telekom maybe is a good example or Malaysia Airports. We consider Telekom Malaysia, which does national high-speed broadband, and Malaysia Airports, which successfully manages our airports, as core holdings but we don't need to own 72%. So between 72% and a certain level, that's considered as non-core holdings as opposed to non-core assets.

CHRISTINE: In other words, you will continue to divest as long as you remain a controlling shareholder, is that right?

AZMAN: (That's right) For certain assets that are considered core that we can reduce the holdings. Other assets, as I mentioned, like Time dotCom for example, the whole company

is considered as non-core because we already have a phone company, why should we have another? We've sold it and now they're giving more competition to Telekom.

In the case of POS Malaysia, this is an interesting one, maybe this is where confusion comes in. People asked why this, being an essential service – postal service, that you considered as non-core and you're selling out. The postal market is fairly liberalised with the advent of courier services and so on. If we look at postal transformation around the world, in New Zealand and Germany and many other places, you can unlock a lot of the latent value which can be done better by the private sector's hands. Hence we decided to go down that process and we paid a lot of attention into who can put in the best plan.

CHRISTINE: Let's talk about the other company in your stable that has created a lot of controversy – Proton. Regulators aborted the deal by Volkswagen to buy the automaker. What's the state of Proton now? Can it survive the consolidation that's going on and go in alone?

AZMAN: I think to be fair, Proton, for the last two to three years, has actually been doing a reasonably good job at the domestic turnaround. I think the current management team should be judged by the models in the 2- 3 years because it takes at least 2- 3 years to push through a new model. The issue is more of a sectoral and industry issue. Globally as you know, the auto industry has created huge value but mostly for consumers.

And Proton is still a major employer within Malaysia and the linkages of the auto industry are actually pretty deep. They do a reasonably good job but the question is it's not enough for it to just survive, I think you need to do more than to just survive to be able to thrive in a sustainable manner.

CHRISTINE: So what's the ultimate solution for Proton?

AZMAN: We've gone on record consistently that it needs to be part of a bigger alliance. How is that alliance exactly going to be structured, whether it's a part of a hard merger or a looser alliance, that is what, not just Khazanah, but the whole industrial aspects of the country basically needs to come together. Proton has to be taken in the context that it needs to be part of a long running industry policy.

CHRISTINE: So you're keen to sell when there's a right deal comes along?

AZMAN: We're keen to ensure that it becomes a proper member of an alliance because that's the only way you can ensure that you're sustainable going forward

CHRISTINE: Which alliance are you eyeing, just for the sake of argument?

AZMAN: Well even if I wanted to, I can't say it here right now. There are not many players left in the auto industry in the world. Again, in this case, Khazanah plays more of a shareholder role, and really there is a national auto policy, and so on.

CHRISTINE: Your footprint outside of Malaysia is still fairly modest with only 20% of assets located outside the country. Last year in your biggest overseas acquisition, you agreed to pay \$2.6 billion for 76.1% stakes in Singapore's hospital operator, Parkway Holdings for the shares

you don't already owned. Is this deal a signal that you're ready to make more aggressive acquisitions overseas?

AZMAN: We've always been on record as saying that we'd expand our regional footprint in a fairly measured way and I think currently the number, depending on how you measure, the see-through number is about 25% of assets. For example CIMB and Axiata, two of our more advanced companies in the region, Axiata, more than half are already overseas. So, I think that's about right at this stage. Healthcare, the circumstances were we had to defend our assets in Parkway. It was a hostile situation but it's purely business.

CHRISTINE: Is this the style of more to come?

AZMAN: We have no issue on whether it's hostile or non-hostile. The important thing is making sure the business objectives are achieved and doing it in a proper way, and in a way acceptable to the regulations of that country as well as the business situation. As it turned out, for the year 2010, Singapore's healthcare grew and Parkway's EBITDA grew more than 16% while Pantai in Malaysia did 22%. So when you have that kind of growth and high quality recurring growth like healthcare, you know you're on to something. The watermark set with the deal we did with Mitsui has vindicated us.

(Commercial break) Don't go away as more with Azman Mokhtar of Khazanah Nasional in just a moment. Managing Asia will be right back.

Welcome back to Managing Asia. My guest today is Azman Mokhtar, the face behind Government investment arm Khazanah Nasional. He's been credited for reforming a number of Government-linked companies under its umbrella.

Khazanah, as a vehicle, is driving investment into the Iskandar region in southern Johor. But there has been a lot of controversies surrounding the project because of the replacement of CEO Arlida Ariff, amid allegations of inflated costs and questionable procurement procedures as well as kickbacks. Has this been a big setback for the new economic zone?

