

FOCUS

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Tabung Haji's uphill task

With RM60 bil in its coffers, Lembaga Tabung Haji has a mammoth job delivering returns to its 8.8 million depositors. Can its new management team meet their expectations? 10-12



Datuk Badlisyar Abdul Ghani
Deputy CEO

Datuk Johan Abdullah
Group MD/CEO

Tough journey ahead

FOR most fund managers, having RM60 bil to invest is a happy problem. But to Lembaga Tabung Haji (LTH), it could be giving its senior management sleepless nights on how to maximise returns for its 8.8 million depositors.



by F Saad

The Pilgrim Fund Board's group MD/CEO Datuk Johan Abdullah and deputy CEO Datuk Badliyah Abdul Ghani have a mammoth task ahead getting the fund back on track after a difficult year. It has also been mired in controversy over some acquisitions and investments in equities.

If its FY15 performance is anything to go by, Johan and Badliyah, who both took office in July, will need to re-strategise to revitalise the fund, which has seen a slowdown in growth. Their moves will be closely watched by the fund's depositors.

LTH's net assets at group level have, for the first time in five years, fallen below the level of depositors' savings. It could, to some extent, impact its ability to pay dividends in future if the trend continues. For financial year ended Dec 31, 2015, its depositors' savings of RM62.55 bil overtook its net assets of RM62.23 bil. Growth of depositors' savings (15.1%) also outpaced net asset growth (9.1%) (see Table 1). At the fund level, however, depositors' savings since 2011 has always remained above net asset level.

LTH's challenges are also reflected in the fortunes of four listed companies it controls - TH Plantations Bhd, Theta Edge Bhd, BMB Holdings Bhd, and TH Heavy Engineering Bhd. Of these, only BMB Holdings and TH Plantations have done well (see sidebar).

The fund spent much of the past two years fending off allegations and criticisms from various parties. In January, Bank Negara Malaysia (BNM) issued a letter to the fund highlighting its asset and liability conditions and suggested a review of its existing reserve policy. Then MD and CEO Tan Sri Ismeel Ismail, in a statement, acknowledged the concerns and said the fund had taken proactive measures to strengthen its risk management practices, based both on BNM's suggestions and its own initiatives.

The pilgrimage fund has also refuted allegations that it would be unable to

repay depositors should they withdraw all their funds. Johan, in a media briefing earlier this month, said the allegation that the pilgrimage fund would incur a deficit of RM3.09 bil if all depositors withdrew their funds was, in fact, the unrealised losses that were not required to be set off against the year's total profits. Total net savings for FY15 stood at RM4.97 bil.

When asked on the potential changes in its investment strategy, LTH did not respond to *FocusM's* queries at the time of writing.

Lowest dividend last year

Last year was tough for the pilgrimage fund as it was for many other funds and businesses. While its financial report said it was a "record year" for the fund, at group level it was unable to hide the impact of a rollercoaster year.

At group level, revenue fell 6.7% to RM7.63 bil from RM8.19 bil in the previous year, and net profit plunged 30% to RM3.22 bil from RM4.62 bil. In terms of net profit, FY14 was more successful with an 80% growth. FY15 was the first in five years that both its revenue and net profit declined, resulting in only 5% dividend for the year (see Table 1), the lowest since 2009.

For FY15, LTH bumped up its bonus rate to 3%, perhaps to make up for the shortfall in dividend compared with the previous years. Historically, it paid a bonus rate of 1.5% to 2% between 2012 and 2014.

Depositors continued to increase their deposits, albeit at a slower rate, with depositors' funds increasing 15.1% to RM62.55 bil from RM54.36 bil in the previous financial year.

Equities made up the bulk of LTH's income at 55%, followed by fixed income (17%), rental income (9%), and money market and other financial instruments (combined 19%). The sale of its UK property, 151 Buckingham Palace Road, London, netted some RM2 bil.

