

We are open to further discussions — MMC-Gamuda

The joint venture said it has not received any notice of contract termination

BY SUPRIYA SURENDRAN

KUALA LUMPUR: MMC-Gamuda KVMRT (T) Sdn Bhd said that the joint venture (JV) was not being given a fair chance to work out the cost reduction for the underground works of the mass rapid transit Line 2 (MRT2) as the Ministry of Finance (MoF) did not reveal the target it wants to achieve.

However, the JV said it remains open to further discussions with the MoF in reaching an agreeable reduction.

Both MMC Corp and Gamuda Bhd said so far, they have not received any notice from MRT Corp Sdn Bhd or the government pertaining to the termination of the MRT2 underground contract.

In a four-page statement, MMC-Gamuda said that although the MoF has made known that the offered reduction of RM2.3 billion is still not adequate, to date it has not been conveyed to MMC-Gamuda an acceptable target figure that the ministry has in mind.

"If the target figure is made known together with the components of the savings as individual items, both parties would be placed in a better position to re-examine these components from where savings could be derived and to narrow the differences.

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"The appointment of an international engineering consulting firm as proposed by MMC-Gamuda would greatly facilitate this exercise," said the JV, in which Gamuda and MMC hold equal equity stakes.

MMC-Gamuda said it has offered a reduction of RM2.3 billion, which represents 24% of the RM9.6 billion of the uncompleted underground works.

Gamuda's and MMC's share price were dealt a big blow after the MoF announced on Sunday that it had the contract terminated as both parties could not reach an agreement on reducing the cost of the underground portion of the public rail project. Gamuda's share price plunged 22% to a seven-year low of RM2.43 yesterday while MMC fell 16.3% or 22 sen to RM1.13, wiping off a total market capitalisation of RM2.6 billion in a single day.

MMC-Gamuda said the contract price for the underground works awarded to it was RM15.47 billion, which is lower than the RM16.71 billion figure given by the MoF. Furthermore,

MMC-Gamuda pointed out that MRT Corp shared the same view that the cost-cutting advised by a local consulting firm is "too simplistic".

According to the statement, MoF believed that the JV company could offer more reduction for the underground works premised upon the review by a local engineering consulting firm appointed by the ministry. "A significant part of the review findings was refuted by MMC-Gamuda on technical grounds as being too simplistic and arising from a lack of relevant experience.

"Ironically, Mass Rapid Transit Corp Sdn Bhd (MRT Corp), which has a huge staff of experienced technical experts, also issued their own report of the aforesaid consulting firm's proposals on Aug 27, which carried similar views as MMC-Gamuda," said the statement.

It was MRT Corp's call

MMC-Gamuda pointed out that two main factors that have a major influence on the price of underground works are namely the employer's requirements and safety requirements.

"In comparison with MRT Line 1 (MRT1), the employer's requirements have increased the scope of works significantly, for example, larger floor space, a fivefold increase in the underground entrance and pedestrian walkways.

"As MRT2 geology is complex, the average depth of the diaphragm walls in MRT2 is 51m compared with MRT1 at 39m," it added.

During the initial tender process, MMC-Gamuda said it had submitted an alternative proposal with savings by reducing the prescriptive requirements without compromising the safety, performance and functionality of the operational railway. But MRT Corp elected not to accept the alternative offered by MMC-Gamuda, the statement said.

The JV has now offered the alternative proposal to MoF, but only those applicable to the balance of uncompleted works, as 40% of works are done. "MMC-Gamuda believes that the MoF's aim of achieving savings is best done by both parties reaching an acceptable compromise instead of terminating the contract and retendering the remainder of the underground works," it said.

Severe job cuts and flood of lawsuits

On the consequences of the termination, MMC-Gamuda warned that it would result in immediate job losses of over 20,000 personnel involved in the underground works from a supply chain of over 600 Malaysian companies.

"Of the 20,000, over 3,000 are made up of MMC-Gamuda JV staff,

Gamuda, MMC lose RM2.6b in market value

BY SUPRIYA SURENDRAN

KUALA LUMPUR: Gamuda Bhd and MMC Corp Bhd saw a combined RM2.6 billion wiped out from their market value yesterday as investors reacted negatively to news of the termination of their underground work contract for the mass rapid transit Line 2 (MRT2) project.

The two companies, through joint venture company MMC Gamuda KVMRT (T) Sdn Bhd, was awarded the underground works by the government in 2016.

