

BANGKOK MASS TRANSIT SYSTEM PLC

No. 74/2019
16 May 2019

CORPORATES

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

Last Review Date: 24/05/18

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on Bangkok Mass Transit System PLC (BTSC) and the ratings of BTSC's senior unsecured debentures at "A". The ratings reflect its strong business profile as one of the two mass transit system operators in Thailand, the steady growth and predictability of the cash flows from the train operation, and its entrenched position in the media businesses. However, these strengths are partially offset by high financial leverage. In addition, there is uncertainty concerning the conversion of two operating and maintenance (O&M) agreements to a new concession for Green Line Skytrain. TRIS Rating will closely monitor the terms and conditions of new concession because the new concession could affect BTSC's financial profile.

BTSC is the core business and the source of revenue and profit for BTS Group Holdings PLC (BTS). The credit profiles of BTSC and BTS are closely linked. Currently, BTS is rated "A" with a "stable" outlook by TRIS Rating.

KEY RATING CONSIDERATIONS

New mass transit extension projects will boost cash flow

TRIS Rating expects revenue and cash flow to improve. Two new mass transit extension routes, the Southern Green Line extension and the Northern Green Line extension will commence in 2018 and 2020, respectively. Revenue and cash flow will rise substantially after new extension lines open. O&M services generate a stable stream of revenue and a healthy gross profit margin. TRIS Rating projects the annual O&M services fee will gradually increase from around Bt1,800 million in fiscal year (FY) 2018 to Bt6,500 million in FY2022.

New concession is under negotiation

BTSC 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. The company 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 BTSC's financial profile.

Revenue grows in the media segment

TRIS Rating projects steady improvement in revenue and cash flow in the media segment. BTSC's subsidiary, VGI Global Media PLC (VGI), operates this segment. For the first nine months of FY2019 (9M/FY2019), revenue from the media segment comprised around 70% of BTSC's total service income, excluding the revenue from installation and construction services and train procurement service.

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 (Thailand) Co., Ltd. and 18.6% of PLANB 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 fall

During FY2018 through 9M/FY2019, BTSC's total debt stayed around Bt24,000 million. Most of BTSC's debts were incurred to procure trains and to install the electrical and mechanical (E&M) work on new extension routes. The E&M contracts require BTSC to prefund the E&M costs for the rail expansion projects. BTSC will then reimburse the prefund with Krungthep Thanakom Co., Ltd. (KT), a wholly-owned subsidiary of the BMA, for all E&M costs, including accrued interest, in FY2021. KT has the option to extend the payment for another two years.

BTSC is expected to pay down all E&M debts once it receives the payments due from KT. As a result, TRIS Rating projects the net debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio will gradually decline from 3.7 times in FY2019 to around 2.7 times in FY2022.

Acceptable liquidity profile

BTSC has an adequate liquidity profile. As of December 2018, the sources of funds comprised Bt4,886 million in cash on hand, Bt11,734 million in securities available for sale and trading, and Bt14,800 million 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 Bt5,547 million, outstanding short-term obligations of Bt270 million, and capital expenditures of around Bt4,000 million.

In the first nine months of FY2019, the company reported funds from operations (FFO) of Bt2,884 million. The FFO to net debt ratio and the EBITDA interest coverage ratio stood at 25.4% (annualized, from the trailing 12 months) and 6.2 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 2018 was -0.25 times. Thus, the company was in compliance with this key financial covenant. 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 revenues will gradually increase from around Bt1,800 million FY2018 to Bt6,500 million in FY2022.
- Advertising revenue will grow by around 7% per annum.
- The operating margin will range from 40%-45%.
- Capital expenditures will total around Bt14,000 million over the three-year period.

RATING OUTLOOK

The "stable" outlook is based on the expectation that revenues in the mass transit operation segment and the media segment will continue to grow steadily.

RATING SENSITIVITIES

BTSC's credit upside is limited during the next couple of years due to high financial leverage. The ratings and/or outlook could be revised downward if the financial profile of BTSC deviates significantly from the projections. For example, any aggressive debt-funded investments or significant drop in operating performance could cause the financial profile to deteriorate.

Since BTSC is a core subsidiary of BTS, BTSC's company rating will be aligned with the company rating of BTS. Any change in BTS's rating will also affect the ratings of 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 Bt61,000 million. BTS, its parent company, holds 33% of the investment units of BTSGIF. BTSC has two O&M contracts with KT covering two

extensions of the BTS Skytrain.

In the media segment, the company sells advertising and rents retail space on the BTS Skytrain 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 the 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***	5,106	5,965	4,875	4,184	5,024
Operating income	2,344	2,813	2,201	2,370	3,112
Earnings before interest and taxes (EBIT)	3,597	3,890	2,766	2,650	3,384
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,188	4,711	3,295	3,031	4,153
Funds from operations (FFO)	2,884	3,066	2,213	2,239	3,108
Adjusted interest expense	674	926	507	324	477
Capital expenditures	289	561	325	243	597
Total assets	73,515	65,640	61,542	37,781	38,582
Adjusted debt	14,278	11,869	9,264	0	0
Adjusted equity	37,628	30,430	26,316	27,345	26,119
Adjusted Ratios					
Operating income as % of total operating revenues (%)	45.90	47.16	45.15	56.65	61.95
Pretax return on permanent capital (%)	7.78 **	7.40	6.68	8.85	10.84
EBITDA interest coverage (times)	6.22	5.09	6.50	9.34	8.70
Debt to EBITDA (times)	2.66 **	2.52	2.81	0.00	0.00
FFO to debt (%)	25.41 **	25.84	23.89	n.m.	n.m.
Debt to capitalization (%)	27.51	28.06	26.04	0.00	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

Bangkok Mass Transit System PLC (BTSC)

Company Rating:	A
Issue Ratings:	
BTSC19NA: Bt5,500 million senior unsecured debentures due 2019	A
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:	Stable

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