LOCAL GOVERNMENT

Issuer Rating:	AA+
Outlook:	Stable

Last Review Date: 09/11/20

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

Wiyada Pratoomsuwan, CFA

wiyada@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating affirms the issuer rating on Bangkok Metropolitan Administration (BMA) at "AA+", with a "stable" rating outlook. The rating reflects the importance of Bangkok as the capital city and economic center of Thailand. The rating also reflects BMA's reliable tax revenue, its balanced budget policy, and the large amount of cash on hand. TRIS Rating expects BMA to receive ongoing support from the central government. The rating has taken into consideration BMA's budgetary constraints in view of 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 country's economic output than any other cities in the country. According to the Office of the National Economic and Social Development Council (NESDC), the gross provincial product (GPP) of Bangkok in 2019, at current market prices, was THB5.7 trillion. This equals 33.8% of the country's gross domestic product (GDP).

From 2015 to 2019, the real GPP of Bangkok grew faster than the county's real GDP. The average real economic growth of Bangkok was 4.5% per year, higher than the country's average growth rate of 3.4% per year.

COVID-19 impacts economy

We expect the Thai economy to contract by 0.4% in the second half of 2021, after growing by 2% in the first half of the year. The drop is mainly attributed to the depth of the economic fallout from the third wave of the Coronavirus Disease 2019 (COVID-19) pandemic. Since 2020, the pandemic has severely hit the key economic sectors, i.e., the manufacturing sector, domestic consumption, as well as the tourism sector. TRIS Rating expects Bangkok's economy to contract in tandem with the country's GDP, but at a less degree of severity because of Bangkok's more diversified economy compared with other parts of the country.

Expected fiscal deficit in FY2021-FY2022

For the fiscal year (FY) 2021, ending September 2021, BMA posted a total revenue of THB69.7 billion, a 3.3% increase from the previous year. However, its revenue collection was only 92% of BMA's original budget of THB75.5 billion. This below budget revenue collection was mainly due to the shortfall of about THB10 billion of property tax received as the government provided a 90% reduction on property tax for taxpayers to help alleviate their financial burden during the COVID-19 outbreak. In addition, BMA set additional expenditures of THB3.1 billion for FY2021. As a result, we project BMA to post a net fiscal deficit in FY2021. In response to the drop in revenue, BMA reduced its unnecessary operating expenditures and postponed some capital expenditures to the next couple of years.

Since the decline in property tax revenue was affected by government policy, the central government has had to set up a compensation budget for local governments. BMA is currently requesting compensation of THB14 billion attributed to the implementation of the new property tax in FY2019 and FY2020. However, it is still unclear for the timeline and amount of compensation approved by the government.

For FY2022, BMA plans a balanced budget, with revenue and expenditures each equally set at THB79 billion. However, we believe the government will continue to provide reduction on the property tax. Hence, we expect BMA's revenue to be around THB70 billion in FY2022 before rebounding to around THB80 billion in FY2023 and FY2024, when the government charges property tax at the normal rate and the Thai economy has gradually recovered.

Reliable tax revenue

Over 90% of BMA's total revenue is from taxes, which are considered 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, mostly property tax, account for 18% of BMA's total revenue. Allocated taxes make up the main portion (77%) of BMA's revenue.

The four key taxes comprising over 80% of BMA's total revenue during the past five years are: property tax, value added tax, land transfer fees, and automobile tax. The amounts collected under these four taxes hinge on the country's economic conditions. In addition, the government occasionally reduces one or more of these taxes to stimulate the economy.

During FY2020-FY2021, BMA's property tax sharply declined by 75% from THB15.2 billion to about THB2.9 billion because of the government's policy to reduce property tax for taxpayers in FY2020 and FY2021. We expect the contribution of property tax to remain at a low level in FY2022 as there is a high possibility that the government will continue to provide property tax reduction to taxpayers. The contribution of property tax is expected to bounce back to normal levels when the government scales back property tax reduction in FY2023.

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 expenditures, especially its capital investment budget for new projects. However, additional expenditures, if necessary, can be approved once auxiliary sources of revenue are verified. Auxiliary revenue could include excess cash on hand or actual revenue collected in excess of the budget.

Capital expenditures to be cut in FY2020-FY2021

BMA's expenditures can be classified into two categories: operating expenditures and capital expenditures. Operating expenditures have accounted for around 75% of total expenditures annually for the past five years. In FY2020, operating expenditures amounted to THB51.2 billion, compared with THB56.0 billion in 2019. Personnel expenditures are one of the key components of BMA's operating expenditures, accounting for 34% of total expenditures in FY2020.