Moving forward, LTH



Table 3: Hajj subsidies (2013 - 2015 or 1434H - 1436H)

Year	Cost (RM)	Pilgrim's payment (RM)	Subsidy (RM)	Total subsidies (RM mil)
2013	15,988	9,980	5,975	93
2014	16,155	9,980	6,175	103
2015	17,270	9,980	7,290	126

Annual reports

LEMBAGA TABUNG HAJI

KEY BOARD MEMBERS AND MANAGEMENT

DATUK SRI ABDUL AZEED ABDUL RAHIM (chairman), DATUK JOHAN ABDULLAH (group MD/CEO), DATUK BADLIYAH ABDUL GHANI (deputy CEO), DATUK ADI AZUMAN ABDUL GHANI (chief operating officer), DATUK ROZABDA OMAR (chief financial officer), ABDUL KADIR SAMLAN (chief investment officer), TAN SRI OTTUBAH MAHMOOD (Prime Minister's Department representative), TAN SRI DR MOHD IRWAN SEBIBAR ABDULLAH (Treasury representative), TAN SRI DR ABDUL SHUKOR HUSIN, TAN SRI BADRULHIDJAH AMFULLIN, TAN SRI MOHAMMED APANIN ALL, TAN SRI MOHAMMAD AZIZ, TAN SRI SHUKRY MOHD SALLEH, DATUK ROSNI SCHAR (directors)

INVESTMENT PANEL

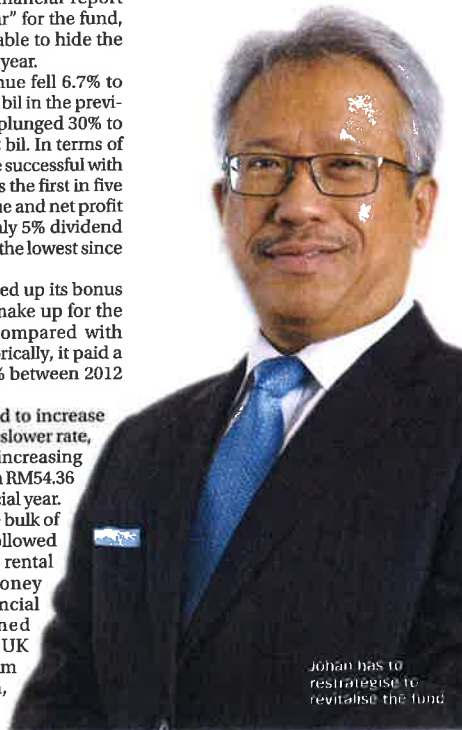
DATUK MOHZANI ABDUL WAHAB (chairman), TAN SRI SHEKH GHAZALI ABDUL RAHMAN, DATUK GHAZALI HANIB, SYED ELIAS ALHABSHI, DATUK IZHAN YUSOFF (members)

MAJOR SHAREHOLDER

Government

FINANCIAL RESULTS (FY15 ended Dec 31, 2015)

REVENUE RM7.63b
NET PROFIT RM3.58b



Johan has to re-strategise to revitalise the fund

Table 1: LTH's five-year financial performance

	2011	2012	2013	2014	2015	Growth 2013-14 (%)	Growth 2014-15 (%)
Revenue (mil)	5,554	6,367	7,130	8,192	7,627	14.9	-6.7
Profit (mil)	2,058	2,249	2,510	4,615	3,216	83.0	-30.0
Depositors' bonus (mil)	1,678	2,458	2,632	3,237	3,220	23.0	-0.5
Depositors' savings (mil)	31,694	38,284	45,719	54,358	62,548	18.9	15.1
Net assets (mil)	35,014	43,027	49,547	57,037	62,232	15.1	9.1
Number of depositors (mil)	6,956	8,171	8,304	8,614	8,850	3.7	2.7
Dividend (%)	6	6.5	6	6.25	5		

SOURCE: Annual report FY15



Badliyah quit as CEO of CIMB Islamic Bank in August last year

“Despite the impending global economic crisis, social issues and geopolitical challenges, proactive measures initiated by LTH had assisted us to steer the operations steadily in facing all possibilities beyond expectation. It (2015) was a challenging year for us.”

– Abdul Azeez

plans to increase its reliance on property investment. Chairman Datuk Seri Abdul Azeez Abdul Rahim, in his statement in the annual report, said the fund would continue to expand its property investment portfolio, locally and overseas.

