

BTS GROUP HOLDINGS PLC

No. 92/2023
24 May 2023

CORPORATES

| | |
|------------------|--------|
| Company Rating: | A- |
| Issue Ratings: | |
| Senior unsecured | A- |
| Outlook: | Stable |

Last Review Date: 19/09/22

Company Rating History:

| Date | Rating | Outlook/Alert |
|----------|--------|---------------|
| 28/05/20 | A | Negative |
| 17/05/16 | A | Stable |

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RATIONALE

TRIS Rating downgrades the company rating on BTS Group Holdings PLC (BTS) and the ratings on BTS's outstanding senior unsecured debentures to "A-" from "A". At the same time, we revise the rating outlook on BTS to "stable", from "negative".

The rating downgrade reflects the company's heightened financial leverage due to various investments made over recent years, with the planned deleveraging taking longer than we originally expected.

The revision of outlook to "stable" reflects our expectation that the company's operating performance will continue to improve, driven by growing contracted operating and maintenance (O&M) fee revenue and the recovery of its media business post-Coronavirus Disease 2019 (COVID-19). In addition, we now consider the likelihood of BTS investing in the new Green Line concession to be increasingly remote, due to the uncertainty surrounding the incoming new government's policy regarding the concession. Previously, we incorporated the potential impact of the probable new concession on BTS's financial leverage into the "negative" rating outlook.

The ratings continue to reflect the company's strong business profile based on the steady service income from its metro train operation, sizable cash flow received from its 33.33% investment in BTS Rail Mass Transit Growth Infrastructure Fund (BTSGIF), and its entrenched position in the media business.

KEY RATING CONSIDERATIONS

Financial leverage to remain high but on a declining path over forecast period

The company's financial leverage has increased significantly over the past two years due to its sizable investments in mass transit projects, as well as its acquisition of Jaymart Group Holdings PLC (JMART) and Thanulux PLC (TNL). As a result, the ratio of adjusted net debt to earnings before interest, taxes, depreciation and amortization (EBITDA), inclusive of debts to finance accounts receivable from Bangkok Metropolitan Administration (BMA), rose to 17.3 times (annualized, from the trailing 12 months) in the first nine months of fiscal year (FY) 2023 (1 April to 31 December 2022), compared with 16.3 times in FY2022. When adjusted for accounts receivable from the BMA in the calculation of debt and interest income of such receivable from EBITDA, the company's adjusted net debt-to-EBITDA ratio was 13.8 times (annualized, from the trailing 12 months) in the first nine months of FY2023 and 13.2 times in FY2022, respectively. Previously, we included interest income related to mass transit projects in the EBITDA. We are of the view that it will be more consistent with our practice to exclude it in the calculation of EBITDA. The company is taking actions to reduce its debt burden by both raising new capital in its subsidiary and partially divesting its investments.

During FY2023-FY2026, the company plans to invest around THB29.8 billion. In our base-case forecast, we assume BMA will pay for the electrical and mechanical (E&M) work of the Southern and Northern Green Line extensions and the O&M service fees it owes to BTS in 2024. We project EBITDA from core operation, excluding interest income related to the civil work of the Pink Line and the Yellow Line and interest income related to BMA's account receivables, to grow strongly to around THB7.3 billion in FY2026 from around THB4.3 billion in FY2023.

Growing, predictable income from O&M services

We expect BTS's revenue and cash flow from O&M services to continue to rise. BTS provides O&M services for the Green Line and its extensions through Bangkok Mass Transit System PLC (BTSC). In the first nine months of FY2023, O&M service fees stood at THB5.0 billion, rising from THB4.6 billion in the same period of FY2022. Since the service fees are largely fixed as stipulated in the contract, the O&M service income is highly predictable with no ridership risk. We project the annual O&M service fees to gradually increase to THB7.6 billion in FY2026.

