

# DON MUANG TOLLWAY PLC

No. 139/2019  
6 September 2019

## CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 17/09/18

### 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 DMT's senior unsecured debentures at "BBB+" with "stable" outlook. The ratings reflect the strategic location of DMT's tollway, stable cash flow, and low 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 Administrative Court.

## KEY RATING CONSIDERATIONS

### Strategic location with reasonably stable revenue

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 from Bangkok to the northern and northeastern regions.

Traffic volume on the toll road has grown steadily at an average of 4.6% per annum during 2013-2018. However, in the first half of 2019, traffic volume declined by 5.9% year-on-year (y-o-y) due to lower usage by motorists after the completions of road improvements in the vicinity of Vibhavadi Rangsit road and the construction of the Red Line and the Northern Green Line sky trains.

TRIS Rating forecasts the traffic volume to decrease by 5%-7% per annum during 2019 and 2020, then rebound by 2% in 2021. However, we expect the significant rise in the toll rate should offset the drop in traffic volume. As a result, we project DMT's revenue to drop by 5% in 2019, and then rebound by 6% in 2020 and 2% in 2021, respectively.

### Legal risk constrains the ratings

The legality of the latest amendment to the concession agreement (MOA3) remains the key issue constraining the ratings on DMT. The worst case scenario is a court ruling in favor of the plaintiff that 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 incurred by DMT as a result of the past government's actions allegedly not conforming to concession agreement. The key amendments contained in MOA3 extend the expiry date of the concession from 2021 to 2034 and pre-approve the toll rate increases suggested in the previous amendment.

Three legal cases, filed at the Administrative Court, challenged the legality of MOA3. After years of court proceedings, the Supreme Administrative Court dismissed two of the three cases. For 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. However, DMT's management remains confident of a positive outcome from the Supreme Administrative Court's proceeding.

### 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 dropped significantly during events like the financial crisis in 1997, the relocation of Bangkok's international airport from Don Mueang to Suvarnabhumi, or 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 during the forecast period.

### Plans to repay all financial debts by 2021

DMT plans to repay all of its financial obligations by the end of 2021, due to the uncertainty over the court ruling outcome. As of June 2019, the company had outstanding debt obligations of Bt4.36 billion. Based on our projection, funds from operations (FFO) of DMT will total Bt5.50 billion during 2019-2021. Hence, the company should be able to repay all its financial obligations by the end of 2021. The adjusted debt to capitalization ratio will drop to 0% in 2021, from 42.7% in 2018. The company has no major capital expenditures in the pipeline. The company has planned for a normal level of capital expenditures over the next three years, forecast at Bt600 million, and financed by internal cash flow.

### Adequate liquidity

We assess DMT to have adequate liquidity over the next 12 months. As of June 2019, sources of funds comprised cash on hand of Bt587 million and investments worth Bt628 million. We project FFO to be around Bt1.70 billion over the next 12 months. These sources of funds should be sufficient to cover the cash needed for debt service and investments over the next 12 months. The debt repayment schedule over the next 12 months includes Bt1.10 billion in debentures and Bt1.62 billion in promissory notes. The company plans to roll over some of the maturing promissory notes to 2020. Capital expenditures will be Bt310 million in 2019. DMT's management plans to pay a dividend after the debt obligations have been repaid.

TRIS Rating believes DMT will comply with the debenture covenants over the next 12 to 18 months. Its debt to equity ratio at the end of June 2019 was 0.8 times, below the debenture covenant of 2 times.

### BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for the performance of DMT during 2019 to 2021 are as follows:

- Revenues to drop by 5% in 2019 then rebound by 6% in 2020 and 2% in 2021.
- The operating profit margin to range 75%-80%.
- Capital expenditures to total around Bt600 million over the forecast period.
- The adjusted debt to capitalization ratio to gradually drop to 0% in 2021.

### RATING OUTLOOK

The "stable" outlook reflects DMT's stable and predictable operating performance. The outlook also reflects the commitment of DMT's management to repay all outstanding debts by 2021, in the event of the Supreme Administrative Court has not yet reached the final verdict resolving the legality of the MOA3 agreement.