“It was a tough year for funds in general, but given the circumstances, LTH did quite well, with the exception of maybe Felda Global Ventures Bhd (FGV) and the oil & gas stocks. Its holding in BIMB Holdings is probably the most valuable at this point,” says a Kuala Lumpur-based fund manager.

The equities market was hit hard by falling crude oil prices, which dropped to about US\$30 per barrel at the end of last year, after plunging 50% in 2014. The market also saw a RM20 bil outflow of funds during the year.

LTH invested RM1.3 bil in FGV shares in 2012 but the value has since plunged to RM130.32 mil. Despite this, the fund wants to remain as a substantial shareholder as it considers FGV a strategic investment in plantations, a priority segment.

Restrategised investments

In 2009, under the management of previous MD/CEO Ismee, LTH restrategised its investments by focusing on four priority areas – plantations, property development & construction, hospitality & services and other areas (including oil & gas).

Its plantation subsidiary, TH Plantations, posted better results, bolstered by higher commodity prices. For its Q2 ended June 30, net profit rose 51% to RM9.85 mil from the previous corresponding period, underpinned by higher revenue of RM132.41 mil.

LTH has also been criticised for being slow to react to bad news in the O&G sector. The fund is a substantial shareholder in Perisai Petroleum Teknologi Bhd, which was declared a PN17 company last month after failing to pay its obligations to noteholders. On Oct 4, LTH trimmed its stake in Perisai to 6.06%, netting just RM175,000.

Its 29.81%-owned O&G subsidiary TH Heavy Engineering is barely keeping its head above water. The company has written to the Securities Commission to extend the maturity date of its non-rated sukuk murabahah of up to RM170 mil by a year to Sept 29 next year. As of June 30, its loss widened to RM40.29 mil on an almost 67% drop in revenue of RM22.24 mil compared with the previous corresponding period.

The pilgrimage fund’s investments in domestic listed equities, excluding subsidiaries and associates, saw a realised profit of RM672.5 mil from total investments of RM12.1 bil, translating into a total realised return of 5.6%.

For its property investments, it netted RM1.6 bil from the sale of its 151 Buckingham Palace Road, London office block. “LTH was fortunate because at the time the sterling was at its highest against the ringgit. It may have to continue selling its properties to keep up its dividend payments although it may not be so lucky

this time as the sterling has depreciated in value,” says the fund manager. Earlier this year, it was reported that LTH would be selling another of its London properties, a building on 10 Queen Street Place, for RM1.17 bil.

The fund has taken a defensive position on its investments in anticipation of an equally difficult year.

“During the year, LTH took the opportunity to increase its exposure in the service and utility sectors due to their attractive dividend prospects and defensive qualities.

“LTH also continued to invest in the construction sector in anticipation of major projects that have been planned but has yet to be awarded projects, such as the MRT2, LRT3 and Pan Borneo Highway. In 2015, its largest exposure was in the service, financial and plantation sectors,” LTH says in its annual report.

Abdul Azeez, in his chairman’s statement, is still hopeful LTH’s performance would put to rest any negative speculation. “Despite the impending global economic crisis, social issues and geopolitical challenges, proactive measures initiated by LTH had assisted us to steer the operations steadily in facing all possibilities beyond expectation. It was a challenging year for us.

“LTH was heavily criticised by various quarters who had misinterpreted and were misinformed about LTH’s investment activities,” he said. The fund, which provides subsidies to haj travellers, also faced two tragedies in Mecca, Saudi Arabia, which cost the lives of eight Malaysians.

In 2010, then LTH chairman Tan Sri Hanafiah Ahmad raised his concerns regarding the fund’s investment portfolio. He said the fund made major losses in equities, and placing 40% of its investments in the stock market was a risky position. In 2009, LTH had declared a 5% dividend. It was hit hard by issues surrounding Ramunia Bhd (now known as TH Heavy Engineering), Silver Bird Group Bhd (now known as Hi-5 Conglomerate Bhd) and Lityan Holdings Bhd (now known as Theta Edge)

Overall, haj subsidies remain LTH’s main agenda in social responsibility. In the 1436H/2015M haj season, RM126.61 mil was allocated as subsidies to pilgrims to keep the pilgrimage cost at RM9,980 per person, although the actual cost last year was RM17,270 (see Table 3). Increasing costs could weigh on LTH in future.