Two monorails to commence in 2023

BTS holds majority equity stakes in two joint ventures (JVs) with its partners, which were formed to invest in and operate two monorail projects (the Pink Line and the Yellow Line) under Public Private Partnership (PPP)-Net Cost concessions awarded in 2017. As per the concessions, the JVs will invest in the monorail E&M work in exchange for ridership revenue and related commercial and media income. Both projects are expected to commence full operation in 2023, postponed from 2022 due to construction delays caused by the COVID-19 lockdown measures. We project the revenue for each line to be around THB1.9 billion in FY2026.

BTSGIF's cash flow recovery to continue

After being severely impacted by the COVID-19 pandemic over the past two years, ridership gradually rebounded in the second half of 2022 as the government adopted policies of returning to normalcy. As a result, the cash flow from BTSGIF gradually improved to THB588 million in the first nine months of FY2023, compared with THB95 million in the same period in the previous year. In our base-case forecast, we assume that the cash flow from BTSGIF will gradually increase to THB1.5 billion in FY2026, in tandem with the recovery in ridership.

Increased revenue from MIX business expected

As part of its offline-to-online (O2O) strategy, the company has transformed its media business into an omni-channel marketing platform, now known as the MIX business. Currently, the MIX business consists of three segments: media, distribution, and digital services. The media segment comprises advertising media inside the BTS trains and commercial spaces in the BTS train stations, as well as other out-of-home (OOH) media. The distribution segment includes O2O commerce (physical offline shops and e-commerce channel), along with retail and leasing spaces. Lastly, the digital service segment comprises insurance e-brokerage, digital lending services, and a loyalty program. The O2O solution is designed to combine all of BTS's offline and online channels to provide comprehensive marketing coverage for its clients. Clients have access to all of BTS's marketing channels to advertise or sell products and services to consumers. This will enlarge the company's revenue base and create synergies in terms of cross-selling and pooling consumer data.

In the first nine months of FY2023, the revenue of BTS's MIX business increased by around 21% compared with the same period in the previous FY. This increase was mainly due to the recovery of the media segment, in tandem with the revival of ridership and increased spending from advertisers in both on-train media and other OOH media, after the pandemic subsided. We expect revenue from the MIX business to recover by around 17% in FY2024, 14% in FY2025, and 7% in FY2026, assuming the continuing revival in the advertising industry. Additionally, there is a high probability that the company will receive the rights to manage the advertising space and commercial areas in the new stations on the extended routes of the Green Line, Pink Line, and Yellow Line. We project revenue from the distribution and digital service segments to increase by 5% per annum during the forecast period.

Acceptable liquidity profile

We assess BTS to have adequate liquidity over the next 12 months. As of December 2022, the company's sources of funds include cash on hand of THB15.8 billion and short-term investments worth THB3.1 billion. The company also has undrawn credit facilities available from commercial banks of THB20.3 billion. Over the next 12 months, we project BTS's funds from operations (FFO) to be around THB3.7 billion. We believe this source of funds to be adequate to service its uses of funds which consists of THB12.7 billion long-term obligations over the next 12 months and THB23 billion short-term obligations. We also expect BTS to be able to roll over its short-term debts. In FY2024, capital expenditures will be around THB12.7 billion with most being funded by project loans.

We believe that BTS should have no problems complying with the debenture covenants over the next 12 to 18 months, which require the company to maintain a net interest-bearing debt to equity ratio below 2.5 times. At the end of December 2022, the ratio was 0.43 times.

As of December 2022, BTS's total interest-bearing debt of THB131 billion included priority debt of THB38 billion. This priority debt comprised secured and unsecured debts at the subsidiary level. The priority debt to total debt ratio was 29%.

BASE-CASE ASSUMPTIONS

- O&M revenue to gradually increase to THB7.6 billion in FY2026 from around THB6.3 billion in FY2022.
- BTS to recognize revenue from the Pink Line and the Yellow Line in FY2026 of around THB1.9 billion for each line.
- Revenue from MIX business to increase by 13% in FY2023, then increase by around 17% in FY2024, 14% in FY2025, and 7% in FY2026.
- During FY2023-FY2026, BTS to recognize revenue of around THB10 billion from the development of the Pink Line and the Yellow Line.
- EBITDA margin to range within 35%-55%.
- Capital expenditures are expected to total around THB29.8 billion over the forecast period.

