

BANGKOK METROPOLITAN ADMINISTRATION

No. 195/2019
28 November 2019

GOVERNMENTS

Company Rating: AA+
Outlook: Stable

Last Review Date: 29/11/18

Company Rating History:

Date	Rating	Outlook/Alert
10/11/06	AA+	Stable

Contacts:

Pramuansap Phonprasert
pramuansap@trisrating.com

Chanaporn Pinphithak
chanaporn@trisrating.com

Parat Mahuttano
parat@trisrating.com

Sauwarot Jirachaipithak
sauwarot@trisrating.com



WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the issuer rating on Bangkok Metropolitan Administration (BMA) at “AA+”, with a “stable” outlook. The rating is based on the importance of the Bangkok metropolis as the capital city and economic center of Thailand. TRIS Rating expects BMA to receive ongoing support from the central government. The rating also reflects BMA’s reliable tax revenue, its balanced budget policy, and the large amount of cash on hand. The rating, has however, taken into consideration BMA’s budgetary constraint in relation to the huge capital investments needed for public transportation and infrastructure projects.

KEY RATING CONSIDERATIONS

Strategic importance as Thailand’s administrative and economic center

Bangkok is the capital city of Thailand and contributes more to the nation’s economic output than any other city in the country. According to the Office of the National Economic and Social Development Council (NESDC), the gross provincial product (GPP) of Bangkok in 2017, at current market prices, was Bt5 trillion, equal to 32.5% of the nation’s gross domestic product (GDP).

From 2013 to 2017, the GPP of Bangkok grew faster than the GDP of the country. The average economic growth of Bangkok was 4.6% per year, higher than the nation’s average growth rate of 2.8% per year. The Thai economy is forecast to grow by 2.5%-2.7% in 2019, after rising by 2.6% in the first half of the year. The growth rate for 2019 is expected to be lower than the average rate, as a result of a significant drop in exports and slower growth in the number of international tourist arrivals. TRIS Rating expects Bangkok’s economy will grow in tandem with the economy of the nation.

The economy of Bangkok has always been less volatile than the economies of other provinces, owing to the more diverse spectrum of economic activities in Bangkok. The major economic sectors are commerce, manufacturing, financial services and insurance, accommodation and food service, and real estate. These five sectors account for about 59% of Bangkok’s economic output, according to the NESDC.

Reliable tax revenue

Over 90% of BMA’s total revenue is from taxes, which are considered to be reliable sources of income. Tax revenue can be classified into two types: local taxes and allocated taxes. Local taxes are collected by BMA while allocated taxes are collected by other government agencies and distributed to BMA. Typically, local taxes account for 18% of BMA’s total revenue. Allocated taxes have made up the main portion (77%) of BMA’s revenue. During the fiscal years (FY) 2014-2018, total tax revenue increased by 6.5% per annum.

Four key taxes comprised about 83% of BMA’s total revenue during the past three years: property taxes, value added tax, land transfer fees, and automobile tax. The amounts collected under these four taxes hinge on the country’s economic condition. In addition, the government occasionally reduces one or more of these taxes to stimulate consumption. For example, in FY2016, the government reduced the tax rate of land transfer fees in order to stimulate the property sector. Therefore, although tax collection is projected to increase moderately year by year, collection could be negatively affected by economic fluctuations and changes in government policy.

Balanced budget policy

BMA has exhibited sound budgetary performance, in accordance with its balanced budget policy. According to the BMA Budgetary Law B.E. 2529, BMA plans its expenditures in accordance with projected revenues. A conservative revenue projection will cap planned expenditures at an appropriate level. In a fiscal year when revenue receipts are less than the budgeted amount, BMA has the flexibility to adjust its capital investment budget, especially for new projects. However, additional expenditures, if necessary, can be approved once auxiliary sources of revenue are verified. Auxiliary revenue could be in the form of cash on hand or actual revenue collected in excess of the budget.

