

# BANGKOK MASS TRANSIT SYSTEM PLC

 No. 81/2021  
 27 May 2021

## CORPORATES

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
Senior unsecured	A
<b>Outlook:</b>	Negative

**Last Review Date:** 28/05/20

**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 Bangkok Mass Transit System PLC (BTSC) and the ratings on BTSC's outstanding senior unsecured debentures at "A", with a "negative" outlook. The company rating on BTSC primarily reflects its status as a core subsidiary of BTS Group Holdings PLC (BTS). The rating on BTSC is equivalent to the company rating on BTS (rated "A/Negative" by TRIS Rating).

BTSC is the core source of revenue and profit for the BTS Group. BTSC holds the concession rights to operate the "Green Line" metro rail and is the rail mass transit operator that provides operating and maintenance (O&M) services for all the rail systems operated by the BTS Group. BTSC also provides media services inside the BTS trains and the commercial spaces in the BTS train stations through its subsidiary, VGI PLC (VGI). In terms of financial performance, the company consistently delivers satisfactory operating results and continues to generate most revenue for the Group. In the first nine months of fiscal year (FY) 2021, the company's total revenue accounted for 96% of BTS's total revenue.

## KEY RATING CONSIDERATIONS

### Concession and O&M contracts for the Green Line rail operation

BTSC holds the 30-year build-transfer-operate concession for the Green Line core network. The concession was awarded by the Bangkok Metropolitan Administration (BMA), spanning 1999-2029. 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 THB61 billion. BTSC entered into two O&M contracts with Krungthep Thanakom Co., Ltd. (KT), the business arm of BMA. The first contract was signed in 2012 which covers the first rail extension and core network, while the second contract was signed in 2017 covering the second rail extension. Both contracts will expire in 2042.

BTSC's revenue from O&M services is the key contribution to the BTS Group. In the first nine months of FY2021, the O&M service income accounted for around 59% of the BTS Group's revenue. The O&M service income continuously rises and is highly predictable as service fees are largely fixed. In the first nine months of FY2021, O&M service fees increased to THB3.8 billion, compared with around THB2.6 billion in the same period of the previous year after the company commenced full operation of the rail extension in late 2020. We project annual O&M service fees to gradually increase to THB6.8 billion in FY2023.

### O&M services for the "Pink and Yellow Line" monorails

BTSC has entered into O&M agreements with Northern Bangkok Monorail Co., Ltd. and Eastern Bangkok Monorail Co., Ltd., the two joint ventures (JVs) between BTS and its two partners, to operate the Pink and Yellow Line monorails. 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. The company expects to record O&M service fees for each line of around THB1.3-THB1.4 billion in FY2023.

## Well positioned to bid for new mass transit projects

BTS Group's strategy is to set up JVs with its partners to bid for or develop new mass transit projects. The JVs could help BTS mitigate its exposure to the project. BTSC is the core entity of the BTS Group to bid for new projects, especially mass transit projects, because the important qualifications for the bidders are experience and track record in project development and operation. BTSC is one of the two key electric train operators in Thailand. The company has a proficient and proven track record of more than 20 years operating electric rail systems. This strength is the key competency that places the BTS Group in a good position to win new mass transit projects.

## Revenue enhancement from media business

BTSC operates its media business through its subsidiary, VGI. VGI is the sole provider of advertising media inside the BTS trains and the commercial spaces in the BTS train stations. The revenue from the media business has been a significant source of the BTS Group's cash flow. However, media revenue is susceptible to economic conditions and more volatile than O&M fees from the mass transit business. In the first nine months of FY2021, advertising revenue accounted for 28% of BTS's total revenue.

Moreover, VGI is expanding into other out-of-home (OOH) media through the acquisitions of strategic interests in several related businesses. In 2021, BTSC holds 26.58% of Master Ad PLC (MACO), 18.06% of Kerry Express (Thailand) Co., Ltd., and 18.59% of Plan B Media PLC (PLANB).

## Dominant earnings contribution to the BTS Group

BTSC's revenue represented over 70% of the BTS Group's consolidated revenue over the past few years. In terms of profit, it represents nearly all of BTS's consolidated net profit in the first nine months of FY2021. We expect BTSC will continue its dominant revenue and profit contribution to the BTS Group thanks to its predictable O&M service income.

## RATING OUTLOOK

The "negative" outlook reflects the likelihood of a significant increase in the BTS Group's financial leverage as a result of BTSC's potential investments in the new Green Line concession. The new investment could lead to a material deterioration in credit metrics to a degree that may not be commensurate with the current ratings.

## RATING SENSITIVITIES

The ratings and/or outlook on BTSC could be revised upward or downward should there be any changes in BTS's credit profile or if TRIS Rating perceives any changes in BTSC's status relative to other subsidiaries or affiliates of BTS.

## COMPANY OVERVIEW

Established in 1992, BTSC is currently owned (97.46%) by BTS. BTSC was initially set up to build and operate the BTSC (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 BTSGIF, an infrastructure investment fund, for THB61 billion. BTS, its parent company, holds 33% of the investment units of BTSGIF. BTSC has two O&M contracts with 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 the companies it acquired. In 2021, BTS held 41.16% of MACO, 19.93% 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***	6,016	8,080	6,193	6,028	4,875
Earnings before interest and taxes (EBIT)	5,149	5,605	4,857	3,953	2,766
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,386	6,693	5,613	4,775	3,295
Funds from operations (FFO)	3,989	4,811	3,851	3,130	2,213
Adjusted interest expense	538	913	923	926	507
Capital expenditures	389	613	680	561	325
Total assets	78,220	66,239	77,362	65,656	61,542
Adjusted debt	17,617	18,224	18,813	11,869	9,264
Adjusted equity	46,279	35,787	38,666	30,438	26,316
<b>Adjusted Ratios</b>					
EBITDA margin (%)	89.52	82.83	90.62	79.21	67.60
Pretax return on permanent capital (%)	9.42**	9.21	8.20	7.52	6.68
EBITDA interest coverage (times)	10.01	7.33	6.08	5.15	6.50
Debt to EBITDA (times)	2.64**	2.72	3.35	2.49	2.81
FFO to debt (%)	27.88**	26.40	20.47	26.37	23.89
Debt to capitalization (%)	27.57	33.74	32.73	28.05	26.04

\* Consolidated financial statements

\*\* Annualized with the trailing 12 months

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

## RELATED CRITERIA

- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

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**Bangkok Mass Transit System PLC (BTSC)**

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<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
BTSC21NA: THB2,200 million senior unsecured debentures due 2021	A
BTSC23NA: THB4,100 million senior unsecured debentures due 2023	A
BTSC26NA: THB10,200 million senior unsecured debentures due 2026	A
<b>Rating Outlook:</b>	Negative

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**TRIS Rating Co., Ltd.**

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