

16 April 2019

Construction

ECRL: Precursor To Revival Of More Projects?

- Maintain OVERWEIGHT. Kerjaya Prospek, MRCB, and HSL as Top Picks.** The ECRL resumption indicates that large-scale public infrastructure projects are staging a comeback, providing contractors with contract replenishment opportunities. We believe the positive news flow will sustain, with possible reintroduction of the KL-Singapore High Speed Rail (HSR) and MRT3. Concerns on budget constraints could ease, in our view, as the Government could realise potential savings of MYR45bn from renegotiating the ECRL (MYR21.5bn) and scaling down LRT3 (MYR15bn), and MRT2 (MYR8.8bn).
- ECRL to officially resume.** Last Friday, Malaysia Rail Link SB (MRL, the project owner) signed a supplementary agreement with China Communications Construction Co (CCCC) to resume construction of the East Coast Rail Link (ECRL). The construction cost of the project has been lowered to MYR44bn from MYR65.5bn, resulting in a cost savings of MYR21.5bn or 32.8%. While the project should remain on a double track formation, cost savings, in our view could be derived from:
 - 40km reduction in overall alignment length from 680km to 640km;
 - 18km reduction in tunnel length from Bentong to Gombak;
 - Reduction in number of stations from 26 to 20;
 - Extension in completion date from 2024 to 2026;
- Local contractors to benefit.** During a press conference held yesterday, it was revealed that construction work is expected to start in May 2019, with local participation rate of 40% (from 30%). This bodes well for local contractors, in our view, potentially translating to MYR17.6bn worth of contracting opportunities. In addition, the commencement of works in May could mean that tenders or direct negotiations for work packages are likely to take place soon. After the revisions, the project still requires tunnels of approximately 30km, and 100km of bridges and viaducts.
- CCCC to stay on as MOM provider.** After construction is completed, CCCC and MRL should jointly provide management, operation and maintenance (MOM) services for the rail link, reducing the Government's future financial commitments. These cost savings could eventually be passed on in the form of lower fares, benefitting both passenger and freight transportation. The project's financing structure, meanwhile, is currently being finalised, with China Exim Bank's 85% project financing likely to stay.
- Accessibility to the rail link in the Klang Valley has improved** under the new alignment, in our view. There should now be two interchange stations in the Klang Valley, located at Putrajaya Sentral (Express Rail Link, ERL and Mass Rapid Transit 2 (MRT2)) and Bangi/Kajang (KTMB). This is compared to the previous sole interchange at ITT Gombak, which is currently being served by the Light Rail Transit (LRT) Kelana Jaya line.

Construction & Engineering | Construction

Overweight (Maintained)

Stocks Covered 11
 Ratings (Buy/Neutral/Sell): 5 / 5 / 1
 Last 12m Earnings Negative

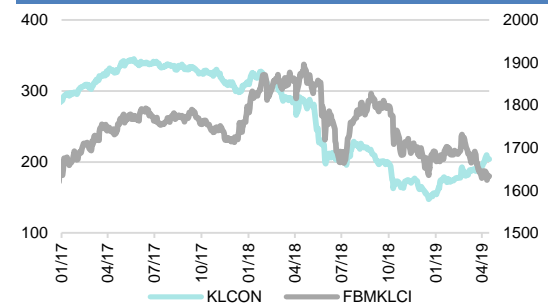
Top Picks	Target Price
Kerjaya Prospek (KPG MK) – BUY	MYR1.50
MRCB (MRC MK) – BUY	MYR1.08
HSL (HSL MK) – BUY	MYR1.79

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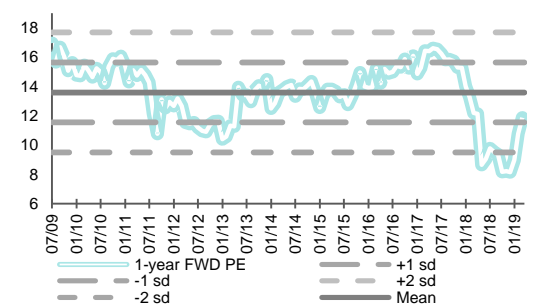