Improving public perception

Johan and Badliyah will have to work on improving public perception of LTH, which found itself pulled into the fray of the 1Malaysia Development Bhd (1MDB) controversy that made headlines throughout the year. LTH was not spared the backlash, due to former CEO/MD Ismee’s position on the 1MDB board.

“LTH is keen to distance itself from any sort of speculation that could tarnish its image as a pilgrimage fund. Ismee’s link to 1MDB caused a shakeup in the boardroom, especially when it came to

▶ Continues next page

Table 2: LTH’s top 20 investments in Bursa Malaysia stocks (ranked by stake size)

Company	Stake %	Value as of Nov 7 (RM mil)
TH PLANTATIONS BHD	73.83	172.38
THETA EDGE BHD	68.7	5.87
BIMB HOLDINGS BHD	53.36	859.42
TH HEAVY ENGINEERING BHD	29.81	11.93
PELIKAN INTERNATIONAL CORP	28.66	33.86
BRAHIM’S HOLDINGS BHD	19.28	7.91
SOUTHERN ACIDS MALAYSIA BHD	13.05	17.77
INTEGRATED LOGISTICS BHD	11.92	4.19
CAHYA MATA SARAWAK BHD	11.81	113.24
YI-LAI BHD	10.77	3.33
NAIM HOLDINGS BHD	10.48	8.57
GLOMAC BHD	10.29	13.64
AL-AQAR HEALTHCARE REAL EST	10.16	27.13
WCT HOLDINGS BHD	10.15	54.66
MALAKOFF CORP BHD	10.15	173.85
ALAM MARITIM RESOURCES BHD	10.13	4.9
MCT BHD	10.08	34.28
MUDAJAYA GROUP BHD	10	12.31
PROGRESSIVE IMPACT CORP BHD	9.89	2.17
PETRA ENERGY BHD	9.88	7.32

(ranked by market value)

Company	Stake %	Value as of Nov 7 (RM mil)
BIMB HOLDINGS BHD	53.36	859.42
SIME DARBY BHD	2.48	322.32
TENAGA NASIONAL BHD	1.42	273.39
MAXIS BHD	1.71	178.92
PETRONAS CHEMICALS GROUP BHD	1.33	176.28
MALAKOFF CORP BHD	10.15	173.85
TH PLANTATIONS BHD	73.83	172.38
GAMUDA BHD	5.45	154.5
IJM CORP BHD	5.43	151.79
FELDA GLOBAL VENTURES BHD	7.78	130.32
DIGI.COM BHD	1.37	127.75
TELEKOM MALAYSIA BHD	2.05	118.73
MMC CORP BHD	6.82	113.6
CAHYA MATA SARAWAK BHD	11.81	113.24
UEM SUNRISE BHD	6.88	80.21
SP SETIA BHD	3.25	73.09
GAS MALAYSIA BHD	7.54	59.64
MALAYSIAN RESOURCES CORP BHD	8.7	58.18
WCT HOLDINGS BHD	10.15	54.66
DIALOG GROUP BHD	2.76	53.01

Source: Bloomberg

Several board members are politicians

► From previous page

decisions made on the TRX (Tun Razak Exchange) land. LTH took on a lot of negative attention, and everyone started to speculate that LTH's decision was a result of political string-pulling," says a source. However, the fund denied it.

Last year, LTH bought 1.6 acres in TRX from 1MDB for RM188.5 mil, a 3% discount to the fair valuation of RM195 mil. Johan said the decision to buy the land went through the fund's "usual and strict investment processes" involving its own valuation committee, the board, external independent valuation firms and the final green light from the ministry (under the Prime Minister's Department). LTH's initial plan to sell the property was scrapped earlier this year after being tabled in Parliament. LTH now plans to develop a high-end residential complex on the land.

It is almost impossible for LTH to distance itself from politics, especially since several of its board members are also politicians. Attorney-General Tan Sri Mohamed Apandi Ali is also a director.

According to the Tabung Haji Act 1995, the minister overseeing the fund has full discretion to appoint members to the board. The minister in charge is Datuk Seri Jamil Khir Baharom, who is minister in the Prime Minister's Department in charge of Islamic Affairs.

