

# DON MUANG TOLLWAY PLC

No. 135/2018  
17 September 2018

## CORPORATES

**Company Rating:** BBB+

**Issue Ratings:**  
Senior unsecured BBB+

**Outlook:** Stable

### Company Rating History:

Date	Rating	Outlook/Alert
13/10/15	BBB+	Stable
11/11/10	A-	Stable

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## RATIONALE

TRIS Rating affirms the company rating on Don Muang Tollway PLC (DMT) and the ratings on its outstanding senior unsecured debentures at “BBB+”. The ratings reflect the strategic location of DMT’s tollway, stable cash flow, and improving financial leverage. These strengths are partially offset by the company’s reliance on a single cash-generating asset and the uncertainty concerning the legality of the latest amendment to the concession agreement, pending the final ruling from the Supreme Administration Court.

## KEY RATING CONSIDERATIONS

### Strategic location and steady growth

DMT’s toll road is a major route connecting the heart of Bangkok with Don Mueang International Airport. The toll road is also the gateway to Northern and Northeastern regions. Traffic volume on the toll road has grown steadily, climbing by an average of 7.5% per annum during 2013-2017. In the first half of 2018, traffic volume continued to grow by 2.6% year-on-year (y-o-y).

TRIS Rating forecasts traffic volume will increase by around 3% per annum during 2018-2019. The traffic volume may drop slightly in 2020 since the toll rate will rise by almost 14.3%. However, we assume the significant rise in the toll rate should offset the drop in traffic volume. We project DMT’s revenue will grow by 3% in 2018 and 2019 and by 13% in 2020.

### Legal risk pressures the ratings

The legality of the latest amendment to the concession agreement (MOA3) remains the key issue that pressures the ratings of DMT. The court ruling in favor of the plaintiff may cause the concession to end in 2021 rather than in 2034.

MOA3 was made on 12 September 2007 pursuant to two Cabinet resolutions made on 11 April 2006 and 10 April 2007. MOA3 was a remedy to offset losses DMT incurred when actions taken by the government deviated from the concession agreement. The key amendments contained in MOA3 extend the maturity of the concession from 2021 to 2034 and pre-approve the toll fee increases suggested in the previous amendment.

Three legal cases were filed at the Administrative Court challenging the legality of MOA3. After years of court proceedings, the Supreme Administrative Court dismissed two of the three cases. In the remaining case, the plaintiffs claim that the Cabinet resolutions approving MOA3 were illegal. A ruling by the Central Administrative Court in 2015 revoked the Cabinet resolutions pertaining to MOA3. The case is now under consideration by the Supreme Administrative Court. However, DMT’s management remains confident of a positive outcome.

### Reliance on a single cash-generating asset

DMT operates a single toll road. As a result, traffic volume is easily affected by event risks. For example, traffic volume significantly dropped during events like the financial crisis in 1997, the relocation of Bangkok’s international airport from Don Mueang to Suvarnabhumi, and the opening of a competing toll road. However, traffic volume on DMT’s toll road rebounded each time and has grown steadily since 2011. Looking ahead, we do not expect any significant unfavorable events to lower traffic volume substantially in the medium term.

## Financial leverage will drop

Financial leverage has declined steadily over the past five years. The company's net debt to capitalization dropped to 22.8% at the end of June 2018 from 51.5% in 2013. The company has no major capital expenditures in its pipeline. Over the next three years, the company has set normal capital expenditures of Bt420 million which will be financed by internal cash flow. The company is also interested in bidding on new expressway and motorway projects. However, the new projects are still under government consideration.

Due to the uncertainty over the court ruling outcome, DMT plans to repay all of its financial debts by the end of 2020. Based on its funds from operations (FFO) of around Bt2,000 million per annum, the company should be able to repay its outstanding debt of around Bt3,537 million by the end of 2020.

## Satisfactory liquidity profile

The company's liquidity position remains satisfactory. As of June 2018, DMT's source of funds comprised cash on hand of Bt195 million and investments worth Bt682 million. We project the FFO will be around Bt2,000 million in the next 12 months. These sources of funds should be sufficient to cover the cash needed for debt service, investments, and dividends over the next 12 months. In 2018, DMT has to redeem outstanding debentures worth Bt800 million. Capital expenditures will be Bt173 million. DMT's management expects to continue to pay dividends of around Bt1,000-Bt1,200 million per annum.

TRIS Rating believes DMT will comply with the debenture covenants over the next 12 to 18 months. The debt to equity ratio at the end of December 2017 was 0.8 times, below the debenture covenant of 2 times.

## RATING OUTLOOK

The "stable" outlook reflects DMT's stable and predictable operating performance and financial policies. Our base case scenario assumes DMT's revenues will grow gradually to around Bt3,600 million in 2020. The FFO will be around Bt2,000 million per year. Since the company has no significant investments ahead, leverage is expected to decline steadily. From 2018 onwards, we forecast the FFO to total debt ratio will be greater than 80% and the EBITDA interest coverage ratio will be over 15 times.

## RATING SENSITIVITIES

DMT's ratings could be upgraded if the Supreme Administrative Court rules the MOA3 agreement is legal. On the other hand, a downgrade could be triggered by a significant drop in operating performance or a cash drain caused by excessive dividend payments. Either of these outcomes would materially reduce DMT's ability to service its debt over the next three years.

