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Malaysia Infrastructure

IJM (IJM MK)
Rec O-PF
Market cap US\$2.0bn
Price RM2.25
Target RM2.55
Up/downside +13%

SunCon (SCGB MK)
Rec BUY
Market cap US\$0.5bn
Price RM1.96
Target RM2.30
Up/downside +17%

Gamuda (GAM MK)
Rec SELL
Market cap US\$1.9bn
Price RM3.13
Target RM2.75
Up/downside -14%

A stronger link

Improved visibility on ECRL rollout and CCCC to be involved in O&M

Following the cheer from the news of the East Coast Rail Link (ECRL) resumption last Friday, Prime minister Tun Dr Mahathir provided more clarity today. Apart from cost savings of RM21.5bn achieved after nine months of discussion, it was confirmed 40% of the civil works are up for grabs by Malaysia firms. Also, it was revealed China Communications Construction Company Ltd (CCCC) will be in the game via joint operations and the maintenance of the ECRL network with Malaysia Rail Link (MRL). While details are scant on this front, the JV could help Malaysia alleviate the operating burden and reduce financial volatility.

Sharing in the operating of the ECRL and improved connectivity

- **In the game:** CCCC agreed to participate in the O&M of the ECRL network via a 50:50 JV with MRL, where the former will share in the operational risk post construction, aside from providing technical support to help Malaysia to manage this long-haul line. Details such as the JV terms, who bears the passenger forecast risk and funding are unknown yet. The MRL CEO has been quoted as saying the JV partners will share the losses, but Malaysia will pocket up to 80% of the gains, implying economic upside, if any, resides with Malaysia.
- **Better connected:** Relative the previous alignment passing through the integrated transport terminal in Gombak, the ECRL via Putrajaya Sentral could connect to the KLIA express rail link & the MRT2. The line now traverses five states (four previously).
- **Alternative to Singapore?:** Having the Kuantan Port to Port Klang connectivity was touted as a 'land link', supposedly an option to bypass Singapore in the transport of goods. Still, the double handling of cargo will be a key cost consideration, in our view.

Opportunities for locals

- **40% of civil works for locals:** Tun Mahathir confirmed the local content component is 40% for the civil works portion. The breakdown between the civil and non-civil elements has not yet been disclosed for the ECRL, although the former usually forms the lion's share.
- **Fruit of discussion:** It is now perceived with the ECRL negotiations complete, Malaysia can proceed to work out palm oil purchases by China. Initial signs of more willingness were seen in August last year, where the uptake of the commodity by China, which accounted for 11% of such exports in 2018, increased by 500,000 tonnes.

