



Rating Action: Moody's assigns A3 to Khazanah Nasional Berhad; outlook is stable

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Singapore, April 27, 2023 -- Moody's Investors Service has assigned an A3 long-term issuer rating and baa3 Baseline Credit Assessment (BCA) to Khazanah Nasional Berhad, the national sovereign wealth fund wholly owned by the Government of Malaysia (A3 stable).

The outlook is stable.

"Khazanah's A3 long-term issuer rating incorporates its BCA of baa3 and our expectation of a very high likelihood of extraordinary support from the Government of Malaysia if required which results in three notches of uplift," says Maisam Hasnain, a Moody's Vice President and Senior Analyst.

RATINGS RATIONALE

The very high likelihood of government support reflects (1) the Malaysian government's 100% ownership of Khazanah, with no plans to reduce this stake; (2) the presence of government-guaranteed debt in Khazanah's capital structure; (3) Khazanah's position as the country's sovereign wealth fund responsible for growing the nation's long-term wealth; (4) its role in supporting and implementing the government's socioeconomic objectives; and (5) its sizeable ownership stakes in strategic Malaysian assets across key sectors.

Khazanah's baa3 BCA is underpinned by its (1) ownership of large stakes in Malaysian corporates that have leading market positions and strong business profiles; (2) track record of conservative financial policies with respect to investment and funding decisions, and its public articulation of operating within target leverage levels; (3) close coordination with the Malaysian government and government-owned entities; and (4) strong access to external funding.

At the same time, the baa3 BCA also considers (1) the high geographic concentration of Khazanah's portfolio in Malaysia; (2) its exposure to market volatility, which can cause fluctuations in the value of its portfolio; and (3) the limited public disclosures on around half of Khazanah's portfolio, including its overseas investments.

Moody's estimates that around 35% of the realisable asset value of Khazanah's around MYR130 billion (\$29 billion) portfolio consists of five investment-grade rated Malaysian companies that have leading market positions and long operating track record. These companies are Axiata Group Berhad (Baa2 stable), Telekom Malaysia Berhad (A3 stable), Malaysia Airports Holdings Berhad (A3 stable), Tenaga Nasional Berhad (A3 stable) and CIMB Group Holdings Berhad (Baa1 stable). Moody's estimates that the market value of Khazanah's stake in these companies provided coverage for around 1.0x of Khazanah's reported debt in recent years.

Khazanah is a global investor with investments across global markets, asset classes, sectors and geographies. While its portfolio value can fluctuate year over year due to movements in the market price of assets, Khazanah has increased its portfolio net asset value (realisable asset value less debt) at a compound annual growth rate of around 5% between December 2004 and December 2022.

However, its investments are skewed toward Malaysia, with public and private Malaysian investments

representing at least 65% of its portfolio, which exposes Khazanah to geographic concentration risk.

Moody's expects Khazanah to continue rebalancing its portfolio to achieve its long-term strategic asset allocation targets, thereby reducing its exposure to concentration risks. While such a strategy could increase its net investments (aggregate investments less divestments) over the next few years, Moody's expects Khazanah to take a conservative approach toward growth and diversification, including adhering to its publicly articulated long-term leverage target. Therefore, Moody's expects Khazanah's market value-based leverage to remain at 30%-35% over the next two years, broadly in line with around 30% in recent years.

While around half of Khazanah's portfolio is invested in listed Malaysian companies, which disclose their financial performance and have public market valuations, there are limited disclosures on the remaining half, which includes overseas public companies, private investments and real assets.

Nonetheless, as in previous years, Moody's expects dividends from these investments, along with dividends from Khazanah's public Malaysian investments will remain sufficient to cover Khazanah's interest payments and operating expenses over the next 1-2 years.

Khazanah's baa3 BCA is also premised on it not providing ongoing financial support to its investee companies beyond what it has already announced for Malaysia Aviation Group, the parent of Malaysia Airlines Berhad. Khazanah had agreed to provide the group up to MYR3.6 billion in potential new capital between 2021-25 to support its cash needs. Additional cash support to its investee companies could weaken Khazanah's credit metrics and pressure its baa3 BCA.

ESG CONSIDERATIONS

Khazanah's ESG Credit Impact Score is neutral-to-low (CIS-2). ESG attributes have a low credit impact on Khazanah's rating, given that the very high likelihood of support from the Malaysian government mitigates the potential indirect environmental and social risks associated with its portfolio investments, and Khazanah's conservative financial policies and the presence of the Malaysian government as a supportive shareholder mitigates governance risks.

LIQUIDITY

Moody's estimates Khazanah's internal cash sources such as its cash balance and projected dividend and interest receipts will be insufficient to cover its cash uses, primarily due to its large scheduled debt maturities over the next 12-24 months. However, liquidity risk is tempered by the company's strong access to funding, given its status as Malaysia's sovereign wealth fund, a strategically important entity that is wholly owned by the government, with a track record of raising debt even during market downturns.

OUTLOOK

The stable outlook on Khazanah's rating is in line with the stable outlook on the rating of the Government of Malaysia, and reflects Moody's expectation that Khazanah will continue to pursue conservative financial policies around its investments, and that the Government of Malaysia will remain an accommodating and supportive shareholder.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

An upgrade of Khazanah's A3 rating is unlikely in the absence of an upgrade of Malaysia's sovereign rating.

However, Moody's could upgrade Khazanah's BCA if (1) there is greater transparency around its

portfolio assets, including its non-Malaysia-listed investments, (2) it sustains excellent standalone liquidity, (3) it demonstrates a track record of receiving sizeable and stable dividends from investments in and outside Malaysia, and (4) it improves its credit metrics, with its market-based leverage remaining below 25%, and (funds from operations (FFO) + interest expense)/interest expense of above 3.0x, both on a sustained basis.

Conversely, Moody's could downgrade Khazanah's A3 rating if Malaysia's sovereign rating is downgraded, or if the likelihood of government support for Khazanah declines, for example if the government implements policies that might weaken Khazanah's strategic importance.

Khazanah's BCA could be downgraded if (1) it undertakes aggressive debt-funded investments that significantly weaken its credit quality such that its market-based leverage rising above 40% on a sustained basis; (2) the credit quality of its key investee companies deteriorates, thereby constraining their ability to pay dividends to Khazanah; or (3) Khazanah's cash needs increase substantially because of higher funding support for nonperforming investee companies or increased shareholder returns to the government.

Nonetheless, if Khazanah's underlying credit fundamentals weaken and its BCA is downgraded by one notch, Moody's could still maintain Khazanah's A3 rating if the expected likelihood of government support remains very high.

The methodologies used in these ratings were Investment Holding Companies and Conglomerates published in April 2023 and available at <https://ratings.moodys.com/api/rmc-documents/401316>, and Government-Related Issuers Methodology published in February 2020 and available at <https://ratings.moodys.com/api/rmc-documents/64864>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of these methodologies.

Established in 1993, Khazanah Nasional Berhad is Malaysia's sovereign wealth fund responsible for growing the nation's long-term wealth. Except for one share owned by the Federal Lands Commissioner, all of Khazanah's share capital is owned by the Minister of Finance Incorporated, a body pursuant to the Ministry of Finance (Incorporation) Act 1957.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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At least one ESG consideration was material to the credit rating action(s) announced and described above.

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