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Divestment of Pos Malaysia Berhad by Khazanah Nasional Berhad

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A Case Study on the Divestment of Pos Malaysia Berhad by Khazanah Nasional Berhad

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Divestment of Entire Stake in Pos Malaysia Berhad by Khazanah Nasional Berhad

In 2011, the divestment of Pos Malaysia Berhad (PMB), a Government-linked company of national interest, caught the market's attention. The iconic divestment structure was notable for both the form and substance of the divestment. It was the first divestment structure of its kind involving the divestment of the Government's entire stake, held through Khazanah Nasional Berhad. This innovative divestment was structured on an open bidding, merit-based and transparent selection involving a two-stage process. The first such corporate divestment structure in corporate Malaysia, this has since become a template for other divestments, which saw the company divested scaling new heights with a business transformation as part of the strategic divestment plan.

Background of Khazanah Nasional Berhad

Khazanah Nasional Berhad (Khazanah) is the investment holding arm of the Government of Malaysia entrusted to manage the assets held by the Government and to undertake strategic investments. It was incorporated under the Companies Act 1965 on 3 September 1993 as a public limited company. The share capital of Khazanah is held by the Minister of Finance Inc., a body corporate incorporated pursuant to the Minister of Finance (Incorporation) Act, 1957. Khazanah's existence and role is closely linked to the Government's economic and corporate privatisation policy. Please refer to **Exhibit 1** on the nexus between Khazanah's role and Government's policy.

In 2005, the portfolio of companies within Khazanah's investment holding was given a boost when the Ministry of Finance transferred its holdings in 30 companies to it. By end-2010, Khazanah had assets valued at RM112.6 billion, up from RM91.2 billion a year earlier. It had shareholdings of 20% or more in 44 companies (14 of which were listed) as at end-March 2011. This was after it had gradually divested seven holdings including DRB-HICOM, CIMB, Malaysia Airports Holdings and Telekom Malaysia, amounting to RM6.2 billion in 2010 (compared with eight divestments amounting to RM3.1 billion in 2009). Khazanah had also sold a 30% stake in Integrated Healthcare Holdings, Asia's biggest hospital operator, to Mitsui for RM3.3 billion. Khazanah aims to continue with such divestments, which is part of the Government's Economic Transformation Programme[1] and which is partially aimed at increasing the liquidity of publicly traded shares. Its strategic and non-core divestment activities have thus far been to either enhance shareholder value, streamline ownership, or increase free float and investibility. On the acquisition side, Khazanah had invested a total of

[1] Launched on 25 September 2010, the Economic Transformation Programme (ETP) was formulated as part of Malaysia's National Transformation Programme. Its goal is to elevate the country to developed-nation status by 2020, targeting GNI per capita of US$15,000. This will be achieved by attracting US$444 billion in investments which will, in turn, create 3.3 million new jobs. In particular, the Reducing Government's Role in Business (GRiB) Strategic Reform Initiative aims to rationalise the Government's role in business to achieve three main goals which are to avoid crowding out the private sector, increase the liquidity of the capital markets and improve the Government's fiscal position. In line with this, Khazanah has been paring down and divesting its holdings in the companies within its portfolio.

RM6.5 billion in 12 companies in 2010, including in Astro All Asia Networks and Parkway Holdings (Singapore), a healthcare group.

Khazanah's strategy[2] is to continue to hold its core assets which are classified as strategic stakes. These include stakes in the utilities, telecommunications, toll operating and banking industries. However, it has divested some stakes in the core holdings of some of these that it deems not necessary for it to hold, such as PLUS (Project Lebuhraya Utara Selatan Berhad). To counter balance this divestment, Khazanah plans to work on new portfolios in the education, healthcare, leisure and tourism industries and eventually may consider listing some of these companies.

On 22 April 2011, Khazanah announced that it would divest its entire 32.21% controlling stake in PMB, the public-listed national postal services provider, to DRB-HICOM Berhad (DRB-HICOM) for RM622.8 million. The divestment is deemed a landmark exercise as it was Khazanah's first such move for the disposal of an entire stake in a major Government-linked company (GLC). This divestment was in line with the Prime Minister's call at the 2010 Invest Malaysia Conference on state organisations to sell down some non-core local commercial holdings to help free float levels, boost stock-market liquidity and attract investment[3]. More than half of the benchmark stock index was owned by Government-linked funds as of June 2010, according to calculations by a service provider. The Employees Provident Fund (EPF), a state pension fund, alone accounted for 50% of daily volume in Malaysia's local equity and bond markets, Prime Minister Datuk Seri Najib said in March 2010.

Playing a key role in the Economic Transformation Programme …

Khazanah's strategy is not just about balancing investments. In fact, it plays an important role in carrying out the GLC Transformation Programme and various other national transformation programmes under the New Economic Model (NEM). At the very outset, Khazanah's GLC Transformation Programme was structured to cover 10 years.

Khazanah's stakes in the 'G20s' (its grouping of 20 GLCs controlled by Government-linked investment companies [GLICs] which do not necessarily come under the Khazanah fold), or its evolving interests in its stable of 'K-9s' (nine investees within the G20) draws a lot of attention. The G20s continued to deliver strategic value through various human capital development initiatives, enhanced delivery and quality of products and services, as well as

[2] Khazanah's investment strategy is driven by three key themes, which are to create sustainable value, raise national competitiveness, and cultivate a culture of high performance. These will be achieved through four strategic pillars, namely (i) to streamline, restructure and nurture legacy investments, (ii) increase shareholder and strategic value in GLC transformation, (iii) enter new sectors and cross border in new investments, and (iv) actively develop human capital for the nation in human capital management. In respect of GLCs, Khazanah is to take on a proactive role to catalyse the transformation of GLCs into high-performing entities that are better prepared for a more liberalised world. Khazanah's role as an active strategic investor involves driving and creating greater shareholder and strategic value. The first involves financial returns, the second, generally, in terms of enhancing capabilities. This may involve, where appropriate, taking calculated risks on behalf of the nation in new sectors and new markets that are deemed important in terms of penetration, linkages and potential for the nation's long-term competitiveness.

