

Initiative 7 – Purple Book

Optimising Capital Management Practices

Summary

One of the main policy thrusts in the GLC Transformation, is to optimize capital management practices at GLCs. Effective capital management will maximise a company's value by optimising capital structure (to achieve a competitive cost of capital) and enhancing capital efficiency (to improve ROIC through increased capital turnover).

The Purple Book aims to support GLCs in their effort to adopt sound capital management practices. It provides GLCs with a series of best practice guidelines to optimize their capital management practices drawing on, where applicable, international and local examples relevant to the GLC context. The main focus of the Book concerns how to design and optimize capital structure because this is applicable to all GLCs. The Book also addresses how to improve capital efficiency, but considers only selective topics most applicable to GLCs.

FAQ

What does the Purple Book cover?

This Book focuses on capital structure optimisation, and although the Book also looks at capital efficiency improvements, it considers selective topics most applicable to GLCs. As a result, this Book is divided into 3 chapters:

Chapter 1 sets out how to design and optimise capital structure using the 4-step Cash Flow Analysis method. This method allows GLCs to determine anticipated capital deficit/excess, set target credit rating/associated financial ratios and test various capital structures under different forecast scenarios.

Chapter 2 sets out how to improve capital efficiency and create more value using less capital. The chapter shows the various levers that GLCs can use to ensure more efficient use of capital expenditure (capex) and working capital as well as how to approach the disposal of non-core assets and activities.

Chapter 3 outlines how GLCs can implement the capital structure optimisation and capital efficiency improvement initiatives discussed in the previous chapters. It sets out the specific actions needed to implement these initiatives and how to monitor implementation.

How is the Purple Book different from existing material on Capital Management?

The Purple Book is distinctive from existing material on capital management in that it is:

- **Tailored** – addresses specific topics and implementation issues on capital management faced by Malaysian GLCs including investor relations management, Islamic finance & financial forecasting process
- **Practical** – emphasises specific best practices, tools and framework that are most applicable to Malaysian GLCs, such as use of financial ratios as proxy for leverage, criteria for conglomerate to determine level for making capital management decisions, test for assessing disposal of non-core assets/activities
- **Relevant** – a book that GLCs can relate to with guidelines. For example the book is illustrated with example applications of best practice capital management by Malaysian GLCs, e.g., Telekom Malaysia (TM) and Malaysia Airline Systems (MAS), and syndicated with a number of CFOs, majority of GLICs, and several other senior managers at GLCs

What is expected of GLCs from the Purple Book?

PCG expects implementation of the Book's best practice guidelines to be addressed separately for capital structure optimisation and capital efficiency improvement. It is imperative that the CEO is the driving force of this effort, and with the support of a project champion and project team, should lead the implementation of these capital management guidelines.

Where can GLC Boards seek clarification on the content of the Purple Book?

The Transformation Management Office (TMO), located within the Secretariat to PCG, will be the central point to answer questions regarding the content of the Purple Book. TMO can be contacted at:

- Phone: 03 2034 0000 / Email: tmo@pcg.gov.my / Website: www.pcg.gov.my

In addition, Nominee Directors of GLICs would have been briefed on the content of the Purple Book, and can help request TMO to conduct a similar information session for GLC CFOs, CEOs and Boards.

Where can GLCs seek assistance to implement the Purple Book?

The Transformation Management Office (TMO), located within the Secretariat to PCG, can provide assistance to GLC CFOs, CEOs and Boards in identifying potential experts and/or offer direct support to GLC top management and Boards in implementing this Purple Book.