In FY2020, BMA's capital expenditures declined to THB14.4 billion, compared with THB19.2 billion in FY2019. BMA reduced and postponed some of its capital expenditures due to the drop in revenue. In FY2021, BMA set capital expenditures of THB15.6 billion. As Bangkok is the center of the nation's economic activities and has the highest population density, there is a high demand for public services. BMA needs to continuously develop infrastructure in order to serve the growing needs of businesses and residents. Subsidies from the central government provide an alternative source of funds. However, government subsidies usually involve a lengthy approval process which may not meet the timely execution requirements in some instances. 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 mainly from Skytrain

At the end of September 2020, BMA's total debt was THB51 billion. We consider BMA's debt to include a total obligation of THB36 billion related to the Skytrain, a main electric rail network in Bangkok. This consists of loans for two Green Line Skytrain extension projects, the net present value of the electric train procurement expenditures in accordance with the operation and maintenance (O&M) agreement, and an outstanding supplier credit from BTS Group Holdings PLC (BTS) as the electrical and mechanical (E&M) contractor for the two Green Line extension projects. The remaining debt consisted of the net present value of hire purchase contracts for fleets of cars and garbage trucks of THB12 billion and KT's loan obligations of THB2 billion.

Green Line Skytrain concession to avoid debt burden

BMA's total debt will increase substantially following the acquisition of the two Green Line Skytrain extension assets from the Mass Rapid Transit Authority of Thailand (MRTA) at a cost of around THB51.8 billion. As of September 2020, BMA received THB19.1 billion in loans from the Ministry of Finance (MOF) for the southern extension of the Green Line Skytrain extension projects. The remaining loans for the northern   extension of the Green Line Skytrain extension projects are

expected to be transferred to BMA in FY2022. BMA is also responsible for investing in the E&M systems for both projects. The cost of the two E&M systems is around THB20 billion.

To avoid carrying huge debt, BMA is in the process of granting a new concession for the Green Line Skytrain to BTS. BMA expects the Skytrain-related debts to be transferred to the concessionaire in exchange for the new concession. Presently, BMA and BTS have already finalized the terms and conditions of the concession agreement, pending government approval.

Strong liquidity profile

BMA's liquidity position remains strong. In FY2020, BMA had a budget surplus of THB1.9 billion. Cash on hand was at THB49.6 billion at the end of FY2020. We expect BMA to maintain an appropriate level of cash 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 FY2021 to FY2024 are as follows:

- Revenue to be THB70 billion in FY2022, improving to around THB80 billion during FY2023-FY2024.
- Fiscal deficits expected in FY2021 and FY2022, with a balanced budget in FY2023-FY2024.
- The total debt to revenue ratio to rise to over 90% from FY2022 onwards if BMA fails to convert total obligations associated with the two Green Line extension projects to the new concession.

RATING OUTLOOK

The "stable" outlook reflects BMA's reliable revenue sources and balanced budget policy. TRIS Rating expects BMA to continue to receive financial support and subsidies from the central government to implement the government policies.

RATING SENSITIVITIES

A rating upgrade over the next few years is unlikely because of the high probability of a significant rise in BMA's leverage from the acquisition of the two Green Line Skytrain extension projects. In contrast, a rating downgrade may arise if BMA's financial discipline weakens considerably or if BMA 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.