Alleviating the government's burden: 33% savings from initial RM66bn cost

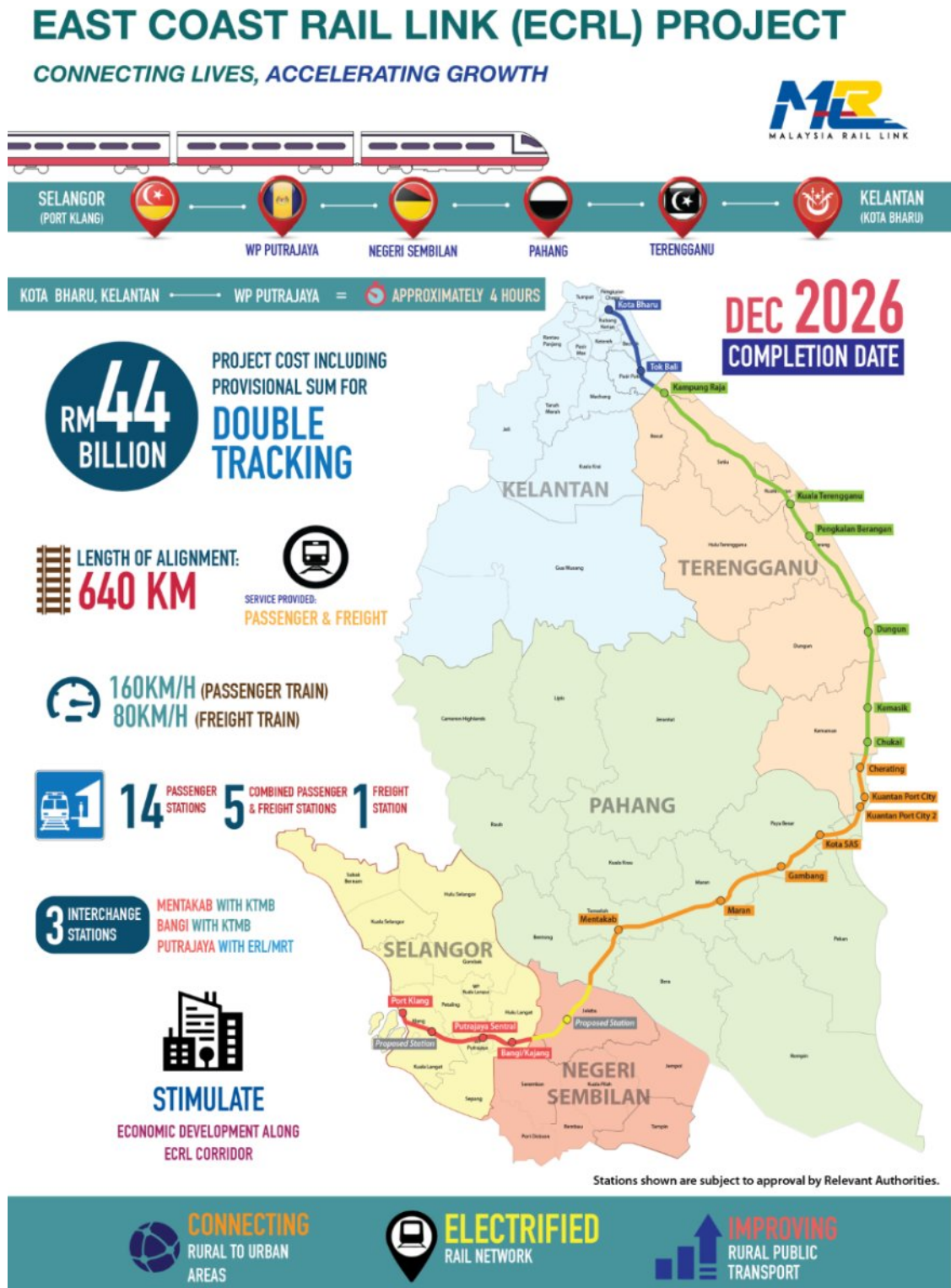
- **RM21.5bn saving:** The revised 640km electrified line featuring 20 stations will be on a standard gauge, with double tracking maintained. Savings were attributed to fewer tunnels and simply the fact the previous pricing was too lofty. Separately, the Chinese will refund RM1bn of RM3.1bn advance payment following the cost cuts.
- **Debt negotiation:** The renegotiation on the 20-year loan with China (EXIM Bank) to fund 85% of the ECRL is ongoing. Based on cost cuts of RM21.5bn and assuming the original 3.5% interest rate, the interest savings per year alone come up to cRM0.8bn. Given the pushback of the ECRL completion date from 2024 to 2026, it remains to be seen if the seven year moratorium period shifts accordingly. Construction could resume as early as May, and is subject to approvals by relevant authorities.
- **Termination penalty:** This was revealed to be RM21.8bn (or 33% of the contracted cost). We believe incurring the penalty could have been found to be more prohibitive than the Opex for the ECRL, previously quoted to be RM600m-RM1bn a year.
- **The affordability issue:** A single ticket is reported to cost RM500 without subsidies (more than double that of air, we calculate) for the journey would discourage ridership, but Tun Daim has assuaged tickets will be subsidised.

ECRL resumption may help attract FDI

- It was emphasised Malaysia was not against the ECRL project, but merely against the manner of how the negotiations were handled and the inflated cost. We see the resumption of the ECRL being a positive signal in welcoming FDI into the country.
- There are changes in our recommendations or forecasts: IJM (O-PF), SunCon (BUY) & Gam (SELL). Please see *Malaysia construction (Rail rejuvenation)* for more detail.

