

MHA tells concessionaires to state their price

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The Malaysian Highway Authority (MHA) has asked all highway operators to state the price of their concessions in the event the government decides to take them back, sources say.

They have been told to come up with an indicative value of their concessions as soon as possible.

“Based on the brief contents of the letter from the MHA early last week, it is difficult to ascertain if the government is serious in wanting to take back the concessions. It could merely be a survey to ascertain what it would cost to take back the highways,” says a source.

It is learnt that the highway operators have reverted to MHA with “high numbers” on the value of their concessions.

There are 26 highway concessionaires, the biggest of which is PLUS Expressways Bhd. PLUS operates about 85% of the country’s highways, including the North-South Expressway, Central Link Expressway (Elite) that connects Subang Jaya to KLIA and Nilai, the Penang Bridge and the North Klang Valley Expressway (NKVE).

The other major listed players are Lingkaran Trans Kota Holdings Bhd (Littrak) and MTD InfraPerdana Bhd. Littrak’s highways are mainly concentrated in the Klang Valley while that of MTD Infra’s run from Kuala Lumpur to the East Coast. The latter is also building the second phase of the East Coast Expressway that will take it from Pahang to Terengganu.

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Toll freeze won't affect highway operators

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The concessionaires have come under scrutiny of late following calls by various quarters to review toll hikes.

All concessionaires have a schedule of toll hikes. If they are not allowed to raise their rates, the government has to compensate them for loss of revenue.

Works Minister Datuk Seri S Samy Vellu was reported recently as saying that it would

cost the government RM100 billion to take back all the concessions. Sceptics, however, contend that the cost will be much lower. The market capitalisation of PLUS, for example, is only RM16.6 billion, based on its closing price last week, they say.

"PLUS controls some 85% of the highways in the country. The other highways would probably cost a few billion. Excluding debts, the cost of all the highways would be less than

RM40 billion, based on market prices," says a source.

If the concessionaires' debts were included, however, the cost would rise substantially. PLUS alone has debts of RM6.9 billion.

But observers argue that the government can re-finance the debts at a much lower cost should it opt to take over the highways.

It is unlikely though, that the concessionaires will value the highways based on the market price of their shares. The favoured valuation method for concessions is discounted cash flow.

Toll freeze

An indication of the base value or lowest possible value of the concessions can also be obtained from the operators' balance sheets. For instance, based on PLUS' latest annual report, the value of its concessions is stated as RM8.74 billion.

For MTD Infra, the value of its "concession and heavy repairs", according to its annual report, is RM1.5 billion, which is higher than its market capitalisation of RM1.2 billion.

Last week, the government imposed a two-year freeze on toll hikes. However, this will not have an impact on most of the toll concessionaires because their scheduled toll hikes do not fall in 2005 and 2006.

"The government's recent decision to freeze toll-rate hikes for the rest of this year and 2006 is not expected to have any impact on the credit profiles of the toll-road concessionaires rated by Rating Agency Malaysia Bhd [RAM]. None of the 10 toll road concessionaires currently rated by us have any scheduled rate increases due within this period," says RAM.

The 10 toll concessionaires rated by RAM include PLUS, Penang Bridge Sdn Bhd, Besraya (M) Sdn Bhd, Elite, Grand Saga Sdn Bhd, Kesas Sdn Bhd, Litrak, New Pantai Expressway Sdn Bhd (NPE), Konsortium Lebuhraya Butterworth-Kulim Sdn Bhd and Sistem Lingkar Lebuhraya Kajang Sdn Bhd (SILK).

While Penang Bridge had proposed a toll hike in August in lieu of its scheduled toll hike

in 2003 that was rejected by the government, RAM said the move to freeze toll increases would not affect its credit rating. This is because the government has been paying compensation, amounting to some RM19 million a year, to Penang Bridge after it denied the toll rate hike two years ago.

Other toll operators not rated by RAM, such as MTD Prime Sdn Bhd and Sistem Penyuraian KL Barat Sdn Bhd (Sprint), are also not scheduled to raise toll rates in 2005 and 2006.

Will this spark acquisitions?

MHA's move to determine the value of the concessions will certainly give rise to speculation of possible acquisitions involving highway operators.

While the profitable operators will seek a higher value for their concessions, the non-profitable ones will look at it as an opportunity to exit the business.

Only the older toll roads that have mature traffic flow are operationally viable. Most of the new highways are not viable as they have not achieved the expected traffic numbers, among them Sunway Infrastructure Bhd's SILK. The company is looking to restructure SILK's bonds amounting to RM580 million.

Other new highways that aren't exactly meeting traffic numbers are the NPE, SPRINT and the stretch from Karak to Kuantan under MTD Infra. However, the shortfall along these highways is said to be not as far off traffic flow forecasts when compared with SILK.

Even on the North-South Expressway, observers point out that the most lucrative stretch is from Ipoh to Melaka. "The other stretches do not really have enough traffic flow to sustain the cost of maintaining those portions, for instance, in the northern region," says an observer. While the concessionaires, on the face of it, are making money from the highways, the bulk of the profits go towards loan repayment.

Moreover, returns from operating the highways are not that attractive most of the time, says an observer. //

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