

# BANGKOK EXPRESSWAY AND METRO PLC

No. 75/2020  
28 May 2020

## CORPORATES

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

Last Review Date: 29/04/20

### Company Rating History:

Date	Rating	Outlook/Alert
05/04/16	A	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Bangkok Expressway and Metro PLC (BEM) and the ratings on BEM's senior unsecured debentures at "A". At the same time, we revise the rating outlook to "negative" from "stable". The outlook revision reflects our concerns over BEM's deteriorating financial metrics from its high leverage and weakening operating cash flow in 2020 impacted by the coronavirus (COVID-19) outbreak. However, we view the negative impacts from the outbreak to be temporary and BEM's long-term business position will remain intact. We also view that the earnings from the full operation of the mass rapid transit (MRT) Blue Line will take time to ramp up.

The ratings continue to reflect BEM's strong business profile, supported by the strong and steady operating cash flow from its expressway business and growth prospects in the MRT operation. The extension of the expressway concessions until 2035 also supports BEM's credit profile as it helps secure predictable cash flow in the long term.

## KEY RATING CONSIDERATIONS

### Strong business profile

BEM has a strong business profile. Its main lines of business in expressway and mass transit operation are protected by high barriers to entry. There are only a few operators in Thailand that have the capability and the required capital to bid for the construction and operation of expressways or rail mass transits.

BEM's solid business profile is also underpinned by its record of steady and stable earnings in the expressway operation, thanks to the strategic location of the Second Stage Expressway (SES) which are connected to the First Stage Expressway (FES). The recent extension of the SES and the Bang Pa-In - Pak Kret Expressway (Sector C+) concessions will help BEM secure steady cash flow in the long term.

BEM has a number of growth opportunities in mass transit operation, considering the government policies to promote an integrated mass transit network. As an experienced and well-equipped operator, BEM is in an advantageous position to win future concessions. Furthermore, the strategic benefit of MRT Blue Line as a circle line, allows it to collect feed-in traffic from other rail mass transit lines.

### Short-term impact from COVID-19

TRIS Rating is of the view that the negative impact of the COVID-19 outbreak on traffic of the expressways and ridership volume of the MRT Blue Line will be temporary. We expect the traffic volume to recover within a short period of time following the easing of government lockdown measures, but the ridership volume may take a longer period of time to recover.

For the first four months of 2020, BEM reported a significant drop in both traffic volume and revenue for its expressway operation. Daily traffic volume declined by 20% year-on-year (y-o-y), averaging 0.99 million trips per day, and daily toll revenue declined by 21.6% y-o-y, averaging Bt22.16 million per day. However, there is a sign of recovery in traffic volume after the government began easing the lockdown measures. We expect the traffic volume and revenue will recover to normal or slightly less than normal levels

in the early third quarter of 2020. Our base-case scenario assumes average daily traffic volume to decline by mid-teens percentage in 2020 and resume to normal levels in 2021-2022.

For the MRT business, revenue was affected by a drastic drop in ridership in March and April 2020. For the first four months of 2020, average daily ridership dropped by 15.2% y-o-y to 268 thousand trips, and daily revenue declined by 10.4%, averaging Bt7.18 million. Thanks to the operation of the MRT Blue Line extension which helps alleviated the drop in ridership and revenue. We are of the view that the MRT business will take a longer period of time to recover compared with the expressway business. This is because some social distancing measures are expected to be implemented which lead to fewer number of passengers riding in a train. We expect the social distancing measures to be in place for a certain period of time in an attempt to contain the outbreak. Our base-case scenario assumes the average daily ridership of the MRT Blue Line to be 285-300 thousand trips in 2020 and improve to an average of 400-500 thousand trips per day in 2021-2022.

#### **Earnings drop in 2020 but to recover in 2021-2022**

We expect BEM's earnings and cash flow protection to weaken in 2020 following our assumption on the number of traffic and ridership. However, we believe that BEM's expressway and MRT businesses will recover when the outbreak situation eases and the lockdown measures are lifted.

For the first quarter of 2020, BEM reported Bt3.8 billion in revenue, declining by 4.4% y-o-y. Earnings before interest, tax, depreciation and amortization (EBITDA) margin was 36.5% which translated into EBITDA of Bt1.4 billion. Funds from operations (FFO) for the period were Bt0.8 billion. TRIS Rating's base-case assumes BEM's revenue to be in a range of Bt14.4-Bt14.6 billion in 2020 and improve to Bt17-Bt19 billion annually during 2021-2022. Profitability is expected to weaken in 2020 due to the depressed revenue. The EBITDA margin is forecast to range 36%-37% in 2020 before improving to 40%-42% in 2021-2022. These will translate to EBITDA of at least Bt5.3 billion in 2020 and Bt7.3-Bt7.6 billion annually in 2021-2022. FFO is forecast to be at least Bt3 billion in 2020 and Bt4.5-Bt4.8 billion annually in 2021-2022. BEM's earnings upside will be driven mainly by the ridership numbers of its MRT Blue Line.

