MALAYSIAN BUSINESS
Malaysia's Premier Business Magazine Since 1972
KPMG
OCTOBER 1ST, 2011
SPECIAL FOCUS: KPMG SHAREHOLDER VALUE AWARD 2011

Top 100 Value Creating Companies of 2010

Sustaining profitability through efficient capital management

The year 2010 marked an improvement in the economic sentiments of the country with the Gross Domestic Product (GDP) growing by 7.2%. However, the average economic profit (EP) over invested capital (IC) or EP/IC of the Top 100 companies declined from 16.63% in 2010 to 14.47% in 2011.

Interestingly, the total net operating profit after tax (NOPAT) rose a substantial 68% from RM14.7 billion to RM21.8 billion. Despite the sharp increase, the total EP of the Top 100 increased just 28% from RM11.5 billion to RM16.0 billion. The smaller increase in EP was attributed to the larger increase in IC, which rose 57% from RM80.8 billion to RM126.4 billion.

Cost of capital, measured by the weighted average cost of capital (WACC), increased from 3.79% in SVA 2010 to 4.40%. Cost of debt (COD) was unchanged at 2.90% while cost of equity (COE) increased from 3.83% to 4.46%.

The higher COE was attributed to the higher market rate of return, which rose from 4.24% to 4.85%, and higher risk-free rate, from 2.77% to 3.79%. The higher market rate of return was attributed to the strong equity market performance in 2010.

The Top 100 companies generated an average 143 sen in revenue for every ringgit of IC.

Revenue retention was 13% when computing NOPAT, translating into a NOPAT/IC ratio of 18.87%.

SECTOR WINNERS

SVA 2011 TOP 100 RANKING	CATEGORY RANK	COMPANY	EP/IC	ECONOMIC PROFIT
AGRICULTURE AND FISHERIES				
52	1	Keck Seng Malaysia Bhd	11.60%	232,672
74	2	United Plantations Bhd	9.76%	179,837
84	3	Kuala Lumpur Kepong Bhd	8.96%	738,008
CONSTRUCTION & PROPERTY				
12	1	Mudajaya Group Bhd	25.35%	200,172
24	2	Paramount Corp Bhd	17.68%	122,913
35	3	Hock Seng Lee Bhd	13.61%	51,776
CONSUMER MARKETS				
4	1	Nestle Malaysia Bhd	32.41%	357,175
5	2	Amway Malaysia Hldgs Bhd	32.19%	66,063
7	3	JT International Bhd	27.95%	111,744
ENERGY & NATURAL RESOURCES				
29	1	Dialog Group Bhd	16.25%	97,659
30	2	Esso Malaysia Bhd	15.32%	221,920
38	3	SapuraCrest Petroleum Bhd	12.72%	289,174
INFORMATION & COMMUNICATIONS TECHNOLOGY (ICT)				
2	1	Digi.com Bhd	36.91%	1,051,320
14	2	Uchi Technologies Bhd	23.44%	43,904
15	3	JobStreet Corp Bhd	23.40%	39,104
FINANCIAL SERVICES				
20	1	Hong Leong Bank Bhd	19.68%	1,496,602
50	2	Malaysia Building Society	11.79%	184,433
57	3	Public Bank Bhd	11.02%	2,368,956
INDUSTRIAL MARKETS				
3	1	Vitrox Corp Bhd	35.96%	27,961
6	2	Hartalega Holdings Bhd	29.06%	123,068
11	3	KKB Engineering Bhd	25.57%	63,149
INFRASTRUCTURE				
43	1	Bintulu Port Holdings Bhd	12.31%	106,908
64	2	Petronas Gas Bhd	10.40%	1,044,258
76	3	PJBUMI Bhd	9.55%	3,932
SERVICES				
1	1	Berjaya Sports Toto Bhd	38.11%	367,965
19	2	DFZ Capital Bhd	21.01%	48,849
28	3	AWC Bhd	16.34%	17,245

10TH ANNIVERSARY AWARD - IN RECOGNITION OF FIRMS WITH REVENUE OF RM500 MILLION AND LESS

SVA 2011 TOP 100 RANKING	CATEGORY	COMPANY	EP/IC	EP	SECTOR
27	Revenue up to RM50 million	Cuscapi Bhd	16.44%	7,179	Technology
3	Revenue up to RM100 million	Vitrox Corp Bhd	35.96%	27,961	Industrial Markets
14	Revenue up to RM250 million	Uchi Technologies Bhd	23.44%	43,904	Technology
11	Revenue up to RM500 million	KKB Engineering Bhd	25.57%	63,149	Industrial Markets

Both consumer markets and industrial markets contributed 28 companies. The ICT sector had 11 representatives in the Top 100 while the construction & property sector had 9 companies.

The newly structured services sector had 7 companies while the energy & natural resources sector had 6. Rounding up the list, infrastructure, agriculture & fisheries and financial services sectors each contributed 5, 4 and 3 companies respectively.

All sectors reported a decline in the EP/IC ratio except for the financial services sector, which improved from 13.80% to 14.16%.

The substantial decline in the consumer markets was attributed to the averaging effect arising from the transfer of some companies to the services sector.

The realignment was made to better reflect the changes in the country's economic sector classification.

