

BTS GROUP HOLDINGS PLC

No. 80/2021
27 May 2021

CORPORATES

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

Last Review Date: 29/09/20

Company Rating History:

Date	Rating	Outlook/Alert
28/05/20	A	Negative
17/05/16	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on BTS Group Holdings PLC (BTS) and the ratings on BTS's outstanding senior unsecured debentures at "A", with a "negative" outlook. At the same time, TRIS Rating assigns the "A" rating to BTS's proposed issue of up to THB13 billion in senior unsecured debentures. The proceeds from the new debentures will be used to repay outstanding debts. The "negative" outlook reflects the likelihood of a significant rise in BTS's financial leverage as a result of the potential investment in a new mass transit concession by its core subsidiary, Bangkok Mass Transit System PLC (BTSC).

The ratings continue to reflect the company's strong business profile based on the steady service income from the mass transit train operation, sizable cash flow received from its 33.33% investment in BTS Rail Mass Transit Growth Infrastructure Fund (BTSGIF) and its entrenched position in the media business. The ratings, however, are constrained by a potential surge in financial leverage to fund several potential new investments.

KEY RATING CONSIDERATIONS

Growing and predictable income from operating and maintenance (O&M) services

We expect BTS's revenue and cash flow from O&M services will continue to rise substantially with the operation of two new "Green Line" extensions. BTS provides O&M services through BTSC. After starting operation of the "Southern Green Line" extension in late 2018, the company commenced full operation of the "Northern Green Line" extension in late 2020. Therefore, O&M service fees increased to THB3.8 billion in the first nine months of fiscal year (FY) 2021 (1 April to 31 December 2020), compared with around THB2.6 billion in the same period of the previous fiscal year. The O&M service income is continuously increasing and highly predictable as service fees are largely fixed. We project the annual O&M service fees to gradually increase to THB6.8 billion in FY2023.

Currently, the Green Line concession is under consideration and awaiting government approval. Based on financial statement, as of December 2020, the company has not yet received the O&M service fees about THB9 billion and the electrical and mechanical (E&M) work of around THB18.8 billion. The payments are pending on the government's decision whether to grant a new operating concession to the company in exchange of offsetting the owed amounts or continue with the existing O&M agreement and pay the owed amounts to the company.

Two monorails to commence operation in 2022

BTS has majority equity stakes in two joint ventures (JV) with its two partners to invest in and operate two monorail projects (the "Pink Line" and "Yellow Line"), under Public Private Partnership (PPP)-Net cost concessions awarded in 2017. Under the concessions, the JVs will invest in the monorail E&M work in exchange for ridership revenue and related commercial and media income. Both projects are under development and are expected to commence operation in the fourth quarter of FY2022. Partial commissioning is targeted in January 2022 and March 2022 for Yellow Line and Pink Line, respectively. We project the revenue for each line to be around THB1.3-THB1.4 billion in FY2023.

COVID-19 significantly affected BTSGIF cash flow

Cash flow from BTSGIF dropped substantially due to the impact of the Coronavirus Disease 2019 (COVID-19) pandemic. Generally, the company receives cash flow from BTSGIF in the forms of dividend income and capital return. In our base-case adjustment, we include only dividend income in earnings before interest, taxes, depreciation, and amortization (EBITDA). In the first nine months of FY2021, ridership dropped substantially due to the COVID-19 outbreak. Ridership was seen briefly recovered after the outbreak was largely brought under control before the second and third wave of infections came around in late 2020 and March 2021, respectively. Given the severity of the latest wave of infections, we expect the outbreak to cause a drastic drop in ridership once again for the first half of FY2022 (1 April to 30 September 2021). We project ridership to gradually recover in the second half of FY2022 assuming the virus outbreak to be largely under control by that time and the vaccines rollout to cover the majority of the Thai population. In the first nine months of FY2021, the company received only THB509 million of capital return from BTSGIF after the fund announced it would pay only capital return and suspend dividend distribution to unitholders. We assume cash flow from BTSGIF will gradually increase to THB1 billion in FY2023 in tandem with the recovery in ridership.

Substantial investment required if new projects approved

The company will need a substantial amount of financing to fund several potential investments over the next five years if these investments materialize. The first major investment is the Green Line concession which requires a substantial amount of investment. BTS currently has two O&M contracts with the Bangkok Metropolitan Administration (BMA) to operate the Green Line and its extensions. However, the BMA intends to replace the existing O&M contracts with a new operating concession while BTS is interested in investing in a new concession. BMA and BTS have already finalized the terms and conditions of the concession agreement, pending government approval.

In addition, the company and its partners have been granted a 50-year PPP-Net Cost concession for the “U-Tapao International Airport Project” in 2020. The company and its partners are also close to signing agreements for 30-year O&M contracts for two motorway projects (“Bang Pa In – Nakhon Ratchasima” (M6) and “Bang Yai – Kanchanaburi” (M81)). We estimate the company will have to secure funding of around THB68 billion for all these investments over the next five years.