ORGANIZATION OVERVIEW

BMA is Bangkok's local government, organized in accordance with the BMA Act B.E. 2528 (the BMA Act). BMA, supervised by the Ministry of Interior, is responsible for the management of the city of Bangkok, 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 under the supervision of 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 appointed 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 2022.
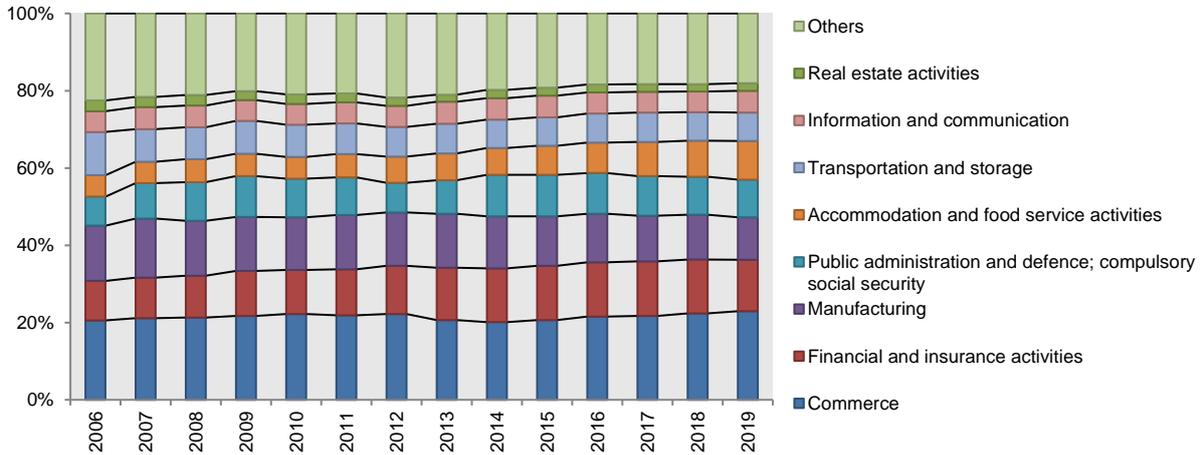
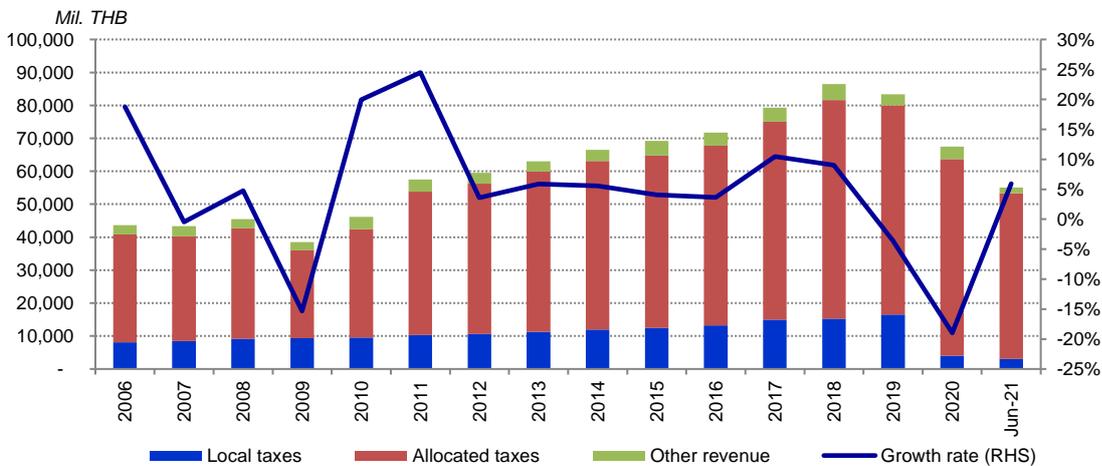**Chart 1: Gross Provincial Product (GPP) Per Capita of Major Provinces (Market Prices)**
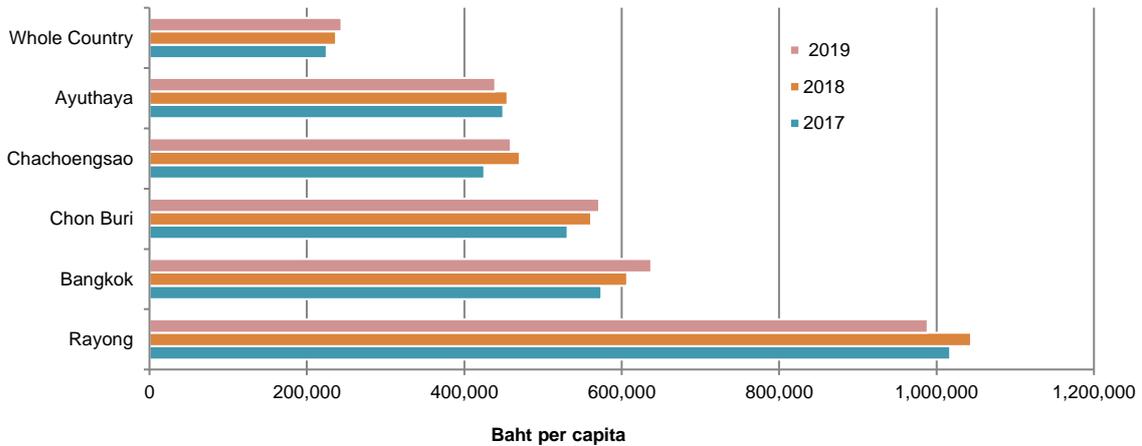
Source: National Economic and Social Development Council (NESDC)