With a greater emphasis on services as a stand-alone sector rather than being ancillary to the other sectors, the reclassification was made to better delineate the differences between companies that manufacture goods and companies that provide services.

Thus, the realignment transferred companies whose primary business activity are more associated with the provision of services (consumer or otherwise) than the provision of goods, to the services sector.

Changes this Year

KPMG's Shareholder Value Award (SVA) enters its 10th edition this year. To commemorate the success, we are pleased to update our assessment approach. In this edition, three changes have been made.

Firstly, we have rationalized the sector classification. A new sector, services will replace leisure. This sector combines selected companies from across existing sectors whose business nature is more aligned to the provision of services.

Examples include the classification of all healthcare and education sub-sectors from the infrastructure to services sector and the shift of certain sub-sectors in the consumer markets into services.

Last but not least, all companies that fell under the former leisure sector are now grouped under the services sector.

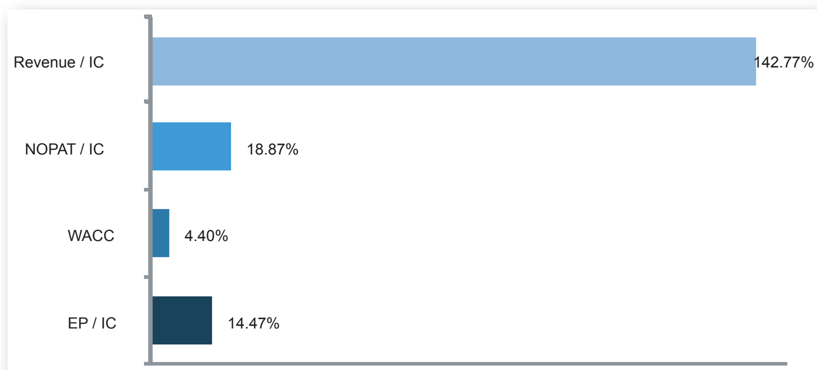
Secondly, our assessment approach has been revised to include emphasis on mid-tier companies. In this aspect, four new awards have been created. These new awards are in recognition of the importance mid-sized firms play in the country's economy and aim to create awareness that value can be found in smaller or mid-sized firms.

SVA Exemplary Award

We are pleased to announce the introduction of a new award in recognition of the significant achievements that a Top 100 company has made in contributing to shareholder value creation. This award takes note of the remarkable achievers and honors their achievements.

In SVA 2011, this award goes to British American Tobacco Bhd (BAT). BAT has demonstrated a consistent commitment to maximizing shareholder's

KEY PERFORMANCE INDICATORS FOR SVA 2011

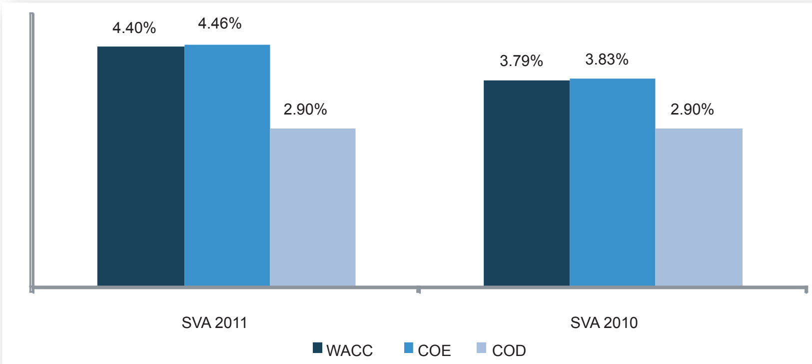


EDITOR-IN-CHIEF Datuk A Kadir Jasin akadirjasin@beritapub.com.my
SENIOR GENERAL MANAGER Zaini Zainuddin zainizai@beritapub.com.my
MANAGEMENT
SENIOR EDITOR Charles Raj mbeditor@beritapub.com.my

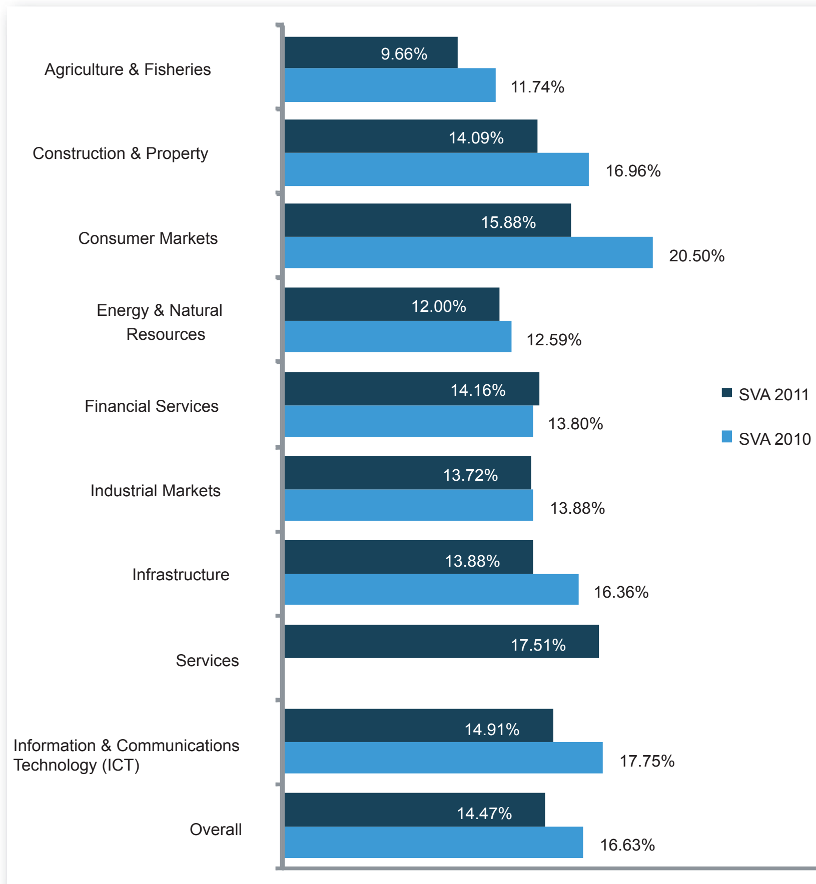
Berita Publishing Sdn Bhd Your Right Choice
No. 16-20, Jalan 4/109E, Desa Business Park, Taman Desa off Jalan Klang Lama 58100 Kuala Lumpur. Tel: 03-76208111 Fax: 03-76208018

