TRIS RATING
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BTS GROUP HOLDINGS PLC

No. 73/2019
15 May 2019

CORPORATES

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

Last Review Date: 31/08/18

Company Rating History:

Date	Rating	Outlook/Alert
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". At the same time, TRIS Rating assigns the "A" rating to the proposed issue of up to Bt10,000 million in senior unsecured debentures. The proceeds from the new debentures will be used to repay existing debt.

The ratings reflect the company's strong business profile based on the high predictability of the service income from the mass transit train operation, stable dividend income received from its 33.33% investment in the BTS Rail Mass Transit Growth Infrastructure Fund (BTSGIF), and its entrenched position in the media business. The ratings, however, are constrained by high financial leverage due to the investments it has made in a number of large mass transit projects. In addition, there is uncertainty surrounding the conversion of two operating and maintenance (O&M) agreements to a new concession agreement covering the Green Line Skytrain. TRIS Rating will closely monitor the terms and conditions of the new concession since the new concession could affect BTS's financial profile.

KEY RATING CONSIDERATIONS

Cash flow increases in mass transit segment

Revenue and cash flow in mass transit segment will grow because of two main factors. Firstly, the revenue and cash flow from operating and maintenance (O&M) services will rise substantially after the operation of two new Green Line extensions. BTS provides O&M services through a subsidiary, Bangkok Mass Transit System PLC (BTSC). The Southern Green Line extension started operation in late 2018, while Northern Green Line extension will fully commence in 2020. O&M services generate a stable stream of revenue and a healthy gross profit margin. TRIS Rating's projections assume the annual O&M services fees will gradually increase from around Bt1,800 million in fiscal year (FY) 2018 to Bt6,500 million in FY2022.

The second factor is an increase in dividend income. BTS receives dividend from a 33.33% stake in BTSGIF. We forecast dividend income will grow by 5% per annum in FY2020-FY2022. As the mass transit networks expand, more passengers will use the core network that passes through the high-traffic areas of downtown Bangkok. During FY2008-FY2018, average daily ridership on the BTS network grew by 6.2% per annum. However, in the first nine months of FY2019 (9M/FY2019), the average daily ridership slipped by 0.6% year-on-year (y-o-y) due to fare adjustment and services disruption in June 2018.

New concession is under negotiation

BTS has two O&M contracts with the Bangkok Metropolitan Administration (BMA) to operate the Green Line Skytrain and the extensions. However, the BMA intends to restructure the existing O&M contracts with a new concession agreement. The concessionaire will operate the Green Line Skytrain. BTS is now negotiating the terms and conditions of the new concession. The new concession is expected to be finalized and signed within this year. TRIS Rating will closely monitor the terms and conditions of the concession and assess the effect on BTS's financial profile.

Revenue grows in the media segment

TRIS Rating projects steady improvement in revenue and cash flow in the media segment. BTS's subsidiary, VGI Global Media PLC (VGI), is responsible for this segment. The media segment is second-largest source of cash flow for BTS. For 9M/FY2019, earnings before interest, taxes, depreciation, and amortization (EBITDA) from the media segment comprised around 33% of BTS's total EBITDA.

VGI has a strong competitive advantage because it is the sole provider of advertising media inside skytrain and in the commercial space around BTS train stations. In the future, revenue will climb as the mass transit network grows. 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 extension routes. 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 the pooling of consumer data. In FY2019, VGI bought 23.0% of Kerry Express (Thailand) Co., Ltd. and 18.6% of Plan B Media PLC for a total of approximately Bt10,500 million. These investments were funded by share swaps, its internal cash, and new equity that VGI raised through the exercise of outstanding warrants. During FY2020-FY2022, we project revenue for media segment will increase by 7% per annum.