AZMAN: If you look at all the macro numbers, Iskandar is well on track. We have always stated since we launched the project in November 2006 that 2012 is going to be the important year because Iskandar as a special economic zone, has certain clusters that needed to be developed. So we picked five nodes. One of those nodes was Nusajaya, designated as the services base. Pinewoods Studio, Legoland, Educity, are being built there. These are all well on track. If you talk about costs and cost estimates, again the big projects the Boards of IIB and UEM Land are very satisfied that all these things are done above board.

A police report was lodged but we leave it to the authorities to investigate further. As far as we're concerned, the business side of it is well on track.

CHRISTINE: What happened since you've always promoting best practices?

AZMAN: Among best practices is to make sure the business aspect is moving and as I mentioned, the targets are being met. At the same time, if we discover that there are weaknesses in the system to a point that there may be a breach to the integrity of the company, best practice also demands that we don't hide this under the carpet and we actually go and announce and we filed a police report so that authorities can take the next course of action.

CHRISTINE: But how do you ensure something like that doesn't happen again?

AZMAN: You can't. Anybody who has tried to build anything can't guarantee that it will never happen again. You make sure that you put in systems as strong as possible and get the best people that you can find and suitable for the job and you give them room and trust to grow. Sometimes they fail, and in the glorious manner, it's ok but they can't do it too often. As Napoleon said, he likes his generals to be lucky. But if you fail because of integrity reason, that's different. You have to tell the world that you won't sweep this under the carpet but make sure this would not be tolerated at all so that those who come after us would know that.

CHRISTINE: Let's talk about you. You're 50 years old and you spent many years working in the financial sector, for UBS and Solomon Brothers. You were brought in from the private sector to revamp Khazanah and its GLC holdings. Do you have to be politically savvy to carry out your job?

AZMAN: I have to be financially- savvy first because if not, you won't be able to keep the job. We have to make money first.

CHRISTINE: How do you deal with the politics that is attached to your job - the interference from politicians and regulators?

AZMAN: That's an assumption that you're making. I'm happy to report that there's no undue interference. There is engagement for sure, as would be with any CEO of a major corporation would be dealing with the political leadership of the country that they operate in. I would say it's not abnormal at all.

CHRISTINE: As you drive the GLC reform, how do you stay involved but at the same time, give your CEOs enough breathing room to carry out their jobs?

AZMAN: I think finding the right balance is very important.

CHRISTINE: How do you find the right balance? Do they complain you interfere too much?

AZMAN: Not to me. We tried cloning but it's not possible. We have about 50 to 60 major companies so it's physically impossible to interfere even if you wanted to.

I coined the term macro managing instead of micro managing. In the areas of strategies, for example, it's a joint thing, so we discuss with the CEOs and through the boards. We have a saying in Khazanah, "thou shall not bull- doze except when there's bull and there's doze." Sometimes there's both (laughs).

But if companies are in trouble and they are not managing their affairs, there will be a period of time that we do manage. Akin to private equity, you roll up your sleeves and go in. But only for a period of time and then you have to source and find the right CEO and the right successor.

The best thing is to leave them alone, and have periodic checks in terms of performance management.

Perhaps an anecdote like the Vidal Sassoon principle - it's basically "we look good if you look good." So if the companies look good, we look good and we hit the nail. In a big place like Khazanah, we're not a conglomerate and we run this like a private equity but we're not passive investors either. But "thou shall not micro- manage." This is a basic principal.

CHRISTINE: And finally after six years on the job, your contract has recently been renewed for another three years. What will you now set out to achieve next for Khazanah?

AZMAN: Well, Khazanah and GLCs have a specific 10- year programme.

We are well on track. The world is a very volatile place. However, we have built enough resilience and safety nets, and we reckon we can take quite a bit of shock. We are poised for growth and to complete all those things that we set out to do. I've always stated that I need 2- 3 terms to do this. I've always stated also that I do not intend to overstay nor to understay either.

CHRISTINE: But at least stay till 2015?

AZMAN: Well, that's not entirely up to me, as I said.

CHRISTINE: But would you like to stay till 2015?

AZMAN: I would like to complete the job that I set out to do. And if you're good enough, you build a team around you who would carry on long after you are gone. And then you build an institution. I think this is the next task. Actually, if you are able to build an institution, that would be the real achievement.

And that was the exclusive, in-depth television interview with Azman Mokhtar, Managing Director of Khazanah Nasional. Hope you've enjoyed the programme. Join us next week for more leadership insights only here on Managing Asia. I'm Christine Tan. Thanks for watching.