

For Whom the Roads Toll

Malaysia's privatized highways drive lots of cash

By Steven K.C. Poh

ON SEPT. 1, DRIVERS on Malaysia's North-South Expressway will pay 20% more at the 60 toll plazas from the far north to Johor Baru. The hike applies only to private cars, but its significance is far reaching. Because it represents the government's support of toll road increases -- Kuala Lumpur has authorized another 20% rise in 1997 and an additional 7% in 1998 -- the new fee means more revenue for Projek Lebuhraya Utara-Selatan (PLUS), which holds the concession for the 848-km NSE, more excitement for United Engineers (Malaysia), which counts PLUS as a wholly-owned subsidiary, and more corporations getting into the toll road business.



UEM will be collecting tolls on the North South Expressway until 2018

In fact, a company, usually a construction firm, can lift its share price on the Kuala Lumpur Stock Exchange just by announcing that it has a letter of intent from the Works Ministry to build a privatized highway. Even speculation about a toll road concession will drive up shares. No wonder. As Christopher Gee of ING Baring Research explains: "The projects have positive net present valuations and internal rates of return higher than 15%." Adds Jennifer Chai of TA Securities: "Toll roads are a good way to build up recurrent earnings to buffer cyclical earnings."

Though PLUS holds the sole right to maintain and collect tolls on the NSE through May 2018, Nicholas Tan, analyst at UBS Research Malaysia, says, "The government is tougher on terms these days, so the market ought to be more discerning. But it is not." He puts Malaysian toll collectors into three categories. In the group that he calls the first generation are PLUS, Acidchem and Metacorp. "Their terms with the government are very favorable," he says. "In addition, their roads are completed and they have already started tolling." The second generation includes Gamuda, Sungei Way Holdings, Road Builder and MTD Capital. These operators, all with construction backgrounds, have not yet completed their roads. Recent concessionaires -- the third generation -- are Malaysian Resources Corp., Antah Holdings, Hume Industries, Larut Consolidated, Talam, Gadek, SEAL, Anson Perdana and Gopeng. "These players are not entrenched in construction," he says. "Their roads are not completed."

How does he rate the three? "The first generation firms have no risks of cost overruns," he says. "But risks are inherent in the second and third generations, more so in the third since these

companies do not have construction expertise." He considers UEM a core holding, and thinks its fair market value is in the 20-ringgit range.

Crosby Research's Wong Yee Hui likes Metacorp, a manufacturer and distributor of industrial chemicals that became a major toll concessionaire through a reverse takeover. "The stock is trading at about 10% discount to the market," Wong says. "We believe the market will reassess the stock again in the new year as multiples come down with the first full-year impact from the opening of all its four toll roads."

Wong also favours MTD Capital, a civil engineering and construction company. "Its KL-Karak Highway concession holds a lot of potential," he says. "Just as the NSE has speeded development along the western coast of the peninsula, we believe the upgrading of the KL-Karak Highway will act as a catalyst for growth along the eastern corridor."

Tan Gid Loke of Standard Chartered Securities likes Gamuda, a contractor and part concession owner of the Shah Alam Expressway from Sri Petaling to Klang. "Gamuda is rather pricey at current levels," he says. "But interim results due shortly should exceed expectations."