## COMPANY OVERVIEW

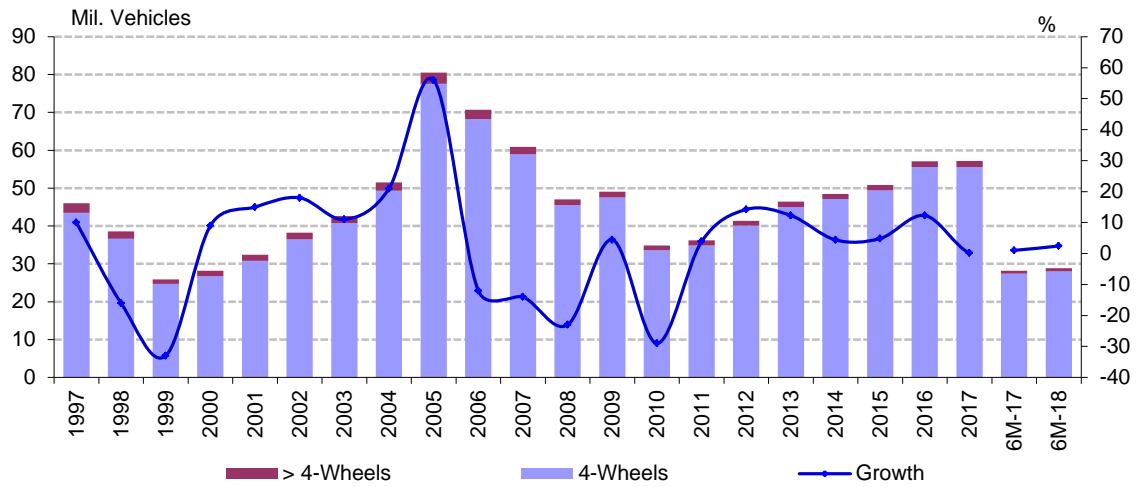
DMT was incorporated in 1988 by Dyckerhoff & Widmann A.G. of Germany and Delta Engineering Construction Co., Ltd. of Thailand. Currently, DMT's major shareholders are the Phanichewa family (37%), AIF Toll Roads Holdings (Thailand) Ltd. (29%), and the Ministry of Finance (MOF) (25%).

The company received a 25-year build-transfer-operate concession from the department of highway (DOH) in April 1989 to construct and operate an elevated toll road, the Don Muang Tollway, situated above the Vibhavadi-Rangsit highway. The concession covers 15.4 kilometers (km.) of the original tollway section (Din Daeng-Don Muang) and 5.6 km. of the northern extension section (Don Muang-National Memorial Monument). The original tollway opened to traffic in December 1994, while the northern extension opened in December 1998. The combined cost of both sections was approximately Bt15,000 million. DMT's tollway is the gateway to the Northern and Northeastern regions.

During the first 10 years of operation, DMT went through a few rounds of debt restructuring due to lower-than-expected traffic volume and foreign exchange losses involving US dollar loans. In 2007, DMT renegotiated and amended the concession with the DOH to conclude the feasible terms and conditions. Under MOA3, the concession period was extended from 2021 to 2034. The amendment also mitigated the risk stemming from the toll rate adjustment process. The toll rate adjustments have been pre-approved for the remainder of the concession period; the amounts and timing of the toll rate increases are fixed. The toll rises will take effect no less than 30 days after the company submits a notice to the DOH and announces the rise to the public. DMT can raise the toll rate every five years, by Bt10 for the original tollway section and by Bt5 for the northern extension, through the end of the concession.

**KEY OPERATING PERFORMANCE**

**Chart 1: DMT's Traffic Volume by Type of Vehicle**



Source: DMT

**Table 1: Toll Rate Schedule According to Concession Agreement**

Unit: Bt/vehicle

Period	Original Tollway		Northern Extension	
	4-Wheels	>4-Wheels	4-Wheels	>4-Wheels
22 Dec 07 - 21 Dec 09	35	65	20	30
22 Dec 09 - 21 Dec 14	60	90	25	35
22 Dec 14 - 21 Dec 19	70	100	30	40
22 Dec 19 - 21 Dec 24	80	110	35	45
22 Dec 24 - 21 Dec 29	90	120	40	50
22 Dec 29 - 11 Sep 34	100	130	45	55

Source: DMT

**FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\***
*Unit: Bt million*

	Jan-Jun 2018	-----Year Ended 31 December -----			
		2017	2016	2015	2014
Total operating revenues	1503	2982	2957	2628	2136
Operating income	1199	2401	2480	2169	1679
Earnings before interest and taxes (EBIT)	967	1958	2120	1880	1416
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1214	2452	2515	2208	1699
Funds from operations (FFO)	964	1892	1893	1608	1156
Adjusted interest expense	73	209	242	280	312
Capital expenditures	6	13	25	15	10
Total assets	11798	13392	12385	12663	12407
Adjusted debt	3330	3379	4481	5175	5918
Adjusted equity	7583	7650	7312	6723	6175
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	79.8	80.5	83.9	82.5	78.6
Pretax return on permanent capital (%)	17.2 **	15.6	17.5	15.4	11.5
EBITDA interest coverage (times)	16.6 **	11.7	10.4	7.9	5.5
Debt to EBITDA (times)	1.3 **	1.4	1.8	2.3	3.5
FFO to debt (%)	58.2	56.0	42.2	31.1	19.5
Debt to capitalization (%)	30.5	30.6	38	43.5	48.9

\* Consolidated financial statements

\*\* Annualized from the trailing 12 months

**Don Muang Tollway PLC (DMT)**

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
DMT18NA: Bt500 million senior unsecured debentures due 2018	BBB+
DMT18NB: Bt300 million senior unsecured debentures due 2018	BBB+
DMT19DA: Bt1,100 million senior unsecured debentures due 2019	BBB+
DMT20NA: Bt500 million senior unsecured debentures due 2020	BBB+
DMT20DA: Bt1,140 million senior unsecured debentures due 2020	BBB+
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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