

BANGKOK EXPRESSWAY AND METRO PLC

No. 80/2019
30 May 2019

CORPORATES

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

Last Review Date: 01/04/19

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". The ratings reflect BEM's strong business profile, supported by barriers to entry, stable operating cash flow, and the growth prospects in the mass rapid transit (MRT) segment. The ratings are weighed down by a rise in BEM's leverage, the result of sizable investments in its pipeline.

KEY RATING CONSIDERATIONS

Strong business risk profile

BEM has a strong business risk profile. Its main lines of business, expressway and mass transit, are protected by high barriers to entry. For example, a potential competitor would need to obtain concessions from the government in order to build and operate expressways or mass transit lines. A potential competitor would also need a significant amount of capital to undertake project of their type.

BEM's strong business profile is also underpinned by its record of steady and stable earnings in the expressway segment. BEM has a number of growth opportunities in the mass transit segment, thanks to the government policies to promote an integrated mass transit network.

Solid cash flow

The expressway segment generates steady cash flow. The strategic location of the Second Stage Expressway (SES) connecting to the First Stage Expressway (FES) creates a secure base of earnings for the company.

During 2014-2018, the average daily traffic volume on the expressway network grew by an average of 2.3% per year. For the first four months of 2019, daily traffic volume grew 1.5% year-on-year (y-o-y), averaging 1.24 million trips per day. Daily toll revenue grew 2.1% y-o-y, averaging Bt28.25 million per day.

TRIS Rating's baseline scenario assumes growth rates for daily traffic volume and toll revenue in the low single digits during the next three years. The projection is based on assumption that BEM's expressway concessions will be extended.

Expressway concessions up for renewal

In March 2019, BEM received the shareholder approval to settle all outstanding disputes that the company and its subsidiaries have with the Expressway Authority of Thailand (EXAT) by means of extension of expressway concessions, including the Second Stage Expressway (SES) -- Sectors A, B, C, (concession set to expire in 2020), and D (expire in 2027), plus the Bang Pa-In - Pak Kret Expressway (Sector C+, expire in 2026). All the concessions will now carry through April 2057.

The dispute settlement agreement addresses issues of revenue sharing, toll increases, and new construction. For example, BEM will share 40% of the revenue on the FES and the SES Sector A and B with the EXAT. BEM will receive all the toll revenue on the SES Sector C and D, and Sector C+. BEM and EXAT also agreed that the toll rates will increase every 10 years for all types of vehicles at the rates specified in the agreement. As part of the agreement with EXAT, BEM has to invest Bt31.5 billion to increase the capacity of the SES Expressway. BEM will construct a double deck expressway from the Pra Cha

Cheun toll station to the Asoke toll station. The agreement is subject to approval by the Council of Ministers.

The concession extensions will secure BEM's cash flow. However, leverage will rise over the next few years because BEM must make the investments spelled out in the agreement.

There is some risk that the dispute settlement agreement will not be approved. If the agreement does not get approval, BEM's operating cash flow will materially decline. About 40% of its revenue and over 50% of earnings before interest, taxes, depreciation, and amortization (EBITDA) are from the urban sector expressways. TRIS Rating holds the view that it will take quite some time for cash flow from the MRT segment to ramp up and compensate the absence of urban sector expressways earnings.

Growth prospects in the MRT segment

MRT ridership is expected to jump after the extension of the MRT Blue Line is in full operation. The MRT Blue Line extension section 2, the Hua Lamphong - Lak Song segment, is scheduled to open in September 2019. Section 3, the Tao Poon - Tapra segment, is scheduled to open in March 2020.

In 2018, average daily ridership on MRT was up by 5.5% y-o-y to 311,538 trips. Average daily revenue grew by 7.2%, averaging Bt7.63 million. For the first four months of 2019, average daily ridership rose by 4.2% y-o-y to 316,439 trips, and average daily revenue grew by 4.3%, averaging Bt8.01 million.

TRIS Rating's base case scenario assumes average daily ridership and average daily revenue on the MRT will be at a rate in high single digit in 2019. The growth rate will jump in 2020 after the full operation of the MRT Blue Line extension. TRIS Rating projects average daily ridership on the MRT Blue Line to range between 400,000-500,000 trips per day in 2020-2021. Average daily revenue is projected at Bt19-Bt22 million per day.

The government is pushing for an integrated mass transit system. This will benefit BEM. As an experienced and well-equipped operator, BEM is in an advantageous position to win future concessions. Furthermore, the MRT Blue Line is a circle line, an important strategic benefit. The MRT Blue Line can receive feed-in traffic from other mass transit lines.

Solid operating cash flow

TRIS Rating believes BEM's operating cash flow will remain solid. The profit margin of expressway segment is healthy, and the MRT Blue Line will make a larger contribution once the extensions open.

