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MTR on track for Beijing rail deals

By Demetri Sevastopulo in Hong Kong



MTR, the Hong Kong metro rail company, is holding discussions with Beijing about operating two lines in the Chinese capital, including a high-speed rail link to the new international airport.

Jay Walder, chief executive of MTR, told the Financial Times that the rail company had also been chosen as “the potential foreign investor” to operate another line in Shenzhen, the southern Chinese city across the border from Hong Kong.

MTR, which is 77 per cent owned by the Hong Kong government, already operates five metro lines in the Chinese cities of in Beijing, Shenzhen and Hangzhou, and runs subways in Stockholm and Melbourne.

It is also considering a bid to operate part of the S-Bahn underground network in Berlin, and it runs London Overground in partnership with Deutsche Bahn.

With limited ability for further expansion in Hong Kong, MTR is making a push in China where rapid urbanisation is likely to generate huge demand for public transport, particularly as the country faces big environmental challenges. McKinsey, the consultancy, estimates that China’s urban population will grow by more than 350m by the end of the next decade, creating more than 200 cities populated by more than 1m people.

“We have never seen urbanisation on this scale,” Mr Walder said. “[China understands that] cities of the size, scale and density that are implied . . . have to be build on the foundation of public transport.”

China plans to install subways in 40 cities by 2020, up from slightly less than 20 at the moment. Mr Walder said MTR was also holding talks with a “number of other cities, some out in the western part of China”, but said it would take a cautious approach to protect its brand.

“You will see us only in two or three more cities [in China],” said Mr Walder. “I don’t think our goal should be to stretch across to a vast number of places.”

In a recent speech, Mr Walder said MTR delivered 99.9 per cent on-time performance in Hong Kong, and that it was “one of only a handful of urban passenger rail companies” to make a profit.

In the first six months of this year, MTR increased revenues by 12 per cent year on year to HKD 19.2bn (US\$2.5bn), and reported an underlying net profit of HKD 4.3bn, a rise of 5.1 per cent. That included a profit of HKD447m related to property development, which marked a 15 per cent year on year contraction.

Mr Walder said MTR was well placed to expand in China because planners now preferred a model that requires closer integration of rail and land development. In Hong Kong, MTR operates the metro lines, but it also develops properties above or near stations, as part of a deal with the Hong Kong government.

“In the mainland, there has been a shift to . . . integrating this more closely than might have been the case a decade ago,” said Mr Walder. “This is what we do so well – the integration of the metro and the land use that takes place above.”

In Shenzhen, MTR is in talks to run Line 6, which is envisioned as a “rail and community” project, similar to the model that MTR employs in Hong Kong.

Patrick Xu, a transportation analyst at Barclays, said MTR would also gain from the fact that many Chinese local governments prefer to use private-public partnerships to lower upfront costs that would strain their already stretched balance sheets.

“MTR has been successful with this model in Hong Kong,” said Mr Xu.

In addition to the line to the new international airport in Beijing, MTR is holding talks with the municipal government about operating Line 16, which will serve the west of the capital. Both projects are expected to be awarded without public tender.

Mr Walder, who was previously a top Transport for London executive, said MTR hoped to win three tenders in London that it has been shortlisted for the Essex Thameside and Thameslink franchises, and the new £14.8bn Crossrail line.

“We are working hard on the bids,” said Mr Walder. “We are already seeing what we can do in London by seeing the quality of the London overground.”

Mr Walder said that MTR’s “biggest calling card” was that it has proved in Hong Kong that it can perform all aspects of rail development, from design and construction, to running a network and maintaining the assets.

“Our skill sets . . . are tightly aligned to what they will need in the UK.”

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