[3] This may also draw foreign interest whose holdings in equities had stayed in the 20% to 21% range since December 2008. Foreign holdings of Malaysian equities as of June 2010 stood at 20.6%.

corporate social responsibility initiatives. These achievements have manifested themselves in the string of global and regional awards won by its investee companies including Malaysia Airlines, MAHB, Axiata Group Berhad and Malayan Banking Berhad for service and performance excellence. "Having successfully weathered the 2008 crisis and recession, GLCs are now firmly back on their growth and ambition trajectory in becoming regional or global companies," Khazanah's Managing Director Tan Sri Azman Mokhtar said.

And in creating regional champions…

In 2005, Khazanah's top corporate holdings were utility giant Tenaga Nasional Berhad and telecommunications giant Telekom Malaysia Berhad. But today, in the final phase of its 10-year transformation programme, its top holdings are companies with regional reach. This is understandable, given that one of the main aims of its GLC Transformation Programme is to create several regional or global champions by 2015. The announcement of its proposed divestment of its 32.21% stake in PMB in 2010 was the latest example of its non-core asset divestment plan, which was another integral part of its GLC Transformation Programme.

Being the investment arm of the Government, Khazanah is always under the spotlight where its corporate deals are concerned. This is all the more so considering that its total investments amounted to RM112.6 billion in 2010, and included controlling stakes in more than a dozen listed companies both at home and abroad. Analysts consider Khazanah as one of the movers and shakers in the local market. Every one of its major corporate deals is keenly watched, with some even being embroiled in controversy. Therefore, there have been calls for greater transparency in Khazanah's disclosure policy and for it to be more forthcoming in providing details of its major deals. As Khazanah is the strategic investment fund of the Government, fund managers, both local and international, have benchmarked Khazanah against other international sovereign funds both in performance and transparency.

Greater transparency required in Khazanah's corporate dealings?

Is Khazanah transparent enough and should it provide more details in connection with its investments and divestments? In response, Khazanah has listed some details of its portfolio, the major segmental data, and total divestments and investment numbers in recent years. Tan Sri Azman Mokhtar had informed the press at the Seventh Khazanah Annual Review in 2011 that as for specific investments and divestments, it will announce all the transactions of listed companies where it is required and most of the unlisted ones too, except for those where there may be a confidentiality clause and/or where it is not significant.

What is so special about Khazanah's divestment of PMB?

The divestment of PMB by Khazanah is the first such divestment of an entire stake in a major GLC, not to mention one with a critical social responsibility, using a new divestment template incorporating a two-stage process, where the company to be divested was specifically groomed for sale and future growth, and an open bidding, merit-based and transparent extensive selection deployed in the second stage. This divestment structure for PMB was seen as a template by Khazanah for its future divestment of other assets.

If the divestment of PMB was solely driven by price as is the normal practice, the entire process would have been much simpler and shorter with the highest priced offer triumphant. Share price has historically been a key, and sometimes, sole, determinant factor in a corporate exercise. From an investment perspective, any business entity would want to maximise its return. In the case of the divestment of PMB, an extensive selection process was instead conducted to ensure that the winning party had the capacity to lift PMB to a new growth level via a robust business plan. As this was a landmark divestment, Khazanah also had to ensure that the new strategic partner was credible and had a sound and executable business plan. Of noteworthy interest in the divestment process was that the bidders' identities were not known in the selection process and were instead coded to prevent prejudicial or pre-judging of the proposals. All the bidders were judged strictly on the merits of the proposal, giving all who had participated an equal opportunity.

The Story of PMB's Divestment

Khazanah first announced its intention to divest its stake in PMB in March 2010 at Invest Malaysia Conference, when Prime Minister Datuk Seri Najib Razak urged state-owned investment firms to hasten their divestment of non-core assets. The divestment of PMB was of critical importance as postal services, much like telecommunications and utilities, are key assets of any government. Please see **Exhibit 2** for Khazanah's media statement of its intended divestment of its stake in PMB.

Khazanah's Tan Sri Azman Mokhtar had announced that the divestment of its 32.21% stake in PMB would be by way of a two-stage process, whereby the first would involve some changes to the regulatory structure, including the Government-owned land allocated for postal infrastructure, and staff welfare issues. Khazanah would only conduct the bidding process to select the controlling shareholder in the second stage. "We can commit three to six months to select the bidders. I hope it will be completed by end of the year (2010) but it has to depend on the regulatory changes in stage one first," he said. With the divestment of its 32.21% controlling stake, PMB would effectively be turned from a GLC into a wholly privately-owned company.

