

# Petronas dragged into political turmoil

Malaysia's largest company has become embroiled in the ongoing scandal involving corruption allegations against Prime Minister Najib Razak, writes Sam Imphet

## MALAYSIA

### WHAT:

Petronas senior adviser Mahathir Mohamad has been fired after calling for the prime minister's resignation.

### WHY:

The company, the largest contributor to state coffers, is closely controlled by the government.

### WHAT NEXT:

Petronas is likely to be dragged in the corruption scandal further given its prominent role within the Malaysian economy.

MALAYSIA'S state-owned Petronas is slowly being dragged in the country's political mire, with long-time senior adviser Mahathir Mohamad having been sacked.

Mahathir, who had been in the position for 13 years, was dismissed on the orders of Prime Minister Najib Razak after he joined a campaign calling for Najib's resignation.

The prime minister is at the centre of corruption allegations involving hundreds of millions of dollars that have gone missing. The start of the scandal dates back to July 2015, when the Wall Street Journal published leaked bank documents indicating that about US\$680 million had been funneled through state investment company 1Malaysia Development Berhad (1MDB), which is controlled by Najib, and into the prime minister's personal accounts.

While Petronas' senior management answer directly to the prime minister, the demise of Mahathir is significant because more than anyone else he shaped the development of Petronas into an international company and the world's second largest LNG exporter. Mahathir was prime minister for 22 years until 2003, and during that time he helped steer Petronas' evolution into the biggest single contributor to government revenues.

Mahathir's dismissal, indirectly dragging Petronas into the corruption crisis, comes on top of serious financial problems facing the energy giant as it grapples with the global oil price collapse.

### Fickle fortunes

Petronas may be Malaysia's only Fortune 500-listed firm, but its annual revenue plunged 25% year on year in 2015 and the firm recorded profit falls for each quarter last year.

The board is now taking drastic measures to cope with the oil price induced losses, including slashing spending by more than US\$11 billion up to 2019, sharply reducing the dividend payment to the Malaysian treasury and cutting jobs.

Petronas contributes about a third of overall government revenue and last year paid 26 billion ringgit (US\$6.43 billion) to the state. But the firm has said its dividend this year will be cut by nearly 40% to just 16 billion ringgit (US\$3.96 billion).

Analysts are split on how the Najib corruption allegations will affect foreign investment in Malaysia, specifically the struggling oil and gas sector.

### Mixed opinions

"If you operate in Asia corruption is an age-old menace and business still has to go on," the CEO of Singaporean consultancy Consulius, Lawrence Chong, told *NewsBase*. "While investors are still cautious, many in the sector are seasoned operators and they know how to navigate. International sentiment will weigh more on investors rather than the domestic issue."

Chong added: "Mahathir's sacking is unfortunate but no Asian government will allow the advisor of a major state-owned oil and gas enterprise to stay on board when he has taken a political stand that opposes the government of the day."

The head of energy security at the Energy Studies Institute in Singapore, Philip Andrews-Speed, told *NewsBase* that despite



Prime Minister Najib Razak is under increasing pressure to resign as the corruption scandal rolls on.



Petronas' cash flow could fall by up to 40% this year, according to Affin Hwang Investment Bank.

►► the internationalisation of the corruption affair and Najib's crackdown on his critics and the domestic media, it would "make no difference to companies who are already committed to the country".

"For those that are thinking of investing in Malaysia for the first time, it might affect their perception of political risk, but only marginally," he said.

But a recent report by risk consultancy Control Risks suggested that the Malaysian economy will suffer if the Najib corruption issue lasts and is amplified.

"The further the scandal spreads, the greater the risk that projects and plans across all sectors will become untenable or falter amid purges in the cabinet and the bureaucracy," Control Risks said.

It added: "Even if Najib holds on, business projects may still be at the mercy of erratic policymaking by an administration preoccupied with political survival."

A study published at the end of 2015 by business risk consultants Verisk Maplecroft concluded that endemic corruption in Malaysia costs the country around US\$3.3 billion per year, around 1-2% of GDP.

"Malaysia suffers less from the persistent day-to-day corruption in the form of facilitation payments to the civil service, and more from high-level corruption, for instance, in preferential awarding of state contracts to well-connected Malay businesspeople," it said.

Malaysia's population is made up of Malays and ethnic Indians and Chinese.

Verisk Maplecroft warned that Malaysia's economy had also relied too heavily on hydrocarbons. "Overdependence on commodity-based revenue has exposed Malaysia to external risks, such as the significant decline in world oil prices."

### Political turmoil

Last week a research note published by Malaysia's Affin Hwang Investment Bank forecast that Petronas' cash flow could fall by up to 40% this year and was the chief reason behind plans to slash spending.

"This is negative for oil and gas equipment and services players, and those servicing exploration and development activities should be hit the hardest," the bank said.

Despite strenuous efforts by Najib and his supporters to stifle the corruption debate and calls for his resignation, it seems certain that the issue will rumble on, causing greater disruption to government. Several ministers who called for the prime minister to quit have also been sacked.

The prime minister's insistence that the US\$680 million that appeared in his accounts was a donation to his political party from Saudi Arabia is not widely believed and continues to attract damaging international interest.

Last week Malaysian authorities arrested and deported two journalists from the Australian Broadcasting Commission (ABC) who had attempted to interview Najib about the allegations. They were accused of harassment.

The Hong Kong-based Asian Sentinel news website has named Petronas among several state-owned Malaysian businesses that have been allegedly used by Najib's political party, the United Malays National Organisation, as vehicles to process party business funding.

Such claims may be hard to prove but they add to concerns about the opaque way in which business and politics operate in Malaysia. As Petronas struggles to cope with the global industry slump the last thing it needs is to be drawn into the domestic political mire, but given its role within the economy it seems unlikely that this will be the last disruption the company will have to endure over these corruption allegations. ❖

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*Philip Andrews-Speed  
Head of energy security  
Energy Studies Institute*