

KL-SG HSR – James Bond’s preferred project

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Not many projects require all participants to sign the Official Secrets Act, but the Kuala Lumpur to Singapore High Speed Rail (KL-SG HSR) is anything but a run-of-the mill deal and every single adviser on it has signed on the dotted line... possibly in blood.

They are all at pain of death – or at least a prison sentence – for speaking about it... which doesn’t make it easy for those of us seeking to track progress on the \$15 billion mega project to unearth juicy details.

Fortunately, this restriction does not extend to everyone who has been approached about the project to link Singapore and Malaysia, and the procurers have been helpfully transparent on the transaction’s progress through their website.

Having recently spent some time in Hong Kong and Singapore – APAC awards judging and wearing out some shoe leather meeting people on the ground – KL-SG HSR is the talk of the town(s).

It’s a fascinating deal on many levels, with [4 bidding teams](#) lined up and submissions due by 29 June (2018), just 6 months to pull bids together for a hugely complicated and contentious deal that the two nations aim to have operational before the end of 2026.

In the middle of last year (2017), there was talk of as many as 10 bidders, but we have been able to nail down 4 so far and keep a watching brief to see how this develops in the coming months.

Bidding teams

The process is being run from the Malaysian side by MyHSR Corporation (owned by the Minister of Finance Incorporated) and for Singapore by SG HSR (a subsidiary of the Land Transport Authority which the LTA established more recently).

The Malaysian side was initially led by Suruhanjaya Pengangkutan Awam Darat (SPAD), but fortunately that was changed as in the rail community this abbreviation stands for “signal passed at danger”.

The \$15 billion price tag is an inducement in and of itself but the market expects to see some pretty aggressive bidding. This is a prime project finance deal involving the DBFM of rolling stock as well as DBFOM of rail assets (track work, power, signalling and telecoms) on the 350km route, the vast majority of which lies on Malaysia’s side.

For now, the market is confident that bids are being submitted by the Chinese, Japanese, South Koreans and a European team.

The latest one to emerge in the running for the 30-year concession is the Chinese team led by China Railway Rolling Stock with 8 state-owned companies behind it, understood to include:

- CRRC
- China Railway Construction Corporation
- China Railway Signal and Communication
- Export-Import Bank of China

China views this project as part of its Belt & Road initiative and it is going all-out to win. To the best of our knowledge (please bear in mind the security surrounding this process) it is being advised by DBS. As to lenders, you can count on every single national bank to commit to big slugs of keenly-priced debt.

The Korean team is led by Korean Railway Corporation in partnership with Hyundai Rotem, and it is rumoured that Alstom is involved on the tech side. Kexim is at the ready with an enormous cheque book and KDB were initially appointed to the joint financial advisory role alongside Kexim. However, the sponsor ran an international financial advisory mandate and brought on board Standard Chartered (which stands senior to KDB and Kexim). Rumour has it that legal advisory is being provided by Norton Rose Fulbright.

The Japanese team is led by JR East and Sumitomo Corporation, with 9 other consortium members, including:

- Taisei Corp – infrastructure company/transit development
- Mitsubishi Heavy Industries – asset/operating company
- Hitachi – asset/operating company
- Toshiba – asset/operating company
- Mitsui Fudosan – transit development
- Daiwa House – transit development
- Nikken Sekkei – transit development
- NEC – security

Team Japan has lined up three financial advisers: Mizuho, MUFG and SMBC... presumably in a bid to keep them all happy. Can't imagine for a second that's not going to be a right royal car crash! Needless to say, JBIC is all over this deal and the consortium's legal adviser is Herbert Smith Freehills.

And then there's the European team throwing in its lot. This bid is led by Siemens working alongside Alstom (not just the tech side like the Korean bid) and George Kent Engineering. It is understood that this consortium is being advised by HSBC on financials.

The Europeans do not have the same degree of institutional support that is taken for granted by the other three bidders, and it clearly stands at a competitive disadvantage with the EIB unable to contribute to the extent their rivals will be able to table. It will likely be able to pull in Hermes as well.