Gamuda's stock went down 22% or 71 sen prior to trading yesterday, opening at RM2.50 to fall to an intraday low of RM2.32 in early trade. It pared some losses to close at a seven-year low of RM2.43 yesterday, losing RM1.92 billion in market capitalisation in one day. Since May 8, a day before the country held its 14th general election that saw a change in government, Gamuda's share price has fallen 51%.

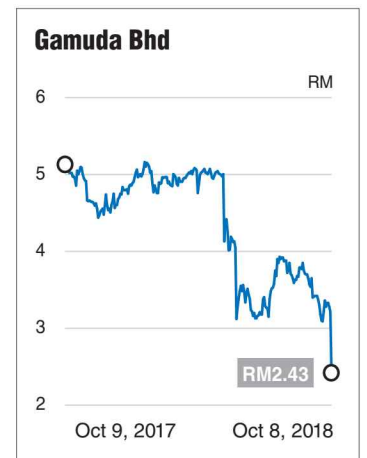
Shares in MMC also took a beating. The stock went down 15 sen or 11% on the open at RM1.20 to reach an intraday low of RM1.12. It ended the day 22 sen or 16.3% lower at RM1.13. Since May 8, the shares have declined 19%. MMC lost RM669 million in market cap yesterday.

Fortress Capital Asset Management (M) Sdn Bhd investment adviser and director Geoffrey Ng said while a renegotiation of awarded contracts is unprecedented, it is part of policy risks to be borne when there is a change of government. "There has been a change in government in our country, so as in most incidences when there is a [regime change], there are policy risks for investors. So this [the sell-down of Gamuda] is an example of such a policy risk. It is not to say that Gamuda will not win should they participate in the retendering process, but it's just that at this point of time the market has assigned zero value to that.

"For MMC, the group is a lot more diversified so the sell-down of its shares has been more tapered [compared to Gamuda]," he told

and of this, more than 60% are bumiputera. This will cause unnecessary hardships to a significant number of Malaysian workforce in an already slowing market.

"In addition, the termination will unjustifiably expose MMC-Gamuda



The Edge Financial Daily.

Analysts covering Gamuda view the termination negatively, with three research firms downgrading their calls on the stock to "sell" or "underweight".

UOB Kay Hian in a note yesterday said the negative news will erode more than 90% of Gamuda's current outstanding order book. "We exclude the remaining RM5.5 billion of MRT2 works from our assumption, leaving Gamuda's outstanding book at RM500 million from the Pan Borneo Highway project only.

"Also, we exclude our annual order book replenishment of RM500 million annually for its financial years ending July 31, 2019 to 2021 forecasts on the back of less government infra-related jobs to be dished out in the near term. Historically, Gamuda relies heavily on government-related projects," the research firm said.

TA Securities chief investment officer Choo Swee Kee said investors should take a more long-term view, given the cyclical nature of the construction industry. "The [decrease] in share price is understandable given that it is a huge contract loss for Gamuda. But investors should take a longer-term view, whether there will be more prospects for future contracts as there have been talks of possible infrastructure jobs in Sarawak and Penang. If Gamuda can get some of these contracts, maybe they can [replenish their order book].

"There is also a view that if Gamuda had taken the job at a lower price, it probably would not have been profitable for them to do so," he said.

AmInvestment Bank opined that Gamuda was guided by the adherence to fiduciary duties it owes to its shareholders in its negotiation with the government with regard to the MRT2 project.

"As such, it was under the obligation to walk away from a deal which was not in the best interest of its shareholders. However, as far as the market is concerned, apart from the loss of the underground contract, it may also have to decide if the latest episode is an isolated case, or will it put a dent on Gamuda's prospects of winning major government contracts in future," its analyst Joshua Ng said in a note to clients.

Etiqa Insurance and Takaful chief strategy officer Chris Eng Poh Yoon said an international tender may see costs somewhat reduced, but the winner may still eventually be MMC-Gamuda or a Chinese construction firm given that their costs are lower.

"I can understand that [the government] is trying to maximise cost efficiency and by all means they should do this for all future projects, but such actions will lead to delays in delivering the MRT2," he told *The Edge Financial Daily*.

"I think the decision was a negative surprise considering MRT1 was delivered successfully, and given the progress on MRT2," he added.

to a flood of lawsuits for compensation from terminated employees, subcontractors, suppliers, manufacturers, etc whose contracts will similarly be terminated due to no fault of theirs," it added.

On the government's move to

retender all the unfinished underground work of the project through an international open tender process, MMC-Gamuda said unless the MoF significantly lowers the requirements, only foreign contractors will be eligible.