RATING OUTLOOK

The “stable” outlook reflects our expectation that the company’s operating performance will continue to improve, driven by growing contracted O&M fee revenue and the recovery of the media business. The outlook also reflects our assumption that BMA will likely pay off the outstanding debt to the company in the near future.

RATING SENSITIVITIES

A rating upgrade could occur if the adjusted net debt to EBITDA ratio declines below 8 times on a sustained basis, which could result from a substantial improvement in the company's operating performance or a significant reduction in its debt burden. Conversely, the ratings could be revised downward if BTS’s debt to EBITDA ratio stays over 11 times on a sustained basis, which might be caused by significant additional debt-funded investments, or weaker-than-expected ramp up in operating performance.

COMPANY OVERVIEW

BTS (formerly known as Tanayong PLC) was established in 1968 as a property development company. BTS became a holding company after it acquired BTSC in 2010. The company was listed on the Stock Exchange of Thailand (SET) in 1991. BTS has developed a 3M strategy, operating three key business segments: MOVE, MIX, MATCH. In FY2022, the MOVE segment contributed approximately 87% of EBITDA, while the MIX segment contributed about 7%. The rest was derived from the MATCH segment.

For the MOVE segment, the company operates the Green Line Skytrain through its core subsidiary, BTSC. BTSC operates the core network of the Green Line Skytrain through a 30-year build-operate-transfer (B-T-O) concession which has already been sold the future net farebox revenue over the remaining concession period (2013-2029) to BTSGIF. BTS holds 33.33% of the investment units of BTSGIF. BTSC also has two O&M contracts to provide O&M services for the two Green Line’s extension routes and the core network from 2012 to 2042. BTS has set up JVs with its two partners to invest in the Pink Line and the Yellow Line monorail projects at a total cost of around THB90 billion. The JVs will receive the rights to operate the rails for a period of 33.3 years. The company and its partners have been granted a 50-year PPP-Net Cost concession for the U-Tapao International Airport Project and two 30-year O&M contracts for two motorway projects (Bang Pa-In – Nakhon Ratchasima (M6) and Bang Yai – Kanchanaburi (M81)).

In the MIX segment, the company provides advertising services and rents retail space on the BTS Skytrain network through its subsidiary VGI PLC (VGI). VGI has the exclusive rights to manage advertising and merchandising space on BTS trains and at stations until 2029. In addition, VGI has the first right to renew and/or extend contracts to cover space on additional projects for which BTSC is granted the rights to provide media services. VGI has continuously expanded its business scope. VGI now offers other types of OOH media through its acquisition of a 17.88% stake in Plan B Media PLC (PLANB). The company has also expanded to offline channels by acquiring Kerry Express (Thailand) PLC (KERRY), JMART, Fanslink Communication Co., Ltd. (Fanslink) and Nation International Edutainment PLC (NINE). The acquisitions will enlarge its revenue base and create synergies in terms of cross-selling and the pooling of consumer data.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