EDITORIAL MALAYSIAN BUSINESS
EDITOR Charles Raj mbeditor@beritapub.com.my
PROJECT EDITOR Gurmeet Kaur gurmeet@beritapub.com.my
DESIGNER Syafarrah Mohd Said
HEAD, ADVERTISEMENT SALES Helen John Cory helen@beritapub.com.my
ACCOUNT MANAGER Sabrina Choy sabrinachoy@beritapub.com.my
HEAD, EVENTS & PROMOTIONS Zuraini Kamaruzaman zura@beritapub.com.my
SUBSCRIPTION EXECUTIVES A C Vasuthevan bala@beritapub.com.my
Norliza Mansor liza@beritapub.com.my
PRODUCTION MANAGER V Murugesu vm@beritapub.com.my

CAPITAL COST BREAKDOWN



TOP 100 SECTORAL EP / IC PERFORMANCE



value over the years. In recognition of BAT's impeccable performance over the years, and its continued commitment to value creation, BAT is thus awarded the SVA Exemplary Award.

Awards

Berjaya Sports Toto Bhd (BST), which has consistently challenged among the Top 5, wins SVA 2011. With an EP/IC ratio of 38.11%, BST narrowly beats Digi.com Bhd's (Digi) ratio of 36.91%, another perennial Top 5 challenger.

BST also emerges as the services sector winner while Digi tops the ICT sector. Keck Seng Malaysia Bhd (KSM) takes the top award for the agriculture and fisheries sector with an EP/IC of 11.60%.

In the construction & property sector, Mudajaya Group Bhd (MUDA) retains its winner's crown with an EP/IC of 25.35%. Industrial markets sees a new winner, Vitrox Corporation Bhd (Vitrox), which is a new entrant to the Top 100 list. Its EP/IC ratio of 35.96% also makes it the third best performer on the list.

In the revised consumer markets sector, Nestle Malaysia Bhd (Nestle) takes the winner's spot with an EP/IC ratio of 32.41%. Hong Leong Bank Bhd (HLB) takes the top award in the financial services sector with a ratio of 19.68%.

In the infrastructure sector, Bintulu Port Holdings Bhd (BPORT) is the winner with a ratio of 12.31%. Rounding up the list of sector winners is Dialog Group Bhd (Dialog), which takes top honors in the energy & natural resources sector with a ratio of 16.25%.

New Category Winners

As mentioned earlier, this year sees four new category winners. The new categories are in recognition of small to mid-sized listed companies and are awarded irrespective of their sectors.

The four new winners are:

- Technology sector-based Cuscapi Bhd (Cuscapi) for firms with revenue up to RM50 million. With an EP/IC ratio of 16.44%. Cuscapi is ranked 27 on the Top 100 list.
- Vitrox, already a winner in the industrial markets sector, is the best performing company for the revenue up to RM100 million category.
- Another sector winner, Uchi takes the award for revenue up to RM250 million.
- Rounding up the list is KKB Engineering Bhd (KKB), another company from the industrial markets sector. It wins the best performing company for revenue up to RM500 million with an EP/IC ratio of 25.57%.

Defensive Capital Strategy

Despite the 58% increase in IC levels, the debt to equity (D/E) profile of the Top 100 was remarkably conservative, with an average ratio of just 0.19. This indicated that companies in the Top 100 held on average, just 19 sen in debt for every ringgit of equity, a remarkably low figure given the higher cost of equity by 156 basis points compared to debt. Furthermore, 28 of the Top 100 companies reported no debt.

Whether such capital structure represents efficient capital management is subject to discussion. Perhaps companies are taking a more defensive approach with their capital structure, or the low debt levels represent the realities of a more limited or restricted access to debt.

Given the uncertainties in the global economic conditions, companies may well be looking at maintaining strong balance sheets and accept lower profit than taking more risks with their balance sheet in order to achieve (or sustain) high profit levels.

Conclusion

In conclusion, the weaker EP/IC performance is in no way an indication that companies in the Top 100 are experiencing structural or fundamental issues.

