

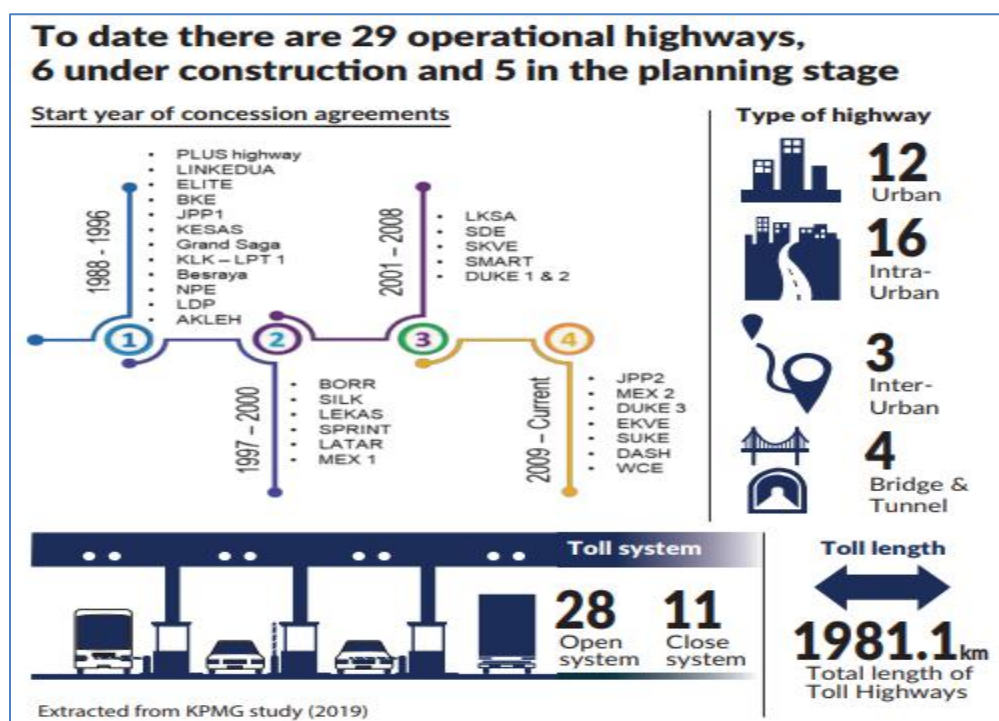
Highway Acquisition Brief PLUS and the EPF

By Yuen Jan Li and Chloe Teoh Hui Xuan

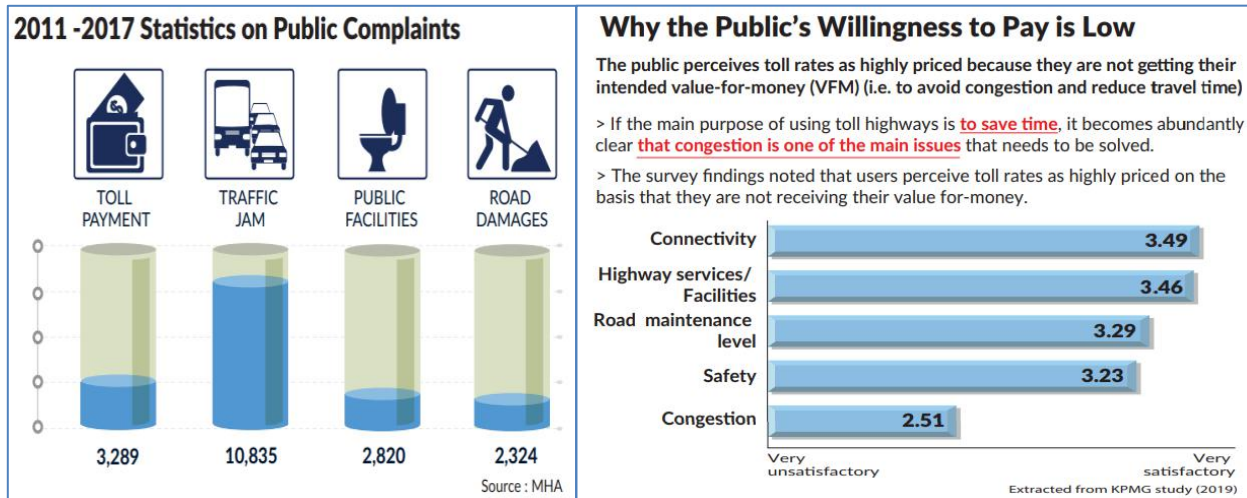
Malaysian motorists are clamouring for a reduction in highway toll largely due the perception that they are not getting “value for money” in using those roads due to persistent congestion which does not help reduce travelling time, especially during festive seasons. Today, there are **26.8 million registered motor vehicles** in the country. At the 2019 Highway Concession Conference in George Town on July 16, the Malaysian Highway Authority (MHA) said its nationwide study revealed that toll payment accounts for just 1.8% to 5.8% of household expenditure.