"We want to make this into an iconic template such as the TimedotCom (TdC) divestment." He added that although the divestment in PMB could use the case of TdC as a template in terms of offering an earn-out option, the divestment in PMB would be more complicated as the settings behind these two companies were different. TdC was a loss-making company, with operating losses for eight consecutive years since its listing in 2001. It was only in FY2009 that it reported the first net profit of RM33 million. PMB, on the other hand, was a profitable and highly cash-generative entity with inherent business advantages. For TdC, Khazanah adopted a restricted tender process with stringent selection criteria to identify a suitable turnaround partner, and an independent evaluation panel was formed to evaluate the bids. PMB, on the other hand, offered strong value-creation opportunities in logistics and retail that may be "better suited" under a different ownership structure, provided public and stakeholder interests are properly safeguarded. The existing cash flows from PMB, which allowed for a healthy annual dividend payout, should comfortably allow for

buyers to acquire the stake for cash. For these reasons, a divestment process to select a fit and proper bidder with a strong business and value creation plan was adopted.

Khazanah acknowledged that while a key requirement for qualifying bids would be a Malaysian-led party, merit would also be given to the quality of strategic and technical partners which may include foreign parties. "The turnout (proportion of foreigners in a consortium) can be discussed. We want partners that know their stuff. The partners have to be fit and proper and should have the right entrepreneurial spirit given the postal transformation trends globally," Tan Sri Azman Mokhtar said.

First stage of divestment process - unlocking the value of PMB ….

In making known its intention to dispose of its PMB stake, Khazanah broadly touched on several problems that had been dragging the postal company down, and the need to address them before value can be unlocked. Like many other GLCs, PMB had to juggle public and commercial interests in its day-to-day business undertakings.

Towards this end, Khazanah planned to first prepare PMB for the divestment. It would address the regulatory structure under which PMB operated, the usage of Government-controlled land, and the position and welfare of its employees whose basic monthly pay was as low as RM600.

PMB was no different from most other GLCs that operated in a regulated environment. Its postage tariff, which was Government-controlled, had not been revised for 18 years. It was also obliged to serve rural communities although in most cases, it was not commercially viable to do so. If the Government were to revise the postage tariff, PMB would be placed on a stronger footing and position. Obviously, Khazanah would then be able to command a better price for its stake in PMB.

A major attraction to interested parties in PMB was its reach throughout the country. It had nearly 700 outlets nationwide, far outstripping the branch network of any bank in the country – impressive by any account. As a comparison, Malayan Banking Berhad (Maybank), the country's largest bank with the largest branch network, had about 330 branches then. "PMB's branch network is the envy of everyone in the delivery business," its Managing Director Datuk Syed Faisal Albar said. Taking cognisant of this, PMB had been exploring other areas of businesses that could leverage on its extensive branch network as it can be an effective distribution channel, be it in urban or rural areas.

More than being a network for delivering parcels and documents, it could provide a host of other services, for example, conventional banking, which is what PMB was looking at then. It had already formed alliances with Maybank and RHB Bank Berhad to provide some banking services at its post offices. It had received the green light from Bank Negara Malaysia which allows PMB to carry out certain banking transactions at its post offices. Other than bill payments, Maybank and RHB Bank account holders would also be able to deposit and withdraw cash as well as transfer money and apply for micro-credit at the post offices, he added. In return, PMB would earn a fee on the provision of banking services,

generating more money for its coffers. "Retail business is where the promise lies. Our goal is to provide the public convenience so that we can stay relevant to consumers."

It would only be fair to highlight that PMB itself had not been complacent all this while about positioning itself for the future. Besides the above, it had also been diversifying its services and reach, such as the use of selected financial institutions as its postal gateway, introduction of customised logistics solution, and the launch of Pos on Wheels to further widen its retail reach, amongst others, following in the footsteps of postal groups overseas that had successfully transformed themselves, although traditional mail services, which contributed about 65% to group revenue, would remain the Group's focus. "Traditional mail services will still be our bread and butter," said Dato Syed Faisal. "As much as we learn from the success of other postal companies, we also learn from their mistakes. Those who neglected their core operations and tried to do too much have suffered."

In September 2009, PMB's Board had approved a three-year transformation plan for it to optimise its mail process and costs, focus on high-margin businesses as well as develop its retail strategy. To optimise its mail process, PMB had decided to set up a national mail processing centre in Shah Alam. The new facility would enable the group to consolidate its mail-processing centres in the Klang Valley from the current four to two. As a comparison, Deutsche Post used to have 1,200 mail-processing centres in Germany, but after its transformation exercise, these shrank to just 82, saving costs and enhancing efficiency. To improve efficiency, PMB had also started employing machines for some transactions such as selling stamp labels and receiving bill payments and even parcels for delivery. "We plan to adopt the model of the commercial banks. We are introducing PAMs [postal automated machines] to do the low-margin transactions. This is to free up the staff to do more sophisticated transactions that could earn better margins," Dato Syed Faisal explained. The Group's courier service is also a growth area. According to Dato Syed Faisal, PMB is the only company that had the "last mile of delivery". "No one has it," he said, adding that the growing popularity of online shopping had boosted parcel delivery volume.

Armed with plans for the future and cognisant of its potential for growth, PMB had been determined to fight the perception that it was obsolete in the internet age. Still, talk of transformation was not new to the postal group. It had been talked about in the past, but then a divestment was not in the picture. While Khazanah's plans to restructure and sell its interest in PMB augurs well for the latter, its selection of the buyer was seen as crucial to ensure its true transformation.

Please see **Exhibit 3** for a Financial Profile and Operating Environment for PMB.

According to many quarters, the biggest hidden value in PMB was the land used for its postal operations. However, this land bank was restricted by law for the use of provision of postal services only. This limited its growth potential via capitalising on the land bank for property development. A research house noted that there may be little room for PMB to capitalise on its land bank for commercial purposes unless it ropes in a strategic partner, which could still limit its range of services to those that are related to postal services.