KPMG Business Advisory's Financial Risk Management practice develops the methodology and analysis for the Shareholder's Value Award through a dedicated project team. The team for this year is led by Executive Director Anita Menon and is composed of Kelvin Ong, Sin Tze Yi, Leong Li Cheng, Phang Ju Nn, Maas Riyaz Malik and Inna Kaushal, supported by the other members of the Financial Risk Management team.

Total NOPAT increased a substantial 68%, which suggested that companies had remained profitable. Furthermore total EP was also higher by 28%.

But the drag on performance seemed to be the substantial increase in IC levels by 57%. This along with higher capital costs eroded the EP levels of the Top 100.

Nevertheless, given the conservative capital structure of the Top 100 companies, with substantial emphasis on equity over debt, it could be argued that companies would do well to explore optimising their capital structure further given the lower cost of debt vis-à-vis cost of equity. However, this has to be tempered with the likelihood of lower equity cost arising from the weaker economic conditions, while monetary policy may move into a tightening phase given continued inflationary pressures. KPMG

KPMG SHAREHOLDER VALUE AWARDS 2011 – THE TOP 100

SVA 2011 Top 100 Rank	Change	Company	EP / IC	EP	Sector	SVA 2010 Top 100 Rank
1	▲	Berjaya Sports Toto Bhd	38.11%	367,965	Services	2
2	▲	DiGi.Com Bhd	36.91%	1,051,320	ICT	4
3	NEW	Vitrox Corp Bhd	35.96%	27,961	Industrial Markets	-
4	▼	Nestle Malaysia Bhd	32.41%	357,175	Consumer Markets	3
5	▲	Amway Malaysia Hldgs Bhd	32.19%	66,063	Consumer Markets	11
6	▲	Hartalega Holdings Bhd	29.06%	123,068	Industrial Markets	9
7	▲	JT International Bhd	27.95%	111,744	Consumer Markets	14
8	▼	Dutch Lady Milk Industries Bhd	27.55%	55,446	Consumer Markets	6
9	▲	Hai-O Enterprise Bhd	26.81%	63,111	Consumer Markets	10
10	▼	Guinness Anchor Bhd	25.67%	128,700	Consumer Markets	8
11	▲	KKB Engineering Bhd	25.57%	63,149	Industrial Markets	28
12	▼	Mudajaya Group Bhd	25.35%	200,172	Construction & Property	5
13	▼	Coastal Contracts Bhd	24.06%	169,257	Industrial Markets	7
14	▲	Uchi Technologies Bhd	23.44%	43,904	ICT	63
15	▼	JobStreet Corp Bhd	23.40%	39,104	ICT	22
16	NEW	ConnectCounty Holdings Bhd	22.58%	2,332	Industrial Markets	-
17	▲	Hirotako Holdings Bhd	21.75%	53,569	Industrial Markets	69
18	NEW	Guan Chong Bhd	21.15%	86,158	Consumer Markets	-
19	NEW	DFZ Capital Bhd	21.01%	48,849	Services	-
20	▲	Hong Leong Bank Bhd	19.68%	1,496,602	Financial Services	65
21	▼	Zhulian Corp Bhd	19.35%	68,571	Consumer Markets	17
22	▲	Padini Holdings Bhd	18.16%	48,472	Consumer Markets	25
23	▲	My EG Services Bhd	18.00%	16,468	ICT	18
24	NEW	Paramount Corp Bhd	17.68%	122,913	Construction & Property	-
25	▲	Top Glove Corp Bhd	17.07%	197,000	Industrial Markets	36
26	▲	NTPM Holdings Bhd	17.00%	48,131	Consumer Markets	34
27	NEW	Cuscapi Bhd	16.44%	7,179	ICT	-
28	NEW	AWC Bhd	16.34%	17,245	Services	-
29	▲	Dialog Group Bhd	16.25%	97,659	Energy & Natural Resources	32
30	▲	Esso Malaysia Bhd	15.32%	221,920	Energy & Natural Resources	52
31	▼	CBSA Bhd	14.50%	8,042	ICT	13
32	▼	Carlsberg Brewery Malaysia Bhd	14.13%	104,140	Consumer Markets	23
33	NEW	SEG International Bhd	14.04%	32,620	Services	-