Currently, there are **1,981.1 kilometres of tolled highways** in the country comprising 29 which are operational, six under construction and five in the planning stages, according to a 2019 study by KPMG¹.

According to the MHA nationwide study with 5,808 respondents, **61% felt that toll rates were high**, 23.8% felt tolls were fairly priced while the remaining 15.2% gave no opinion on toll.



¹ The Perception of Highways, The Star, 27 Jul 2019



Abolishing tolls was part of the Pakatan Harapan (PH) government's manifesto in the 14th General Election. Hence, the PH government is currently reviewing all toll agreements. Thus far, it **had only paid lip service to abolishing toll by rebranding "Toll" as "Congestion Charge"**. Finance Minister Lim Guan Eng announced that toll charges would be replaced with a congestion charge equal to the current toll rate for six hours a day or during the peak period, 30% less during other hours, while highways will be free between 11pm and 5am. The government said revenue from the congestion charge will fund operations and maintenance of the highways and repayment of borrowings².

Although the previous Barisan Nasional (BN) government had estimated in 2010 that it would cost RM338 billion to takeover the highways, analysts said **any takeover is estimated to be about RM130 billion**. The **23 companies with toll concessions had issued RM52.83 billion worth of bonds and sukuk as of May 2018**, while equity portion of any takeover is estimated to be between RM60 billion and RM80 billion. An even lower cost option is acquiring highways by expropriation which would see the government incur an expenditure of just RM50 billion³ but analysts said the markets would react negatively.

Analysts noted the total cost of the highways's takeover would depend on the method of valuation used. The discounted cash flow method or the enterprise value to earnings before interest, tax, depreciation and amortisation may be used, for Permodalan Nasional Bhd when it bought Silk Highway.

But acquisition of the highways by the government also means that that besides the financial considerations to the acquisition, it also need to factor in maintenance, and using the example of one operator, **PLUS Malaysia Bhd, it spent RM1 billion in 2016 to maintain its network of highways**. As a cost centre, the older the highways, the higher the maintenance cost.

² Guan Eng: Highway congestion charge by Jan 1, 2020 if Cabinet approves, theedgemarkets.com, 9 July 2019



³ Taking over of toll highways estimated at RM130 bil, The Star, 25 Feb 2019

Toll Highway Impact on Malaysians

A Cost of Living Look at Tolls (Based on Infographics & 2015 data) from iMoney.





GRAND SAGA HIGHWAY

	Toll Charges		Monthly cost		Equivalent
	Before	After	Before	After	
BATU 9	RM1.00	RM1.30	RM60	RM78	 X9 Teh Tarik
	+30%		+RM18		
BATU 11	RM0.90	RM1.30	RM54	RM78	 X6 Maggi Goreng
	+44%		+RM24		

iMoney

GUTHRIE CORRIDOR EXPRESSWAY (GCE)