A revision in the Postal Land Act would further scale PMB to greater heights as it could then embark into a property foray by inking a joint venture with a property developer. Should the Government relax the restrictions on the usage of its land, the redevelopment of some of this, especially a prime parcel near KL Sentral worth an estimated RM200 million, would earn the group hefty gains. "The rationalisation of PMB's land and extracting value from it, for example the tract near KL Sentral, would be good," said Abdul Jalil Rasheed, Head of Equity at Aberdeen Asset Management PLC, PMB's second largest shareholder[4]. However, land matters fall under the State's jurisdiction and if the land is in a Federal Territory, it would come under the purview of the Federal Land Commissioner (FLC). PMB may own the land but it could be used only for the provision of postal services.[5]

PMB itself directly owns four large tracts of land with a combined size of 10.5ha and an estimated market value of RM218.5 million, according to a research house. This included its Pos Laju centre and a vehicle warehouse along Jalan Tun Sambanthan in Brickfields, not far from KL Sentral. The same research house estimated that the 0.9ha Brickfields land alone is worth some RM176.3 million or RM1,500 psf. These pieces of land were only recorded at an estimated book value of a mere RM2.2 million.

Among the 16 pieces of land leased by PMB from the FLC and pending reclassification, the piece with the most development potential was said to be the 1.3ha land on Jalan San Peng which was used as workers quarters, near the proposed Pudu Jail land redevelopment site by UDA Holdings Berhad and its joint venture partners. This prime land alone was estimated to be worth RM107.4 million, against its book value of RM6 million as at end-2009. It was said that PMB could see a 55 sen per share revaluation surplus by just taking into account the four pieces of land directly held by the company and assuming a successful bid to reclassify the Pudu land for commercial use.

Market impact of two-stage divestment template

With the announcement of the potential divestment of Khazanah's stake in PMB, the latter became a much talked about stock. Just the news alone of the impending sale of Khazanah's stake propelled the stock to RM2.75, its highest level since October 2007. Adding credence was Khazanah's Tan Sri Azman Mokhtar's confirmation that several parties were interested in the stake, that an information memorandum will soon be issued and that interested parties could make a bid as long as they were majority-owned by Malaysians. The financials from year 2008 to 2010 and share prices from year 2001 to 2010 of PMB are as in **Exhibit 4**.

[4] Aberdeen Asset Management PLC held a 6.6% stake in PMB as at March 2011.

[5] This is similar to KTM Berhad's situation whereby its land could previously be used only for railway purposes. However, KTM managed to obtain approval for its land to be used for commercial development, which resulted in the sprouting of such projects as KL Sentral and YTL's developments in Sentul. KTM had received approval to develop its parcels in Kuala Lumpur only from the FLC. Approval from the States Authorities proved more difficult. Although the railway company profited from the redevelopment of its land, it was widely acknowledged that it did not do a good job of extracting maximum value from the vast tracts of prime land in Kuala Lumpur because it mostly ended up with a 30% stake in its joint ventures with private developers. KTM did not take the lead in the development and did not retain any of the properties to give it recurring income. In Hong Kong, in contrast, the urban rail operator kept most of the condominiums along its mass rapid transit line for recurring income. KTM's experience is a lesson which PMB should learn from.

Under the first stage of the divestment process, PMB was given approval to raise its long awaited postal tariff increase[6]. The announcement further sent its share price surging 13% or 37 sen and buoyed its share price to a three-year high of RM3.23 on 7 April 2010. The postal rate revision, to take effect in July 2010, would see prices for domestic postage stamps for standard mail of up to 20 gram increasing from 30 sen to 60 sen, while for up to 50 gram, it would increase from 40 sen to 70 sen, a 100% and 75% increase respectively.

The rate increase, after the sale of the 32.21% stake had been announced, raised questions as to whether the Government had been too hasty in doing so. "Since Khazanah is to exit, the Government could have allowed the new major shareholder to run the operations first before deciding on a rate increase. Who knows, the increase may not have been necessary," said an industry official.

This was because the rate increase could prove to be a sweetener for potential buyers. According to a research house, the increase could boost PMB's prospective earnings per share by 168% for FY2010 and 60% for FY2011. Earnings before interest, taxes, depreciation and amortisation (Ebitda) margin was expected to rise to 23% in 2010 from 15% in FY2009 and further improve to 29% in FY2011 as the full year effect of the increase materialised. Although the rate increase could erode sales further given the already declining volume from the dominance of the electronic communications media, another research house opined that yields on mail items would ultimately jump 80%, thus boosting revenue and bottom-line by 38.5% and 174% respectively in 2011 against FY2009 figures.

Question:

Do you agree that the implementation of the revised postal tariff was too hasty? If affirmative, when should the revised postal tariff have been implemented?

Second stage of divestment process – bidding and selection of value-added shareholders…

The bidding process was divided into three stages, namely pre-qualification, indicative bid and binding bid. Between the indicative and binding bid stages, the interested parties would have the opportunity to meet with the advisers of the sale, CIMB Investment Bank Berhad and McKinsey & Co., for a question-and-answer session to evaluate the indicative bid. In addition, during the actual bidding process, the bidders were also able to meet with

[6] PMB announced its new Postal Tariff on 1 July 2010. This was the first time for PMB to revise the price of its domestic postage stamps in 18 years since its corporatisation in 1992. Postal organisations around the world adjust their postage price on a periodic basis due to a variety of factors such as inflation, price of fuel, rising operation costs and use the funds to reinvest in technology and people. The implementation of the new Postal Tariff was also in line with the Government's announcement for PMB to adjust the salary structure of the postmen and counter clerks. The purpose of the restructuring was to ensure that the salary and related allowances for postal staff were at least at par with the level obtained by Government servants. It is noted the salary for postmen before the revision was 19% lower than the salary for Government workers at the same level.

