

BANGKOK MASS TRANSIT SYSTEM PLC

No. 77/2020
28 May 2020

CORPORATES

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

Last Review Date: 16/05/19

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on Bangkok Mass Transit System PLC (BTSC) and the ratings on BTSC's outstanding senior unsecured debentures at "A", but revises the outlook to "negative" from "stable". The "negative" outlook reflects the high probability of a significant increase in BTSC's financial leverage as a result of its potential investment in the new Green Line Skytrain concession. The new investment could lead to a material deterioration in credit metrics to a degree that may not commensurate with the current ratings.

The ratings reflect its strong business profile as one of the two mass transit operators in Thailand, the steady growth and predictability of cash flows from its train operations, and entrenched position in the media business. However, these strengths are partially offset by its large investment plan which could potentially lead to a surge in its leverage.

BTSC is the core business and source of revenue and profit for BTS Group Holdings PLC (BTS). The credit profile of BTSC reflects the credit profile of BTS. BTS is rated "A" with a "negative" outlook by TRIS Rating.

KEY RATING CONSIDERATIONS

Predictable and enlarging service income from mass transit operation

We expect BTSC's revenue and cash flow from operating and maintenance (O&M) services will rise substantially, thanks to the operation of the two new Green Line extensions. The Southern Green Line extension started operation in late 2018, while the Northern Green Line extension will be in full operation in 2020. The O&M service income is highly predictable as service fees are largely fixed. O&M services also generate a healthy gross profit margin. We project the annual O&M service fees to gradually increase to Bt6.5 billion in fiscal year (FY) 2022 from around Bt2.3 billion in FY2019.

Substantial investment required if new project approved

BTSC has two O&M contracts with the Bangkok Metropolitan Administration (BMA) to operate the Green Line Skytrain and its extensions. However, the BMA intends to restructure the existing O&M contracts and concession contract, while BTS also intends to invest in the new concession agreement. BTS has already finalized the terms and conditions with the BMA, pending approval by the government which is expected to happen within this year. The company will need a substantial amount of funds to invest in the new potential Green Line concession.

Declining revenue in media business, but improvement expected

TRIS Rating projects BTSC's revenue from the media business to drastically drop in FY2021, by 55% from the previous fiscal year, due to the deconsolidation of Master Ad PLC (MACO) and the lower demand from advertisers as affected by the coronavirus (COVID-19) pandemic. However, we project revenue from the media business to recover by around 30% in FY2022, assuming the advertising industry will gradually recover with the pandemic largely under control by the end of first half 2020. In addition, we expect the opening of the Green Line extension routes will increase advertising revenue from the advertising media 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 of the Green Line

extension routes.

BTSC 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 areas in the BTS train stations. Moreover, VGI is expanding into other out-of-home (OOH) media through the acquisitions of strategic interests in the related businesses. In 2020, BTSC held 26.58% of MACO, 23% of Kerry Express (Thailand) Co., Ltd., and 18.86% 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 a conversion of O&M contracts into a new Green Line concession as discussed above. As the new concession is still pending government approval and it is not clear how BTSC will finance the new investment in that scenario, our base-case forecast has not incorporated the effect of the potential new investment. In the first nine months of FY2020, BTSC's ratio of adjusted net debt to earnings before interest, tax, depreciation, and amortization (EBITDA) improved to 2.6 times (annualized, from the trailing 12 months) from 3.2 times in FY2019, due mainly to the enlargement of EBITDA. In our base case forecast, we project the adjusted net debt to EBITDA ratio to substantially decline to below 1 time in FY2022. The projected improvement of the ratio comes from the enlarged EBITDA and the BMA taking over the responsibility of paying for the electrical and mechanical (E&M) work of the South and North BTS Green Line extensions. However, in the scenario of a new Green Line concession, the company's financial profile will likely weaken significantly should BTSC fund the new investment primarily with debt financing.

Acceptable liquidity profile

We assess BTSC to have an adequate liquidity profile over the next 12 months. As of December 2019, the company's sources of funds comprised Bt2.7 billion in cash on hand, Bt650 million in securities available for sale and trading, and Bt15.2 billion in undrawn credit facilities. This level of liquidity is considered sufficient to cover the uses of funds during the next 12 months. Uses of funds comprise scheduled debt repayments of Bt78 million, outstanding short-term obligations of Bt995 million, and capital expenditures of around Bt7.3 billion.

In the first nine months of FY2020, the company reported funds from operations (FFO) of Bt4 billion. The FFO to net debt ratio and the EBITDA interest coverage ratio stood at 27.5% (annualized, from the trailing 12 months) and 7.5 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 ratio at the end of December 2019 was -0.58 times. TRIS Rating believes that the company will stay in compliance for the next 12 to 18 months.

BASE CASE ASSUMPTIONS

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

- O&M's revenues to gradually increase to Bt6.5 billion in FY2022 from around Bt2.3 billion in FY2019.
- Advertising revenue to drop by 55% in FY2021 then increase by 30% in FY2022.
- EBITDA margin to range around 40%-60%.
- Capital expenditures to total around Bt16 billion over the three-year period.

RATING OUTLOOK

The "negative" outlook reflects the high probability of a significant rise in BTSC's financial leverage from the potential investment in a new Green Line concession. The new investment could lead to material deterioration in credit metrics to a degree that may not commensurate with the current ratings.

RATING SENSITIVITIES

As BTSC is a core subsidiary of BTS, the ratings on BTSC reflect the ratings on BTS based on our "Group Rating Methodology". Any change in the ratings on BTS will affect the ratings on 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 billion. BTS, its parent company, holds 33% of the investment units of BTSGIF. BTSC has two O&M contracts with Krungthep Thanakom Co., Ltd. (KT), the business arm of the BMA, covering two extensions of the BTS Skytrain.

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 scope of business. VGI now offers other types of OOH media through companies it acquired. In 2020, BTSC held 26.58% of MACO, 23% of Kerry Express (Thailand) Co., Ltd. and 18.86% 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: Bt million

	Apr-Dec 2019	-----Year Ended 31 March -----			
		2019	2018	2017	2016
Total operating revenues***	7,121	7,239	6,028	4,875	4,184
Earnings before interest and taxes (EBIT)	4,760	5,123	3,953	2,766	2,650
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,566	5,935	4,775	3,295	3,031
Funds from operations (FFO)	4,006	4,070	3,130	2,213	2,239
Adjusted interest expense	742	935	926	507	324
Capital expenditures	560	680	561	325	243
Total assets	71,997	77,279	65,656	61,542	37,781
Adjusted debt	18,856	18,839	11,869	9,264	0
Adjusted equity	40,169	38,507	30,438	26,316	27,345
Adjusted Ratios					
EBITDA margin (%)	78.17	81.98	79.21	67.60	72.45
Pretax return on permanent capital (%)	10.05 **	8.66	7.52	6.68	8.86
EBITDA interest coverage (times)	7.50	6.35	5.15	6.50	9.34
Debt to EBITDA (times)	2.58 **	3.17	2.49	2.81	0.00
FFO to debt (%)	27.54 **	21.61	26.37	23.89	n.m.
Debt to capitalization (%)	31.95	32.85	28.05	26.04	0.00

* Consolidated financial statements

** Annualized with the trailing 12 months

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

n.m. Not meaningful

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018
- Group Rating Methodology, 10 July 2015

Bangkok Mass Transit System PLC (BTSC)

Company Rating:	A
Issue Ratings:	
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:	Negative

TRIS Rating Co., Ltd.

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