

BANGKOK MASS TRANSIT SYSTEM PLC

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CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
17/05/16	A	Stable

Contacts:

Pramuansap Phonprasert
pramuansap@trisrating.com

Chanaporn Pinphithak
chanaporn@trisrating.com

Parat Mahuttano
parat@trisrating.com

Narumol Charnchanavivat
narumol@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the company rating of Bangkok Mass Transit System PLC (BTSC) and the ratings of BTSC's senior unsecured debentures at "A". The ratings reflect its strong business profile as one of the two mass transit system operators in Thailand, the steady growth and predictability of the cash flows from the train operation, and its entrenched position in the media businesses. However, these strengths are partially offset by BTSC's high financial leverage.

BTSC is the core business and key revenue and profit contributor of BTS Group Holdings PLC (BTS). The credit profiles of BTSC and BTS are closely linked. Currently, BTS is rated "A" with "stable" outlook by TRIS Rating.

KEY RATING CONSIDERATIONS

New mass transit expansion projects will boost cash flow

TRIS Rating expects BTSC's revenue and cash flow to improve. Revenue and cash flow from operating and maintenance (O&M) services for the Southern Green Line and Northern Green Line will rise substantially after they start to operate in 2018 and 2020, respectively. The O&M services, apart from generating a stable stream of revenue, provide a healthy gross profit margin.

Revenue grows in the media segment

TRIS Rating projects steady improvement in the revenue and the EBITDA (earnings before interest, taxes, depreciation, and amortization) from the media segment, operated by BTSC's subsidiary, VGI Global Media PLC (VGI). For the first nine months of fiscal year 2018 (FY2018), revenue from media segment comprised around 55% of BTSC's total service income, excluding the revenue from installation and construction service and train procurement service. VGI has a strong competitive advantage as the sole provider of advertising media inside the trains and in the commercial space around BTS train stations. The competitive advantage pushed revenue higher despite a slowdown in the advertising industry in 2016 and 2017. For example, in the first nine months of FY2018, media sales on the BTS Skytrain system increased by 25% year-on-year (y-o-y), outpacing a 6% y-o-y drop in total advertising expenditures across the industry.

In the future, the expansions of the mass transit network will boost revenue in the media segment further. There is a high probability that VGI will receive the rights to manage the advertising space and commercial areas in the new stations of the Green Line extensions. Moreover, VGI is expanding into other out-of-home (OOH) media through acquisitions. The acquisitions will enlarge its revenue base and create synergies in terms of cross-selling and pooling consumer data.

Leverage is high but will gradually fall

BTSC's total debt surged from Bt1,829 million in FY2016 to Bt24,055 million in the first nine months of FY2018. The total debt rose because BTSC issued debentures to secure the fund needed to procure trains and to install the electrical and mechanical (E&M) work. The E&M contracts require that BTSC prefund the E&M costs for the rail expansion projects. BTSC will then be reimbursed by Krungthep Thanakom Co., Ltd. (KT), a wholly-owned subsidiary of the Bangkok Metropolitan Administration (BMA), for all E&M costs, including the accrued interest, in FY2021. KT has the option to extend the payment for

another two years.

BTSC is expected to pay down the newly incurred debt once it receives the payments due from KT. As a result, TRIS Rating projects the debt to EBITDA ratio of BTSC will peak at around 5.6 times in FY2020 before declining to around 2.9 times in FY2022. TRIS Rating holds the view that the financial risk arising from the sharp rise in the total debt will be mitigated by the high certainty of the payments due from KT. Currently, BMA is rated “AA+” with “stable” outlook by TRIS Rating.

Acceptable liquidity profile

BTSC has an adequate liquidity profile. As of December 2017, the sources of funds comprised Bt6,716 million in cash on hand, Bt15,512 million in securities available for sale and trading, and Bt17,200 million in undrawn credit facilities. This level of liquidity is considered sufficient to cover the uses of fund during the next 12 months. Uses of funds comprise scheduled principal repayments of Bt143 million, outstanding short-term obligations of Bt230 million, and capital expenditures of around Bt10,000 million.

