

Rolling stock market in ASEAN

Julian Smith
PwC Global Transport & Logistics
leader






January 2016



Agenda

1. Mega trends and issues
2. The projects
3. Types of funding
4. How will the Luxembourg Protocol help?
5. Issues for enforcement of credit

Five megatrends impacting the public transport sector

				
Rapid urbanisation	Demographic change	Technological advances	Climate change & Resource scarcity	Shift in global economic power
Urbanisation is leading to a shift from rural to urban areas and the development of mega cities.	Ageing population leads to increased leisure time Growing middle class leads to increased propensity to travel	Technological advancement improves the quality and efficiency of public transport	Railways seen as more sustainable due to lower emissions, reduction in congestion and more efficient use of land	The balance of economic power is shifting, with developing economies catching up fast with developed markets China is one of the key drivers and funders of investment and a key supplier of technology

Issues for financing public transport in ASEAN

The concept of PPP not understood in many markets
Government often prefers the simplicity of budget funding
Domestic capital markets too shallow/long tenors not available
Availability of soft development finance/tied aid distorts decisions

Business cases often don't stack up and may not be well prepared
Transport planning is not well developed/many countries have no transport strategy
Transport integration is not well understood and networks not well developed
Quality gap between public and private transport is wider than in Europe

Overview of ASEAN rolling stock market – types of procurement

State railway passenger stock (dependent on government/aid funding)

State railway cargo stock – general

State railway coal and other commodity stock

Metros/LRT – new and extensions

BRT

New High Speed Rail Lines

Private commodity concessions

One Belt One Road

Smaller projects e.g. airport transit, cable cars – sometimes private

Port cranes

PwC

Recent/planned private/IFI financings of rolling stock/railway projects in ASEAN – total >USD50bn

1. High-speed Lao-China Railway
2. Thai-Chinese Railway
3. Thomson-East Coast Line
4. North-South Railway Project, Manila, Philippines.
5. Hanoi Metro Rail System Project
6. Bangkok's Orange Line Electric Rail Line
7. Kuala Lumpur-Singapore High-Speed Rail
8. Kelana Jaya and Ampang Light Rapid Transit (LRT) Line Extension Project
9. Ho Chi Minh City Metro Line No 2

PwC

PwC

PwC

8

Section 2 – Status Update

Recent fleet transactions in the Philippines

	LRT-1	LRT-2	MRT-3
Type	Rapid transit	Rapid transit / Heavy rail	Rapid transit/Light metro
Stations	20	11	13
Ridership (average daily)	470,700 (2013 average) 658,627 (2012 record)	195,700 (2013 average) 269,271 (2012 record)	450,000 (original capacity) 650,000 (2012-2013 record)
Opened	1 December 1984	5 April 2003	15 December 1999
Rolling Stock	BN/ACEC Hyundai Precision/Adtranz Kinki Sharyo/Nippon Sharyo	72 Toshiba/Hyundai Rotem EMUs	73 ČKD Tatra RT8D5
Financing	Publicly financed * Extensions: financing from Official Development Assistance from Japan	Publicly financed *Extensions: private sector will rehabilitate the existing trains	Privately financed - Equity: US\$190m - Debt: US\$ 465m, financed by BTMU, JEIXM, Postal Bank of Czech Republic, Czech Export Agency, local banks - Backed by sovereign guarantee
Track Length	19.65 km	13.8 km	16.9 km

PwC

Types of funding/financing for rolling stock

Commercial Lease to state railway

Senior debt/bond raised by state railway

PPP

Operating concession bundled with rolling stock

Own funds of state railway

Government grant to state railway

Development aid

Development loan from IFI

Transport-orientated development (TOD)

Use of existing rolling stock as security for new borrowing

PwC

How will the Luxembourg Protocol help the market?

Gives lenders more leverage against state owned borrowers (thereby potentially improving terms and liquidity)
Reduces complexity on international projects like OBOR/SG-KL HSR
Facilitates secondary market (in a limited number of cases)
Facilitates financing of upgrades/fleet extensions/refurbs
Enables security to be granted in advance of delivery thereby allowing funds to be advanced at an earlier date ?
BUT – it could become political – e.g. Funders could insist on ratification and countries may see this as a sovereignty issue

PwC

Issues for enforcement of credit (will Luxembourg make a difference?)

Value in use of many fleets may be negative (dependent on PSO)
Secondary market limited or non-existent (gauge, business case, infrastructure spec)
Physical difficulties with repossession
Political difficulties with repossession (especially for IFIs)
Cost of repossession and resale
Effectiveness of judicial system
If the rolling stock is part of a PPP, then step in rights may be more useful – but not always politically acceptable
Wide variety of funding/financing mechanisms

PwC