COVID-19 continues to pressure performance of media business but expected to improve

In the first nine months of FY2021, BTS’s media segment revenue substantially declined by around 62% from the same period of the previous year, due to the deconsolidation of Master Ad PLC (MACO) and lower demand from advertisers affected by the COVID-19 pandemic. However, we expect revenue from the media business will recover by around 10% in FY2022 and 15% in FY2023 assuming gradual recovery in the advertising industry following our expectation that the pandemic will largely be under control by the end of the first half FY2022 and the government will have vaccinated the majority of the Thai population in the second half of FY2022. In addition, the opening of the Green Line extension routes will increase advertising media revenue inside the BTS trains. There is a high probability that the company will receive the rights to manage the advertising space and commercial areas in the new stations on the extension routes of the Green Line, the Pink Line, and the Yellow Line.

BTS operates its media business through its subsidiary, VGI PLC (VGI). VGI has a strong competitive advantage because it is the sole provider of advertising media inside the BTS trains and the commercial space in the BTS train stations. Moreover, VGI is expanding into other out-of-home (OOH) media through the acquisitions of strategic interests in several related businesses. In 2021, BTS held 41.16% of MACO, 20.28% of Kerry Express (Thailand) Co., Ltd., and 18.59% of Plan B Media PLC (PLANB). The acquisitions will enlarge its revenue base and create synergies in terms of cross-selling and the pooling of consumer data. VGI also offers online media services to consumer product businesses, leveraging its ample offline consumer data.

Potential rise in leverage

A significant rise in leverage will likely happen in the scenario of replacing the O&M contracts with a new Green Line concession as discussed above. As the new concession is still pending government approval, our base-case forecast has not incorporated the effect of the potential new investment. In the first nine months of FY2021, the ratio of adjusted net debt to EBITDA weakened to 8.2 times (annualized, from the trailing 12 months), from 7.9 times in FY2020, due mainly to the increasing of debt to finance the Green Line project. In our base-case forecast, we project the adjusted net debt to EBITDA ratio to decline to around 5-6 times if the BMA pays for the E&M work of the Southern and Northern Green Line extensions and O&M service fees. However, in the scenario of a new Green Line concession, the company’s financial profile will likely weaken significantly should BTS fund the new investment primarily through debt financing.

BTS has taken out project loans to finance the two large investments in the Pink and Yellow Line monorails. TRIS Rating does not include these borrowings as part of BTS’s total debt because the expenditures for civil work and the new borrowings

needed to fund the work will eventually be reimbursed in full by the government. Under the terms of the concessions for the Pink and Yellow Lines, the government will bear the cost of land acquisition and civil work. The borrowings for the E&M work also take the form of project finance with no recourse to the sponsors of the projects.

Acceptable liquidity profile

We assess BTS to have adequate liquidity over the next 12 months. As of December 2020, the company had cash on hand of THB5 billion and short-term investments worth THB2.8 billion. In addition, the company also has undrawn credit facilities available from commercial banks of THB31.1 billion. The debt repayment schedule over the next 12 months will include THB3.6 billion in long-term obligations and THB17.8 billion in short-term obligations.

In FY2022, capital expenditures will be around THB15 billion. Most of the expenditures will be funded by project loans. For the first nine months of FY2021, funds from operations (FFO) were THB3.4 billion. The FFO to debt ratio was 5.3% (annualized, from the trailing 12 months) while the EBITDA interest coverage ratio stood at 3.6 times.

TRIS Rating believes that BTS will comply with the debenture covenants over the next 12 to 18 months, which requires the company to maintain the net interest bearing debt to equity ratio below 2.5 times. At the end of December 2020, the ratio was 0.2 times.

BASE CASE ASSUMPTIONS

During FY2021 to FY2023, TRIS Rating's assumptions for the operations of BTS are as follows:

- O&M revenue to gradually increase to THB6.8 billion in FY2023 from around THB3.8 billion in FY2020.
- BTS to start to recognize revenue from the Pink and Yellow Lines in FY2023 of around THB1.3-THB1.4 billion for each line.
- Advertising revenue to drop by 60% in FY2021, then increase by around 10% in FY2022 and 15% in FY2023.
- BTS to recognize revenue of around THB48 billion from E&M services, train procurement services, and revenue from the development of the Pink and Yellow Lines.
- EBITDA margin to be in the range of 50%-90%.
- Capital expenditures to total around THB41 billion over the forecast period.

RATING OUTLOOK

The "negative" outlook reflects the likelihood of a significant rise in BTS's financial leverage from new investments which could lead to material deterioration in credit metrics to a degree that may not be commensurate with current ratings.

RATING SENSITIVITIES

The prospect for a rating upgrade is unlikely over the next few years as we expect the company's leverage will remain high. The ratings could be revised downward if the adjusted net debt to EBITDA ratio stays over 5 times on a sustained basis. A material deterioration in the company's financial profile could be caused by debt-funded investments or a significant drop in operating performance.

