

BTS GROUP HOLDINGS PLC

No. 85/2024
24 May 2024

CORPORATES

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

Last Review Date: 19/09/23

Company Rating History:

Date	Rating	Outlook/Alert
24/05/23	A-	Stable
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 "BBB+" from "A-" with a "stable" rating outlook. The downgrade reflects weaker-than-expected operating results and high financial leverage stemming from various investments made over recent years.

The ratings continue to be supported by the company's strong business profile as characterized by steady service income generated from long-term contracts for operating and maintenance (O&M) services, sizable cash flow from its 33.33% investment in the BTS Rail Mass Transit Growth Infrastructure Fund (BTSGIF), and a well-established position in the advertising media business.

KEY RATING CONSIDERATIONS

Deteriorated financial profile due to weak operating performance

BTS's operating result is weaker than our previous projection due mainly to the softer operating results of the Pink and Yellow monorail train Lines. Even though we project earnings before interest, taxes, depreciation, and amortization (EBITDA) from core operations to gradually increase from THB3.4 billion in fiscal year (FY) 2024 to THB6.2 billion in FY2027, this forecast is still significantly lower than previously anticipated. The revised forecast is based on the ridership of both train lines during the initial phase of operation. We project the adjusted net debt to EBITDA ratio to gradually decrease from around 20 times in the first nine months of FY2024 (1 April-31 December 2023) to around 13 times in FY2027, which would be nevertheless a level incommensurate with the previously assigned "A-" credit rating.

BTS's financial leverage has increased significantly over the past three years from the substantial investments in new mass transit projects and other non-transportation businesses. Despite the THB23 billion payment received from Bangkok Metropolitan Administration (BMA) in April 2024 for the settlement of long-overdue receivables in relation to the electrical and mechanical (E&M) work for the Southern and Northern Green Line extensions, the leverage level remains high. We expect BMA to gradually pay down the outstanding O&M service fees owed to BTS in FY2025-FY2026. The company plans to invest a total of THB28 billion from FY2024 to FY2027. As a result, BTS's net debt is projected to decline to around THB80 billion in FY2027.

Lower-than-expected ridership on Pink and Yellow Lines

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. Pursuant to the concessions, the JVs invested in the monorail E&M work in exchange for ridership revenue and related commercial and media income.

Since the commencement of the Yellow Line commercial service in July 2023 and the Pink Line in January 2024, ridership levels have been substantially below our initial forecast. Daily passenger volumes of the Yellow Line and Pink Line average around 40,000 and 50,000, respectively. These figures fall substantially short of TRIS Rating's pre-operational forecasts of roughly 110,000 daily ridership per line for the first year of operation. Going forward, we assume a gradual ramp up in ridership and revenue for both lines. We

project revenue to reach around THB700-THB800 million per line in FY2025, rising to THB1.7-THB1.8 billion per line in FY2027.

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 FY2024, O&M service fees stood at THB5.2 billion, rising from THB5 billion in the same period of FY2023. 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 range upward from THB7-THB7.9 billion in FY2024-FY2027.

BTSGIF's cash flow recovery to continue

Passenger ridership in the core Green Line train network continued to recover in 2023 as the impact of COVID-19 dissipated. In 2023, passenger volume had rebounded to around 77% of pre-pandemic levels, a significant improvement from 57% in 2022. This ridership growth, coupled with a fare increase implemented at the beginning of 2023, has translated into improved cash flow from BTSGIF. During the first nine months of FY2024, cash flow from BTSGIF reached THB1.1 billion, increasing from THB588 million in the prior fiscal year. Our base case scenario anticipates a further gradual rise in cash flow from BTSGIF, reaching around THB1.8 billion in FY2027, given a continued recovery in mass transit ridership.

Increased revenue from MIX business expected

BTS's MIX business, consisting of media, distribution, and digital services, experienced moderate revenue growth of around 2% during the first nine months of FY2024 compared to the same period in the prior year. This growth reflects partial recovery in the advertising media business. Increased ridership on the BTS network led to a larger audience for advertising displays, while a rise in advertising budget allocation by various operators benefited both on-train media and other out-of-home advertising formats managed by the company. However, competition from new media, particularly online channels, is one of the factors hindering the recovery of the company's advertising media business.

Going forward, we expect the revenue from MIX business to increase by 14% in FY2025, 12% in FY2026, and 8% in FY2027. This anticipated growth is driven by continued passenger volume recovery on the BTS network and growth in advertising expenditures by various advertisers. Also, the company is poised to generate new revenue streams from managing advertising and commercial space in new stations on the extended routes of the Green Line, Pink Line, and Yellow Line. The distribution business is also expected to generate increased revenue through the expansion of Turtle convenience stores at BTS stations.

Acceptable liquidity profile

We assess BTS to have adequate liquidity over the next 12 months. As of December 2023, the company's sources of funds included cash and cash equivalents of THB12.2 billion. The company also had undrawn credit facilities available from commercial banks of around THB16 billion. Over the next 12 months, we project BTS's funds from operations (FFO) to be around THB1.6 billion. Also, the company received a significant cash inflow of THB23 billion from payment for procured and installed E&M work systems associated with the Bangkok Green Line extension project. We expect this source of funds to be adequate to service its THB15.9 billion long-term obligations coming due over the next 12 months and THB26.8 billion short-term obligations. We also expect BTS to be able to roll over its short-term debts. In FY2025, capital expenditures are projected to be around THB8 billion.

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 2023, the ratio was 0.82 times.

Debt structure

As of December 2023, BTS's total interest-bearing debt of THB144 billion included priority debt of THB36 billion. This priority debt comprised secured and unsecured debts at the subsidiary level. The priority debt to total debt ratio was 25%.

