Gamuda Berhad

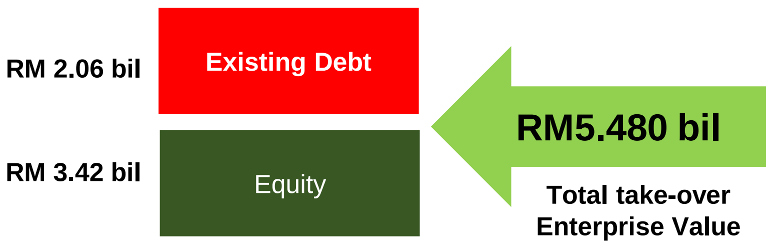
ALR offers to acquire 4 toll concessions

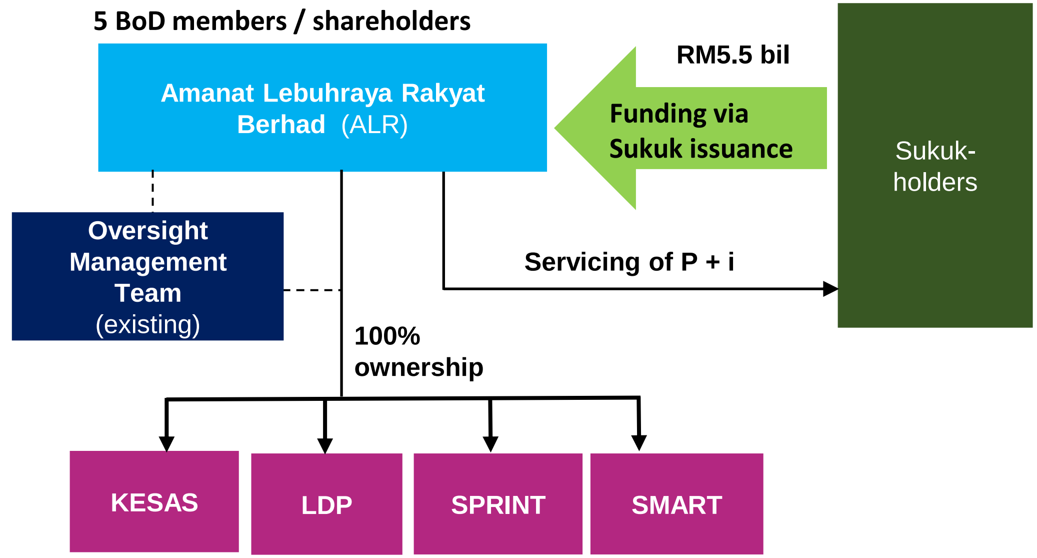
INVESTORS' BRIEFING

4 April 2022

ALR STRUCTURE - TAKEOVER ENTERPRISE VALUE VALUATION & SUKUK ISSUANCE

Diagram 1





Key features of ALR take-over

1. Existing operations and staff entirely intact, including senior management
2. ALR takes-over from existing shareholders
3. 100% of all 4 highways under "one roof"
4. Fully tax – exempt structure, both ALR & concession cos.
5. **All FCF generation is ring-fenced for benefit of Sukuk-holders**
6. Primary fiduciary-duty of ALR BoD is to service Sukuk-holders, and to ensure proper maintenance of highways, for safety of road users.
7. BoD and shareholders of ALR are the same persons, and vice versa.

ALR structure highlights

- ***No dividends , No distributions to shareholders", <u>ever</u>. Shareholders are "NOT-FOR-PROFIT"*** *whilst ALR itself is profit driven to redeem the Sukuk debt.*
- Toll rates **<u>frozen</u>** at current rates. New Concession (**CA**) rate = current toll rate until end of concession.
- Because no difference in CA and current toll rate, **compensation payments from GoM = nil (zero)**
- **Extension**: KESAS/SMART = 6 years (max) , LDP/SPRINT = 10 years (max) – as buffer for Sukukholders
- **<u>Actual</u>** extension is **<u>NOT</u>** mutually exclusive from actual traffic performance. Concession immediately returned to GoM upon early redemption of Sukuk.
- **Higher actual traffic achieved will reduce actual extension required because SUKUK redeemed much earlier.**