Leverage will gradually decline

The adjusted net debt to EBITDA ratio will gradually improve in the next three years. In 9M/FY2019, total debt increased to Bt63,479 million, from Bt47,174 million in FY2018, due to the investments in many projects. As a result, the adjusted net debt to EBITDA ratio increased to 7.0 times (annualized, from the trailing 12 months) in 9M/FY2019 from 5.2 times in FY2018. In our base case, the adjusted net debt to EBITDA ratio will gradually decline, and range from 3.5-4.5 times in FY2021-FY2022. The ratio will gradually decline as EBITDA increases and because BMA will take over the responsibility of paying for the electrical and mechanical (E&M) work on the South and North Green Line extensions.

BTS will borrow extensively in project loans to make two large investments in the Pink Line and Yellow Line, two new mass transit projects. TRIS Rating does not include the borrowings for these investments as part of BTS's total debt. This is because the expenditures for civil work, and the new borrowing needed to fund the work, will eventually be reimbursed in full by the government. Under the terms of the concessions for the Pink Line and Yellow Line, the government will bear the cost of land acquisition and civil work. The borrowings for the E&M work are also non-recourse.

The ratings are based on our expectation that BTS's management will maintain its stated financial discipline. BTS has a policy to gradually divest its investment portfolio to repay debt and keep leverage at an acceptable level.

Acceptable liquidity profile

Liquidity is adequate. As of December 2018, the company had cash on hand of Bt6,895 million and securities available for sale and trading worth Bt20,720 million. In addition, the company has undrawn credit facilities available from commercial banks of Bt28,085 million. Based on the debt repayment schedule over the next 12 months, outstanding debt includes Bt5,547 million in long-term obligations and Bt21,138 million in short-term obligations. BTS plans to issue Bt10,000 million in debentures to repay some of short-term debts.

In FY2020, capital expenditures will be around Bt29,000 million. Most of the expenditures will be funded by project loans. In the first nine months of FY2019, funds from operations (FFO) were Bt3,861 million. The FFO to net debt ratio was 9.6% (annualized, from the trailing 12 months) while the EBITDA interest coverage ratio stood at 4.7 times.

TRIS Rating believes that BTS will comply with the debenture covenants over the next 12 to 18 months. The net interest-bearing debt to equity ratio at the end of December 2018 was 0.2 times, significantly below the debenture covenant of 2.5 times.

BASE CASE ASSUMPTIONS

During the next three years from FY2020 to FY2022, TRIS Rating's assumptions are as follows:

- O&M revenues will gradually increase from around Bt1,800 million in FY2018 to Bt6,500 million in FY2022.
- Advertising revenue will grow by around 7% per annum.
- BTS will recognize revenue of around Bt70,000 million from E&M services, train procurement services, and revenue from the development of the Pink Line and Yellow Line.
- The operating margin is expected to stay around 30%.
- Capital expenditures will total around Bt60,000 million over the three-year forecast period.

RATING OUTLOOK

The "stable" outlook reflects the expectation that the company will achieve steady growth in revenues and cash flow from operations. Total debt is expected to rise substantially because of the new mass transit projects undertaken through its subsidiaries. However, the adjusted net debt to EBITDA ratio is expected to decline to below 5 times in FY2020.

RATING SENSITIVITIES

The prospect for a rating upgrade is unlikely over the next couple of years because leverage will remain high. The ratings and/or outlook could be revised downward if the adjusted net debt to EBITDA ratio stays over 5 times on a sustainable basis. For example, aggressive debt-funded investments or a significant drop in operating performance could cause the financial profile to deteriorate.

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 all of its property portfolio to U City PLC. Presently, BTS has a 37.56% stake in U City. For the first nine months of FY2019, the mass transit segment contributed approximately 70% of EBITDA, while the media segment contributed about 30%. The contributions from the other two segments remained minimal.