Chart 2: GPP in Bangkok by Industry Sector

Source: NESDC

**Chart 3: BMA's Record of Revenue Collection**

Source: BMA

Table 1: BMA's Revenue Breakdown

Unit: %

Revenue	2015	2016	2017	2018	2019	2020	Jun 2021
1. Tax revenue							
1.1) Local taxes	18	18	19	18	20	6	6
1.2) Allocated taxes	76	76	76	77	76	88	91
2. Fees	2	2	1	1	1	2	1
3. Earnings on assets	1	1	1	1	2	2	1
4. Commercial revenue	0	0	0	0	0	0	0
5. Others	3	3	3	3	1	2	1
Total revenue	**100**	**100**	**100**	**100**	**100**	**100**	**100**

Source: BMA

Chart 4: BMA's Revenue Breakdown by Type of Tax in 2020
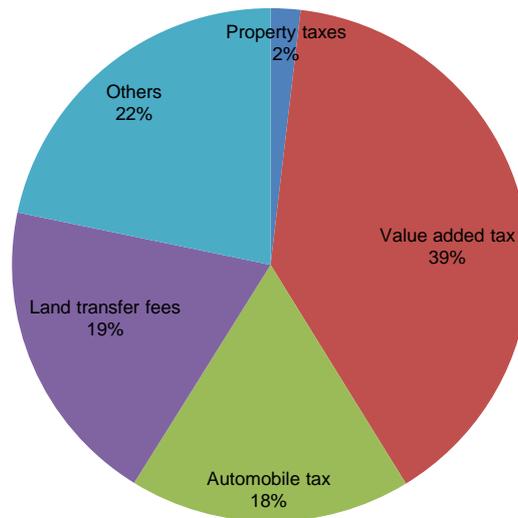
Source: BMA

Chart 5: BMA's Capital Investments and Operating Expenditures
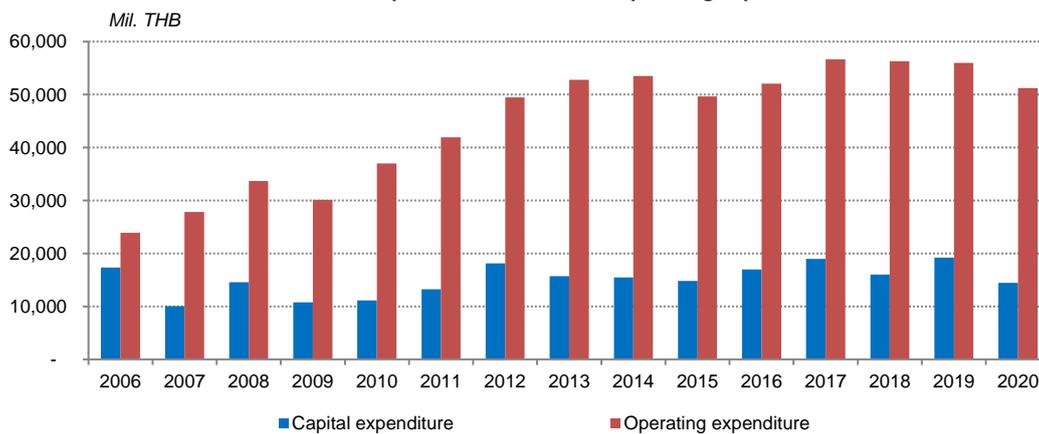
Source: BMA

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	---------------------------Year Ended 30 September ---------------------				
	2020	**2019**	**2018**	**2017**	**2016**
Revenue	67,527	83,339	86,444	79,271	71,764
Subsidies	24,470	21,494	20,895	19,975	16,510
Total expenses	65,651	75,204	72,251	75,577	69,038
Operating balance	16,316	27,373	30,187	22,649	19,712
Capital expenditures (CAPEX)	14,440	19,238	15,993	18,955	16,987
Balance after CAPEX	1,876	8,135	14,193	3,694	2,726
Total debt	50,964	42,517	14,664	12,896	10,356
Operating balance/revenue (%)	24.16	32.85	34.92	28.57	27.47
Balance after CAPEX/revenue (%)	2.78	9.76	16.42	4.66	3.80
Total debt/revenue (%)	75.47	51.02	16.96	16.27	14.43
CAPEX/total expenditures (%)	21.99	25.58	22.14	25.08	24.60

*   *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)

Issuer Rating:	AA+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 02-098-3000