	Toll Charges		Monthly cost		Equivalent
	Before	After	Before	After	
	RM1.40	RM1.90	RM84	RM114	 X2 Mutton Briyani
	+36%		+RM30		


iMoney

KLK HIGHWAY

	Toll Charges		Monthly cost		Equivalent
	Before	After	Before	After	
GOMBAK	RM5.00	RM6.00	RM300	RM360	 X12 Nasi Lemak Ayam
	+20%		+RM60		
BENTONG	RM3.00	RM3.50	RM180	RM210	 X20 Roti Canai
	+17%		+RM30		

iMoney

LATAR EXPRESSWAY

	Toll Charges		Monthly cost		Equivalent
	Before	After	Before	After	
LJOK, KUANG TIMUR & BARAT, TEMPLER	RM2.00	RM2.50	RM120	RM150	 X4 Cadbury Chocolate
	+25%		+RM30		

iMoney



SMART TUNNEL

	Toll Charges		Monthly cost		Equivalent
	Before	After	Before	After	
	RM2.00	RM3.00	RM120	RM180	 X15 Nasi Lemak Ayam
	+50%		+RM60		

iMoney

SPRINT HIGHWAY

	Toll Charges		Monthly cost		Equivalent
	Before	After	Before	After	
DAMANSARA	RM1.00	RM2.00	RM60	RM120	 X6 KFC Dinner Set
PANTAI	RM1.50	RM2.50	RM90	RM150	
BUKIT KIARA	RM1.50	RM2.50	RM90	RM150	
	+100%		+RM60		
	+67%		+RM60		
	+67%		+RM60		

iMoney

AKLEH HIGHWAY

	Toll Charges		Monthly cost		Equivalent
	Before	After	Before	After	
	RM1.50	RM2.50	RM90	RM150	 X7 Cadbury Chocolate
	+67%		+RM60		

iMoney

BESRAYA HIGHWAY

	Toll Charges		Monthly cost		Equivalent
	Before	After	Before	After	
	RM1.30	RM2.00	RM78	RM120	 X7 Soap bars
	+54%		+RM42		

iMoney

PH take-over of 4 Toll Highways

Owners of the major highways in Malaysia				
HIGHWAY	SHAREHOLDER	TRAFFIC VOLUME IN 2017 (MIL)	TRAFFIC VOLUME IN 2016 (MIL)	GROWTH (%)
NSE	PLUS	550.03	548.55	0.27
Elite	PLUS	119.17	116.3	2.47
LDP	Litrak	162.28	166.51	-2.54
SPRINT	Litrak	74.01	75.91	-2.5
Kesas	Gamuda and PKNS	123.13	124.84	-1.37
SMART	Gamuda and MMC Corp	8.19	9.02	-9.2
NPE	UM Corp	69.37	68.59	1.14
Besraya	UM Corp	56.13	54.38	3.22
Lekas	UM Corp	24.77	23.32	6.22
DUKE	Ekovest	50.18	47.03	6.7
LATAR	Bina Puri	25.19	24.55	2.61
MEX	Maju Holdings	51.99	48.72	6.71
Grand Saga	Taliworks Corp and EPF	51.78	49.69	4.21
Grand Sepadu	Taliworks Corp and EPF	32	32.39	-1.2
SILK	Prolintas	69.15	70.84	-2.39
Guthrie	Prolintas	38.84	38.46	0.99
AKLEH	Prolintas	18.84	19.51	-3.43
SUKE	Prolintas	NA	NA	NA
DASH	Prolintas	NA	NA	NA

*Gamuda owns a 43.58% stake in Litrak

Source: *The Edge Markets*, 11 July 2019⁴

On June 22, 2019, Finance Minister Lim Guan Eng announced that the government had made a RM6.2 billion bid to take over four concessions of toll highways, Lebuhraya Damansara-Puchong (LDP), Sistem Penyuraian Trafik KL Barat (Sprint), Shah Alam Expressway (Kesas) and Smart Tunnel (Smart). Guan Eng revealed that this exercise could save taxpayers RM5.3 billion in compensation to the concessionaires and would be financed through a special-purpose vehicle under the Minister of Finance Inc.

What Guan Eng did not disclose was that Gamuda Bhd holds significant stakes in all four highways, while the concessionaire for LDP is Litrak. Gamuda owns a 43.6% stake in Litrak, a 50% stake in Sprint, a 70% stake in Kesas and a 50% stake in Smart. According to MIDF Research, the government acquisition will significantly enhance Gamuda Bhd's cash position, providing liquidity to be utilised for its large infrastructure projects in Penang. Gamuda is in the driver's seat for the Penang Transport Master Plan (PTMP) via its 60% stake in the consortium as the project delivery partner. Gamuda's effective stake in the four highways to be acquired is worth RM2.4 billion or equivalent to 95.6 sen per share, analysts noted.