Figure 1

Revised ECRL alignment



Source: CLSA, Malaysia Rail Link



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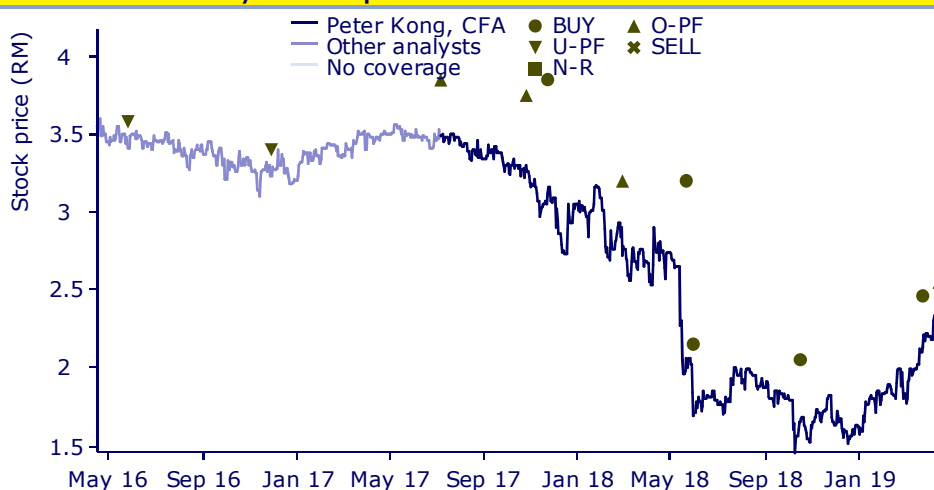
- CCCC (1800 HK - HK\$8.15 - BUY)
- EXIM Bank (N-R)
- Gamuda (GAM MK - RM3.13 - SELL)
- IJM (IJM MK - RM2.25 - O-PF)
- Malaysia Rail Link (N-R)
- SunCon (SCGB MK - RM1.96 - BUY)

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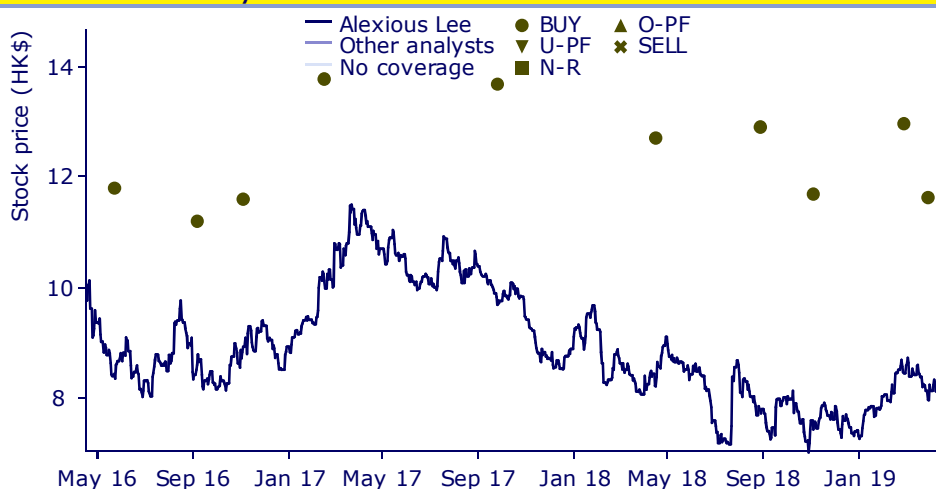
Recommendation history of IJM Corp Bhd IJM MK



Date	Rec	Target	Date	Rec	Target
15 Apr 2019	O-PF	2.55	23 Nov 2017	BUY	3.85
25 Mar 2019	BUY	2.46	26 Oct 2017	O-PF	3.75
17 Oct 2018	BUY	2.05	07 Jul 2017	O-PF	3.85
31 May 2018	BUY	2.15	29 Nov 2016	U-PF	3.40
22 May 2018	BUY	3.20	27 May 2016	U-PF	3.58
28 Feb 2018	O-PF	3.20			