Sufficient revenues to cover operating expenditures

BMA continues to post good financial performance. In FY2018, BMA posted total revenue of Bt86.4 billion, a 9.0% increase from the previous year. BMA reported total expenditures of Bt72.3 billion in FY2018, compared with Bt75.6 billion in FY2017. As a result, BMA recorded a net surplus of Bt14.2 billion. The ratio of the balance after capital expenditures to revenue increased to 16.42% in FY2018 from 4.66% in FY2017.

In FY2019, BMA's revenue is forecast to be around Bt83 billion, while the budget is planned for Bt80 billion in expenditures. As a result, BMA expects to incur a surplus of around Bt3 billion. For FY2020, BMA plans a balanced budget: revenue and expenditures each equal to Bt83 billion. Over the projected period of FY2021 and FY2022, TRIS Rating forecasts that BMA's revenue will grow moderately, in tandem with the rise of the economy.

High operating expenditures limit investment

A high level of operating expenditures will constrain BMA's budget for other infrastructure projects. BMA's expenditures can be classified into two categories: operating expenditures and capital expenditures. Operating expenditures accounted for around 75% of total expenditures annually for the past five years. In FY2018, operating expenditures amounted to Bt56.3 billion, a slight decline of 0.6% from the previous year. Personnel expenditures are one of the key components of BMA's operating expenditures, accounting for 32% of total expenditures in FY2018.

During FY2013-FY2018, BMA spent around Bt15-Bt19 billion in capital expenditures per year. As Bangkok is the center of the nation's economic activities and has the highest population density, there is high demand for public services. BMA needs to continuously develop infrastructure in order to serve the growth needs of businesses and residents. Subsidies from the central government are an alternative source of funds. However, subsidies depend on government approval, which is generally a lengthy, time-consuming process. BMA has, in many instances, operated through Krungthep Thanakom Co., Ltd. (KT), its subsidiary, as a conduit in contracting and obtaining financing for some key infrastructure undertakings in Bangkok.

BMA's debt includes obligations from KT

At the end of September 2018, BMA's total debt was Bt14.7 billion. TRIS Rating considers BMA's debt to include (i) KT's loans, (ii) the net present value of the electric train procurement expenditures, in accordance with the operation and maintenance (O&M) agreement, (iii) an outstanding supplier credit from BTS Group Holdings PLC (BTS) as the electrical and mechanical (E&M) contractor for two Green Line extension projects, and (iv) the net present value of hire purchase contracts for fleets of cars and garbage trucks which have tenors of five to seven years, respectively.

Green Line skytrain concession to avoid the need for future debts

In FY2019, BMA's total debt will increase substantially following the acquisition of two Green Line skytrain extension projects from the Mass Rapid Transit Authority of Thailand (MRTA) at a cost of around Bt51.8 billion. BMA is also responsible for investing in the E&M systems for both projects. The cost of the two E&M systems is around Bt20 billion. Currently, BMA is in the process of granting a new concession for the Green Line skytrain to the concessionaire. BMA expects the project's debts will be transferred to the concessionaire in exchange for the concession, obviating the need for BMA to carry huge debts.

Strong liquidity profile

BMA's liquidity position remains strong. In FY2018, BMA had a budget surplus of Bt14.2 billion. Cash on hand rose to Bt45.2 billion at the end of FY2018, from Bt22.5 billion at the end of FY2017. TRIS Rating expects BMA to maintain an appropriate level of cash on hand to support its liquidity position, as a cushion for any shortfall in revenue collection.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for the performance of BMA during FY2019 to FY2022 are as follows:

- Revenue to range from Bt83 billion to Bt86 billion per annum.
- Expenditures will not exceed revenue, in line with the balanced budget policy.
- The total debt to revenue ratio will rise to over 90% from FY2019 onward if BMA acquires the two Green Line extension projects from MRTA.

RATING OUTLOOK

The "stable" outlook reflects BMA's reliable revenue sources and balanced budget policy. TRIS Rating expects BMA to continue receiving support from the central government at all times.