In 2010, LTH chief investment officer Abdul Halim Alias resigned after a fallout with Ismee. Halim claimed he was unable to perform his duties without fear or favour and that he did not want to compromise his principles. It was widely believed that Ismee and Halim did not see eye to eye over the removal of Petra Perdana Bhd's founder and three other directors from the company's board. In 2009, Perdana, now known as Perdana Petroleum Bhd, disposed of its controlling stake in Petra Energy Bhd, with the latter ceasing to be its subsidiary. LTH now has a 9.88% stake in Petra Energy.

Johan, previously deputy CEO, succeeded Ismee who resigned in April. Ismee was MD and CEO since 2006, while Johan joined last year as deputy group MD and CEO. Johan was previously BIMB Holdings Bhd group MD and CEO. According to Abdul Azeez, Johan's promotion was part of LTH's succession plan which has been in place since January last year.

Badlisyah quit as CEO of CIMB Islamic Bank in August last year, weeks after posting controversial comments on social media. He later retracted his comments, saying he was mistaken in his analysis.

Three months later, he emerged in LTH.

Badlisyah has said his decision to quit CIMB came after months of deciding on a career change. He is highly experienced in Islamic finance, having played a key role in placing Malaysia as a global hub for sukuk.

Late release of annual reports

The pilgrimage fund released its FY15 financial statements 10 months after the end of its financial year. A similar delay also occurred the previous year. The reason behind both delays is not known. According to a representative of the fund, the financial results have to be audited and presented to Parliament before the green light can be obtained to publicly announce them.

"Presenting them to the minister, then parliament, can result in a long delay although the reports had been prepared early," he tells *FocusM*, saying the fund had submitted its financials to the relevant parties on schedule. Then why was there a long delay in getting the financials approved for public release? Surely, the public has the right to timely information on the fund's activities.

LTH, established in 1963, is governed by the Tabung Haji Act, which includes the Statutory Bodies (Accounts and Annual Reports Act) 1980. In the Statutory Bodies Act, "Every statutory body shall, in respect of each financial year and within one month after the receipt of its audited statement of accounts and the Auditor-General's report thereon, if any, submit the same to the minister together with a report of its activities." The accounts will then be tabled in Parliament by the minister.

Jamil did not reply to *FocusM*'s queries at the time of writing. *FocusM*

Strategic investments

LEMBAGA Tabung Haji's strategic investments cover Islamic finance (BIMB Holdings Bhd), plantations (TH Plantations Bhd), property development and construction (TH Properties Sdn Bhd), hospitality (TH Hotel & Residence Sdn Bhd), information technology (Theta Edge Bhd) and marine support and oil and gas services (TH Heavy Engineering Bhd).

LTH also has substantial stakes in several listed entities. Here is a quick look at the listed entities in which the pilgrimage fund has controlling stakes.

TH Plantations Bhd

TH Plantations, LTH's 73.83% subsidiary, is in oil palm and rubber plantations. Incorporated as Perbadanan Ladang-Ladang Tabung Haji Sdn Bhd in 1972, it started out with 4,000ha of estate land. Today, it has 105,000ha and operates 36 palm oil estates nationwide as well as four rubber plantations in Sabah. In 2013, it ventured overseas by acquiring a plantation in Kalimantan, Indonesia.

For Q2 ended June 30, TH Plantations turned around from losses in Q1, posting a net profit of RM7.58 mil. Compared with the previous corresponding quarter, net profit increased 51% from RM5.15 mil. Revenue rose 20% to RM132.41 mil from RM110.18 mil previously, driven by stronger crude palm oil (CPO) sales at RM2,429 per metric tonne and palm kernel at RM2,220 per metric tonne, higher by 16% and 44% respectively.

However, the country's September export figures were weaker than expected, according to an Oct 11 research report by Public Investment Bank analyst Chong Hoe Leong. "As average CPO prices strengthened to RM2,631 per metric tonne, and



coupled with a recovery in FFB (fresh fruit bunch) production, we expect to see more positive results from the local plantation companies in Q3. Assuming CPO prices hold above RM2,500 for the remaining months, we might see positive earnings year-on-year," he says.