THE ALR PROPOSAL – KEY HIGHLIGHTS

- **ALR offers to acquire all 4 of Gamuda's toll concessions –** the acquisition values the four concessions at an Enterprise Value (EV) of RM5.48b, comprising RM2.06b debt and RM3.42b equity, and will be entirely debt-funded by raising RM5.5b Sukuk

- **Win-Win-Win outcome for motorists, government and concessionaires –**

  - **Motorists –** toll rates will be frozen until concessions end, hence motorists will enjoy a significant 29% savings on future toll expenses, mainly due to the ***'not-for-profit' nature of ALR*** and the ***ultra-low interest rates prevailing. Motorist can also enjoy shorter concessions if traffic growth is higher.***
  - **Government –** will save NET over RM4b, without the need to acquire the concessions, nor provide any financial support, guarantees or undertakings, as ***it is not a party to the acquisition***
  - **Concessionaires –** concessions will be bought out at RM5.48b ***(RM0.72b less than MoF's previous RM6.2b offer),*** using DCF valuation, and preserving the sanctity of concession agreements

- **Better than previous June 2019 Offer–** the main differences are summarized below

  - Government is not a party to the acquisition, hence there is ***no financial cost and impact but financial gains***
  - NET savings of RM4.3b ***comes at no cost to the government***
  - The ***'not-for-profit' structure of ALR*** and ***ultra-low interest rates prevailing*** have made a significant difference

- **Tolling expected to end in 2032 –** tolling will end once the Sukuk is fully repaid; this is expected to be in May 2032 using base-case traffic projections, and possibly sooner if traffic volumes are higher than projected.

THE ALR PROPOSAL – Structure of the Deal (1 of 2)

- **Amanat Lebuhraya Rakyat (ALR) will acquire 4 highway concessions –** ALR will acquire 100% of LDP, Kesas, Sprint and SMART for a combined Enterprise Value (EV) of RM5.48b, comprising RM2.06b debt and RM3.42b equity

- **ALR will be structured as a 'not-for-profit' entity –** all free cash flow collected (after opex/capex) will be ringfenced, and used solely to service interest and principal payments; cash can never 'leak out', and ALR cannot pay any dividends or make any distributions to shareholders or third parties; surplus funds will be used for early redemption of the Sukuk

- **ALR is a private entity, entirely independent of government –** its Board will comprise between five and seven Directors, all of whom are highly respected professionals with impeccable career credentials; Tan Sri Azlan Mohd Zainol is the Chairman

- **ALR will be holding company for all four concessions –** using this structure, ALR enjoys a robust cashflow and all the benefits arising from a diversified portfolio of highways; this is reflected in the Sukuk's indicative AAA rating

- **ALR undertakes entire acquisition using debt –** an estimated RM5.5b Sukuk will be issued to fund the acquisition; the Sukuk will be collateralized against future toll collections

THE ALR PROPOSAL – Structure of the Deal (2 of 2)

- **Tolls will be frozen at current rates until concessions end –** despite this, the government will not be required to pay any compensation to concessionaires, thereby saving RM5b
- **Concessions will be extended by between 6-10 years –** although tolling is expected to end in 2032, these extensions are necessary to provide a buffer in the unlikely event that traffic volumes fall short of projections; this buffer is intended to protect ALR and its Sukuk holders; Kesas, SMART will be extended by 6 years, and LDP, Sprint by 10 years
- **Tolling ends once the Sukuk is fully repaid –** this is expected to be in May 2032, based on base-case traffic volume CAGR of 1.7% p.a.; a higher CAGR will lead to earlier redemption of the Sukuk, the end of tolling and the handing of the highway back to the government; tolling across all four highways will end simultaneously
- **Shareholders' approvals required to complete the deal –** shareholders approvals at both Gamuda and Litrak will be sought at their respective EGMs, whilst the Boards of Kesas, Sprint and SMART will deliberate and decide on the proposal in the coming days

THE ALR PROPOSAL – Benefits of the Deal (1 of 2)