#### **High leverage**

BEM's credit rating is pressured by its high financial leverage. At the end of March 2020, adjusted debt was Bt56.8 billion. The adjusted debt under TRIS Rating's evaluation is excluded a debt of approximately Bt9.8 billion for the mechanical and engineering (M&E) systems and the rolling stock of the MRT Purple Line. The debt is backed by an agreement with the Mass Rapid Transit Authority of Thailand (MRTA) which stipulates that the debt will be paid back by the MRTA in 10 years. The adjusted debt to EBITDA ratio was 7.7 times (annualized, from the trailing 12 months) and the adjusted ratio of FFO to debt was 6.6% (annualized, from the trailing 12 months).

TRIS Rating expects BEM's leverage will remain high in the short to medium term. TRIS Rating projects the company's capital expenditures of Bt5-Bt5.2 billion in 2020 and Bt0.5-Bt1 billion annually in 2021-2022. Due to the impact of the COVID-19 on the company's revenue, we expect leverage ratios to surge in 2020. Our base case scenario projects BEM's adjusted debt to EBITDA ratio to surge to 11-12 times in 2020 before falling to 7.5-8.5 times during 2021-2022. We project the adjusted ratio of FFO to debt to stay around 5% in 2020, and improve to 7%-8% during 2021-2022. The projected leverage ratios are not commensurate with BEM's current ratings and could exert pressure for a rating downgrade if the adjusted debt to EBITDA ratio stays over 7 times on a sustained basis.

#### **Liquidity to be manageable**

TRIS Rating expects BEM's liquidity to be manageable over the next 12-24 months. The primary funding needs are the planned capital expenditures of Bt5-Bt6.2 billion in total, scheduled debt repayments of approximately Bt15.1 billion in total, and dividend payments of Bt1.8-Bt2.2 billion per annum. Primary sources of funds are FFO of at least Bt7.5 billion, plus cash and cash equivalents of Bt7.2 billion at the end of March 2020. BEM will need to refinance some of its debts and TRIS Rating believes that the company will be able manage the refinancing taking into account its business fundamental and its relationship with banks. In addition, BEM has financial flexibility from its investments in TTW PLC and CK Power PLC. The combined market value of the two investments was Bt16.3 billion as of 26 May 2020.

#### **BASE-CASE ASSUMPTIONS**

- Revenue to be in a range of Bt14.4-Bt14.6 billion in 2020 and Bt17-Bt19 billion annually during 2021-2022.
- The EBITDA margin is forecast to range 36%-37% in 2020 before improving to 40%-42% in 2021-2022.
- EBITDA to be at least Bt5.3 billion in 2020 and Bt7.3-Bt7.6 billion annually in 2021-2022.
- FFO to be at least Bt3 billion in 2020 and Bt4.5-Bt4.8 billion annually in 2021-2022.
- Capital expenditures to be Bt5-Bt5.2 billion in 2020 and about Bt0.5-Bt1 billion annually in 2021-2022.

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**RATING OUTLOOK**

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The “negative” outlook reflects our concerns over BEM’s deteriorating financial metrics from its high leverage and weakening operating cash flow in 2020 impacted by the COVID-19 outbreak. We also view that the earnings from the full operation of the MRT Blue Line will take time to ramp up to help improve the leverage ratio.

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**RATING SENSITIVITIES**

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The ratings could be downgraded if the adjusted debt to EBITDA stays over 7 times on a sustained period either from weakening operating results or a large debt-funded investment.

The rating outlook could be revised to “stable” if BEM’s financial profile improves such that the adjusted debt to EBITDA stays below 7 times for a sustained period. A rating upgrade could happen if its financial profile improves to the level that the adjusted debt to EBITDA stays sustainably below 5 times.

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**COMPANY OVERVIEW**

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BEM was established on 30 December 2015 through the amalgamation of Bangkok Expressway PLC (BECL) and Bangkok Metro PLC (BMCL). BEM was listed on the Stock Exchange of Thailand (SET) on 5 January 2016. BEM’s major shareholder, as of March 2020, was CH. Karnchang PLC (CK), which held 31.32% of the outstanding shares.

BEM has three main lines of business: constructing and operating expressways, providing mass rapid transit service, and engaging in the commercial development related to its expressway and mass transit networks. For the first quarter of 2020, BEM reported revenue of Bt3.8 billion, of which 61% was from the expressway segment, 34% from the mass transit segment, and 5% from the commercial development segment.

