

# BTS GROUP HOLDINGS PLC

No. 79/2017

8 December 2017

|                        |        |
|------------------------|--------|
| <b>Company Rating:</b> | A      |
| <b>Issue Rating:</b>   |        |
| Senior unsecured       | A      |
| <b>Outlook:</b>        | Stable |

#### Company Rating History:

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

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#### Rating Rationale

TRIS Rating affirms the company rating of BTS Group Holdings PLC (BTS) at "A". At the same time, TRIS Rating assigns the rating of "A" to BTS's proposed issue of up to Bt7,000 million in senior unsecured debentures. The proceeds from the new debentures will be used to repay existing debts and/or investment and/or finance its working capital.

The ratings reflect the company's strong business profile based on the high predictability of the service income from the mass transit train operation, stable dividend income received from a 33.33% ownership stake in BTS Rail Mass Transit Growth Infrastructure Fund (BTSGIF), and its entrenched position in media business. However, BTS's financial profile will be weighed down by a surge in debt over the next four years as the company plans to invest a number of large mass transit projects.

BTS (formerly known as Tanayong PLC) was established in 1968 as a property development company. BTS became a holding company after it acquired Bangkok Mass Transit System PLC (BTSC) in 2010. BTS currently owns 97.46% of the equity of BTSC which operates the Bangkok Mass Transit System (BTS Skytrain), under a 30-year (1999-2029) build-transfer-operate concession awarded by the Bangkok Metropolitan Administration (BMA). In 2013, BTSC sold the future net farebox revenue over the remaining concession period (2013-2029) to BTSGIF for Bt61 billion. BTS holds 33.33% of the investment units in BTSGIF.

BTS has four main lines of business: mass transit, media, property development, and services. BTS's EBITDA (earnings before interest, taxes, depreciation, and amortization) for fiscal year 2017 (FY2017, April 2016-March 2017) was Bt3.5 billion. The mass transit segment accounted for approximately 62% of EBITDA; the media segment contributed about 38%. The EBITDA contributions from other businesses have been minimal. The media business is considered a part of the mass transit business. The media segment has grown as BTS Skytrain ridership increases. As the sole provider of advertising media inside the trains and in the commercial space around BTS train stations, BTS has a unique competitive advantage. Operations in the media business are carried out through VGI Global Media PLC (VGI), a majority-owned subsidiary.

Going forward, BTS is going to invest in two new mass transit rail projects in the Bangkok metropolitan area: the Pink Line and the Yellow Line monorails. The new projects will be undertaken through joint ventures (JV) with two partners, Sino-Thai Engineering & Construction PLC (STEC) and Ratchaburi Electricity Generating Holding PLC (RATCH). The company holds a 75% equity stake in the JVs; STEC holds 15% and RATCH holds 10%. The JVs have entered into public-private partnership investment agreements with Mass Rapid Transit Authority of Thailand (MRTA). Total project cost is around Bt90,000 million. MRTA will subsidize the cost of the civil work for both projects. The MRTA subsidy is worth Bt47,550 million, to be paid to the JVs in 10 equal annual installments starting from the commencement of operation. The JVs will receive the right to operate these two rails for 33.3 years.

*CreditUpdate* reviews ratings of companies or debt issues that have already been rated by TRIS Rating. The CreditUpdate occurs when new debt instruments are issued or if significant events have taken place that may impact a company's current ratings or when current ratings are cancelled. The CreditUpdate announces whether a rating has been "upgraded," "downgraded," "affirmed" or "cancelled." The update includes information to supplement the previously published ratings.

CreditUpdates are part of TRIS Rating's monitoring process. TRIS Rating monitors every rating it assigns until either the debt instrument matures or the rating contract ends. To keep the public informed of changing situations, TRIS Rating periodically issues announcements about the credit ratings it monitors.

BTS's operating performance was in line with TRIS Rating's projection. In the first half of FY2018, revenues increased to Bt4,940 million, compared with Bt2,692 million in the same period of the previous year. The rise was mainly due to an increase in revenue in the media segment and the recognition of revenue at BTSC from its electrical and mechanical (E&M) and train procurement services. BTS's operating profit margin (excluding E&M services and train procurement revenue) also increased, climbing from 26.4% in FY2017 to 32.5% in the first half of FY2018.

The train operating and maintenance (O&M) services, carried out by BTSC, for the expanded mass transit lines in the Bangkok metropolitan area are expected to be the key driver of growth. BTSC is going through a crucial expansion in the train operations segment by providing O&M, E&M, and train procurement services for several of the BTS Skytrain expansion projects. For FY2018-FY2020, TRIS Rating projects significant jumps in BTS's revenue from sizable increases in O&M service fees. BTSC's operation will expand to cover new extension of two lines: the Southern and the Northern extensions of the Green Line. In addition, TRIS Rating expects the company to recognize Bt27,000 million in revenue from the E&M services and train procurement services BTSC will provide over the next four years. The operating profit margin will stay around 20%. The projected surge in revenue from O&M services, provided by BTSC, is expected to stabilize BTS's revenue stream.