TRIS Rating's base case assumes BEM's revenue of Bt16 billion in 2019, jumping to Bt20-Bt22 billion annually during 2020-2021. The operating margin (operating income before depreciation and amortization as a percentage of sales) is forecast to range between 43%-45% over the period. EBITDA is projected at Bt7.3-Bt7.5 billion in 2019 and Bt9.7-Bt10.3 billion annually in 2020-2021.

In 2018, BEM reported Bt15.6 billion in revenue, up 2.9% y-o-y. For the first quarter of 2019, revenue increased by 2.1% y-o-y to Bt4 billion. The operating margin was healthy at about 50%. EBITDA was Bt8.4 billion in 2018 and Bt2 billion in the first quarter of 2019.

Leverage will rise owing to investment

BEM's solid cash flow is offset by high financial leverage, due to the capital intensive nature of its business. At the end of March 2019, adjusted debt was Bt52.2 billion. The adjusted debt value excludes a debt of approximately Bt10 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). The agreement stipulates that the debt will be paid back in 10 years. The adjusted debt to EBITDA ratio was 6.1 times (annualized, from the trailing 12 months).

TRIS Rating expects BEM's leverage will rise because of several investment lined ahead. TRIS Rating forecasts BEM's capital expenditures of Bt7-Bt8 billion annually in 2019-2020 and Bt10-Bt11 billion in 2021. The capital expenditures are mainly for the MRT Blue Line and the construction of a double deck expressway. Our base case assumption expects BEM's adjusted debt to EBITDA ratio of 6.5-7.5 times during 2019-2021. Leverage will further rise if the company won the bid for the MRT Orange Line which will require a sizable investment. The ratings could be downgraded if the adjusted debt to EBITDA ratio stays over 7 times on a sustained basis.

Adequate liquidity

TRIS Rating expects BEM's liquidity will be adequate over the next 12 months. The primary funding needs are: planned capital expenditures of Bt7-Bt8 billion, scheduled debt repayments of approximately Bt8 billion, and dividend payments forecast at about Bt2 billion. Primary sources of funds are: funds from operations (FFO) of at least Bt5.5 billion, plus cash and cash equivalents of Bt1.9 billion at the end of March 2019. BEM has additional financial flexibility from its investments in TTW PLC and CK Power PLC. The combined market value of the two investments was Bt18.3 billion as of 29 May 2019.

BASE-CASE ASSUMPTIONS

- BEM's revenue will be around Bt16 billion in 2019, then will jump to Bt20-Bt22 billion annually during 2020-2021.
- The operating margin is forecast at 43%-45% during 2019-2021.
- Capital expenditures will be Bt7-Bt8 billion annually in 2019-2020 and Bt10-Bt11 billion in 2021.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that BEM's operating performance will remain strong, cash flow will remain steady from both the expressway and the MRT businesses, and the degree of leverage will remain acceptable.

RATING SENSITIVITIES

BEM's credit upside is limited, given the large debt-funded investments planned over the next three years and the uncertainty surrounding the renewal terms of the urban sector expressway concessions. A rating downgrade will be triggered if a deterioration in operating performance or a debt-funded investment pushes adjusted debt to EBITDA over 7 times on a sustained basis.

COMPANY OVERVIEW

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 2019, was CH. Karnchang PLC (CK), which held 30.9% 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 2019, BEM reported revenue of Bt4 billion, of which 65% was from the expressway segment, 31% from the mass transit segment, and 4% 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 EXAT. The concessions carry different expiration dates. The SES concession, covering Sectors A, B, and C, will expire in 2020. The concessions for the extension of SES (Sector D), Sector C+, and the SOE will expire in 2027, 2026, and 2042, respectively.

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 is expected to be fully operational in 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.

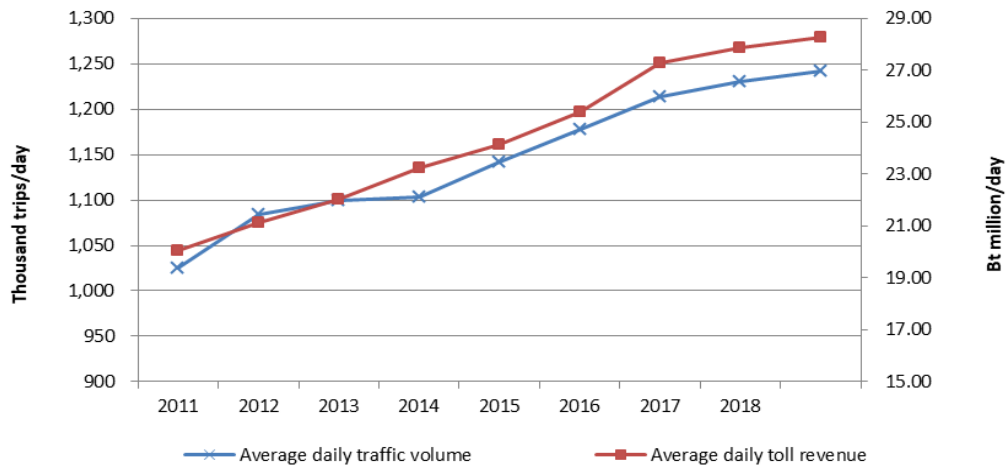
KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