Khazanah officials, headed by its Executive Director Mohammed Rashdan Yusof, as well as with PMB's management, largely because a due diligence on the takeover target was not allowed. It was understood that the bidders were required to state three prices: first, the price on an "as is, where is" basis; second, if the Government's golden share[7] in PMB was lifted; and third, if restrictions on PMB's 16 properties were lifted.

Question:

Is it necessary for the Government to retain its golden share in PMB post-divestment?

At the binding bid stage, bidders would be required to submit a proposal, with terms to be evaluated by Khazanah officials. The bidders would be allowed to revise their business plan and price after the binding stage, but would be required to provide a RM15 million letter of credit as a commitment. There was also no restriction on a general offer, contrary to popular belief, as this was something that was left to the new controlling shareholder and the Government to decide. Khazanah's main emphasis lay in the proposed business plan, with more than 50% weightage attributed to this area. It was reported however that Khazanah reserved the right to discontinue the sale.

The bidding process for the equity stake would only be conducted after the issues mentioned in the first stage have been resolved. Khazanah had said that the qualifying bids for the PMB stake had to be "Malaysian-led", although the quality of strategic and technical partners, including foreign parties, would also be considered. "We want partners who know

[7] Golden shares are typically held by the government, giving it veto power in major decisions of the company. In their simplest form, government golden shares do not interfere with the day-to-day operations of companies but rather with major decisions like amendments to certain provisions in the Articles of Association or allowing foreign interests to acquire more than a certain percentage of the shares in the company or to prevent hostile takeovers which a government judges is against public interest.

In the case of PMB, the golden share or officially known as the Special Rights Redeemable Preference Share confers the following rights:

(i) The Special Rights Redeemable Preference Share issued to the Government of Malaysia would enable the Government of Malaysia through Minister of Finance (Incorporated), or its successors or any Minister, representative or any person acting on behalf, to ensure that certain major decisions affecting the operation of the Company are consistent with the Government's policy. The Special Rights Redeemable Preference shareholder is entitled to receive notices of meetings but does not carry any right to vote at such meetings of the Company. He also has the right to require the Company to redeem the Special Rights Redeemable Preference Share at par at any time.

(ii) Certain matters, in particular, the alteration of the Articles of Association of the Company relating to the rights of the Special Rights Redeemable Preference shareholder, the dissolution of the Company, any substantial acquisitions and disposal of assets, amalgamation, merger and takeover, appointment of foreign directors, creation or issue of any shares which when aggregated with all other existing issued shares, carry ten per cent of total voting rights, require prior consent of the Special Rights Redeemable Preference shareholder.

It is of interest that, in 2006, the European Court of Justice (ECJ) had ruled against The Netherlands holding a "golden share" in postal services provider TNT. The ECJ decided that the practice of holding a share, which gives the state a veto over mergers, was incompatible with the free movement of capital in the internal market. The Dutch government had argued then that holding this special share was necessary to guarantee a universal mail service. But the court decided that "the special share goes beyond what is necessary to safeguard the solvency and continuity of the provider of the universal postal service."

their stuff. The partners have to be fit and proper and should have the right entrepreneurial spirit, given the postal transformation trends globally," said Khazanah's Tan Sri Azman Mokhtar. Please see **Exhibit 5** for Khazanah's Media Statement on Stage Two of its divestment process.

Question:

In your opinion, how appropriate and effective would a two-stage divestment template be? How would you modify the template to further enhance its effectiveness?

Considering the proposition, those interested in the stake would probably be local parties teaming up with foreign parties that are familiar with postal services or perhaps courier service companies with the technical expertise to move PMB forward. Ideally, says Aberdeen's Abdul Jalil, the new shareholder should be committed to change and transformation, better still with technical expertise. The Group does not need a passive shareholder that doesn't drive transformation at PMB, he added. "There is huge potential for PMB to tap its branch network. There are many low-hanging fruits that the Group could pluck. It just needs to sort out some structural and operational issues," he had commented.

PMB Union less enthusiastic…

While the market was euphoric over the potential divestment of PMB's shares, its union however was less enthusiastic. In fact, PMB union had sought a meeting with Prime Minister Dato Seri Najib Razak to seek clarification over the divestment plans. At a press conference on 7 April 2010, union President Suffian Unoss had said the meeting should also include representatives from the Economic Planning Unit and Khazanah. "We want the Premier to explain what is the direction of PMB post-divestment and what strategies will be undertaken by the possible bidders who will take over PMB," according to Suffian. He said the meeting was necessary because the 15,000-strong union had been kept in the dark over the proposed deal and that union members were demanding answers. "We are very disappointed that the unions are not consulted before the announcement," said Suffian. He was speaking to the press after an emergency meeting held by the Congress of Unions in GLCs, following an announcement earlier in the week by the Prime Minister that Khazanah and the EPF had been instructed to expedite divestments in GLCs as part of the Government's New Economic Model.

When asked about the 11 to 19% rise in wages for PMB workers, Suffian brushed it off, adding that it was a small matter compared to the sale of the shares. "Even though it is good news for our workers, we are still disappointed as the unions were not consulted before deciding on the pay increase," he added.