SVA 2011 Top 100 Rank	Change	Company	EP / IC	EP	Sector	SVA 2010 Top 100 Rank
34	▲	Wellcall Holdings Bhd	14.03%	10,962	Industrial Markets	54
35	▼	Hock Seng Lee Bhd	13.61%	51,776	Construction & Property	31
36	▲	Tecnic Group Bhd	13.20%	11,122	Industrial Markets	45
37	NEW	Star Publications Malaysia Bhd	12.81%	148,471	Consumer Markets	-
38	NEW	SapuraCrest Petroleum Bhd	12.72%	289,174	Energy & Natural Resources	-
39	NEW	Perusahaan Sadur Timah Malaysia Bhd	12.52%	49,645	Industrial Markets	-
40	NEW	Batu Kawan Bhd	12.50%	419,406	Industrial Markets	-
41	▲	Apex Healthcare Bhd	12.43%	26,580	Consumer Markets	81
42	▲	Petronas Dagangan Bhd	12.34%	617,963	Consumer Markets	79
43	▲	Bintulu Port Holdings Bhd	12.31%	106,908	Infrastructure	71
44	▼	Help International Corp Bhd	12.19%	14,281	Services	43
45	▲	TSM Global Bhd	12.15%	41,608	Industrial Markets	46
46	▼	Fima Corp Bhd	12.07%	45,486	Services	44
47	▲	Kossan Rubber Industries Bhd	12.03%	79,083	Industrial Markets	66
48	NEW	APM Automotive Holdings Bhd	11.95%	100,700	Industrial Markets	-
49	▼	Mamee Double Decker Bhd	11.87%	30,576	Consumer Markets	30
50	NEW	Malaysia Building Society Bhd	11.79%	184,433	Financial Services	-
51	▼	CCM Duopharma Biotech Bhd	11.71%	21,320	Consumer Markets	29
52	NEW	Keck Seng Malaysia Bhd	11.60%	232,672	Agriculture & Fisheries	-
53	▼	Pantech Group Holdings Bhd	11.56%	40,881	Industrial Markets	26
54	▲	Media Prima Bhd	11.26%	195,120	ICT	61
55	-	Supermax Corp Bhd	11.22%	112,178	Industrial Markets	55
56	▼	SCICOM MSC Bhd	11.08%	5,935	ICT	37
57	▲	Public Bank Bhd	11.02%	2,368,956	Financial Services	84
58	▼	Asia File Corp Bhd	10.88%	40,182	Industrial Markets	20
59	NEW	Cycle & Carriage Bintang Bhd	10.83%	18,971	Industrial Markets	-
60	NEW	Protasco Bhd	10.57%	47,178	Construction & Property	-
61	▼	Concrete Engineering Products Bhd	10.56%	14,386	Construction & Property	50
62	▲	Faber Group Bhd	10.52%	75,276	Consumer Markets	77
63	NEW	Bonia Corp Bhd	10.49%	24,638	Consumer Markets	-
64	NEW	Petronas Gas Bhd	10.40%	1,044,258	Infrastructure	-
65	▲	CI Holdings Bhd	10.31%	27,090	Consumer Markets	93
66	▼	Hup Seng Industries Bhd	10.29%	15,940	Consumer Markets	41
67	NEW	Dayang Enterprise Holdings Bhd	10.16%	49,223	Energy & Natural Resources	-
68	▼	Excel Force MSC Bhd	10.13%	3,630	ICT	12
69	NEW	LBI Capital Bhd	10.08%	7,774	Construction & Property	-
70	NEW	Aeon Co M Bhd	10.02%	117,965	Consumer Markets	-
71	NEW	Mitrajaya Holdings Bhd	9.81%	41,194	Construction & Property	-
72	NEW	Fraser & Neave Holdings Bhd	9.80%	207,364	Consumer Markets	-
73	▼	Fajarbaru Builder Group Bhd	9.78%	16,454	Construction & Property	57
74	▼	United Plantations Bhd	9.76%	179,837	Agriculture & Fisheries	47
75	NEW	MMS Ventures Bhd	9.59%	1,828	Industrial Markets	-
76	NEW	PJBUMI Bhd	9.55%	3,932	Infrastructure	-
77	▼	Tomypak Holdings Bhd	9.51%	11,247	Industrial Markets	33
78	NEW	Century Bond Bhd	9.18%	13,311	Industrial Markets	-
79	▼	Kawan Food Bhd	9.13%	9,393	Consumer Markets	58
80	NEW	MBM Resources Bhd	9.13%	109,854	Consumer Markets	-
81	NEW	OPCOM Holdings Bhd	9.05%	8,266	Industrial Markets	-
82	NEW	Visdynamics Holdings Bhd	9.04%	1,865	ICT	-
83	▼	Kencana Petroleum Bhd	9.01%	90,742	Energy & Natural Resources	27
84	NEW	Kuala Lumpur Kepong Bhd	8.96%	738,008	Agriculture & Fisheries	-
85	▲	M-Mode Bhd	8.85%	2,601	Infrastructure	91
86	NEW	Kumpulan Fima Bhd	8.80%	54,554	Services	-
87	NEW	CB Industrial Product Holding Bhd	8.79%	41,139	Industrial Markets	-
88	▼	Cheetah Holdings Bhd	8.76%	9,677	Consumer Markets	87
89	NEW	UMW Holdings Bhd	8.73%	696,073	Industrial Markets	-
90	▼	Lii Hen Industries Bhd	8.70%	11,474	Consumer Markets	68
91	NEW	Eastern Pacific Industrial Corp Bhd	8.52%	35,890	Energy & Natural Resources	-
92	▼	Kim Loong Resources Bhd	8.33%	47,535	Agriculture & Fisheries	56
93	▼	Boustead Heavy Industries Corp Bhd	8.31%	56,879	Industrial Markets	38
94	▼	Willowglen MSC Bhd	8.14%	5,701	ICT	35
95	NEW	Favelle Favco Bhd	8.06%	20,107	Industrial Markets	-
96	NEW	George Kent Malaysia Bhd	8.05%	15,661	Industrial Markets	-
97	NEW	PPB Group Bhd	8.01%	1,170,770	Consumer Markets	-
98	▼	Success Transformer Corp Bhd	7.96%	16,710	Industrial Markets	48
99	NEW	Tasek Corp Bhd	7.91%	76,600	Construction & Property	-
100	▼	Mega First Corp Bhd	7.90%	67,028	Infrastructure	76

Promising Outlook for GLCs

THE G-20 COMPRISES TWENTY large government-linked companies (GLCs) selected as the core set of companies earmarked under the Government-Linked Companies Transformation (GLCT) programme to spearhead the high performance agenda for all GLCs. As part of KPMG's annual Shareholder Value Award 2011, we analysed the performance of the G-20 as they emerged from the global financial crisis.

