

Headline	<b>Gemas-JB rail contract sole mega rail job for 2019, says CIMB Research</b>
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## **Gemas-JB rail contract sole mega rail job for 2019, says CIMB Research**

KUALA LUMPUR (Sept 28): Following the cancellation and deferment of the East Coast Rail Line (ECRL), MRT 3 (Circle Line) and KL-Singapore High speed Rail (HSR), the Gemas Johor Baru (JB) rail contract is the only mega rail contract left for 2019, said CIMB Research.

In a construction sector note yesterday, the research house maintained its "Underweight" call on the sector due to the dearth of rail contracts.

"This development reaffirms YTL Corp Bhd's position as the biggest play on Gemas-JB rail contract," said CIMB Research, adding that the upside risk to sector call is a revival of cancelled rail contracts.

Citing a report by a local newspaper yesterday, CIMB Research noted on a potential RM500 million worth of signalling and communications scope of work for the Gemas-JB rail job could be awarded soon.

"This refers to the non-civil works portion, which is irrelevant to local contractors," said CIMB Research, noting that potential bidders include Siemens Malaysia Sdn Bhd, Pestech International Bhd, Ansaldo STS Malaysia Sdn Bhd consortium, Willowglen MSC Bhd, Motorola Solutions Malaysia Sdn Bhd, and CMC Engineering Sdn Bhd.

Meanwhile, CIMB Research said it believes AWC Bhd could be among the potential contenders for the track related scopes (excluding civil works).

Via the 60% acquisition of Trackworks, CIMB Research said AWC is in "a good position" to bid for selected rail track-related scope of the Gemas-JB rail contract, adding that Trackworks has targeted to bid for RM900 million worth of rail jobs in 2019.

Also citing another report yesterday, CIMB Research said the report cited sources saying that the Gemas-Johor Bahru Electrified Double-Tracking (EDT) project would now cost 15% to 20% less than the original RM9.4 billion value awarded to the Chinese consortium in 2016.

“The sources explained the lower cost comes mainly from the project being granted an exemption from sales and services tax (SST),” said the research house, adding that a shortage of rail projects in the pipeline also propelled keener competition among bidders for works packages.

CIMB Research added that the targeted cost savings for the Gemas-Johor Baru rail contract also reflects largely on the change in project structure. Hence, CIMB Research opined that this cost savings is not due to a scaling down of project scope, as was the case of the LRT 3 (ongoing cost and design renegotiations) and MRT 2 (pending announcement) projects.

“This news implies that the Chinese consortium is no longer part of the Gemas-JB rail contract, leaving YTL-SIPP Joint Venture (JV) as the overall turnkey contractor. In our view, this is positive as it gives the JV full control of project procurement given its capacity as the main contractor,” said CIMB Research.

The Gemas-JB Electrified Double-Tracking (EDT) would translate into an RM6.5 billion order book over the next four to five years, assuming a 70% stake in YTL-SIPP Rail Sdn Bhd, said CIMB Research, which the research house have imputed in its forecasts circa RM120 million to RM140 million in pretax profit per annum, versus the RM47 million pretax profit for the group’s construction division as at end-FY18.

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