BEM built and operates the elevated Si Rat Expressway (the Second Stage Expressway System – or SES), the Udon Rattaya Expressway (Bang Pa In - Pak Kret Expressway, known as Sector C+), and the Sirat - Outer Ring Road Expressway (SOE). All the expressways are operated under 30-year Build-Transfer-Operate (BTO) concessions awarded by the Expressway Authority of Thailand (EXAT). Due to the contract amendment in February 2020, the concessions for SES Sector A, B, C, D, and Sector C+ have been extended to expire in October 2035, while the concession for SOE will still expire in December 2042.

In March 2017, BEM entered into a new MRT Blue Line concession agreement with the MRTA. The new MRT Blue Line concession covers the MRT Chaloem Ratchamongkhon Line (Hua Lamphong Station - Bang Sue Station) which has been operated since 2004 and the MRT Blue Line Extension project (Hua Lamphong Station - Lak Song Station and Bang Sue Station - Tha Phra Station) which has just been fully operated in March 2020. The new concession will end in 2050. The MRT Blue Line concession is on a Public-Private Partnership (PPP) Net Cost agreement basis which BEM has the rights to collect fare box revenue, undertake commercial development activities, and bear the risk of ridership.

BEM also operates the MRT Chalong Ratchadham Line (Purple Line) under a 30-year concession on a PPP Gross Cost scheme basis. Under this type of basis, the MRTA paid for all the civil works while BEM advanced the investment in the M&E systems and the rolling stock. The MRTA will gradually repay the cost of the M&E equipment to BEM over 10 years after BEM delivers and transfers ownership of the M&E equipment to the MRTA. BEM provides operation and maintenance (O&M) services to the MRTA until the concession ends in 2043. In return, BEM receives service revenue on a cost-plus basis. BEM does not take the risk of ridership under the Gross Cost scheme basis.

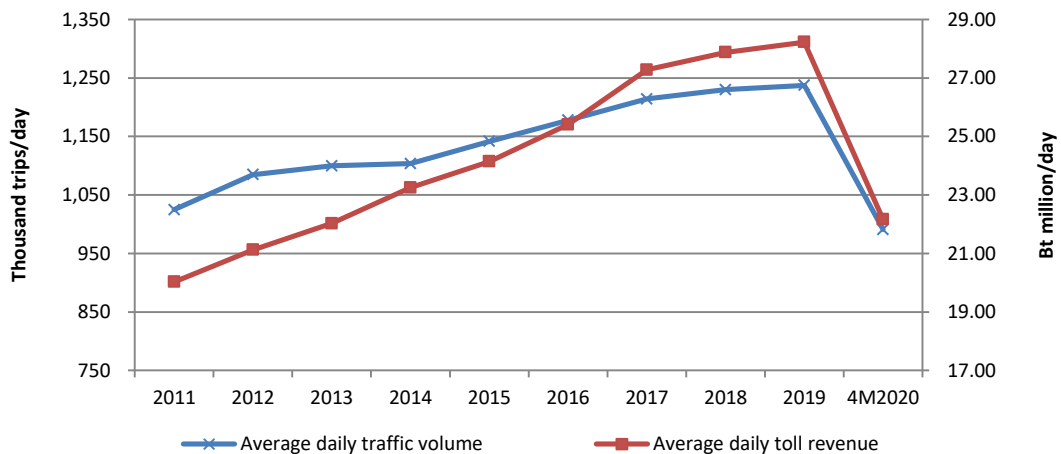
**KEY OPERATING PERFORMANCE**

**Table 1: Revenue Breakdown**

Revenue (Unit: Bt mil)	2015	2016	2017	2018	2019	3M2019	3M2020
Toll road	8,815	9,301	9,957	10,174	10,302	2,581	2,300
Mass transit	2,374	3,230	4,521	4,736	5,022	1,211	1,293
Commercial development	549	573	675	705	783	179	204
<b>Total</b>	<b>11,738</b>	<b>13,104</b>	<b>15,153</b>	<b>15,615</b>	<b>16,107</b>	<b>3,971</b>	<b>3,797</b>
<b>Contribution</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>3M2019</b>	<b>3M2020</b>
Toll road	75%	71%	66%	65%	64%	65%	61%
Mass transit	20%	25%	30%	30%	31%	30%	34%
Commercial development	5%	4%	4%	5%	5%	5%	5%
<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>
<b>Growth</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>3M2019</b>	<b>3M2020</b>
Toll road	4%	6%	7%	2%	1%	2%	-11%
Mass transit	6%	36%	40%	5%	6%	2%	7%
Commercial development	10%	4%	18%	4%	11%	8%	14%
<b>Total</b>	<b>4%</b>	<b>12%</b>	<b>16%</b>	<b>3%</b>	<b>3%</b>	<b>2%</b>	<b>-4%</b>