Selection of bidders and bidding process …

"Khazanah had approached some 50 companies in its quest to find a suitable buyer and this number was whittled down under a bidding process", Tan Sri Azman Mokhtar said. "The winner will be chosen for its ability to unlock value at PMB and pay a good premium for the stake", he said. The identity of the successful bidder was expected to be announced during the Invest Malaysia 2011 Conference. "We have never worked so hard on an asset divestment before. We have to make sure that the agreement is watertight," a source familiar with the deal said.

The bidding process officially started on 18 January 2011 with Khazanah announcing the opening of tender for its PMB shares through its advisers CIMB Investment Bank Berhad and McKinsey & Co. A total of 48 parties were approached to submit their respective proposals, of which 10 parties expressed their interest to participate and were pre-qualified. These 10 parties were then invited to submit their bids.

By February, the second stage of assessing the business plans submitted by bidders commenced. Khazanah confirmed that "contrary to recent speculations in the media, there is neither a leading nor lagging bidder at the current stage of the bidding process," despite widespread rumours that DRB-HICOM was leading the race to win the stake. Of the 10 parties invited to submit their bids, five reverted with their respective bids where they were all given detailed and equal opportunities to meet Khazanah's advisors and explain their respective strategy and business plan submission. Of the five bidders, four parties submitted their binding bids.

The business plans submitted by bidders were evaluated on the basis of sound strategies and sustainable business plans to bring PMB to the next level of growth. "The assessment will also include bidders' ability to ensure PMB continues with its Universal Service Obligations (USO) as well as the commitment to retain staff," it had added. An independent evaluation panel comprising five professionals from the public and private sector with extensive postal and corporate experience evaluated the bidders' proposals on an anonymous basis.

The short-listed bidders were revealed to the panel after the shortlisting process was completed. The short-listed candidates were then invited to submit their revised strategy and business plan as well as their final offer. "The bidders will be considered based on their strategy and business plan followed by the offer price. The divestment will undergo a fair and transparent process. This process will provide a level playing field, giving all proposals submitted by bidders an equal opportunity," Khazanah added. The prerequisites for bidders are that they must be 51% owned and led by a Malaysian company, among others.

At end-March 2011, Khazanah informed the short-listed bidders that they had to make a presentation to independent panels, which would in turn make a recommendation to Khazanah. It was believed that only DRB-HICOM and Scomi Group made it to the last round.

Even before the announcement of the successful bidder, speculation was rife that the winning bid was by Tan Sri Syed Mokhtar Al-Bukhary's 55.9%-owned unit DRB HICOM. There had also been much talk that Syed Mokhtar would utilise the synergy between DRB-HICOM's 70%-owned unit Bank Muamalat Berhad and PMB to increase the bank's footprint. Names of other potential bidders mentioned in the market included Scomi Group Berhad, Malaysian Pacific Corp Berhad in a tie-up with Amanah Raya Berhad, Nationwide Express Courier Services Berhad, Tricubes Berhad and even oil and gas player Sapura Group.

Finally, in April 2011, it emerged that Khazanah had identified DRB-HICOM as a strategic partner to acquire its 32.21% stake comprising of 172,997,399 ordinary shares of RM0.50 each in PMB for a consideration of approximately RM622.8 million based on the price of RM3.60 per PMB share. Khazanah had said DRB-HICOM was chosen based on its overall bid, which offered not only a defined strategy but also an executable business plan, and an acceptable offer price. "DRB-HICOM's strategy and business plan provides an effective platform for PMB to grow, if adopted by the latter as a whole," Khazanah's Tan Sri Azman Mokhtar said.

The Government's investment arm said it had adopted a robust strategic divestment exercise which involved an open bidding, merit-based and transparent selection process. Elaborating on the divestment, Khazanah said the offer price of RM3.60 per share was subject to the modification of the special rights redeemable preference share (otherwise known as the golden share) in PMB, held by the Minister of Finance. This modification, inter alia, included the rights to appoint up to two Board members in PMB, the removal of rights to appoint the chairman and managing director of the company and fix their respective remuneration such that these become matters for determination by its Board of Directors. The conditional offer price was also subject to the variation in the use of 16 plots of identified lands owned by the FLC and leased to PMB. The current terms of the lease allowed for postal services use only, while the variation would provide for the inclusion of commercial use, over and above the mandatory postal use, it added. "In the event the variation does not happen by 31 December 2011, DRB-HICOM will be refunded 10 sen per share or RM17.30 million," said Khazanah.

Opinions were divided on whether the price tag was fair. On one side, the price tag was viewed as fair for a controlling stake, and valued PMB at 14 times FY2011 earnings per share and 2.3 times book value (BV), consensus data, and a discount to the regional sector average of 15 times. On the other side, a number of research houses had commented that the price of RM3.60 undervalued PMB shares as it did not reflect PMB's undervalued land bank.

Investors punished the company by sending its share price to a six-month low of RM2.94 as at 23 May 2011, from a one-year high of RM3.58 on 4 April, i.e. over a one-month period.

Question:

i. *In your opinion, was the PMB stake fairly priced?*

ii. *Views were expressed that the Government could have obtain a better price for its PMB stake had it first obtained the green light for the reclassification of the land before putting up the stake for sale. Do you agree with this?*

Please see **Exhibit 6** for Khazanah's Media Statement on its strategic divestment of PMB to DRB-HICOM.

On 1 July 2011, DRB-HICOM officially announced that it had completed the acquisition of the 32.21% stake in PMB from Khazanah, replacing Khazanah as the single largest shareholder of PMB. The deal would be financed by internally generated funds and bank borrowings. Please see **Exhibit 7** for the timeline of key events of the divestment of PMB stake by Khazanah.