### RATING SENSITIVITIES

DMT's ratings could be upgraded if the Supreme Administrative Court rules the MOA3 agreement is legally binding. On the other hand, a downgrade could be triggered by a significant drop in DMT's operating performance or a cash drain caused by massive dividend payments.

### 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 Highways (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 billion.

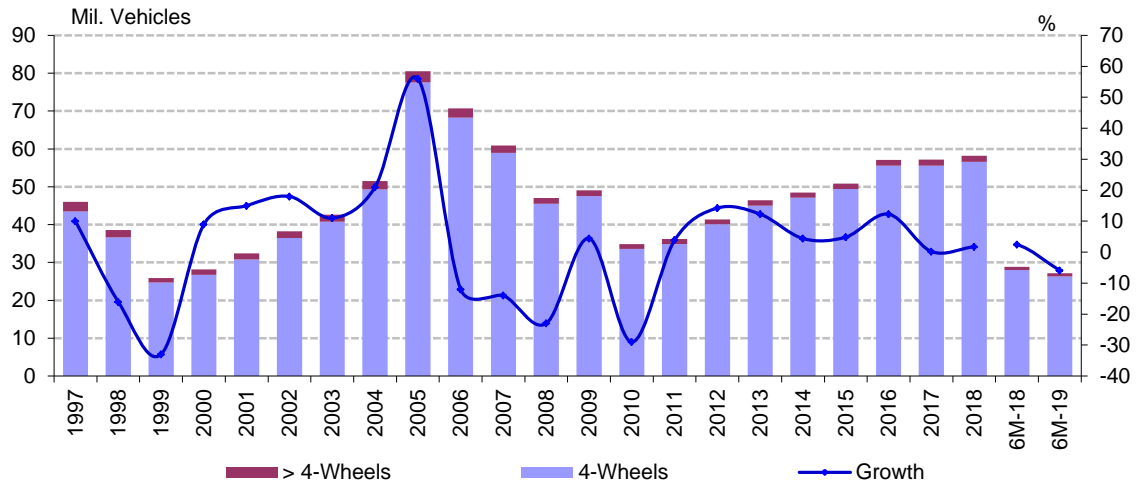
During the first 10 years of operation, DMT went through a few rounds of debt restructuring because traffic volumes were lower than expected and because the company had large foreign exchange losses involving US dollar loans.

In 2007, DMT renegotiated and amended the concession with the DOH to conclude the feasible terms and conditions. Under the MOA3 agreement, 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 2019	-----Year Ended 31 December -----			
		2018	2017	2016	2015
Total operating revenues	1,427	3,042	2,982	2,957	2,628
Operating income	1,030	2,437	2,401	2,480	2,169
Earnings before interest and taxes (EBIT)	801	1,972	1,958	2,120	1,880
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,050	2,470	2,452	2,515	2,208
Funds from operations (FFO)	821	1,955	1,892	1,893	1,608
Adjusted interest expense	88	152	209	242	280
Capital expenditures	9	12	13	25	15
Total assets	11,745	11,638	13,392	12,385	12,663
Adjusted debt	3,978	4,656	3,376	4,481	5,175
Adjusted equity	6,552	6,246	7,650	7,312	6,723
<b>Adjusted Ratios</b>					
Operating income as % of total operating revenues (%)	72.20	80.14	80.52	83.88	82.53
Pretax return on permanent capital (%)	15.95	16.22	15.58	17.46	15.40
EBITDA interest coverage (times)	11.95	16.30	11.73	10.37	7.89
Debt to EBITDA (times)	1.72 **	1.88	1.38	1.78	2.34
FFO to debt (%)	45.56 **	42.00	56.04	42.24	31.07
Debt to capitalization (%)	37.78	42.70	30.62	38.00	43.49

\* Consolidated financial statements

\*\* Annualized from the trailing 12 months

### RELATED CRITERIA

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

### Don Muang Tollway PLC (DMT)

<b>Company Rating:</b>	BBB+
<b>Issue Ratings:</b>	
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

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