

MEDIA STATEMENT

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KHAZANAH ANNUAL REVIEW 2021

Khazanah delivers close to RM3 billion profit amidst a challenging 2020

Khazanah Nasional Berhad (“Khazanah”) reported a steady overall performance for 2020 despite the volatility in global financial markets and an unfavourable economic environment impacted by the COVID-19 pandemic.

The portfolio rebalancing that is ongoing presented opportunities for both divestment gains and dividend flows from its investments. Khazanah continues to deploy investments in a prudent manner in line with its refreshed mandate while taking advantage of volatility to seek opportunities in global markets.

Khazanah Managing Director Datuk Shahril Ridza Ridzuan said: “Our performance in 2020 was accomplished against the backdrop of a challenging economy and unprecedented impact to the operating environment caused by the COVID-19 pandemic. Despite these challenges, we were able to build on our efforts in recent years, allowing us to navigate the economic uncertainty. We identified good investment opportunities during the pandemic and ensuing market volatility. Khazanah continues to diversify our global portfolio as we build sustainable value for Malaysia as part of our long-term mandate.”

1. Financial Performance

Khazanah’s profit from operations fell to RM2.9 billion in 2020 as compared to RM7.4 billion in 2019. Dividend income from investee companies rose to RM5.2 billion from RM3.8 billion but was offset by lower divestment gains of RM2.7 billion compared to RM9.9 billion in 2019.

The impact of the COVID-19 pandemic led to higher impairments of RM6.0 billion, particularly in aviation and hospitality assets, compared to RM4.9 billion in the previous year.

Khazanah declared a dividend of RM2.0 billion for 2020 to the Government of Malaysia.

Khazanah's financial position remained strong with debt reduced by 6% to RM43.1 billion from RM45.8 billion in 2019, while Realisable Asset Value cover¹ fell slightly to 2.9 times from 3.0 times.

2. Commercial Fund

The Commercial Fund generated a two-year rolling time-weighted rate of return ("TWRR") of 1.5% against our long-term targeted return of Malaysian Consumer Price Index ("CPI") +3% on a five-year rolling basis. The Commercial Fund's Realisable Asset Value ("RAV") stood at RM95.3 billion as at the end of 2020.

The Commercial Fund, which focuses on investing to preserve and grow the long-term value of assets, had made significant inroads into diversifying its asset mix two years into the portfolio rebalancing exercise. In 2020, Khazanah made progress across various asset classes, with continued rebalancing of our PIPE ("Private Investment in Public Equities") assets, further deployment of funds into Public Equities for Developed Markets and taking advantage of market volatility in Emerging Markets, while remaining disciplined in executing on our Private Markets investments programme.

3. Strategic Fund

The Strategic Fund recorded a gain of 0.3%² in 2020, against the targeted rate of return of the 10-year Malaysian Government Securities ("MGS") yield on a five-year rolling basis. The Strategic Fund's portfolio Realisable Asset Value ("RAV") stood at RM27.9 billion as at 31 December 2020, decreasing by 15% from RM32.9 billion a year ago. The portfolio value was heavily impacted by the fall in market value of key listed assets and provisions made on impairments to aviation and hospitality assets.

For the Strategic Fund, Khazanah navigated the difficult period in 2020 by focusing on engaging regulators to manage the challenging operating landscape for investee companies, restructuring the balance sheet of selected assets to preserve value, strengthening the leadership bench of operating companies, and continuous monitoring and assessment of the COVID-19 pandemic's impact on investee companies.

4. COVID-19 Impact and Response

2020 was an unprecedented year, with many organisations forced to pivot swiftly and implement radical measures to mitigate the impact of the pandemic. The crisis has expedited Khazanah's digital transformation plan with "Work From Home" arrangements for all staff and enhancing digital capabilities across the organisation.

¹ Realisable Asset Value (RAV) over Total Debt

² Aggregate Net Profit / Net Tangible Asset ex-Malaysia Airlines

Khazanah contributed RM20 million to support relief efforts through the GLC/GLIC Disaster Response Network (“GDRN”), which coordinated assistance to the Ministry of Health for the purchase of medical supplies, as well as for various other humanitarian aid and assistance in response to the pandemic. The GDRN is managed by a joint secretariat led by Yayasan Hasanah, which is a foundation of Khazanah, and Telekom Malaysia Berhad.

Various measures to curb the spread of COVID-19 resulted in the tourism, hospitality and aviation sectors taking a considerable hit. Investee companies such as Malaysia Airlines (“MAB”), Malaysia Airports Holdings (“MAHB”) and Themed Attractions Resorts & Hotels (“TAR&H”) were not spared. Khazanah had to impair several assets, namely RM3.1 billion for MAB’s parent Malaysia Aviation Group Berhad (“MAGB”) and RM1.8 billion for TAR&H to account for these effects.

5. Malaysia Airlines

As the sole shareholder of MAGB, Khazanah continues to provide full support and close cooperation in the comprehensive efforts to ensure the national carrier’s sustainability post-pandemic. On 22 February 2021, the High Court of Justice of England and Wales sanctioned a Scheme of Agreement between MAGB’s leasing entity, MAB Leasing Limited, and the majority of MAGB’s aircraft operating lessors, following unanimous support from the lessors. This represents an important component of the wider restructuring exercise which will achieve a reduction in MAGB’s liabilities of over RM15 billion.

Moving forward, MAGB will focus on working closely with the Government and stakeholders on restarting air travel and promoting industry recovery, as well as continuing cash conservation while capturing demand recovery as part of its Internal Restructuring.

6. 2021 Outlook

Looking ahead, Shahril said: “2021 will continue to be a challenging year. Even as the National COVID-19 Immunisation Programme begins, the vaccine roll-out in Malaysia and across the world will take time. We will see more progress towards a return to recovery and normalisation as the world gets a better grip of the situation and the impact of the various public health and economic measures gains further traction. In key sectors such as aviation and tourism, it is unlikely that a full recovery will happen before 2023.”

“In continuing to be prudent and vigilant in these testing times, we have identified five Strategic Priorities for the coming years. These priorities include further enhancing our commercial returns, delivering impactful value through our strategic investments, becoming a responsible organisation

through embedding ESG considerations across all investment activities, building a strong digital and technology foundation and finally, investing in our people to achieve a culture of high performance and collaboration.”

“As we gradually expand our global assets portfolio to move away from a reliance on domestic sources of income, we are hopeful that Malaysia as a whole will move towards increasing its economic complexity and do more to make it easier for businesses to open, including further deregulation. This will lead to a more resilient and diverse economy to mitigate future negative shocks. Being the sovereign wealth fund for Malaysia, Khazanah will continue to focus on investing to deliver sustainable value for all Malaysians.”

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About Khazanah Nasional Berhad

Khazanah Nasional Berhad (“Khazanah”) is the sovereign wealth fund of Malaysia entrusted with growing the nation’s long-term wealth via distinct commercial and strategic objectives. Khazanah’s commercial objective is to grow financial assets and diversify revenue sources for the nation, while its strategic objective is to hold strategic assets that bring long-term economic benefits. Khazanah is guided by its investment philosophy which emphasises attaining appropriate risk-adjusted financial returns, generating sustainable returns, and integrating ethical and responsible investing considerations. For more information on Khazanah, please visit www.khazanah.com.my.