⁴ <https://www.theedgemarkets.com/article/cover-story-whos-who-toll-highway-concessionaires>

Key information of the four highways											
	Average daily traffic volume*	Concession period		Distance in kms	Toll revenue [^] (RM'mil)	Net profit [^] (RM'mil)	Net book value [^] (RM'mil)	Total purchase consideration (RM'mil)	Equity purchase consideration (RM'mil)	P/B (x)	PER (x)
		Start	End								
Kesas	326,872	1993	2028	34.5	328.3	110.2	815.1	1,377	1,230	1.5	11.2
SMART	26,516	2007	2042	4.0	32.3	-5.7	95.1	369	60	0.6	n.m.
LDP	468,000	1996	2030	40.0	523.9	226.4	565.8	2,470	2,340	4.1	10.3
SPRINT	221,000	1998	2031/2034*	26.5	218.6	-8.6	201.2	1,984	870	4.3	n.m.
Total	1,042,388			105.0	1,103.1	322.3	1,677.2	6,200	4,500	2.7	14.0

* based on latest annual reports of Gamuda, MMC and Litrak and RAM report on Kesas
[^] based on latest annual report of Gamuda and Litrak
**2031 for Penchala Link and 2034 for Damansara and Kerinchi Link

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According to Pankaj C. Kumar, KSK Group Bhd's director of investment and corporate strategy, "there is no denying from the current net book value of the highways, revenue, traffic flow and earnings, the government is over-paying the highway operators, especially for LDP and SPRINT, at about 4.3 times and 4.1 times book value respectively". Worse, SPRINT is a loss-making highway, Pankaj stressed noting, the government is paying about 2.7 times book value (*see table*) and about 14 times historical price earning ratio (PER) at a premium of RM2.82 billion for the highways.

AmBank Research opines the deal would reduce Gamuda's net debt and gearing of RM3.4 billion and 0.44 times to RM1.1 billion and 0.14 times, respectively. **Ambank has cut Gamuda's financial year 2020-2021 (FY2020-2021) net profit forecasts by 20% and 34% respectively**, as contributions from the toll road assets is expected to halve in FY20 and completely be removed in FY21.

Affin Hwang Capital said the offer price was 16% below its discounted cash-flow valuation of RM2.8 billion. It cut Gamuda's core earnings per share by 16% to 28% in 2020 and 2021, reflecting the loss in toll highway earnings, partly offset by interest income on the RM2.36 billion cash proceeds. **JF Apex Securities Bhd pointed out it cut Gamuda's core net profit (estimate) by 18% to 22%** in the financial year ending July 31, 2019, to reflect a loss of income in toll highways.

Loss to EPF

What this RM6.2 billion highway acquisition translates to is a quantifiable loss to EPF which has an 11.95% stake in Gamuda as at end March 2019.⁵ A 34% decline in net profit forecast by Ambank for Gamuda in FY21 will seriously impact dividend yield.

According to Pankaj of KSK Group, net earnings from the 4 highways would be slashed from RM322 million on a combined basis to about RM189 million on a proforma basis. The RM180million reduction in revenue translates to about a drop in earnings to RM133 million, after corporate tax rate of 24%. Gamuda reported a 14.6% year-on-year (YoY)

⁵ Challenging outlook clouds EPF Divident outlook, TheSunDaily, 17 June 2019

fall in net profit to RM175.99 million for the third quarter ended April 30, 2019 (3Q19), as it stopped recognising profits from Syarikat Pengeluar Air Selangor Holdings Bhd after selling its 40% stake last year to the Selangor government. Gamuda's 3Q19 revenue fell 16.1% YoY to RM1.04 billion⁶.

The case of PLUS

The rationale of PLUS' takeover is mysterious. PLUS is already 100% owned by the government. What better vehicle does the government needs, analysts asked. Currently, **EPF owns a 49% stake in PLUS while Khazanah owns 51%**. Therefore privatising the highways would mean that they will no longer enjoy healthy yields. **PLUS was paying a dividend of between RM700 million and RM815 million annually to its shareholders from 2015 to 2017**. Moreover, PLUS' cashflow is still strong and more than enough to service its debts. Its **free cashflow was in excess of RM1.9 billion in the first nine months of 2018**, according to Malaysian Rating Corp Bhd, which allowed it to declare dividends to its shareholders⁷.