In the first nine months of FY2018, the company reported funds from operations (FFO) of Bt1,763 million. The FFO to total debt ratio and the EBITDA interest coverage ratio stood at 10.5% (annualized, from the trailing 12 months) and 4.8 times, respectively.

According to a key financial covenant of BTSC’s debentures, the net interest-bearing debt to equity ratio must stay below 2.5 times. The company’s net interest-bearing debt to equity ratio at the end of December 2017 was -0.2 times. Thus, the company was in compliance with the key financial covenant. TRIS Rating believes that the company will stay in compliance for the next 12 to 18 months.

RATING OUTLOOK

The “stable” outlook is based on the expectation that BTSC’s revenues in the mass transit operation segment and the media segment will continue to grow steadily.

In TRIS Rating’s base case scenario, we assume that BTSC’s revenues will gradually increase to around Bt11,000 million in FY2021. In addition, during FY2019-FY2021, TRIS Rating’s forecast shows the company’s revenues of around Bt20,000 million from E&M services and train procurement services. The operating margin will stay around 40%. The debt to capitalization ratio is expected to gradually decline to around 40% in FY2021, while the EBITDA interest coverage ratio should stay above 5 times.

RATING SENSITIVITIES

BTSC’s credit upside is limited during the next couple of years due to its high financial leverage. The ratings and/or outlook could be revised downward if the financial profile of BTSC significantly deteriorates from the projections. For example, aggressive debt-funded investments or a significant drop in operating performance could cause the financial profile to deteriorate.

Since BTSC is a core subsidiary of BTS, BTSC’s company rating will be aligned with the company rating of BTS. Any change in BTS’s rating will also impact the rating of BTSC.

COMPANY OVERVIEW

Established in 1992, BTSC is currently owned (97.46%) by BTS. BTSC was initially set up to build and operate the Bangkok Mass Transit System (BTS Skytrain) under a 30-year build-transfer-operate concession, spanning 1999-2029, awarded by the BMA. In 2013, the company sold future net farebox revenues from train operations under the concession to the BTS Rail Mass Transit Growth Infrastructure Fund (BTSGIF), an infrastructure investment fund, for Bt61,000 million. BTS, its parent company, holds 33% of the investment units of BTSGIF. BTSC has entered into two O&M contracts with KT covering two extensions of the BTS Skytrain.

In the media segment, the company sells advertising and rents retail space on the BTS Skytrain through VGI, its subsidiary. VGI has the exclusive rights to manage advertising and merchandising space on BTS trains and at stations until 2029. In addition, VGI has the first right to renew and/or extend the contracts to cover space on additional projects for which BTSC is granted the rights to provide media services. VGI has expanded its scope of business continuously. VGI now offers other types of OOH media through companies it acquired, such as Master Ad PLC (MACO).

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Apr-Dec 2017	----- Year Ended 31 December -----			
		2017	2016	2015	2014
Revenue	8,845	6,276	4,033	4,903	5,567
Gross interest expense	697	469	288	433	611
Net income from operations	1,396	1,359	1,440	1,845	1,821
Funds from operations (FFO)	1,763	2,027	1,770	2,596	2,260
Capital expenditures	409	258	202	587	549
Total assets	63,942	61,542	37,781	38,583	41,605
Total debt	24,055	24,935	1,829	3,575	6,655
Shareholders' equity	29,774	26,316	27,345	26,119	25,870
Operating income before depreciation and amortization as % of sales	44.2	42.4	51.6	49.8	45.0
Pretax return on permanent capital (%)	7.3 **	6.8	8.9	10.4	9.1
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.8	6.7	10.1	8.1	6.3
FFO/total debt (%)	10.5 **	8.1	96.7	72.6	34.0
Total debt/capitalization (%)	44.7	48.7	6.3	12.0	20.5

* Consolidated financial statements

** Annualized from the trailing 12 months

Bangkok Mass Transit System PLC (BTSC)

Company Rating:	A
Issue Ratings:	
BTSC19NA: Bt5,500 million senior unsecured debentures due 2019	A
BTSC21NA: Bt2,200 million senior unsecured debentures due 2021	A
BTSC23NA: Bt4,100 million senior unsecured debentures due 2023	A
BTSC26NA: Bt10,200 million senior unsecured debentures due 2026	A
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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