Overall Performance

Against the benchmark SVA Top 100 companies, the G-20's average EP/IC ratio was lower at 3.35% against 14.47%. While the G-20 reported higher weighted average cost of capital (WACC), the primary reason for the reduced performance was attributed to the weaker net profitability of G-20s.

G-20s reported an average NOPAT/IC ratio of 7.94% against the SVA 100 ratio of 18.87%. This indicated that on average, the benchmark SVA 100 earned up to 11 sen more in net profit for every ringgit of invested capital (IC).

However, net profitability alone was observed to be just one aspect of G-20s performance. In terms of earnings efficiency, G-20 managed to earn 54 sen in revenues per every ringgit of IC, compared to the benchmark's 148 sen.

In terms of capital cost, G-20s reported higher weighted average cost of capital (WACC) of 4.59% against the benchmark 4.40%, on the back of them reporting higher cost of debt (COD) and cost of equity (COE).

Financial Services

The top performing sector for G-20 was the financial services sector. The sector registered an average sector EP/IC ratio of 6.63%. This however was lower than the benchmark SVA 100 sector representation average of 14.16%.

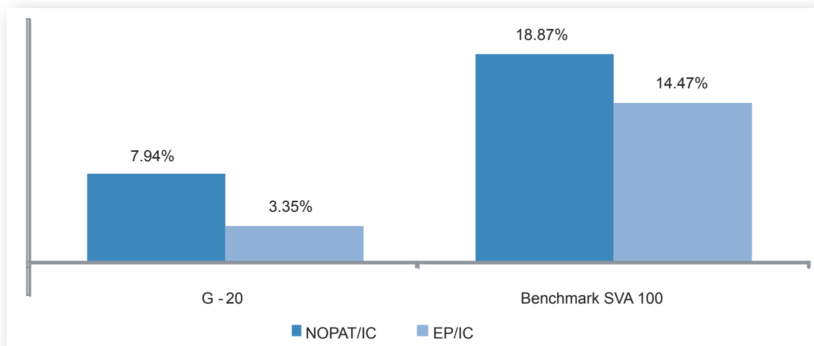
In terms of earnings efficiency, G-20s reported comparable results, with the G-20s reporting a 28.01% Revenue/IC ratio against the benchmark's sector average of 29.03%. However, G-20s reported lower NOPAT/IC ratio of 11.35% versus the benchmark's 18.60%. This indicated that G-20s were able to convert up to 40% of revenues into NOPAT compared to 64% by the benchmark companies.

against 4.64%. Nevertheless, due to the lower NOPA/IC, G-20s only managed an EP/IC of 3.49% against the benchmark average of 9.66%.

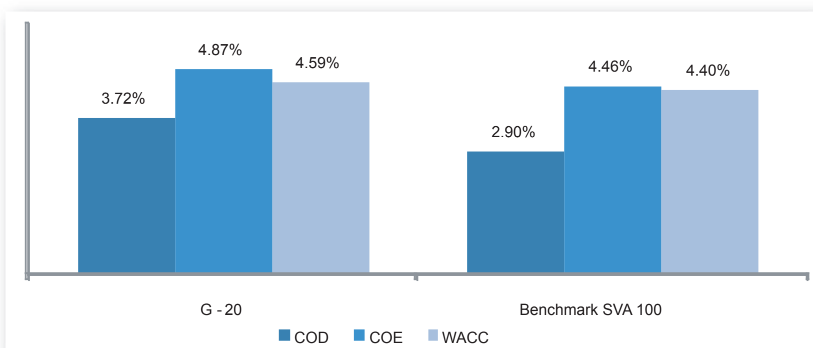
Industrial Markets

G-20 reported a Revenue/IC ratio of 119.84%, which was 30 sen less in revenue per ringgit of invested capital compared to the benchmark average. In terms of NOPAT/IC ratio, G-20s reported more than twice lower than the benchmark. Capital costs were also higher with a WACC of 4.23%

KEY PERFORMANCE INDICATORS



COST OF CAPITAL INDICATORS



Agriculture & Fisheries

For the agriculture & fisheries sector, G-20s were on par in terms of earnings efficiency, reporting a marginally higher average Revenue/IC ratio of 76.43% against the benchmark's sector ratio of 73.28%.

However, G-20s NOPAT/IC ratio was lower at 8.02% against the benchmark's 14.31%. G-20s in the sector was the only to report a WACC lower than the benchmark sector average - at 4.53% against 4.11%. The combination of lower revenues per unit of IC and higher operating costs (lower NOPAT/IC), the G-20s reported an average sector EP/IC ratio of 3.13% against the benchmark's average of 13.72%.

