

'Shunning PDP model for turnkey approach not a negative surprise'

KUALA LUMPUR: Mass Rapid Transit Corp Sdn Bhd (MRT Corp) says its decision not to pursue the project delivery partner (PDP) model to build the mass rapid transit Line 3 (MRT3) should not be construed as a negative surprise, as it is embarking on a much more efficient and cost-saving route to build the urban rail network.

"In the construction of MRT1 and MRT2, MRT Corp used the PDP model for the elevated portion and systems, but, bear in mind, that for the underground portion, it was a consortium of MMC Corp Bhd and Gamuda Bhd who got the job," said MRT Corp chief executive officer Datuk Seri Shahril Mokhtar. "For the underground segment, it was MRT Corp who is managing the said portion."

Shahril told a media briefing that of the expected 40km stretch for MRT3, about 32km will be underground while the remaining 8km will be elevated.

"Since we have the necessary experiences to manage the underground portion, I think the question of not pursuing the PDP model should not have arisen, as we are capable of managing the turnkey contractor like we have done in the past," he said.

At the same time, Shahril said by not pursuing the PDP model, MRT Corp can incur savings of between 4% and 6% in PDP fee, "which could be to the tune of billions".

Shahril noted that 4% of the RM21 billion cost of the completed MRT1 — stretching from Sungai Buloh to Kajang — comes to RM840 million.

"That, of course, is a very simple and naive calculation and it may not represent the whole picture. But using that theoretical calculation to illustrate the logic in saving the PDP fee to be incurred, you can roughly work out yourself, using the right parameters, on the amount of cost that MRT Corp can save," he added.

Asked about the expected cost of MRT3, Shahril said it is too early for MRT Corp to provide any estimates at this juncture, but agreed that the cost of the new line will be higher due to its longer underground portion.

According to a preliminary estimate by CIMB Investment Bank Bhd, the cost to build the 32km underground portion is expected to be RM37 billion, based on the assumption that MRT Corp will spend RM1.15 billion for every kilometre drilled.

As for the financing of MRT3, Shahril said bidders will have to rope in relevant financial institutions that could offer a complete financing package with an attractive rate.

"There is a misconception that the turnkey bidder will have to finance the project on their own. That is not the case as the turnkey firm must bring along relevant financiers, who could offer an attractive rate," he said.

Citing the upcoming MRT projects in Indonesia and Vietnam, as well as the East Coast Rail Line (ECRL) connecting Selangor to three East Coast states, Shahril said the market is aware that attractive packages can be obtained if the bidders structure the project carefully.

"The reason we are pursuing this method is because we want to test the market and explore various avenues to lower the borrowing cost. If there is no favourable bid, MRT Corp can always switch back to financing, potentially infrastructure sukuk or bonds, raised by DanaInfra Nasional Bhd," he said.

"This also explains the shorter tender period of 45 days, so that it will provide us with ample time to explore various financing options," he added.

In the case of the 688km-long ECRL, it was reported that the Export-Import Bank of China Ltd is providing a 3.25% interest on a soft loan to the Malaysian government to finance 85% of the total project cost that is valued at RM55 billion.

"It is good if we can get 3%, or 2%, or even 1%. I am sure somewhere out there, such an attractive term could be possible. But compared to the rate by DanaInfra, I am unable to make such a comparison as yet," he added.

However, Shahril cautioned that if MRT Corp switches the financing mode from the expected bank borrowings to sukuk, the latter to be raised by DanaInfra, then the overall structure of MRT3 project "will not be a turnkey anymore".

"It will follow the previous projects in MRT1 and MRT2, where packages are awarded in different parts. But that is too early to tell, pending relevant submission and outcome from the potential bidders," he added.

In a previous tender notice, MRT Corp said successful bidders for the MRT3 project must include a minimum financing period of 30 years, with a drawdown period up to 2028, and sanctioned with a moratorium period of eight years.