BASE-CASE ASSUMPTIONS

- O&M revenue to gradually increase from around THB6.8 billion in FY2023 to THB7.9 billion in FY2027.
- BTS to recognize revenue from the Pink Line and the Yellow Line of around THB700-THB800 million for each line in FY2025, before increasing to around THB1.7-THB1.8 billion for each line in FY2027.
- Revenue from MIX business to increase by 1% in FY2024, then increase by around 14% in FY2025, 12% in FY2026, and 8% in FY2027.
- During FY2024-FY2026, BTS to recognize revenue of around THB5.7 billion from the development of the Pink Line and the Yellow Line.

- EBITDA margin to range within 31%-47%.
- Capital expenditures are expected to total around THB28 billion over the forecast period.

RATING OUTLOOK

The “stable” outlook reflects our expectation that the company’s operating performance will continue to improve in line with our projection, driven by growing contracted O&M fee revenue, the recovering media business, and gradually improving performances of the Pink and Yellow Line operations. The outlook also reflects our assumption that BMA will pay down the outstanding debt owed to the company over the next two years.

RATING SENSITIVITIES

A rating upgrade could occur if the adjusted net debt to EBITDA ratio declines below 11 times on a sustained basis. This could result from a substantially improved operating performance or a significant reduction in debt. Conversely, the ratings could be revised downward if the company’s financial profile deteriorates from our projection, which could be caused by weaker-than-expected ramp up in operating performance or the company undertaking larger-than-expected debt-funded investments.

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 FY2023, the MOVE segment contributed most of the company’s EBITDA, while the MIX segment and MATCH segment contributed minimal EBITDA to the company.

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 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 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)).

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, which is primarily operated through its subsidiary VGI PLC (VGI). 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 and distribution coverage for its clients. With these integrated marketing and distribution channels, the company aims to increase its revenue base and create synergies in terms of cross-selling and pooling consumer data.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Apr-Dec 2023	-----Year Ended 31 March -----			
		2023	2022	2021	2020
Total operating revenues***	9,818	12,690	11,243	8,513	8,294
Earnings before interest and taxes (EBIT)	2,105	5,871	5,766	4,939	7,367
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,141	6,818	7,083	7,682	7,263
Funds from operations (FFO)	833	2,157	3,601	4,152	3,690
Adjusted interest expense	2,969	2,920	2,295	1,966	2,096
Capital expenditures	5,340	8,516	12,136	13,522	17,753
Total assets	273,550	270,926	253,539	212,076	173,100
Adjusted debt	137,165	122,783	115,469	84,774	76,586
Adjusted equity	67,322	81,322	84,311	76,037	67,246
Adjusted Ratios					
EBITDA margin (%)	52.4	53.7	63.0	90.2	87.6
Pretax return on permanent capital (%)	1.5 **	2.8	3.1	3.1	5.4
EBITDA interest coverage (times)	1.7	2.3	3.1	3.9	3.5
Debt to EBITDA (times)	20.2 **	18.0	16.3	11.0	10.5
FFO to debt (%)	0.8 **	1.8	3.1	4.9	4.8
Debt to capitalization (%)	67.1	60.2	57.8	52.7	53.2

* 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:	BBB+
Issue Ratings:	
BTSG247A: THB1,500 million senior unsecured debentures due 2024	BBB+
BTSG249A: THB600 million senior unsecured debentures due 2024	BBB+
BTSG24NA: THB1,591 million senior unsecured debentures due 2024	BBB+
BTSG24NB: THB4,091.2 million senior unsecured debentures due 2024	BBB+
BTSG255A: THB700 million senior unsecured debentures due 2025	BBB+
BTSG25NA: THB1,500 million senior unsecured debentures due 2025	BBB+
BTSG25NB: THB6,474.4 million senior unsecured debentures due 2025	BBB+
BTSG265A: THB2,700 million senior unsecured debentures due 2026	BBB+
BTSG267A: THB3,500 million senior unsecured debentures due 2026	BBB+
BTSG275A: THB2,800 million senior unsecured debentures due 2027	BBB+
BTSG275B: THB1,853.9 million senior unsecured debentures due 2027	BBB+
BTSG275C: THB4,951.8 million senior unsecured debentures due 2027	BBB+
BTSG27NA: THB2,000 million senior unsecured debentures due 2027	BBB+
BTSG27DA: THB2,000 million senior unsecured debentures due 2027	BBB+
BTSG289A: THB4,660 million senior unsecured debentures due 2028	BBB+
BTSG28NA: THB5,386.6 million senior unsecured debentures due 2028	BBB+
BTSG295A: THB5,000 million senior unsecured debentures due 2029	BBB+
BTSG295B: THB3,800 million senior unsecured debentures due 2029	BBB+
BTSG29DA: THB2,000 million senior unsecured debentures due 2029	BBB+
BTSG305A: THB1,941.1 million senior unsecured debentures due 2030	BBB+
BTSG305B: THB1,716.8 million senior unsecured debentures due 2030	BBB+
BTSG30NA: THB600 million senior unsecured debentures due 2030	BBB+
BTSG317A: THB8,000 million senior unsecured debentures due 2031	BBB+
BTSG325A: THB3,700 million senior unsecured debentures due 2032	BBB+
BTSG32NA: THB1,614 million senior unsecured debentures due 2032	BBB+
BTSG32NB: THB2,240.2 million senior unsecured debentures due 2032	BBB+
BTSG33NA: THB1,238.5 million senior unsecured debentures due 2033	BBB+
BTSG35NA: THB1,957.6 million senior unsecured debentures due 2035	BBB+
Rating Outlook:	Stable

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