BIMB Securities Research analyst Noorhayati Mansor says higher unit production costs could impair future earnings, as younger mature areas would normally incur a full and fixed maintenance cost, coupled with lower yields.

Through a structured development and replanting programme carried out in the past few years, TH Plantations has over 60,000ha of oil palms averaging 10 years old.

"Approximately 60% of the mature area is made up of young estates, with more coming into maturity in the near future, promising a steady revenue growth in coming years. The group's yield and oil extraction rate improvement programmes are also ongoing, while its consolidation of brownfield acquisitions is progressing well," TH Plantations says in a statement.

TH Heavy Engineering Bhd

TH Heavy Engineering (THHE) hasn't been quite able to shake off its past as Ramunia Holdings Bhd. LTH began taking up shares in the company in 2008, when it was known as Ramunia. Its share price was about RM1.95 then, but has since fallen to 14-15 sen. The current low price environment for crude oil does not help things either.

THHE has undertaken various measures to diversify its business, including pairing up with defence maintenance, repair and overhaul company Destini Bhd to supply, test, and commission three offshore patrol vessels to the Malaysian Maritime Enforcement Agency. The contract is believed to be worth RM740 mil. THHE's core business is still fabrication of offshore O&G facilities.



Critics have claimed that LTH risks losing at least RM1.4 bil if it hangs on to its stake in THHE. It has a 29.81% stake in the company, which was already saddled with heavy losses and declared a PN17 company in 2010.

Last month, THHE applied for a one-year extension for its RM170 mil sukuk, which had matured on Sept 30. It was unable to meet its payment obligations, which would have meant paying the entire amount.

Its negative cash flow is a major concern, with a shortfall of RM11.63 mil as of Q2 ended June 30. It reported a wider net loss of RM6.85 mil with revenue plunging 59% to RM7.72 mil from RM18.92 mil in the previous corresponding quarter.

Suhaimi Badrul Jamil was appointed CEO in August, taking over from Nusrul Danir. Suhaimi is known in the industry as a turnaround expert.

Theta Edge Bhd

Theta Edge, formerly known as Lityan Holdings Bhd, is a 68.7% subsidiary of LTH. Set up in the early 80s as one of the pioneers of the ICT industry, the company was listed on the second board of the then Kuala Lumpur Stock Exchange in 1994, and was transferred to the main board in 1999. LTH came on board as a controlling shareholder in 2009, and the company was rebranded in 2010.

Last year, Theta Edge MD and CEO Shukor Karim said he hoped 2016 would prove to be a turning point



for the company to return to profitability. So far, for Q2 ended June 30, it posted a net profit of RM135,000 against a net loss of RM3.6 mil in the previous corresponding period.

According to its financial results exchange filing, Theta Edge plans to continue leveraging on LTH as its biggest customer.

"There are no major shifts or changes to the group's strategies and action plans. (There will be) continued focus and emphasis on execution and productivity to realise the objectives," said the company.

BIMB Holdings Bhd

BIMB Holdings is an Islamic financial holding company which wholly owns Bank Islam Malaysia Bhd, the country's oldest and largest standalone Islamic bank with an asset size of RM57.18 bil. BIMB also holds a 60% stake in Syarikat Takaful Malaysia Bhd, the market leader in family takaful.

The 53.36%-owned unit is the crown jewel of LTH's equity investments. Although LTH has a controlling stake in BIMB, the latter has remained largely independent in terms of management which is spearheaded by its dynamic group CEO Datuk Sri Zukri Samat.

Last year, Bank Islam was named as a possible suitor to merge with non-bank lender Malaysia



Building Society Bhd to form a mega Islamic Bank, but nothing materialised. There has been speculation that Bank Islam would take over its parent company's listing status.

For Q2 ended June 30, BIMB posted a net profit of RM143.71 mil, up 10.6% from RM129.89 mil previously, attributable to growth in business activities. Revenue increased 9.6% to RM893.21 mil from RM814.71 mil.

"The bank intends to follow through its strategic development plan that focuses on sustaining capital through robust liability management, safeguarding asset quality, and driving earnings growth mainly through strong promotion of the bank's investment account products," BIMB said of its plans in its results filing. *FocusM*