- **Resolves the long-standing problems in the sector –** for years, the government has been trying to find a solution to rising toll rates, ever-increasing compensation burden on the government, without breaking the concession agreements; the ALR proposal resolves these issues holistically in a manner acceptable to all stakeholders
- **Government saves RM4.3b NET at no cost to it –** toll compensation savings of RM5b will be offset by a RM0.7b tax waiver, hence giving the government an estimated net saving of RM4.3b; this saving comes at absolutely no cost to the government, as it is not financially involved nor assuming any funding risks; these savings can be used to assist 'Keluarga Malaysia' in any way deemed fit
- **Motorists will save on future toll expenses –** with toll rates frozen, savings are estimated to be around 29% (on an NPV basis) up to the end of tolling in 2032
- **Concessionaires will be bought out on a 'willing-buyer, willing-seller' basis –** this market-driven approach protects the integrity of the capital markets

THE ALR PROPOSAL – Benefits of the Deal (2 of 2)

- **Tolling is expected to end in May 2032 –** based on independent JACOBS projection (traffic volume CAGR of 1.7% p.a), the following shows the changes to the expected tollable period compared to the existing concession period for each highway

Concessionaire	Concession end year (existing)	Tollable end year (projected)	Difference
LDP	Aug 2030	May 2032	+1 year 9 months
Kesas	Aug 2028	May 2032	+3 years 9 months
Sprint Damansara	Dec 2034	May 2032	LESS 2 years 7 months
Sprint Pantai	Dec 2034	May 2032	LESS 2 years 7 months
Sprint Penchala	Dec 2031	May 2032	+5 months
SMART	Dec 2042	May 2032	LESS 10 years 7 months

Key Observations

1. Interesting that SPRINT and SMART may have **substantial reductions** in concession periods, relative to their ORIGINAL concessions, if traffic conditions are appropriate.

2. Also interesting that if traffic growth projections are better than 1.7% pa CAGR , than concessions would be even shorter still.

Total System Savings by Motorist

No.	Highway / Plaza Toll	Current Concession Agreement ('CA') Rate Class 1 Vehicle (RM)	Current Toll FROZEN Class 1 Vehicle (RM)	Savings to *Rakyat* (%)
1.	**KESAS**	**3.00** (*today - 2028*)	**2.00**	**50%**
2.	**LDP**	**3.10** (*today - 2030*)	**2.10**	**48%**
3.	**SPRINT**: Damansara	**2.50** (*today - 2034*)	**2.00**	**25%**
	SPRINT: Pantai	**4.50** (*today - 2034*)	**2.50**	**80%**
	SPRINT: Penchala	**5.00** (*today - 2031*)	**3.00**	**67%**
4.	**SMART**	**5.00** (*today - 2024*)	**3.00**	**67%**
		6.00 (*2025 - 2029*)	**-**	**100%**
		7.00 (*2030 - 2042*)	**-**	**133%**

Under ALR, this is the savings to users of the tolled highways, relative to the position where GoM were to eliminate its compensation subsidy payments, by increasing tolls to the **CA** rate.

For example = KESAS user only pays RM2 instead of RM3 at each of Toll Plazas. Saving of RM1 or **50% savings**.
Similarly = SPRINT (Pantai) user only pays RM2.50 instead of RM4.50 ; a saving of RM2 or **80% savings**.

Hence, in this manner – the motoring *rakyat* also saves RM5 billion directly (which is the same compensation savings saved by GoM to keep the tolls subsidized at artificially low rates).

The ALR offer vs MoF offer (1 of 2)

	The ALR offer (Apr 2022)	The MoF offer (June 2019)
Acquirer	Amanat Lebuhraya Rakyat (ALR) (***'not-for-profit' entity***, privately-owned, independent of government)	Government of Malaysia via SPV
Funding	Private sector Sukuk (indicatively AAA), ***no government guarantee needed, no public funds used and crucially, no recourse to GoM*** **ALR's proposal is therefore far lighter on GoM's balance sheet as it doesn't appear at all**	Government Guaranteed bonds, issued by 100% owned SPV of MoF Inc
Savings to Government	**RM4.3b net** (RM5b gross from toll compensation less RM0.64b tax foregone)	RM5.6b gross less equivalent tax foregone number (which is N/A)
Impact on govt's fiscal position	**Positive;** net savings gained at no cost to government	**Negative;** government carries entire RM6.2b cost plus interest on its BS
Funding Size	RM5.5b (est)	RM6.2b
Funding Tenure	10 years till 2032 (base case)	Not available
Valuation Methodology	Discounted Cash Flow	Discounted Cash Flow
Acquisition EV	RM5.48b	RM6.20b