Source: CLSA

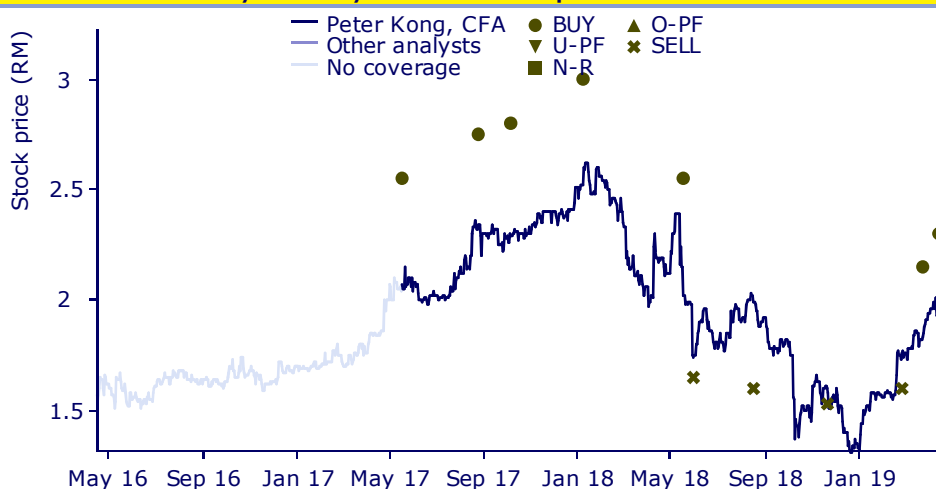
Recommendation history of China Communications Construction Co Ltd 1800 HK



Date	Rec	Target	Date	Rec	Target
01 Apr 2019	BUY	11.63	26 Sep 2017	BUY	13.69
01 Mar 2019	BUY	12.97	16 Feb 2017	BUY	13.78
05 Nov 2018	BUY	11.69	04 Nov 2016	BUY	11.60
29 Aug 2018	BUY	12.91	06 Sep 2016	BUY	11.20
17 Apr 2018	BUY	12.71	23 May 2016	BUY	11.80

Source: CLSA

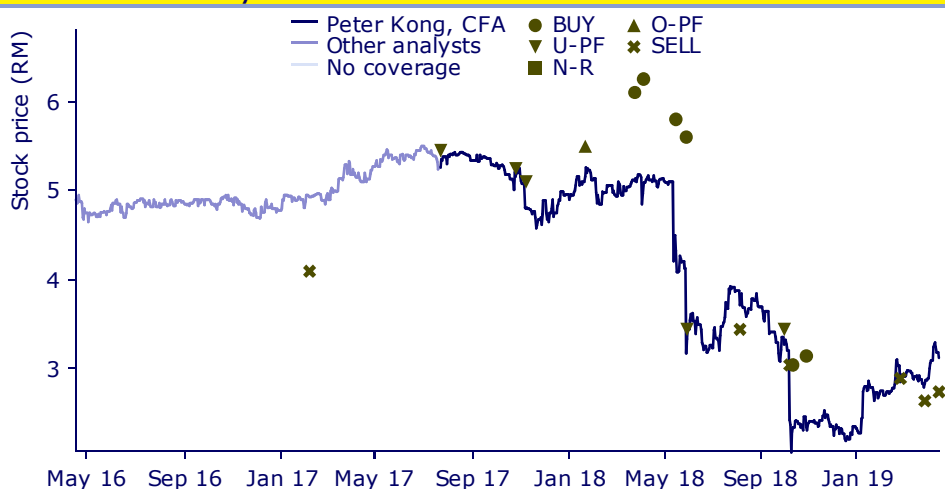
Recommendation history of Sunway Construction Group Bhd SCGB MK



Date	Rec	Target	Date	Rec	Target
15 Apr 2019	BUY	2.30	18 May 2018	BUY	2.55
25 Mar 2019	BUY	2.15	08 Jan 2018	BUY	3.00
26 Feb 2019	SELL	1.60	06 Oct 2017	BUY	2.80
21 Nov 2018	SELL	1.53	25 Aug 2017	BUY	2.75
17 Aug 2018	SELL	1.60	18 May 2017	BUY	2.55
31 May 2018	SELL	1.65			

Source: CLSA

Recommendation history of Gamuda Bhd GAM MK



Date	Rec	Target	Date	Rec	Target
15 Apr 2019	SELL	2.75	30 May 2018	BUY	5.60
28 Mar 2019	SELL	2.65	17 May 2018	BUY	5.80
25 Feb 2019	SELL	2.90	06 Apr 2018	BUY	6.25
29 Oct 2018	BUY	3.15	26 Mar 2018	BUY	6.10
12 Oct 2018	BUY	3.05	22 Jan 2018	O-PF	5.50
08 Oct 2018	SELL	3.05	08 Nov 2017	U-PF	5.10
01 Oct 2018	U-PF	3.45	26 Oct 2017	U-PF	5.25
06 Aug 2018	SELL	3.45	23 Jul 2017	U-PF	5.45
31 May 2018	U-PF	3.45	07 Feb 2017	SELL	4.10

Source: CLSA

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