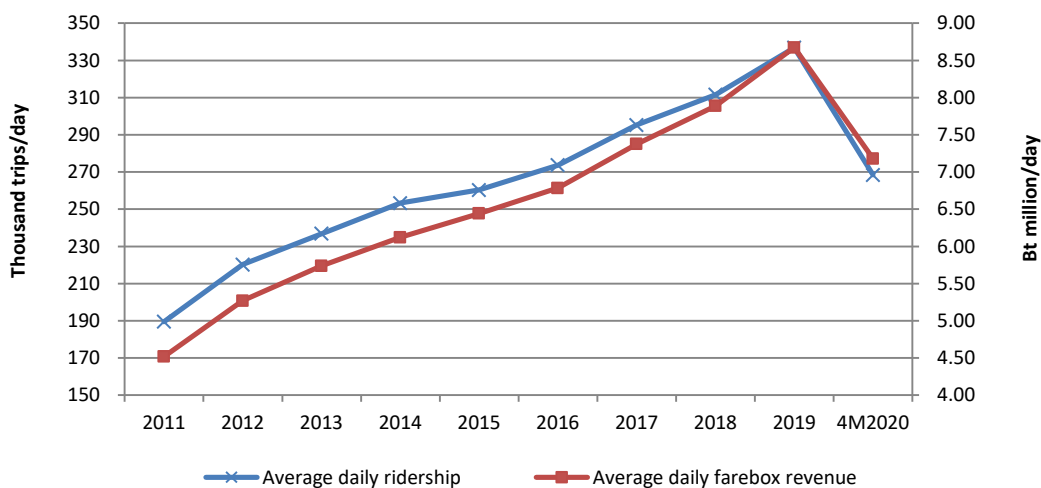
Source: BEM

**Chart 1: Average Daily Traffic Volume and Revenue**



Source: BEM

**Chart 2: Average Daily Ridership and Farebox Revenue**



Source: BEM

## FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	Jan-Mar 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	3,803	16,163	15,641	15,206	13,134
Earnings before interest and taxes (EBIT)	482	3,475	3,978	4,466	3,919
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,388	7,971	8,387	8,670	8,052
Funds from operations (FFO)	811	4,479	5,572	6,419	5,748
Adjusted interest expense	454	1,738	1,625	1,556	1,740
Capital expenditures	1,971	8,018	10,484	8,265	7,086
Total assets	115,219	111,697	103,831	98,919	82,786
Adjusted debt	56,756	55,758	51,674	48,128	46,600
Adjusted equity	36,484	38,823	35,612	31,179	29,783
<b>Adjusted Ratios</b>					
EBITDA margin (%)	36.50	49.32	53.62	57.02	61.30
Pretax return on permanent capital (%)	3.05	3.76	4.63	5.42	5.01
EBITDA interest coverage (times)	3.06	4.59	5.16	5.57	4.63
Debt to EBITDA (times)	7.75	7.00	6.16	5.55	5.79
FFO to debt (%)	6.62	8.03	10.78	13.34	12.34
Debt to capitalization (%)	60.87	58.95	59.20	60.69	61.01

## RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

**Bangkok Expressway and Metro PLC (BEM)**

**Company Rating:**

A

**Issue Ratings:**

BEM200A: Bt2,500 million senior unsecured debentures due 2020	A
BEM214A: Bt3,000 million senior unsecured debentures due 2021	A
BEM216A: Bt1,615 million senior unsecured debentures due 2021	A
BEM225A: Bt1,000 million senior unsecured debentures due 2022	A
BEM229A: Bt2,000 million senior unsecured debentures due 2022	A
BEM234A: Bt3,500 million senior unsecured debentures due 2023	A
BEM236A: Bt2,000 million senior unsecured debentures due 2023	A
BEM245A: Bt2,000 million senior unsecured debentures due 2024	A
BEM249A: Bt3,000 million senior unsecured debentures due 2024	A
BEM254A: Bt3,500 million senior unsecured debentures due 2025	A
BEM250A: Bt2,500 million senior unsecured debentures due 2025	A
BEM265A: Bt1,000 million senior unsecured debentures due 2026	A
BEM266A: Bt3,335 million senior unsecured debentures due 2026	A
BEM270A: Bt3,000 million senior unsecured debentures due 2027	A
BEM286A: Bt2,750 million senior unsecured debentures due 2028	A
BEM286B: Bt500 million senior unsecured debentures due 2028	A
BEM295A: Bt1,000 million senior unsecured debentures due 2029	A
Up to Bt3,000 million senior unsecured debentures due within 12 years	A

**Rating Outlook:**

Negative

**TRIS Rating Co., Ltd.**

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