Despite projections of stronger financial performance, total debt will rise and weigh heavily on the company's financial profile over the next four years. BTS's total debt (including portions of the debts of the joint ventures) surged from Bt11,985 million in FY2016 to Bt52,405 million in the first half of FY2018. The total debt to capitalization ratio rose from 20.4% in FY2016 to 53.3% in the first half of FY2018. The increase was mainly attributed to the debt issuance made by BTSC in 2016 to secure funds for the E&M and train procurement contracts entered into with Krungthep Thanakom Co., Ltd. (KT), a wholly-owned subsidiary of BMA. The E&M contracts require BTSC to prefund the E&M costs. However, BTSC will be reimbursed by KT for all E&M costs, including accrued interest, within a four-year timeframe. KT has the option to extend the payment for another two years.

In addition, the company is expected to rely mainly on debt financing to fund the investment costs for the Pink Line and Yellow Line monorail projects. TRIS Rating projects BTS's consolidated debt to EBITDA ratio will peak at around 7 times in 2020, then step down to around 5 times once the two projects are completed in 2022. Although the project loans are expected to be provided on a non-recourse basis, TRIS Rating consolidates all project loans onto BTS's balance sheet when calculating the total amount of debt. However, the Bt47,550 million subsidy, committed by the government through MRTA, is subtracted from the total amount of debt given the certainty of payments from the government.

BTS's liquidity profile is adequate. As of September of 2017, the company had cash on hand of Bt9,025 million and securities available for sale and trading worth Bt24,560 million. In addition, the company has undrawn credit facilities of around Bt28,500 million. During the next 12 months, BTS has scheduled principal repayments of Bt242 million, and outstanding short-term obligations of Bt20,364 million, plus capital expenditures of around Bt24,000 million. In the first half of FY2018, the company reported funds from operations (FFO) of Bt1,838 million. The FFO to total debt ratio and the EBITDA interest coverage ratio stood at 6.8% (annualized, from the trailing 12 months) and 4.2 times, respectively.

### Rating Outlook

The "stable" outlook reflects the expectation that the company will achieve steady growth in revenue and cash flow from operations. Total debt, on a consolidated basis, is expected to rise substantially from the investment in new mass transit projects. However, net cash flow from the existing businesses is also expected to rise substantially, enabling the company to maintain an acceptable debt to EBITDA ratio. The prospect for a rating upgrade is unlikely over the next couple of years due to the rise in consolidated debt. The ratings and/or outlook could be revised downward if the debt to EBITDA ratio deteriorates significantly from TRIS Rating's projection.

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### BTS Group Holdings PLC (BTS)

|   |        |
|---|--------|
| <b>Company Rating:</b>  | A      |
| <b>Issue Rating:</b>  |        |
| Up to Bt7,000 million senior unsecured debentures due within 12 years | A      |
| <b>Rating Outlook:</b>  | Stable |

Financial Statistics and Key Financial Ratios\*

Unit: Bt million

|  | Apr-Sep<br>2017 | Year Ended 31 March |        |        |        |        |
|--|-----------------|---------------------|--------|--------|--------|--------|
|  |                 | 2017                | 2016   | 2015   | 2014   | 2013   |
| Sales  | 4,940           | 7,585               | 5,352  | 6,137  | 8,151  | 5,585  |
| Gross interest expense   | 612             | 647                 | 290    | 403    | 628    | 1,248  |
| Net income from operations   | 706             | 1,230               | 1,339  | 2,252  | 1,417  | 719    |
| Funds from operations (FFO)  | 1,838           | 3,460               | 1,891  | 3,027  | 3,499  | 3,886  |
| Capital expenditures   | 6,889           | 1,346               | 1,579  | 1,727  | 1,660  | 1,311  |
| Total assets   | 100,893         | 93,651              | 65,259 | 66,810 | 76,711 | 67,291 |
| Total debt   | 44,500          | 38,388              | 9,957  | 5,289  | 7,470  | 12,758 |
| Shareholders' equity   | 46,000          | 45,182              | 46,901 | 52,012 | 59,542 | 50,502 |
| Operating income before depreciation and amortization as % of sales                              | 32.5            | 26.4                | 32.6   | 39.5   | 35.2   | 56.7   |
| Pretax return on permanent capital (%)   | 4.0**           | 3.7                 | 3.6    | 6.1    | 6.3    | 5.4    |
| Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times) | 4.2             | 6.0                 | 10.3   | 11.5   | 7.4    | 4.2    |
| FFO/total debt (%)   | 6.8**           | 7.8                 | 15.8   | 57.2   | 46.8   | 30.5   |
| Total debt/capitalization (%)  | 53.3            | 49.4                | 20.4   | 9.2    | 11.1   | 20.2   |
| Total debt/capitalization (%)***   | 49.2            | 45.9                | 17.5   | 9.2    | 11.1   | 20.2   |

Note: All ratios are adjusted with proportionate debt from JVs since April 2015

\* Consolidated financial statements

\*\* Annualized from the trailing 12 months

\*\*\* Excluding proportionate debt from JVs

**TRIS Rating Co., Ltd.**

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