Infrastructure

In the infrastructure sector, G-20 earnings efficiency was relatively comparable to the benchmark, with a Revenue/IC of 64.53% against 63.72%.

However, NOPAT/IC did not keep pace,

with G-20s reporting a ratio of 7.75% against the benchmark's 13.93%. Capital costs variance versus the benchmark was the highest with G-20 companies incurring an average 19 basis points higher capital charge than the benchmark companies.

The lower NOPAT/IC ratio was observed to be the primary contributor to G-20s lower EP/IC ratio of 3.16% against the benchmark's average of 9.80%.

Construction & Property

G-20s in the construction & property sector reported an average EP/ IC ratio of -0.42% against the benchmark's 14.09%. The wide difference was attributed to the significant gap in the Revenue/IC ratio, with the benchmark companies reporting an average 73 sen more in revenue for every ringgit of IC. As a result, the NOPAT/ IC ratio of 4.52% was not sufficient to cover the capital costs of 4.70%, resulting in a negative EP/IC ratio.

ICT

G-20s ICT companies reported EP/IC ratio of 2.68%, which was lower than the benchmark average of 16.58%. The primary contributor for the substantial difference in performance was attributed to the 46.70% Revenue/IC ratio, compared to 100.58% for the benchmark. This indicated that on average, G-20s earned up to 53 sen less revenue per ringgit of IC than the benchmark companies.

Summary Results

The analysis revealed that G-20s earnings' potential can be comparable to that of benchmark companies. In particular, earnings potential in the form of generally comparable Revenue/IC ratios in three of the fives sectors suggested that G-20s were able to generate competitive levels of revenues with their invested capital. However, the ability to translate the revenue into net profit was not up to par with benchmark companies. This had resulted in a lower NOPAT/IC ratio.

With G-20s capital costs being between 12 basis points lower (as was the case of the agriculture & fisheries sector) to 39 basis points higher (as was the case of the industrial markets sector), capital costs are observed to be only a small contributory factor for the underperformance.

Conclusion

In conclusion, higher average capital costs alone were observed to be a contributory factor, but not a sufficient condition for the G-20s performance. With an average difference of +19 basis points in average capital costs between G-20 and the benchmark companies, capital costs were not the primary contributory factor for the gap in the EP/IC ratio.

G-20s were observed to have comparable revenue generation ability (as seen in three of five sectors). The only downside in G-20s performance were the inability to convert their comparable revenue levels into NOPAT, where the benchmark companies earn on average up to 11 sen more in net profit for every ringgit of IC.

Overall, the performance of the G-20s in SVA 2011 revealed some promising prospects for the future of GLCs in terms of achieving the goals of the GLC Transformation Programme.

The initiative, which is now in its 4th phase (2010-2015), aims to have GLCs performing 'at par with competitors'. While this may not entirely be the case for all GLCs, with 4 years to go and with G-20s demonstrating that they are capable of generating benchmark comparable revenue levels, it may yet be an achievable target.

In addition, mergers and acquisitions are a viable option in order to dilute any excess capital and acquisition of an immediately profitable asset. Certainly, compared to other companies, given their regional presence, the G20s are well placed to ride on the back of any improvements in the region's economic conditions. KPMG

G20 is a selection of 20 largest Government-linked companies (GLCs) where there are currently 19 companies in the list due to mergers, demergers and other corporate restructuring exercises.
The companies are BIMB Holdings Bhd, TH Plantations Bhd, Malaysian Building Society Bhd, MRCB Bhd, Sime Darby Bhd, Chemical Company of Malaysia Bhd, UMW Holdings Bhd, Malayan Banking Bhd, Affin Holdings Bhd, Boustead Holdings Bhd, Telekom Malaysia Bhd, Pos Malaysia Bhd, Proton Holdings Bhd, Malaysian Airlines System Bhd, CIMB Group Holdings Bhd, Axiata Group Bhd, UEM Group Bhd, Tenaga Nasional Bhd and Malaysia Airport Holdings Bhd.

TABLE 1: SUMMARY PERFORMANCE

	G-20	SVA 100
Revenue / IC	54.3%	142.8%
NOPAT / IC	7.94%	18.87%
WACC	4.59%	4.40%
EP / IC	3.35%	14.47%

TABLE 2: SUMMARY G-20 SECTOR PERFORMANCE

Indicator	Agriculture & Fisheries	Construction & Property	Financial Services	ICT	Industrial Markets	Infrastructure
REVENUE / IC	38.03%	12.74%	28.01%	46.70%	119.40%	64.53%
NOPAT / IC	12.15%	6.14%	11.35%	7.37%	11.02%	7.75%
WACC	4.54%	5.18%	4.71%	4.68%	4.30%	4.59%
EP/IC	7.62%	0.97%	6.63%	2.68%	6.72%	3.16%

TABLE 3: SUMMARY BENCHMARK SVA 100 PERFORMANCE

Indicator	Agriculture & Fisheries	Construction & Property	Financial Services	ICT	Industrial Markets	Infrastructure
REVENUE / IC	73.28%	95.04%	29.03%	100.58%	149.07%	63.72%
NOPAT / IC	14.31%	18.79%	18.60%	21.01%	17.83%	13.93%
WACC	4.64%	4.70%	4.44%	4.44%	4.11%	4.13%
EP/IC	9.66%	14.09%	14.16%	16.58%	13.72%	9.80%

Measures for Shareholder Value Creation

THE CONCEPT OF SHAREHOLDER returns have evolved over the years from traditional financial and accounting performance measures like earnings and earnings growth to economic profit, which is increasingly recognised as a measure in the quantification of shareholder value.