RATING SENSITIVITIES

BMA's rating could be upgraded if BMA has a clear financial management framework for its investments and operations. In contrast, a rating downside case may occur if BMA loosens its financial discipline or runs a budget deficit for a prolonged period. A change in legal framework that limits support from the central government would also be a negative credit factor.

COMPANY OVERVIEW

BMA is Bangkok's local government, organized in accordance with the Bangkok Metropolitan Administration Act B.E. 2528 (the BMA Act). BMA, supervised by the Ministry of Interior, is responsible for the management of the Bangkok metropolis, which is divided into 50 districts. Bangkok is the capital city of Thailand and the nation's center of cultural, educational, political, and economic activities.

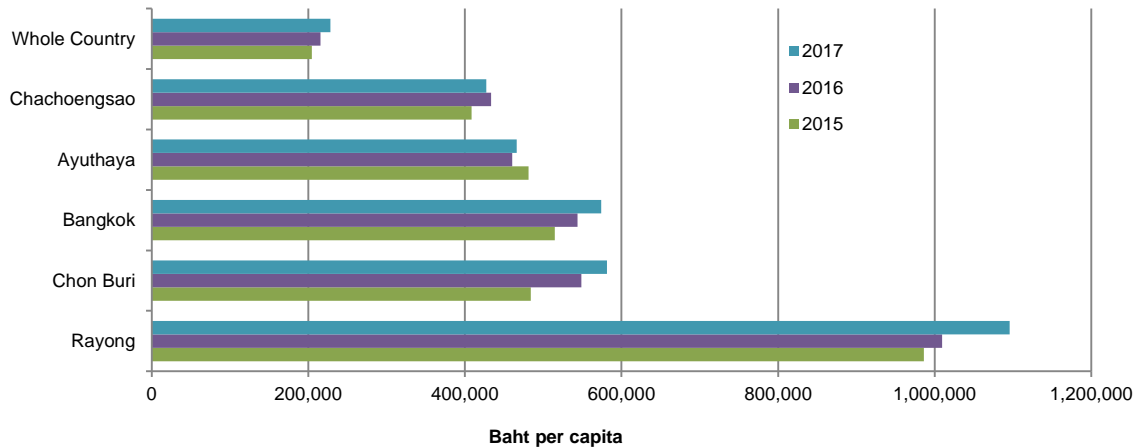
According to Article 89 of the BMA Act, BMA is authorized to perform 27 principal functions regarding the development and management of public services in various areas, such as infrastructure, security, health, education, environment, and public welfare. The main objectives are the provision of adequate infrastructure and public services for the well-being of Bangkok's inhabitants and to facilitate social and economic development.

Bangkok is overseen by two main bodies, the Bangkok Metropolitan Council (BMC) and BMA. BMC is the legislative branch, the members of which are elected for a four-year term. The BMC convenes to consider all affairs under the responsibility of BMA. BMA is the administrative branch, which is headed by a governor who is elected for a four-year term by a majority of the registered voters in Bangkok. The governor appoints four deputy governors as executive administrators. The governor and his management team are responsible for policy formulation, while all operating activities are undertaken by permanent officers which are supervised by the Permanent Secretary of BMA.

After the coup d'état in May 2014, the National Council for Peace and Order (NCPO) appointed 30 BMC members to assume legislative responsibilities in 2014 and a new governor of BMA in 2016. The NCPO was dissolved after a new cabinet was appointed following the general election in 2019. TRIS Rating believes a new BMA governor and BMC members will be elected in 2020.