DRB-HICOM, which intended to take PMB to "greater heights", said the acquisition was in line with the Group's overall strategy to enhance the services sector in its quest to expand its horizon. "We are optimistic that PMB with its extensive network will provide us with the right platform to expand our businesses locally and overseas," DRB-HICOM's Group Managing Director, Datuk Seri Mohd Khamil Jamil said. Among the immediate plans to boost PMB's growth were to increase its market share in the highly competitive courier segment, turnaround its retail business by becoming a virtual retail network to reach out extensively to the public and to revitalise its logistic business as well as to tap on the significant logistic business. The domestic logistics' market size was estimated at over RM27 billion. DRB-HICOM also planned to leverage on PMB's extensive network to promote its wide range of products and services especially its insurance, logistic and banking businesses. "Making our wide range of products and services available at more than 1,000 postal outlets nationwide, will not only further expand our businesses but also enhance PMB's retail business by turning its outlets into one-stop solution centres. Ultimately, our vision is to turn PMB into a strong relevant household brand of today." Datuk Seri Khamil Jamil said that he was confident that both DRB-HICOM and PMB could nurture a truly synergistic partnership which would be able to nourish and propel growth both ways.

The market agreed with the view that this represented a synergistic acquisition for DRB-HICOM, because:

(i) there would be synergies between PMB's distribution network and DRB-HICOM's 70%-owned Bank Muamalat, enabling a divestment of DRB-HICOM's 30% beyond the valuation of 1.1 times book value;

(ii) its longer-term return-on-equity could be enhanced (PMB's 2010 ROE was 12.5% against DRB-HICOM's 10.8%) and would enable it to further strengthen services earnings and diversify out of its more cyclical motor business; and

(iii) the amendment of the Federal Land Act would enable PMB to encash value from its valuable landbank. PMB would be a strategic fit in turning around Bank Muamalat and expanding the Islamic bank's presence by leveraging on PMB's wide network of

more than 1,000 post offices nationwide, comprising over 350 mini post offices and 224 independent postal agents. This strategic partnership could transform PMB into a success story based on the Japanese post office model. Furthermore, the deal could be favourable for Khazanah, since it also owned a 5.03% stake in DRB-HICOM. It was also in line with the objective to transform Malaysia into an Islamic banking hub.

Question:

Do you agree that PMB is a synergistic fit for Bank Muamalat and for the DRB-HICOM Group?

Minority interests neglected again?

Considering that the business plan was a significant factor in the disposal of the controlling block in PMB to DRB-HICOM, questions were asked whether minority shareholders should had also been briefed about DRB-HICOM's business plans for PMB to help them make a decision about their investments.

Within a week of the announcement of the proposed divestment, PMB shares had declined in market value by 37 sen to RM3.23. Was this fair to the minority shareholders? One view was that minority shareholders were not given fair treatment as they did not have access to information that guided the investment decision of the major shareholder, Khazanah.

Whilst PMB may not have been an exciting company in terms of revenue generation or profit growth, it had certain qualities that attracted a fair share of institutional investors, one of which was a steady dividend flow. With DRB-HICOM at the helm, PMB would become one of the companies in the stable of Tan Sri Syed Mokhtar Al-Bukhary. However, companies linked to Tan Sri Syed Mokhtar had not generally been known to be generous dividend paymasters. The value in his companies only emerges over time via corporate exercises. Analysts covering equities in the local market had speculated that this may involve related-party transactions, as Tan Sri Syed Mokhtar had a number of assets that he held privately. In the past, some of his private assets had been injected into his listed companies for shares and cash, something that had not gone down well with all shareholders.

For these reasons, it was argued that the shareholders of PMB needed to be informed on what DRB-HICOM had in store for the company, and this should had been communicated quickly. For instance, not all shareholders would be comfortable if PMB did not continue to pay dividends. Would DRB-HICOM commit to a dividend payout policy for PMB? Was the company planning to divest or inject new assets into PMB? How exactly was DRB-HICOM going to add value to the postal services provider? Details, such as milestones to be achieved, and more importantly an indication as to when the fruits of its business plan would be reflected in PMB's bottom line, should be shared with all shareholders as their investment decision would ultimately be guided by what DRB-HICOM had in store for PMB.

Proponents of this view further queried why such information was withheld by DRB-HICOM. As Khazanah was already convinced of the plan, there was no danger of it being hijacked by another party. If DRB-HICOM was still bound by the non-disclosure agreement with Khazanah that all bidders had to adhere to, it was time to lift the restriction. Any further delay in providing this information to shareholders could see further erosion in their investment. How DRB-HICOM planned to disclose such information was up to its discretion but ideally, it should be disclosed at the annual general meeting, which is a platform for shareholders to pose questions to the management. However, some quarters argue that the shareholders of PMB may not have the luxury to wait until the next AGM, as that was too far into the future considering the string of events. It was further argued that what DRB-HICOM should not do is to call for an analyst briefing to share its plans for PMB as this would tantamount to indirectly giving information to fund managers and institutional shareholders as analysts generally cater for this select group of investors. Its business plan and targets should, instead, be made known to all shareholders by way of letter or an announcement. And if the information was so sensitive, DRB-HICOM could seek to suspend the stock concerned.

As DRB-HICOM paid RM622.8 million for its stake in PMB, the dividends that PMB was expected to pay out averaging about RM60 million a year hardly covered the investment cost. So how exactly did DRB-HICOM expect to recoup its investment, queried some shareholders.