The ALR offer vs the MoF offer (2 of 2)

	The ALR offer (Apr 2022)	The MoF offer (June 2019)
Toll Structure (post-acquisition)	**Fixed tolls at present rates**, frozen till end concession	**Complicated, impractical variable congestion charge**, frozen till end concession; no discount at peak hours, max discount after midnight
Tollable Period (post-acquisition)	**ALR effectively has a "concession period reduction" obligation** Higher traffic = shorter concession periods. Concession must end when Sukuk is fully repaid and ALR must redeem Sukuk as soon as possible. JACOBS report = All ends in **May 2032**	**Indefinite and unspecified** end toll dates; possibility of perpetual tolling No comparable shortening of concession period
Conditions of Offer	Individual offer for each concession; **partial or full acceptances permitted**	**Bundled deal**, conditional on acceptance of all four concessions
Policy Agenda	**ALR = Maintain Privatisation**	**NATIONALISATION**

THE ALR PROPOSAL – Impact on Gamuda

- **Unlocking value of its concessions –** after almost 30 years since securing its first concession, this deal enables the Group to unlock and realize the full value of its concessions and marks the Group’s exit from the highway concessions sector

- **Loss of recurring earnings –** highway concessions generate about RM170m net profit a year in aggregate, accounting for between 20-25% of overall Group net earnings, based on the average over the last 5 FYs

- **Gamuda will receive RM2.3b cash, and record a one-off gain –** these proceeds can be used for reinvestment, rewarding shareholders, or reducing borrowings; a one-off, non-cash gain of RM1b will increase NAV/share to RM4.16 (+45 sen/share)

- **Net debt will be wiped out –** the Group’s balance sheet will be significantly strengthened, with its existing RM1.7b net debt turning into a net cash of RM0.6b

- **Reinvesting in Green infrastructure –** exiting the highway business will reduce the Group’s carbon footprint significantly; future investments will focus on Green infrastructure opportunities, including Green recurring income businesses

GROWTH STRATEGIES GOING FORWARD

- **Aggressive growth strategies in place –** concrete roadmaps are in place to ensure that the Group is able to grow and fill up the earnings vacuum within 2 years

- **GE is targeting to double its order book –** having recently tripled its order book to RM10b, the division will execute strategies to further double and sustain its order book at the RM20-25b level from FY24 onwards; this will lift sustainable earnings to more than RM0.5b/year from FY24 onwards

- **GL will embark on an aggressive expansion plan –** the division aims to double its presales to RM6b/year between FY21-24 and sustain it thereafter, and deliver a near-tripling in earnings to over RM0.5b/year over the same period

- **GL's growth will be two-pronged –** firstly, accelerate its fast-maturing domestic townships launches, and improve their product mixes; secondly, expand its portfolio of `Quick Turnaround Projects' (QTP) overseas, deploying capital efficiently and recycling capital frequently to generate high returns and raise the division's overall RoEs

Proforma Balance Sheet as at 31 Jan 22 - After Disposal of Toll Assets

(RMmil)	Before 31-Jan-22	Disposal of toll investments	After 31-Jan-22
Non Current Assets	8,865	(1,792)	7,073
Current Assets	6,229	(47)	6,182
Cash and marketable securities	3,699	2,112	5,811
TOTAL ASSETS	**18,793**		**19,067**
Share capital	3,621		3,621
Retained profit	5,715	995	6,710
Non-controlling interests	361	(244)	117
Total Equity	**9,697**		**10,448**
Total Liabilities	3,674	(282)	3,392
Total Borrowing	5,422	(195)	5,227
TOTAL LIABILITIES	**9,096**		**8,619**
TOTAL EQUITY AND LIABILITIES	**18,793**		**19,067**
Net assets per share (RM)	**3.71**		**4.16**
Current Assets	9,928	2,066	11,993
Current Liabilities	4,207	(109)	4,098
Current Ratio	**2.36**		**2.93**
Total borrowings	5,422	(195)	5,227
Cash and marketable securities	3,699	2,112	5,811
Net cash (borrowing)	**(1,723)**		**584**

Disposal of Toll Assets

RM'bil	Group
Proceed	2.3
Carry Value of investment	(1.3)
Gain	1.0

Thank You