Historical performance (KLCON & FBM KLCI)



Source: Bloomberg, RHB

KLCON historical 1-year forward P/E band



Source: Bloomberg, RHB

Company Name	Rating	TP (MYR)	% Upside (Downside)	P/E (x) Dec-19F	P/BV (x) Dec-19F	Yield (%) Dec-19F
HSL	Buy	1.79	20.9	13.7	1.0	1.4
Kerjaya Prospek	Buy	1.50	17.2	9.8	1.5	3.1
MRCB	Buy	1.08	12.5	30.5	0.8	2.3
Suncon	Buy	2.12	9.8	15.2	3.9	4.0
WCT	Buy	0.93	(3.1)	8.9	0.5	3.2
Kimlun	Take Profit	1.27	8.5	5.9	0.5	4.2
Gadang***	Neutral	0.65	(8.5)	5.1	0.8	5.0
George Kent*	Neutral	1.00	(24.2)	11.9	1.3	2.9
IJM Corp**	Neutral	1.83	(19.4)	15.2	0.8	1.8
MGB	Neutral	0.64	(14.7)	12.7	1.1	0.0
Pintaras****	Neutral	2.43	3.4	15.8	1.3	5.2

Note: *FY19 (Jan) **FY19 (Mar) ***FY19 (May) ****FY19 (Jun)
 Source: Company data, RHB

Figure 1: ECRL project details

Subject	Details
Project Owner	Malaysia Rail Link SB (MRL)
EPCC Contractor	China Communications Construction Company Ltd (CCCC)
Project Cost	MYR44bn
Length of Alignment	640km
Services Provided	Passenger and Freight Train
No. of Stations	20 stations
No. of Interchanges	3 (Putrajaya Sentral, Kajang/Bangi, Mentakab)
No. of Cars Per Train	6-Car Electric Train Sets
Travel Time	Approximately 4 hours (Kota Bharu to Putrajaya)
Speed	160kmph (Passenger); 80kmph (Freight)
Completion Date	Dec-26
Length of Tunnels	Approximately 30km
Length of Bridges/Viaducts	Approximately 100km
Percentage of Elevated Section	15% of Alignment
Type of Track Gauge	Standard Gauge (1.435 meter wide)

Source: MRL, RHB

Figure 2: ECRL previous alignment



Source: Malaysiakini, RHB

Figure 3: ECRL revised alignment



Source: MRL, RHB

Figure 4: Other large scale projects that could commence

Project	Current developments	Companies involved - awarded or express interest in participating
HSR	The construction of the MYR110bn KL-Singapore HSR project has been deferred to Jun 2020. We believe the Government will make a final decision on the project before this date. We understand that the Government is open to proposals from the private sector on a new HSR structure.	MRCB & partner (northern portion PDP); YTL Corp & TH Properties (southern portion PDP); IJM & Suncon submitted bids for PDP but did not win
MRT3	Project is suspended. Could be revived in order to commence in 2021 which coincides with the completion of MRT2. Cost could be halved from MYR40bn to MYR20bn by changing the tunnelling portion to elevated works.	GKent and partner (shortlisted as the PDP before the project suspension)
Pan Borneo Sabah	Tender awards delayed due to reviews by the state government. The state works department could step in to play a role in the project delivery partner (PDP).	Gabungan AQRS, WCT, Gadang, Bina Puri
Penang Transport Masterplan (PTMP)	In the final stages of obtaining approval for various components. We understand that the Penang State is studying other avenues of funding besides the sale of reclaimed land.	SRS Consortium, Vertice, Vizione

Source: Companies, Various Media, RHB

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Trading Buy:	Share price may exceed 15% over the next 3 months, however longer-term outlook remains uncertain
Neutral:	Share price may fall within the range of +/- 10% over the next 12 months
Take Profit:	Target price has been attained. Look to accumulate at lower levels
Sell:	Share price may fall by more than 10% over the next 12 months
Not Rated:	Stock is not within regular research coverage

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