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KTMB upgrades to be competitive

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THERE used to be a time when rail services were virtually the only economical option for Malaysians travelling long distance within Peninsular Malaysia.

Yet, somewhere along the way, the rail network got left out when progress and modernisation swept across the country. Billions of ringgit has been spent to build highway infrastructure that now connects parts of the country from north to south and east to west. In other areas of the domestic transportation arena, AirAsia has put the country on the world map as far as budget travel is concerned.

Unfortunately, on the railway side, the sector's potential has long been hindered by capacity constraints caused by its more than century-old infrastructure. It is only over the last decade that a modernisation plan for the country's rail network has taken off.

The country's railway operator KTM Bhd, as a result, is still struggling to stay afloat.



Truth is, train fares are relatively cheap. But the low speed of the intercity trains on the narrow gauge tracks has not made the service competitive and as appealing as other modes of transportation, particularly in this day and age when time is of essence.

KTMB's problems run deeper than that. Railway upgrading works require a big budget. Given the company's loss-making position, it is understandable that this expenditure would be an insurmountable burden for it to shoulder.

For 2006, KTM recorded unavoidable losses of RM104mil. At group level, its net losses totalled RM99mil.

The rail operator was corporatised on Aug 1, 1992 under the Railways Act 1991. Although still wholly owned by the Government, KTMB now operates as a private sector entity, which ideally is meant to be responsible for its own revenue and operations.

The corporatisation was carried out with the intent of eventually privatising the rail operator. In the first few years following the exercise, several companies in the private sector showed a keen interest to undertake the task, not least of all because of the immense appeal of the abundant land on which the tracks and stations sit on. But then the Asian financial crisis too hit and private sector companies had their own issues to grapple with.

In recent years, however, all has been quiet on the KTMB privatisation front.

KTMB managing director Datuk Mohd Salleh Abdullah points out that the timing and conditions are not conducive for such an endeavour to take place at this juncture.

“You cannot privatise and then impose conditions. It also costs a lot to maintain the single track because of the old technology and equipment still in use. Even with the modern double track, we will still have to maintain the old track.

“The sector needs to be liberalised. Only then can KTMB compete effectively with the buses, taxis and AirAsia. Many also tend to view privatisation as the solution for KTMB's problems, but it may not be the solution, at least not the only solution,” says Salleh, who was appointed KTMB chief in 2002.

### **More improvements on the way**

Despite the tough operating environment, the rail operator has been steadily making improvements that are starting to show up on its bottomline.

In fact, the company managed to narrow its unavoidable losses by close to 21% last year from RM131mil in 2005 on account of efforts to increase revenue, reduce expenditure and improve efficiency.

“We are making improvements. From an outsider's perspective, these things may not seem significant, but to us, if we can reduce 10% of the time in one day, that translates to 2.4 hours. This is savings in terms of energy, overtime and train crew,” Salleh comments.

The group is also looking for other ways to squeeze more revenue growth. It is pushing hard for a bypass to be constructed between Serendah and Port Klang. If approved, this will ease capacity constraint issues, particularly in the Klang Valley, where the group's Komuter service is already running at full capacity.

The current railway network in Peninsular Malaysia operated by KTMB basically consists of two main lines – the West Coast line and East Coast line – and several branch lines along the way. All of the lines in the network are single-track, except for the section of the main line between Rawang and Seremban, and the branch line between Sentul, Kuala Lumpur and Port Klang, which is now double-tracked and electrified to accommodate electric commuter trains.

“We are very hopeful that the paper to be tabled soon on the bypass goes through because the bypass will take care of freight services and help alleviate congestion in the network, especially in KL Sentral, which also services KTM Intercity, Komuter, light rail transit and the ERL,” he says.

In fact, the situation in the Klang Valley already calls for the tripling or quadrupling of train tracks. “We cannot rely on just double tracks anymore. For instance, more people now use the Komuter to get to work and back. Ten to 12 years ago, this was not a trend. Now there is a real demand for this kind of services. But how is it possible for us to expand the service when there are capacity constraints?” says Salleh.

Indeed, KTM's electrified commuter service's daily ridership has more than tripled to about 100,000 commuters since the service was introduced in 1995. Komuter, in fact, contributed more or RM85mil to group revenue last year, compared with KTM's intercity services, which recorded a turnover of RM71mil in 2006.

Elsewhere, the rail operator is also eyeing more opportunities on the freight side, which is currently the group's largest revenue contributor.

The completion of the Ipoh-Rawang double tracking project means that the second track will be ready for use in stages. This will free up congestion thus allowing more freight trains to be operated.

### **The real estate factor**

There is another area that is looking decidedly promising and could provide a significant boost to KTMB's appeal among property developers on the look out for joint venture opportunities with landholders.

Currently, KTMB's property division primarily manages the group's landed properties and provides property management services. The division's involvement in joint venture projects is limited, with the largest and most prominent development being KL Sentral. That mega project is a joint venture between KTMB and Malaysian Resources Corp Bhd, which controls 64% of it, while KTMB holds the remaining 26%.

The division contributed just under RM21mil to group revenue last year. But all that could change.

The company is in the midst of finalising a leasehold agreement with the Railway Asset Corporation that will give the former better access to 31,000 acres of land bank spread across Peninsular Malaysia. (The Federal Land Commission owns another 500 acres in Singapore).

At present, KTMB's control over the land only extends as far as operating, administering and collecting proceeds from the go-downs and quarters on the land. The land belongs to the Railway Asset Corporation, which comes under the purview of the Transport Ministry.

“Many people have been under the impression that we are in a position to add value to those parcels of land. Once the agreement is finalised, we will be in a position to undertake joint venture projects with the private sector and share the proceeds. This will help boost KTMB's financial position,” Salleh says.

But until these changes get the government's go ahead, the social obligation aspect of the business makes it virtually impossible for KTMB to fulfil its objectives without assistance from the government.

At the root of the problem is the operator's obligation to provide safe and reliable services at affordable rates. It is also compelled to service non-profitable routes.

“We have to consider the social aspects of the transport business and so we carry on with uneconomical services. For example, we still serve the outskirt areas in the East Coast although those services are not profitable. The rate we charge is 4 sen per km although one km requires four litres of fuel,” Salleh explains.

But even the more popular services are being constrained by a tariff system that has remained unchanged for more than a decade now. On the other hand, operating costs like fuel, energy as well as salaries and wages have increased significantly over that period.

A revision to the passenger tariff was last approved in 1993. Freight tariff for cement and foodstuff has not increased since 1992 and for container rates since 1998. The rail operator gained a slight reprieve last year when a 10% fuel adjustment factor was approved for various commodities effective Sept 1, 2006.

It is no doubt an uphill task getting KTMB on firmer ground but these changes in the offing could very well mark the turning point for the rail operator.