Maju's offer for PLUS

Maju Holdings Sdn Bhd had placed a RM36 billion bid to takeover PLUS in 2017.⁸ There was a new bid to purchase yet again with the following scenarios reported by media citing government sources. The first entails a 25% reduction in toll rates, which would see Maju getting a 10-year extension to the 2038 expiry of PLUS' concession. The others entail a 30% toll reduction for a 15-year extended concession until 2053; a 33% toll reduction for 20 years' extension; and a 36% toll reduction for a 30-year extension until 2068.

The Ministry of Finance (MoF) made a preliminary decision to oppose the takeover of PLUS by Maju after considering the views from PLUS' major shareholders, Khazanah and the EPF⁹. Nevertheless, Maju is renegotiating and details are only expected at end of August.

Impact on EPF

EPF reported a 4.3% decline in its investment income to RM50.88 billion in 2018, crediting it to a series of events that unfolded both domestically and globally that had impacted markets around the world. EPF chief executive officer Tunku Alizakri Alias said some of the key events that had stirred uncertainty in the markets include the US-China trade war, the plunge in crude oil prices, the Brexit vote and the interest rate

⁶ Gamuda's construction projects to provide income catalyst, The Malaysian Reserve, 1 July 2019

⁷ What will happen to PLUS?, The Star, 29 June 2019

⁸ Maju bid to take over PLUS expressway still on the table, says Baru, FMT, 15 July 2019

⁹ Guan Eng: EPF, Khazanah oppose PLUS acquisition by Maju Holdings, The Edge Financial Daily. 12 July 2019

hikes and midterm election in the US.¹⁰ In 2018, EPF recorded a 10-year compound annual growth rate (CAGR) of 10.26%.¹¹

EPF's stake value shrinks in top 10 worst performing stocks after GE14

COMPANIES	EPF SHAREHOLDING (%)	VALUE OF EPF'S STAKE ON MAY 8 (RM BIL)	VALUE OF EPF'S STAKE ON JUNE 7 (RM BIL)	CHANGE IN EPF'S STAKE VALUE	
				(RM BIL)	(%)
Cahaya Mata Sarawak Bhd	10.69	0.47	0.29	-0.18	-37
Malaysian Resources Corp Bhd	35.32	1.52	1.02	-0.49	-32
IJM Corp Bhd	14.50	1.39	0.94	-0.45	-32
Gamuda Bhd	10.11	1.27	0.90	-0.37	-28
Telekom Malaysia Bhd	17.72	3.31	2.62	-0.69	-21
Axiata Group Bhd	16.76	8.01	7.02	-0.99	-12
Tenaga Nasional Bhd	12.67	11.54	10.47	-1.08	-9
CIMB Group Holdings Bhd	13.70	8.85	8.12	-0.73	-8
Malayan Banking Bhd	11.64	13.61	12.55	-1.06	-7
Genting Plantations Bhd	15.55	1.23	1.18	-0.05	-3
		51.21	45.12	-6.09	

Source: *The Edge Markets*, 18 June 2019

Taking cognizance of PLUS' dividend of between RM700 million and RM815 million annually to its shareholders from 2015 to 2017, neither Khazanah nor EPF should forgo this cash cow as both entities are overseeing interests of all Malaysians. In 2017, EPF recorded gross investment income of RM53.14 billion, up 14.14% from RM46.56 billion posted in 2016. This means in 2017, PLUS dividend of RM815 million constituted 1.53% of gross investment income that year.

On 19 August 2019, the *New Straits Times* reported that the government's plan to take over 15 highways including the PLUS' North South Expressway, valued at a combined RM43 billion. However, Minister of Works, Baru Bian, claimed to be unaware of this takeover plan. There were no further details available at time of writing this report.

INSAP

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¹⁰ EPF records 4% decline in 2018 investment income amid challenging year, *The Edge Markets*, 18 February 2019

¹¹ Equity, overseas investments main drivers for EPF income, *The Star*, 18 Feb 2019