| | Apr-Dec 2022 | -----Year Ended 31 March ----- | | | |
|---|-----------------|--------------------------------|---------|---------|---------|
| | | 2022 | 2021 | 2020 | 2019 |
| Total operating revenues*** | 9,359 | 11,243 | 8,513 | 8,294 | 6,724 |
| Earnings before interest and taxes (EBIT) | 4,588 | 5,769 | 4,939 | 7,367 | 5,203 |
| Earnings before interest, taxes, depreciation, and amortization (EBITDA) | 5,154 | 7,086 | 7,682 | 7,263 | 7,163 |
| Funds from operations (FFO) | 1,013 | 2,633 | 3,578 | 3,473 | 4,678 |
| Adjusted interest expense | 2,872 | 3,266 | 2,540 | 2,313 | 1,712 |
| Capital expenditures | 4,352 | 12,185 | 13,522 | 17,753 | 16,622 |
| Total assets | 274,406 | 255,867 | 212,076 | 173,100 | 144,398 |
| Adjusted debt | 116,353 | 115,553 | 84,774 | 76,586 | 60,280 |
| Adjusted equity | 87,021 | 86,128 | 76,037 | 67,246 | 52,310 |
| Adjusted Ratios | | | | | |
| EBITDA margin (%) | 55.06 | 63.02 | 90.24 | 87.58 | 106.53 |
| Pretax return on permanent capital (%) | 2.79 ** | 3.09 | 3.13 | 5.43 | 4.83 |
| EBITDA interest coverage (times) | 1.79 | 2.17 | 3.02 | 3.14 | 4.18 |
| Debt to EBITDA (times) | 17.33 ** | 16.31 | 11.04 | 10.54 | 8.42 |
| FFO to debt (%) | 1.25 ** | 2.28 | 4.22 | 4.53 | 7.76 |
| Debt to capitalization (%) | 57.21 | 57.29 | 52.72 | 53.25 | 53.54 |

* Consolidated financial statements

** Annualized with the trailing 12 months

*** Excluding revenue from installation and construction services and train procurement service

RELATED CRITERIA

- Group Rating Methodology, 7 September 2022
- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

BTS Group Holdings PLC (BTS)

| | |
|---|--------|
| Company Rating: | A- |
| Issue Ratings: | |
| BTSG239A: THB1,290 million senior unsecured debentures due 2023 | A- |
| BTSG23NA: THB4,000 million senior unsecured debentures due 2023 | A- |
| BTSG245A: THB3,000 million senior unsecured debentures due 2024 | A- |
| BTSG247A: THB1,500 million senior unsecured debentures due 2024 | A- |
| BTSG24NA: THB1,591 million senior unsecured debentures due 2024 | A- |
| BTSG24NB: THB4,091.2 million senior unsecured debentures due 2024 | A- |
| BTSG255A: THB700 million senior unsecured debentures due 2025 | A- |
| BTSG25NA: THB1,500 million senior unsecured debentures due 2025 | A- |
| BTSG265A: THB2,700 million senior unsecured debentures due 2026 | A- |
| BTSG267A: THB3,500 million senior unsecured debentures due 2026 | A- |
| BTSG275A: THB2,800 million senior unsecured debentures due 2027 | A- |
| BTSG275B: THB1,853.9 million senior unsecured debentures due 2027 | A- |
| BTSG275C: THB4,951.8 million senior unsecured debentures due 2027 | A- |
| BTSG27NA: THB2,000 million senior unsecured debentures due 2027 | A- |
| BTSG27DA: THB2,000 million senior unsecured debentures due 2027 | A- |
| BTSG289A: THB4,660 million senior unsecured debentures due 2028 | A- |
| BTSG295A: THB5,000 million senior unsecured debentures due 2029 | A- |
| BTSG295B: THB3,800 million senior unsecured debentures due 2029 | A- |
| BTSG29DA: THB2,000 million senior unsecured debentures due 2029 | A- |
| BTSG305A: THB1,941.1 million senior unsecured debentures due 2030 | A- |
| BTSG305B: THB1,716.8 million senior unsecured debentures due 2030 | A- |
| BTSG30NA: THB600 million senior unsecured debentures due 2030 | A- |
| BTSG317A: THB8,000 million senior unsecured debentures due 2031 | A- |
| BTSG325A: THB3,700 million senior unsecured debentures due 2032 | A- |
| BTSG32NA: THB1,614 million senior unsecured debentures due 2032 | A- |
| BTSG32NB: THB2,240.2 million senior unsecured debentures due 2032 | A- |
| Rating Outlook: | Stable |

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