

With higher fee comes greater risks

> Analysts say fee reasonable in light of higher-than-expected risks for MMC-Gamuda as PDP for MRT

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PETALING JAYA: MMC-Gamuda KVMRT (PDP) Sdn Bhd stands to make RM660 million over six years from fees obtained as project delivery partner (PDP) for the Klang Valley Mass Rapid Transit (MRT) project if it delivers the Sungai Buloh-Kajang (SBK) line on time and within budget.

On a straight-line basis, analysts estimated the PDP fee would translate to a profit of between RM110 and RM130 million a year for the joint venture owners — MMC Corp Bhd and Gamuda Bhd.

“However, given that the fees will be earned progressively, recognition is likely to be minimal in the early years,” CIMB Research said.

And that excludes gains from the tunnelling portion of the project.

The generous 6% fee on construction cost is calculated based of the RM11 billion price tag for the MRT line from Sungai Buloh to Kajang. The cost excludes the tunnelling portion which the market expects to be awarded to the

joint venture and the RM2 billion allocated for land acquisitions.

Even if MMC-Gamuda JV failed to land the tunnel contract — estimated to be worth some RM7-8 billion — they will be entitled to collect fees to manage that portion, too.

Under the terms of the PDP for the SBK line announced last Friday, the joint-venture company will be held accountable for the entire project. As expected, the PDP will have to pay liquidated damages in the event of cost overruns and also incur a penalty in such a case.

And it will also be held fully responsible for all the other contractors, or to indemnify the project owner MRT Co against any claims or proceedings. The PDP will be obliged to step in and self-deliver any outstanding works in the event of a failure on the part of the other contractors.

“While the risks associated with the PDP contract seem higher than our earlier expectations, the 6% fee set is also higher than we expected,” OSK Research said. “Seen in the light of the higher-than-expected risks, the higher-than-expected fee seems reasonable.”

With the PDP deal for the SBK line sealed, the market is now predicting that the MMC-Gamuda JV will be awarded the PDP mandate for the other two lines to complete the entire MRT project.

“Signing of the PDP agreement for MRT SBK line raises Gamuda-MMC JV’s chances of bagging the PDP deal and tunnelling works for the remaining two MRT lines,” CIMB said.

There are three tunnelling packages worth an estimated RM20 billion combined for the entire Klang Valley MRT project. Excluding the tunnels, the three lines would cost a projected RM30 billion and will take until 2021 to be completed.

Shares in MMC had gone up 20% over the past two months to RM2.97 yesterday. This was partly due to anticipation of positive development at the MRT project. Other re-rating catalysts for MMC include the upcoming listing of unit Gas Malaysia Bhd and potential relisting of Malakoff Bhd. MMC is also looking to acquire Keretapi Tanah Melayu Bhd.

Meanwhile, Gamuda’s share price has climbed 27% over the same period. It closed at RM3.85 yesterday.