As to Alstom, it has been seen at the briefing sessions resulting in being linked to the Siemens bid. However, it has a full order book and has already walked away from a few deals in recent times – NSW regional trains being one of them.

There is, however, a rumour in the market that the European team will fold in to the Chinese bid.

That may – of course – may not be the complete line-up of bidders as MyHSR and SG HSR ran no pre-qual process and anyone who wants to bid can do so... so long as they can meet the feisty deadline of 29 June, and there has been talk of a total of 10.

There has been some talk of Spanish HSR player Talgo submitting a bid, but most sources reckon a deal of this scale falls outside its capability and it has not been terribly active outside its home market. It was mentioned early on in the process, but chat on this front seems to have died off.

The project

KL-SG HSR will provide an alternative travel option between two of South East Asia's fastest-growing economies and was mooted in 2010 as part of the Economic Transformation Programme to evolve Malaysia into a high-income nation by

2020.

In summer 2016, an [MoU was signed](#) between the two nations and the game was afoot.

Advisers for the public side - both sides - include:

- Ernst & Young – financial
- Ashurst – legal
- Mott MacDonald – technical
- WSP – technical

Early last year (2017), Jurukur Perunding Services and Teraju Ukur were appointed to carry out ground control point survey works.

The advisory bean feast continued with the award of public-side design consultancy services to:

- Systra
- Jacobs Engineering Services
- Ranhill Consulting
- HSS Integrated
- AECOM

The project itself will include 7 stations in Malaysia – Bandar Malaysia, Sepang-Putrajaya, Seremban, Melaka, Muar, Batu Pahat and Iskandar Puteri, before reaching its last destination in Jurong East, Singapore.

Beyond linking two major financial centres, the procurers want to create a development corridor while also slashing the travel time from KL to Singapore (city centre to city centre) to just 90 minutes, providing a real alternative to flying.

Crystal ball gazing

The all-essential political will is in place to drive this project to conclusion and nobody seems to be in any doubt that the HSR will be delivered. The tight timeframe is something of a concern, of course, but the quality of the bidders – the ones we know about – lends a huge amount of confidence.

However, with such lively competition on a project that's when we see tend to people do stupid things... and this project is shaping up exactly that way.

If China wins the deal, you can be sure of one thing – it will be delivered on time. As part of the Belt & Road initiative, it will have the full might of the Chinese government (not to mention the banking system) behind it.

Meanwhile, the Japanese will be playing the safety card with their enviable reputation for excellence in this space. It has long led the field in this sector and would without question provide an HSR both nations will be proud of. It comes with the JBIC cheque book which – while it's not quite the bottomless pit that it used to be – is still a force to be reckoned with.

The South Korean team is well placed to win and might provide a safe third option to keep both procuring parties happy on the political front. Their technology is highly credible, based as it is on Alstom. Added to which Kexim has a fair bit of clout behind it.

And then there's the European team... well, nobody really expects it to win even though it's more than qualified to deliver and operate an outstanding service. However, sources on the ground suggest that the most likely eventuality is that it will be folded in with another bid.

“There is a clash of the titans looming,” says one source on the ground. “The Japanese, Koreans and Chinese are going all-out to win this.”

With there having been no pre-qual process, it's not impossible there are a handful more bids out there, and the

procurers told local media mid-2017 that they expected as many as 10 to compete.

Politics will come into play in a massive way on this project with Malaysia – which has received massive support from China in recent years – loath to see SG-KL HSR awarded to any other bid team than the Chinese one.

Singapore, on the other hand, has had a less comfortable relationship with China. It has clashed with the nation over Taiwan and is involved with disputes over South Sea China islands.

Given that 90% of the route runs through Malaysia, it is not out of the question that we could end up with a Channel Tunnel situation – two solutions meeting in the (not) middle... but will that be negotiated and approved in time for the 2026 deadline?

It's an awesome project and one that will likely win and award from *IJGlobal* once it has reached financial close.

Until then, we shall be encouraging people to break the Official Secrets Act and reveal all... to the chagrin of the procurers.

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