

Flushed with construction jobs

Local builders set to benefit from mega rail projects

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TWO big ticket projects that will provide a major boost and a new source of contracts for the local construction sector will likely be the RM8bil Gemas-Johor Baru double tracking line, as well as the RM55bil East Coast Rail Link (ECRL) project.

Industry sources have indicated that packages for the 197km Gemas-Johor Baru double tracking project are set to be announced within the next two months, with the aim of completing it by 2020.

As for the ECRL project, most had expected the mega project to start at end-2017.

Nonetheless on Wednesday, Prime Minister Datuk Seri Najib Tun Razak launched the public inspection of the ECRL project at the Land Public Transport Commission's headquarters. The ECRL is now fast tracked to start in July this year, and will be completed in July 2024.

These new contracts have kicked off a buzz in the market, which is excited about which companies will be the beneficiaries for both projects.

Local contractors are expected to be appointed as subcontractors for both the projects.

"Contractors with good rail construction track records include Gamuda, IJM Corp, Fajar Baru and WZ Satu," said AffinHwang Capital analyst Loong Chee Wei in his construction sector report dated Jan 16.

The Gemas-Johor Baru double-track line will allow electric trains to reach speeds of 160 km per hour, with an operating speed limit of 140 km per hour.

It will run through the districts of Segamat, Kluang, Kulai and Johor Baru.

Upon completion, the railway will have a network of electric passenger trains from Padang Besar to Johor Baru.

Gemas project

The lucrative and much-awaited Gemas-Johor Baru double tracking project, which has been stalled for more than a decade, is now in the last stages of being finalised, say sources.

It was already reported last month that SIPP Railway Sdn Bhd was the first contractor for the project. It is learnt that SIPP, which is a private vehicle controlled by the Sultan of Johor, Sultan Ibrahim Sultan Iskandar, has been appointed as the main contractor for the Gemas double tracking job.



Rail benefits: Seremban has benefited immensely from the double tracking and electrification project - which has since been extended to Gemas.

nies — China Railway Construction Corp Ltd (CRCC), China Railway Engineering Corp (CREC) and China Communications Construction Corp (CCCC) — received the letter of award for that job from Transport Minister Datuk Seri Liow Tiong Lai in October last year.

State-owned CRCC, which is the largest engineering contractor in China, holds a 40% stake in the consortium, while CREC and CCCC each have 30%.

"We should know who the sub-contractors will be over the next two months," says the source.

The Gemas-JB link project has been around for more than a decade. It was scrapped in late 2003 but revived in 2007. The MMC-Gamuda consortium was given the mandate to build the 330km stretch from Ipoh to Padang Besar for RM12.5bil back in 2003.

In 2008, India's Ircon International Ltd was given the southern sector from Seremban to Gemas for RM3.45bil.

AllianceDBS Research analyst Chong Tjen San expects local players that have established relationships with the three Chinese companies to have a slight edge.

"The local portion for Gemas may be 30%

Chinese players will be giving out the jobs to their Malaysian counterparts," he says.

Malaysian companies that have partnered with the Chinese players include E&O Bhd, IJM Corp Bhd, Gamuda Bhd, George Kent Bhd, Econpile Bhd and Bina Puri Holdings Bhd. For instance last August, George Kent and CCCC won a RM1.01bil work package for the mass rapid transit (MRT) Sungai Buloh-Serdang-Putrajaya (SSP) Line.

Framework financing

On the ECRL, it was in Nov 1 last year, that Malaysia and China agreed to a framework financing agreement and engineering, procurement, construction and commissioning contract for the RM55bil rail link.

The agreement was signed in Beijing by Malaysia Rail Link Sdn Bhd and CCCC, and witnessed by Najib and his Chinese counterpart, Li Keqiang.

CCCC will be appointed as the main contractor and financing will be provided from the Chinese government.

On Wednesday, the proposed alignment for the 600km-long East Coast Rail Link (ECRL) was unveiled for the public to give feedback and suggestions.

along the route, which has been described as a game-changer project that will spur development of the east coast states.

When the rail link is completed in 2024, it will allow passengers to travel by train from Wakaf Baru in Kelantan to Gombak and on to Port Klang in about four hours.

It can take up to 12 hours if that route is travelled by road.

The ECRL will also benefit freight transport because it will link key economic and industrial areas within the East Coast Economic Region, including Kuantan and Bentong in Pahang, as well as Kuantan Port and Port Klang on the west coast.

Najib said the project can help spur the tourism sector, encourage commerce and the creation or growth of industrial clusters along the ECRL alignment, as well as attract new investment.

The ECRL aside, it appears to be a busy year for the construction sector.

To put things in perspective, there are some RM96bil worth of infrastructure contracts to be awarded in 2017 to 2018, not taking into account the KL-Singapore High Speed Rail (HSR).

AffinHwang Capital has named construction beneficiaries that include Sunway Construction (Suncon), WCT Holdings Bhd and Gabungan AQRs Bhd.

AffinHwang's Loong said that the award of major work packages for MRT Line 2 worth over RM26bil and RM16.5bil for the Pan Borneo Highway (PBH) Sarawak spurred the infrastructure contract awards in 2017.

He expects major work package awards for the RM9bil LRT Line 3 in the first half of 2017.

He also says that after three maiden contract awards in the fourth quarter of 2016, the remaining 32 packages for the RM12.8bil PBH Sabah civil works should be awarded this year.

For urban rail contracts, analysts say that the key one is the MRT 3 Circle Line.

This contract is pending the finalisation of feasibility studies, which should be announced sometime at the end of first quarter 2017.

AmResearch says that there is an estimated RM40bil value for the Circle Line, based on the prevailing RM1bil cost/km for the existing MRT 2's 13.5km underground portion.

"We see better value among small and mid-cap names such as Suncon, WCT and Gabungan AQRs. For large-cap exposure, we prefer Gamuda over IJM Corp, based on Gamuda's lower DFR and higher core EDC