

**Highlights** Brokerage rate as low as 0.05% or min RM 8. Check out [M+ Online](#). "Take Profit with Just One Tick!" 0



## HLBank Research Highlights

**Author:** HLInvest | **Latest post:** Wed, 14 Feb 2018, 09:14 AM

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## George Kent - An All-star Team for the HSR Bid

**Author:** HLInvest | **Publish date:** Tue, 13 Feb 2018, 09:19 AM

### News

- **Eyeing for AssetsCo role.** Via a joint press release, Siemens, Alstom, Italian State Railways (ISR), GKent and PORR announced that they have mutually agreed to join forces in a consortium to bid for the KL-Singapore High Speed Rail (HSR) AssetsCo role. The consortium will work to prepare a joint proposal encompassing EPC and O&M.
- **Background on foreign members.** Siemens and Alstom have delivered complexed cross-border high speed rail projects and have implemented them via the PPP model across the globe. ISR is an Italian state owned company that manages the rail networks in Italy and Greece. As for PORR, it is the largest Austrian contractor with state-of-the-art slab track technology proven in high speed railways.

### Comments

- **A solid team.** Recall that in Oct 2017, Siemens and GKent announced they were teaming up for the HSR AssetsCo role. With the recent inclusion of Alstom, ISR and PORR, we believe the consortium is in an even stronger position for the role as it combines the track record of 4 large European players at various layers of the high speed rail spectrum along with GKent's local expertise.
- **News flow building up.** We are positive on this recent news as getting the AssetsCo role will further elevate GKent's prominence in the rail system's scene. Track record wise, GKent is undertaking the LRT extension systems, MRT2 track works and LRT3 PDP role. GKent's huge net cash pile of RM384m will come in handy for the AssetsCo bid.
- **Role of AssetsCo.** Simplistically speaking, AssetsCo will need to fund and build the systems portion (i.e. excludes civil works) of the HSR and rolling stock. We gather that the AssetsCo portion will comprise RM20bn of the overall RM60bn HSR cost. To reap its return on investment, we understand that AssetsCo will receive several payments which include availability payments, train lease fee, currency & indexation, energy strategy and based on other KPIs.
- **Timeline ahead.** The AssetsCo request for proposal (RFP) opened on 20 Dec 2017 and will close on 29 June 2018. We expect the AssetsCo appointment to be made in 2H18.

### Risks

- Potential heavy capex to undertake the AssetsCo role.

### Forecasts

- Unchanged as it is still too premature to factor any potential contribution from the HSR.

### Rating

**Maintain BUY, TP: RM4.31**

- GKent is a key rail play with exposure to the LRT extension, LRT3 and MRT2. We believe it is in a prime position to participate in upcoming mega rail projects such as the ECRL and HSR. It also boasts solid financials with above industry ROE of 24%, 3 year projected earnings CAGR of 12% and net cash position of RM0.68/share (18% of market cap).

### Valuation

- Our SOP based TP of RM4.31 implies FY19-20 ex-cash P/E of 18x and 15.7x respectively.

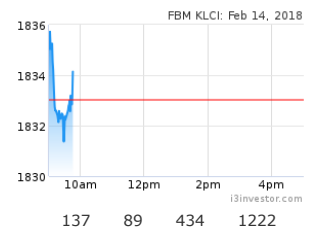
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PUC	0.25	+0.005
DGSB	0.09	0.00
PDZ-WB	0.04	0.00
TIGER	0.04	+0.005
HUAAN	0.485	+0.015
SRIDGE	0.225	-0.005
HIAPTEK	0.495	+0.025
BORNOIL	0.08	0.00
SSTEEL	2.29	+0.29

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