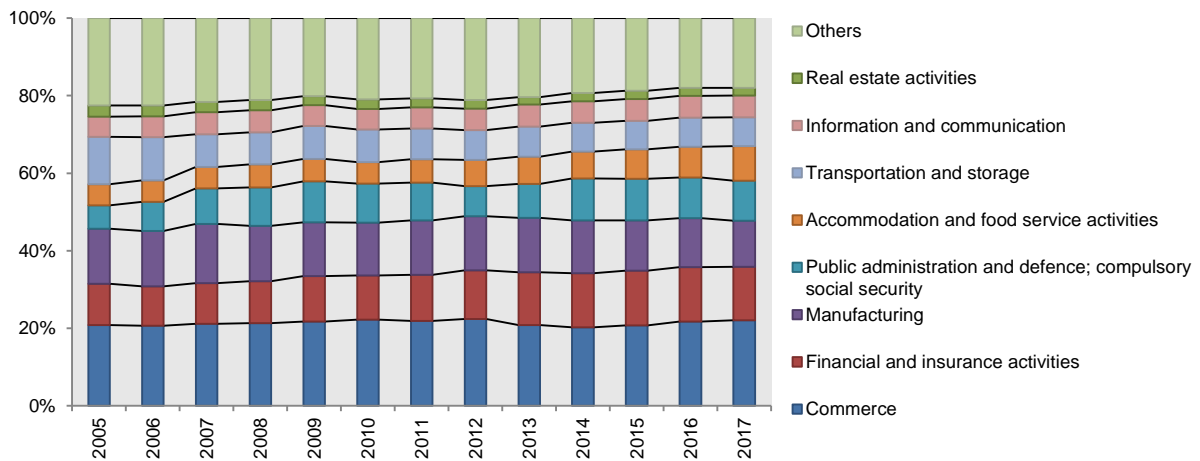
KEY OPERATING PERFORMANCE

Chart 1: GPP Per Capita of Major Provinces (Market Prices)



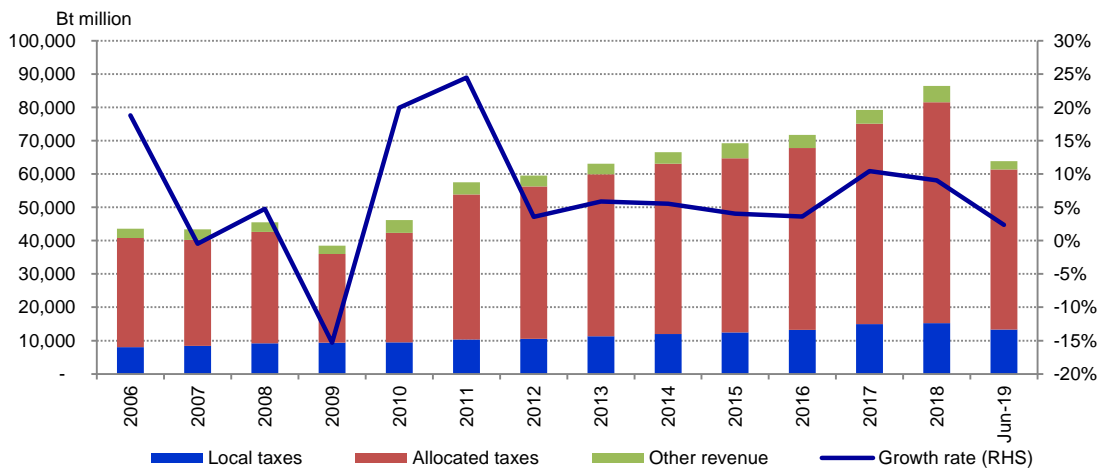
Source: National Economic and Social Development Council (NESDC)