Through careful monitoring and measurement of the economic profit, it enables shareholders to track their company's aptitude in creating sustainable value and true economic returns relative to the cost of capital engaged. It therefore encourages a focus on sustainable growth over short-term successes.

Utilising KPMG's Economic Value Management (EVM) methodology, the assessment approach is grounded by five core principles; methodological soundness, relevance, objectiveness, transparency and fairness.

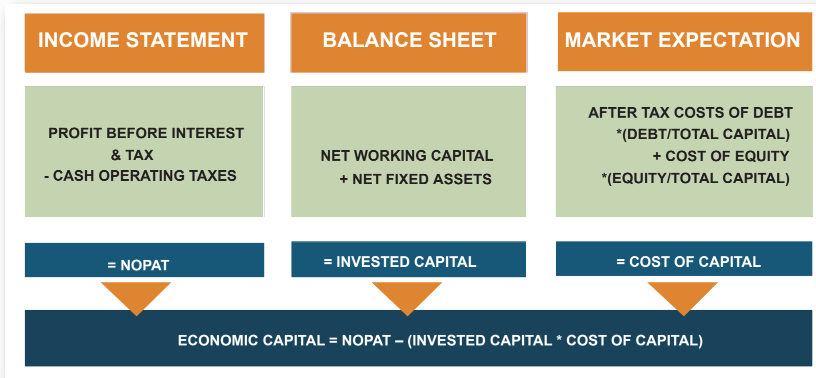


TABLE 1: COMPUTING CAPITAL COSTS

COST OF CAPITAL

A company's cost of capital is based on its specific Weighted Average Cost of Capital (WACC), which in turn is derived using the weight each company has in terms of its market values of debt and equity. Its cost of debt is calculated by applying the rates of short term Malaysian Treasury Bills and longer term Malaysian Government Bonds to its proportions of short term debts and long term debts, respectively, to its total debts, and adjusting for a factor that is based on a company's credit rating as well as the marginal tax rate.

To arrive at a company's cost of equity, the Capital Asset Pricing Model (CAPM) is employed, where the cost of equity equals the return on a risk free asset plus the systematic risk of the equity or adjusted beta multiplied by the market risk premium. The risk free rate of return is based on a return on Malaysian Government Securities of 3.79%. The specific beta for each company is determined from a regression of the historical returns on its stock against the historical returns of the benchmark index, which in this case is the FBMKL Composite Index (FBMKLCI), over a one-year financial period of 2010. The market risk premium is stated at 1.06% representing the historical market returns of 4.24% less the 3.79% risk free rate of return.

Eligibility Criteria

The starting point for KPMG's SVA assessment is companies listed on Bursa Malaysia. This ensures that any computed values are based on publicly available figures, thus ensuring the transparency and objectivity of the SVA. To qualify for SVA, companies must have a minimum two consecutive years of published annual reports. As an additional condition, SVA emphasis on relevance and objectiveness requires that latest annual reports are published on a reasonable delay basis. For example, a company with financial year ending 31 December must have its 2010 annual report published no later than the cut-off period of 31 May 2011. A company in which the latest available annual report is dated 2009 is also excluded from the assessment. The exclusion treatment is extended to PN4 / PN17 / GN3 companies as well as companies that have made public announcements of distress or significant material transaction (e.g. mergers and acquisitions).

KPMG's Methodology

To measure shareholder value creation, it is essential to determine the effectiveness of how capital is managed in deriving profit based on the simple principle of risk and return. Therefore any cost associated with the capital invested to generate real economic value must be considered.

KPMG's EVM methodology is premised on the measurement of EP. Profitability in the context of EP is measured from a residual perspective, where a firm is profitable only to the extent that its revenues/earnings are positive after netting of operational, debt and equity costs.

Operational costs are accounted for in the computation of net operating profit after tax (NOPAT). To derive NOPAT, the cash operating taxes is computed. Cash operating taxes are essentially taxation expenses after reversing out the effects of any tax savings the firm may have enjoyed (e.g. interest expenses). Cash operating taxes is then deducted from profit before interest and tax (PBIT) to arrive at NOPAT.

In computing the capital costs, the invested capital (IC) is computed. IC consists of all debt and equity items of a firm. Debt and equity costs are accounted for by computing the weighted average cost of capital measured by the weighted average cost of capital (WACC). In order to derive at the WACC, the cost of debt (COD) used is the Bloomberg computed COD. Cost of equity (COE) is computed by the capital asset pricing model (CAPM). Once the WACC is computed, the capital charge is derived by multiplying WACC against IC.

EP is then computed by deducting the capital charge from NOPAT. Thus the primary measure of profitability, EP/IC measures the excess value created by a firm for every unit of capital invested. The EP/IC ratio ensures that all firms have an equal chance of being winners by emphasising quality of performance over raw strength.