The company operates the mass transit business through its core subsidiary, BTSC. BTS currently owns 97.48% of BTSC. BTSC operates the Green Line Skytrain (Core Network – Mo Chit-Onnut and National Stadium-Saphan Taksin), under a 30-year build-transfer-operate concession covering 1999-2029, awarded by the BMA. In 2013, BTSC sold the future net farebox revenue over the remaining concession period (2013-2029) to BTSGIF for Bt61,000 million. BTS holds 33.33% of the investment units of BTSGIF. BTSC entered into two O&M contracts with Krungthep Thanakom Co., Ltd. (KT), a wholly-owned subsidiary of the BMA. The contracts call for BTSC to provide O&M services for the Green Line extension routes. The first O&M contract covers the first extension routes (Onnut-Bearing and Saphan Taksin-Bang Wa) from 2012 to 2042 and the Green Line Core Network from 2029 to 2042. The second O&M contract covers the second extension routes (Bearing-Samut Prakarn and Mochit-Khu Kot) from 2017 to 2042.

Apart from the train operations run by BTSC, BTS invested in two new mass transit rail projects in the Bangkok metropolitan area: the Pink Line and the Yellow Line monorails. The new projects are undertaken through joint ventures (JV) with its two partners, Sino-Thai Engineering & Construction PLC (STEC) and Ratch Group PLC (RATCH). The company holds a 75% equity stake in the JV, STEC holds 15%, and RATCH holds 10%. The JV has entered into public-private partnership investment agreements with the Mass Rapid Transit Authority of Thailand (MRTA). The JV will invest in the two projects, at a total cost of around Bt90,000 million, and receive the rights to operate the rails for a period of 33.3 years.

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 expanded its scope of business continuously. VGI now offers other types of OOH media through companies it acquired, such as Master Ad PLC (MACO). In FY2019, VGI bought 23.0% of Kerry Express (Thailand) Co., Ltd. and 18.6% of PLANB PLC. 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: Bt million

	Apr-Dec 2018	------------------Year Ended 31 March 2018	2017	2016	2015 --------------
Total operating revenues***	5,448	6,516	5,320	5,455	6,289
Operating income	1,643	2,545	1,933	2,068	3,147
Earnings before interest and taxes (EBIT)	4,268	3,939	3,117	2,621	4,022
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,693	6,372	4,590	4,069	5,345
Funds from operations (FFO)	3,861	4,286	3,230	2,598	4,149
Adjusted interest expense	1,219	1,299	702	350	463
Capital expenditures	10,281	1,495	1,478	1,634	1,781
Total assets	136,499	106,058	93,631	65,259	66,810
Adjusted debt	51,546	32,911	21,978	5,531	0
Adjusted equity	53,557	46,355	45,182	46,901	52,012
Adjusted Ratios					
Operating income as % of total operating revenues (%)	30.17	39.06	36.32	37.92	50.04
Pretax return on permanent capital (%)	4.94 **	4.37	4.25	4.38	6.26
EBITDA interest coverage (times)	4.67	4.90	6.54	11.64	11.55
Debt to EBITDA (times)	7.03 **	5.16	4.79	1.36	0.00
FFO to debt (%)	9.57 **	13.02	14.70	46.97	n.m.
Debt to capitalization (%)	49.04	41.52	32.72	10.55	0.00

* *Consolidated financial statements*
** *Annualized with the trailing 12 months*
*** *Exclude revenue from installation and construction services and train procurement services*
n.m *Not meaningful*

RELATED CRITERIA

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

BTS Group Holdings PLC (BTS)

Company Rating:	A
Issue Ratings:	
BTSG20DA: Bt1,500 million senior unsecured debentures due 2020	A
BTSG22DA: Bt1,500 million senior unsecured debentures due 2022	A
BTSG27DA: Bt2,000 million senior unsecured debentures due 2027	A
BTSG29DA: Bt2,000 million senior unsecured debentures due 2029	A
BTSG209A: Bt3,550 million senior unsecured debentures due 2020	A
BTSG239A: Bt1,290 million senior unsecured debentures due 2023	A
BTSG289A: Bt4,660 million senior unsecured debentures due 2028	A
Up to Bt10,000 million senior unsecured debentures due within 10 years	A
Rating Outlook:	Stable

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