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Corporate: Khairy on his share purchase

By M Shanmugam

If it were anybody else, his purchase of a 3% stake in ECM Libra Bhd would not be frowned upon. But because it was Khairy Jamaluddin, the 30-year-old son-in-law of the Prime Minister, who acquired the stake in the investment bank-aspirant, it got tongues a-wagging.

On Dec 27, the three founding members of ECM Libra — Lim Kian Onn, Datuk Kalimullah Hassan and David Chua — announced that they were each selling 1% of their shareholding in the company to Khairy. The deal was transacted at 71 sen per share or a total of RM9.2 million.

Since then, the deal has elicited more than its fair share of debate. It has also dragged ECM Libra into unwanted controversy because Opposition members have associated the company with Parkway Group's purchase of Pantai Holdings shares, a deal in which ECM Libra had no role.

Cutting to the chase, some of the more pertinent questions raised are why Khairy was given the shares at such a cheap price, considering it has risen about 50% since the deal was announced.

What was his contribution to ECM Libra, an outfit he joined in mid-2004, that it deserved an equity stake? How did he finance the purchase? Will his political aspirations take a backseat for the time being or permanently?

More importantly, now that he is a shareholder, how will Khairy avoid a "conflict of interest" situation should ECM Libra pitch for jobs from government-linked entities?

So far, ECM Libra has not got any jobs from the government. All its deals have been from the private sector, the more notable ones being the listing of AirAsia and YTL's Starhill REIT.

Although ECM Libra would have gone through the same bidding process to get the jobs, the perception is that it would not have landed them without Khairy in the outfit.

Such a view, which could be over-rated in the cut-throat investment banking environment, is not stopping Khairy from being an investment banker. In an e-mail reply, he says that while he is passionate about politics, he has grown to love investment banking.

Khairy is not the only investment banker who is said to be "connected". CIMB, the leading investment bank in the country, is headed by Datuk Nazir Razak, brother of Deputy Prime Minister Datuk Seri Najib Tun Razak. The differences are that Khairy is active in politics, being the deputy head of Umno Youth, while Nazir is not, and Khairy is new to investment banking while Nazir has been with CIMB since 1989, rising through the ranks.

Being the deputy head of Umno Youth, it is easy to fathom why investment banking would be a passing phase for Khairy until he embraces politics full time. Until that happens, he intends to divide his time equally between politics and investment banking.

In a related development, David Chua, the chief operating officer of ECM Libra, explains that Khairy is not the only senior manager to be given the option to purchase shares from the vendors. All senior employees are given the option under an existing scheme.

When asked why the shares were sold to Khairy when ECM Libra was trading at near historic lows, Chua says Khairy got his shares at prevailing market prices without any discount while the offer to the other senior managers was at a significant discount.

"When we listed ECM Libra at RM2.10, we gave senior managers options at a huge discount to market. But when we sold the shares to Khairy Jamaluddin, it was at the prevailing market price of 71 sen. Was it cheap?"

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"As vendors, we would prefer our senior managers to buy the shares from us than have them as options because then there will be greater commitment," says Chua.

"There is a senior management loan scheme to which senior managers can apply. Khairy was given a vendor loan under this scheme to pay for the shares," he adds.

The following are Khairy's replies to questions on his purchase of the shares, why he wants to be an investment banker.

The Edge: You need not have disclosed the purchase as it is below the shareholding disclosure threshold of 5%. You could have also opted to acquire the shares via nominees. I assume you did it in the name of transparency and corporate governance. On hindsight, do you think it was a bad idea?

Khairy: Firstly, under an existing scheme where the three principals of ECM Libra — Datuk Kalimullah Hassan, Lim Kian Onn and David Chua — offer vendor shares to senior management, the name of the purchaser has to be disclosed as the principals do not want to give the impression that they have sold the shares on the market.

Secondly, I do not believe in transactions through nominees or proxies. I have nothing to hide and I want to be completely above board in my decision to take a stake in a company that I have been part of for the last one and a half years.

It is common practice for companies to reward their staff via share option schemes. But it is not common for major shareholders to divest part of their stake to an employee unless his/her contribution is significant. Since joining ECM Libra, what has your contribution to the company been?

There is an established practice at ECM Libra for the three major shareholders to sell their own shares to all senior managers of the company at an attractive price. All senior management in ECM Libra have been given these share options. The question about my contributions is best posed to the principals of ECM Libra.

Why did you choose to take up a stake in ECM Libra?

I believe ECM Libra has great potential to be one of the top investment banks in the country. The team is relatively young, enthusiastic, hardworking and I, like them, believe in the vision the founders have for the company. The new investment banking (IB) framework will see intense competition not just between domestic players but also with foreign brokerages.

I have decided to invest and work in a competitive industry where there are no free lunches, lopsided concessions or fat and juicy government contracts. How well we are rewarded depends on how hard we work and how much value we create for shareholders. I don't want to be a rent seeker but rather a value creator.

I believe in a short space of time, the team at ECM Libra has demonstrated that we can originate and execute complex and sizable transactions. We are constantly improving our product knowledge, relationship management and distribution capabilities and I hope to play a role in strengthening our organisation to meet the challenges posed by the competitive IB landscape.

There are questions on how you managed to fund the purchase estimated at RM9.2 million. Could you shed some light on this?

The shares were sold to me at the prevailing market price with vendor financing under the above-mentioned senior management scheme. Simply put, a loan was extended by the principals of ECM Libra as vendors to enable me to purchase the shares.

Many view the purchase as one that marks your move into the corporate world. What does this mean to your political career?

I am passionate about politics. But I have also grown to love investment banking. The excitement and thrill of working on deals with my colleagues, trying to solve problems and last-minute hitches, which always occur, is something that cannot be substituted, as investment bankers will tell you.

I also have my duties and responsibilities as a politician and I sincerely believe that through politics, we can make a difference to people's lives. But politics is an ideal; it is a means for me to do the best I can for our country. Politics, however, does not put bread

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on the table for me. I need to work to earn my keep. Investment banking is how I earn my living.

I suppose there will come a time in the future when I will have to make a decision between the two but for the immediate future, I will continue to divide my time equally between politics and investment banking.

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