Revenue (Unit: Bt mil)	2014	2015	2016	2017	2018	1Q2018	1Q2019
Toll road	8,485	8,815	9,301	9,957	10,174	2,537	2,581
Mass transit	2,248	2,374	3,230	4,521	4,736	1,183	1,211
Commercial development	501	549	573	675	705	166	177
Total	11,234	11,738	13,104	15,153	15,615	3,886	3,969
Contribution	2014	2015	2016	2017	2018	1Q2018	1Q2019
Toll road	76%	75%	71%	66%	65%	65%	65%
Mass transit	20%	20%	25%	30%	30%	30%	31%
Commercial development	4%	5%	4%	4%	5%	4%	4%
Total	100%	100%	100%	100%	100%	100%	100%
% Change	2014	2015	2016	2017	2018	1Q2018	1Q2019
Toll road	6%	4%	6%	7%	2%	3%	2%
Mass transit	7%	6%	36%	40%	5%	5%	2%
Commercial development	11%	10%	4%	18%	4%	10%	7%
Total	6%	4%	12%	16%	3%	4%	2%

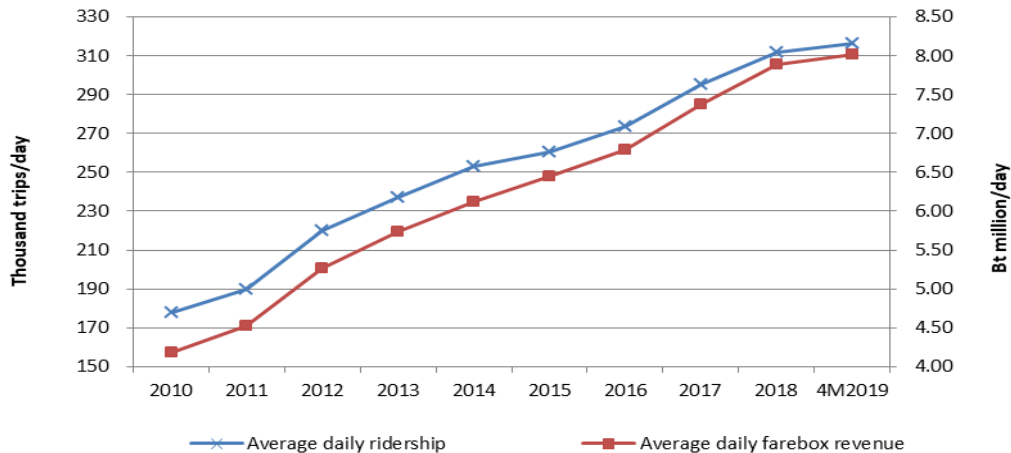
Source: BEM

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 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	3,979	15,641	15,206	13,134	11,749
Operating income	2,034	7,877	8,061	7,484	6,793
Earnings before interest and taxes (EBIT)	1,054	3,978	4,466	3,919	3,435
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	2,035	8,387	8,670	8,052	7,380
Funds from operations (FFO)	1,534	5,754	6,467	6,050	4,715
Adjusted interest expense	305	1,443	1,507	1,438	1,944
Capital expenditures	2,185	10,484	8,265	7,086	7,748
Total assets	105,069	103,831	98,919	82,786	78,095
Adjusted debt	52,182	51,674	48,128	46,600	40,834
Adjusted equity	36,158	35,612	31,179	29,783	29,130
Adjusted Ratios					
Operating income as % of total operating revenues (%)	51.12	50.36	53.01	56.98	57.82
Pretax return on permanent capital (%)	4.64	4.63	5.42	5.01	4.84
EBITDA interest coverage (times)	6.67	5.81	5.75	5.60	3.80
Debt to EBITDA (times)	6.15	6.16	5.55	5.79	5.53
FFO to debt (%)	11.31	11.14	13.44	12.98	11.55
Debt to capitalization (%)	59.07	59.20	60.69	61.01	58.36

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

Bangkok Expressway and Metro PLC (BEM)

Company Rating:	A
Issue Ratings:	
BEM196A: Bt5,000 million senior unsecured debentures due 2019	A
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
Rating Outlook:	Stable

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