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MARC RATINGS AFFIRMS AA-*IS* AND A- RATINGS ON KESTURI'S SENIOR SUKUK AND JUNIOR BONDS

MARC Ratings has affirmed its **AA-*IS*** and **A-** ratings on Konsortium Lebuhraya Utara-Timur (KL) Sdn Bhd's (Kesturi) RM2.3 billion Sukuk Musharakah (Senior Sukuk) and RM180 million Redeemable Secured Junior Bonds with a **stable** outlook. The rating differential between the Senior Sukuk and Junior Bonds reflects the latter's subordinated status in line with the rating agency's methodology.

The affirmed ratings reflect the resilience of traffic on Kesturi's two expressways, Duta-Ulu Kelang Expressway Phase 1 (DUKE 1) and Phase 2 (DUKE 2). The highways benefit from a well-established commuter base in densely populated areas — including Damansara, Mont Kiara, Sri Hartamas, Ulu Kelang and Setiawangsa — that generates growing traffic. In financial year ended June 30, 2023 (FY2023), average annual daily traffic (AADT) on DUKE 1 and DUKE 2 combined rose to 223,089 vehicles, 33.5% above FY2022's level and 15.6% higher than the pre-pandemic FY2019 level. Traffic volumes continued to show strength in FY2024, with AADT increasing further to 235,618 vehicles in the first six months from July to December 2023, above FY2023's level by 5.6%.

On assumptions of flat traffic and rates, as well as a one-year delay in government compensation, Senior finance service coverage ratio (FSCR for Senior Sukuk) is likely to remain strong, with a minimum of 1.79x and an average of 3.80x from FY2024 to FY2034. The rating agency opines that on occasions, the Senior FSCR could decline below the covenanted 1.75x on delays in receiving toll compensation as was the case in FY2023 when Senior FSCR was 1.60x. MARC Ratings views this as a timing issue and believes Kesturi's credit fundamentals remain strong, underpinned by resilient traffic demand.

Liquidity is adequate to cover the sukuk's upcoming profit payment of RM88.7 million and principal repayment of RM160.0 million due on December 2, 2024, supported by cash on hand and expected operating cash flow generation of around RM355 million for calendar year 2024. Leverage of 10.8x as at end-2023 remained high, albeit improving. MARC Ratings expects leverage to improve gradually from debt reduction as sukuk is fully amortising. The operating profile and long concession term – the concession ends in August 2059 with an option to extend for a further 10 years – should facilitate refinancing, if required.

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