COMPANY OVERVIEW

BTS (formerly known as Tanayong PLC) was established in 1968 as a property development company. BTS became a holding company after it acquired Bangkok Mass Transit System PLC (BTSC) in 2010. The company was listed on the Stock Exchange of Thailand (SET) in 1991. As of December 2017, BTS operated in four key business segments: mass transit, media, property development, and services. In March 2018, the company sold nearly its entire property portfolio to U City PLC. As of December 2020, BTS had a 37.87% stake in U City. For the first nine months of FY2021, the mass transit segment contributed approximately 93% of EBITDA, while the media segment contributed about 7%. Contributions from other two segments remained minimal.

For the mass transit business, the company operates the Green Line Skytrain through its core subsidiary, BTSC. BTSC operates the core network of the Green Line Skytrain through a 30-year build-operate-transfer concession which already sold the future net farebox revenue over the remaining concession period (2013-2029) to BTSGIF. BTS holds 33.33% of the investment units of BTSGIF. BTSC also has two O&M contracts to provide O&M services for the two Green Line extension routes and the core network from 2012 to 2042. BTS has set up JVs with its two partners to invest in the Pink and Yellow Line monorail projects. The JVs will invest in the two projects, at a total cost of around THB90 billion, and receive the rights to operate the rails for a period of 33.3 years. The company and its partners have been granted a 50-year PPP-Net Cost concession for the U-Tapao International Airport Project in 2020. In addition, in 2019, the company and its partners were officially announced

as the best bidders for 30-year O&M contracts of two motorway projects (Bang Pa In – Nakhon Ratchasima (M6) and Bang Yai – Kanchanaburi (M81) which are currently awaiting government approval.

In the media segment, the company sells advertising and rents retail space on the BTS Skytrain network through VGI, a 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 contracts to cover space on additional projects for which BTSC is granted the rights to provide media services. VGI has continuously expanded its business scope. VGI now offers other types of OOH media through companies it acquired. In 2021, BTS held 41.16% of MACO, 20.28% of Kerry Express (Thailand), and 18.59% of PLANB. The acquisitions will enlarge its revenue base and create synergies in terms of cross-selling and the pooling of consumer data.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Apr-Dec 2020	-----Year Ended 31 March -----			
		2020	2019	2018	2017
Total operating revenues***	6,289	8,294	6,724	6,579	5,320
Earnings before interest and taxes (EBIT)	4,368	8,094	5,560	3,818	3,117
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,636	7,990	7,520	6,252	4,590
Funds from operations (FFO)	3,362	4,200	5,035	4,177	3,230
Adjusted interest expense	1,862	2,313	1,712	1,299	702
Capital expenditures	9,948	17,753	16,622	1,314	1,478
Total assets	205,974	173,100	144,398	106,258	93,631
Adjusted debt	66,314	63,473	58,048	32,763	21,871
Adjusted equity	73,014	67,246	52,310	46,364	45,182
Adjusted Ratios					
EBITDA margin (%)	105.51	96.34	111.83	95.02	86.27
Pretax return on permanent capital (%)	3.48 **	6.32	5.22	4.25	4.25
EBITDA interest coverage (times)	3.56	3.46	4.39	4.81	6.54
Debt to EBITDA (times)	8.22 **	7.94	7.72	5.24	4.76
FFO to debt (%)	5.30 **	6.62	8.67	12.75	14.77
Debt to capitalization (%)	47.60	48.56	52.60	41.41	32.62

* Consolidated financial statements

** Annualized with the trailing 12 months

*** Excluding revenue from installation and construction services and train procurement service

RELATED CRITERIA

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

BTS Group Holdings PLC (BTS)

Company Rating:	A
Issue Ratings:	
BTSG225A: THB1,300 million senior unsecured debentures due 2022	A
BTSG22NA: THB500 million senior unsecured debentures due 2022	A
BTSG22DA: THB1,500 million senior unsecured debentures due 2022	A
BTSG239A: THB1,290 million senior unsecured debentures due 2023	A
BTSG23NA: THB4,000 million senior unsecured debentures due 2023	A
BTSG245A: THB3,000 million senior unsecured debentures due 2024	A
BTSG25NA: THB1,500 million senior unsecured debentures due 2025	A
BTSG265A: THB2,700 million senior unsecured debentures due 2026	A
BTSG27NA: THB2,000 million senior unsecured debentures due 2027	A
BTSG27DA: THB2,000 million senior unsecured debentures due 2027	A
BTSG289A: THB4,660 million senior unsecured debentures due 2028	A
BTSG295A: THB5,000 million senior unsecured debentures due 2029	A
BTSG29DA: THB2,000 million senior unsecured debentures due 2029	A
BTSG30NA: THB600 million senior unsecured debentures due 2030	A
Up to THB13,000 million senior unsecured debentures due within 10 years	A
Rating Outlook:	Negative

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