Chart 2: Gross Provincial Product (GPP) in Bangkok by Major Industry Sectors



Source: NESDC

Chart 3: BMA's Record of Revenue Collection



Source: BMA

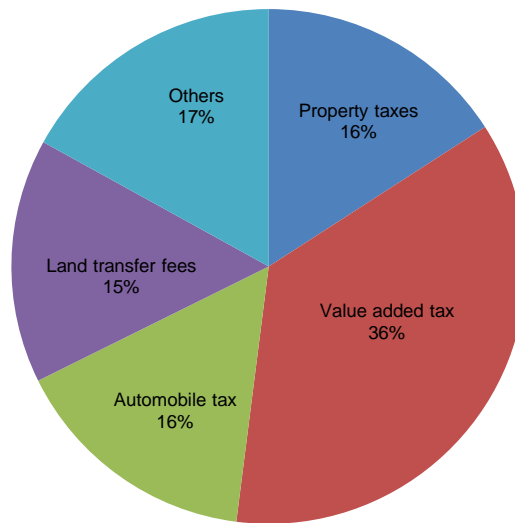
Table 1: BMA's Revenue Breakdown

Unit: %

Revenue	2013	2014	2015	2016	2017	2018	Jun 2019
1. Tax revenue							
1.1) Local taxes	18	18	18	18	19	18	21
1.2) Allocated taxes	77	77	76	76	76	77	75
2. Fees	2	2	2	2	1	1	1
3. Earnings on assets	2	1	1	1	1	1	1
4. Commercial revenue	0	0	0	0	0	0	0
5. Others	1	2	3	3	3	3	2
Total revenue	100	100	100	100	100	100	100

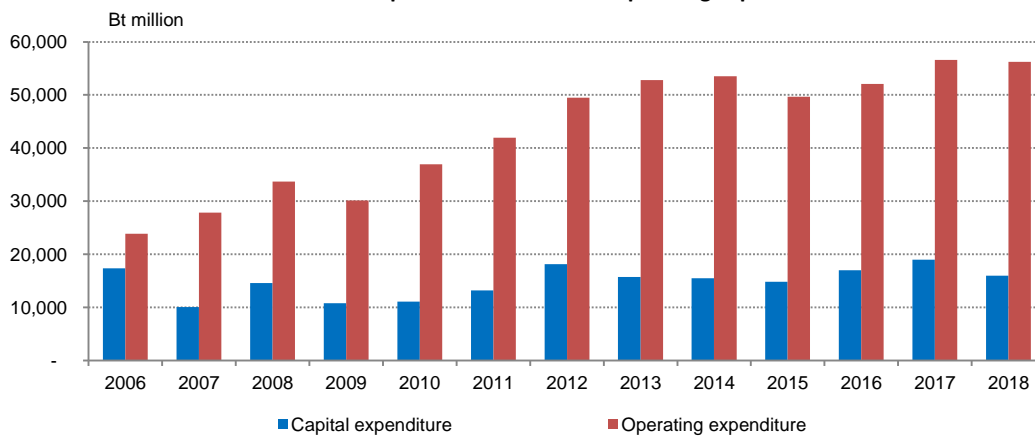
Source: BMA

Chart 4: BMA's Revenue Breakdown by Type of Tax in 2018



Source: BMA

Chart 5: BMA's Capital Investments and Operating Expenditures



Source: BMA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	-----Year Ended 30 September -----				
	2018	2017	2016	2015	2014
Revenue	86,444	79,271	71,764	69,248	66,556
Subsidies	20,895	19,975	16,510	15,068	14,615
Total expenses	72,251	75,577	69,038	64,509	68,982
Operating balance	30,187	22,649	19,712	19,565	13,056
Capital expenditures (CAPEX)	15,993	18,955	16,987	14,827	15,482
Balance after CAPEX	14,193	3,694	2,726	4,739	(2,426)
Total debt	14,664	12,896	10,356	12,029	12,105
Operating balance to revenue (%)	34.92	28.57	27.47	28.25	19.62
Balance after CAPEX to revenue (%)	16.42	4.66	3.80	6.84	(3.65)
Total debt to revenue (%)	16.96	16.27	14.43	17.37	18.19
CAPEX to total expenditures (%)	22.14	25.08	24.60	22.98	22.44

* Data from BMA's annual revenue and expenditure report as published in the Royal Gazette

RELATED CRITERIA

- Rating Methodology for Local Government, 23 August 2017

Bangkok Metropolitan Administration (BMA)

Company Rating:	AA+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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