

Bina Puri eyes 20% IRR from Pakistan highway concession

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PETALING JAYA: Bina Puri Holdings Bhd is expecting a minimum internal rate of return (IRR) of 20% for the 28-year concession of Motorway-9 (M-9) in Pakistan, according to its executive director Matthew Tee.

Although this rate is considered high by Malaysian standards, Tee said the cost of borrowing in Pakistan is also quite high, with interest rates hovering between 14% and 15% per annum.

To recap, Bina Puri announced it had received a letter of intent dated Nov 11 from the National Highway Authority (NHA) in Islamabad, Pakistan for the conversion of the existing four-lane Karachi-Hyderabad super highway into a six-lane motorway, M-9, on a build, operate and transfer basis.

The M-9 links Hyderabad with Karachi, Pakistan's largest city and seaport.

"We are currently negotiating the financial and legal aspects of the concession agreement with them. We will make further announcement on the progress of the concession," the company told the stock exchange.

The project involves the upgrading of the M-9 from the current four lanes to six lanes, with the costing worked out to around 18.2 billion Pakistani rupees or around RM631 million, according to Tee.

Apart from the construction job, Bina Puri is slated to get a 28-year concession for the collection of tolls at the highway, which will increase its recurring income stream.

Tee is clearly excited about the prospects of the Pakistan highway concession.

“If you look at our financial results, almost 100% of our revenue comes from the construction business, and income from construction business is cyclical.

“Now with the concession agreement, we plan to diversify our income stream to a more stable source. The highway (M-9) is the most lucrative highway in the whole of Pakistan, with around 23,000 vehicles using the highway every day,” he said.

As at end-November last year, the company’s order book amounted to RM2.7 billion.



Tee says the key to venturing abroad is to ensure that the clients or paymasters have the means to pay for the services rendered.

“We will be focusing on this project in Pakistan for the time being, as it is already quite a substantial project. The political environment in the country also requires us to be cautious in selecting which projects we should take up,” said Tee.

As far as the funding is concerned, Tee said the group is still working things out with its financial advisors. He also does not rule out Bina Puri taping the capital markets if the need arises.

The company has just concluded the third and final tranche of its private placement exercise, which saw 11.23 million shares placed out at RM1 each, a premium to the last traded price of 93.5 sen.

If all goes well, the Pakistan highway could be Bina Puri’s second highway concession and its first outside Malaysia.

Bina Puri has a 50% stake in KL-Kuala Selangor Expressway Bhd, which operates the KL-Kuala Selangor Expressway (Latar) that connects Rawang with Kuala Selangor through Assam Jawa.

In recent years, some Malaysian companies have been venturing overseas to look for greater opportunities.

This was particularly the case for local construction companies as jobs in Malaysia were getting scarce.

However, much to the disappointment of shareholders, some of these overseas ventures have not been generating good returns, with many companies operating in the Middle East posting losses.

However, Tee said the key to venturing abroad is to ensure that the clients or paymasters have the means to pay for the services rendered.

In Bina Puri’s case, he said the group only deals with governments or government-linked companies (GLCs), as these entities are unlikely to have payment issues.

“All this while, the Pakistani authorities have been honouring their commitment to us, so we are quite confident and comfortable working with them,” he said.

Indeed, Pakistan is not an unfamiliar terrain for Bina Puri.

In September last year, the company completed the construction of 174 villas called Phase 6, Defence Raya Golf Resort, Defence Housing Authority, in Lahore, the country's second largest city. The contract was valued at RM194 million. In 2010, it completed construction works for the Nippon Paint Factory at Lillani Kasor, Lahore, for a contract sum of RM340 million.

Bina Puri has also completed three major highways in India, including the Vijayawada-Eluru Expressway and Tada-Nellore Expressway in Andhra Pradesh and Chittorgarh-Mangalwar Highway in Rajasthan.

It also has a power generating business in Indonesia to further diversify its income base, with five power plants with capacity to generate 2MW per plant.

"We are also exploring the opportunity to generate hydroelectricity in Indonesia. There's a lot of potential in the power generating business there as only 50% of the country is connected to the power grid," Tee said.

For its nine months ended September 2011, Bina Puri posted a lower net profit of RM7.57 million or 6.95 sen per share compared with RM8.13 million or 7.76 sen per share in the previous corresponding period. However, revenue was higher at RM888.3 million compared with RM860.9 million before.

Bina Puri closed down 1.5 sen to 92 sen yesterday.

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