Tan Sri Syed Mokhtar is known to pay a premium for a substantial stake with management control. He had paid a premium for a stake that came with management control in Tradewinds Berhad and DRB-HICOM. He had, in the past, sometimes injected some of his other assets into a company to shore up value. Tradewinds and DRB-HICOM had seen some significant corporate exercise to this end. But of course, everything was done above board, with approval from shareholders and regulators. But these factors may not be what some PMB's shareholders would be comfortable with. For those who fall into this category, the stock market was there for them to sell. But for them to make such a decision, information must be forthcoming.

Question:

i. *Do you agree with the views expressed above that minority shareholders do not possess perfect market information which is critical to their investment decisions?*

ii. *What can be done to ensure that adequate and relevant information is given in a timely manner for all investors, including minority shareholders, to guide them in their investment decision making?*

The much favoured controversial sibling of a corporate takeover – the Mandatory General Offer …

Apart from this, the divestment of a 32.21% stake in PMB by Khazanah reignited the debate on whether an acquisition of a block, even though below the takeover threshold, albeit marginally, which accorded control should mean an offer should be extended to all other shareholders as well. Besides Khazanah, the other substantial shareholders were Aberdeen Asset Management PLC with a 6.6% stake and the Employees Provident Fund with a 5.9% stake as at March 2011. Minority shareholders of PMB could benefit if the new controlling shareholder unlocked the value of PMB's land.

On the face of it, it appeared as if the successful bidder would gain control of the country's postal service with the 32.21% stake. Cementing this notion was the fact that the potential party had been asked to prepare a business plan to take PMB to the next level, which implied that the bidder was going to be in the controlling seat after the acquisition. This led to the general perception that the holder of the stake would have considerable say or influence in the company's direction since the bidders had been asked to submit detailed business plans. The question then arose that if the new party would be in control of the company, then should the rest of the shareholders of PMB be given the chance to exit at the same price offered to Khazanah?

However, Khazanah was not purporting that the stake in PMB would come with control. Khazanah's decision to thoroughly vet the proposals to acquire its stake was meant as a "responsible exit" from PMB. Furthermore, Khazanah could have wanted a concrete business plan as PMB's services had an impact on all Malaysians, especially those living in rural areas who still relied on postal services for some measure of communication[8].

On a possible general offer (GO), Khazanah itself had said the process required bidders having to state, in their own opinion, whether it would be necessary or not, as their own circumstances dictate. "It is the buyer's prerogative, and not of the seller, to determine whether a GO is necessary as only the buyer can ascertain the extent of the control they exert over PMB after acquiring the 32.21% stake," said Khazanah's executive director of investments, Mohammed Rashdan Mohd Yusof.

Question:

Do you agree with the above statement regarding a general offer? In your opinion, is a mandatory general offer required and why?

[8] In fact, concerns that postal services to areas that are remote or rural may be stopped prompted some to voice their opposition when Phileo Allied Berhad acquired PMB from the Government in May 2001. The deal, which was worth RM800 million, involved a reverse takeover which saw the postal group take over the listing of Phileo Allied. At that time, the Government, via the Minister of Finance Inc, had exercised a convertible loan option that it was given in the RTO exercise to have a 32.9% stake in the latter. The then Finance Ministry Secretary-General Datuk Dr Shamsudin Hitam assured that the "postal service will also continue to uphold its social obligations to the people following the sale."

Avoiding the mistakes of other privatisations

The Postal Services Bill 2011[9] could have drastically changed the operating landscape for PMB. While details of the Bill were not known then, the implications were that it could end PMB's monopoly as the sole provider of postal services. If this was indeed the case, where would this leave the incumbent and its new shareholder? Some suggested that PMB could venture into banking, much like Germany's Deutsche Postbank AG, which is controlled by Deutsche Post. Additionally, with competition from the electronic media, short messaging service, the internet, faxes, telecommunications and so on, what future does PMB have?

There were other fears as well. There had been other privatisation attempts that had gone awry. National carrier Malaysian Airline System Berhad (MAS) is one such example. Back in 1994, the Government sold 32% of MAS to Naluri Corp Berhad for RM1.8 billion. Naluri was then controlled by Tan Sri Tajudin Ramli. In 2000, the Federal Government acquired Naluri's 29% stake in MAS at RM8 a share, which was double the market price then, a transaction whose viability is still being debated today. At Indah Water Konsortium (IWK), the Government ended up paying RM190 million in 2000 to re-nationalise the sewerage services from Prime Utilities Berhad. In 1994, IWK was given the mandate to operate sewerage treatment for a 28-year period. The company could not collect the fees from consumers for services rendered, and so the Government took back the concession. There are other examples of failed privatisation projects, such as the two light rail transit systems that the Government took back after they ran into huge debts. Considering the lessons from the past, it is hardly surprising that Khazanah worked tirelessly to ensure the success of this privatisation with the market hoping that the history of past privatisations would not repeat itself.

Question:

In retrospect, was the privatisation of PMB a success for the Government, for PMB itself as well as for the public that it served?

[9] The Postal Services Bill 2011 was passed at the Third Meeting of the Fourth Session of Twelfth Parliament 2011 on 6 October, 2011. This Bill received the Royal Assent on 2 February, 2012 and is known as the Postal Services Act 2012. The Act came into operation on 1 April 2013.

The Postal Services Bill 2011 seeks to make new provisions to better regulate the postal services industry in a multi-player environment, promote orderly development of the industry and safeguard the universal service ("universal service" means postal services, which include basic postal services to be provided to consumers throughout Malaysia, at the prescribed rates). The Bill also seeks to provide for the regulation of ancillary matters to ensure that affordable and quality postal services are made available to all consumers within Malaysia, and to ensure the continuous development of the postal industry in an increasingly competitive environment.