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BTS GROUP HOLDINGS PLC

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Company Rating: A

Outlook: 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". The rating reflects 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 its 33.33% investment in the BTS Rail Mass Transit Growth Infrastructure Fund (BTSGIF), and its entrenched position in media business. However, BTS's financial profile is expected to be weighed by a surge in total debt over the next four years as it funds large investments in 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 build-transfer-operate concession (1999-2029) 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 total investment units in BTSGIF.

BTS has four main lines of business: mass transit, media, property development, and services. The media business has been an important revenue and profit contributor for the BTS. BTS has seen its media business growing 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. 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.

Apart from the train operations under BTSC, 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 by joint ventures (JV) between BTS and its 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). The JVs will invest in the two projects, at a total cost of around Bt90,000 million, and receive the rights to operate the mass transit services for a period of 33.3 years. MRTA will subsidize the cost of 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.

BTS achieved solid performance in FY2017, largely due to the good performance of BTSC. BTS's revenues increased to Bt7,585 million from Bt5,352 million in FY2016. The rise was mainly due to the recognition of revenue at BTSC from its electrical and mechanical (E&M) and train procurement services, and the consolidation of Master Ad PLC (MACO), a major acquisition in 2016 made to expand the media business. However, BTS's operating profit margin (excluding E&M services and train procurement revenue) declined from 32.6% in FY2016 to

26.4% in FY2017. The drop was the result of the inclusion of the operating performance of MACO which carried a lower operating profit margin.

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 its train operation by providing O&M, E&M, and train procurement services for several of BTS Skytrain's expansion projects. For the 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 two new extension lines: the Southern and the Northern Green Line Extension Lines. In addition, TRIS Rating expects the company to recognize Bt27,000 million in revenue from BTSC's E&M services and train procurement services over the next four years. The operating profit margin will stay around 20%.

The projected surge in revenue from O&M services under BTSC is expected to stabilize BTS's revenue stream. This is viewed as a positive development. Unlike the original build-transfer-operate concession, train operations under O&M contracts do not expose the company to ridership risk.

Despite the projection 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 a portion of debt from the joint ventures) surged from Bt11,985 million in FY2016 to Bt44,182 million in FY2017. The total debt to capitalization ratio rose from 20.4% in FY2016 to 49.4% in FY2017. 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 that BTSC prefunds the E&M costs. BTSC will then subsequently 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.

BTS's total debt is projected to rise continuously over the next four years. The company is expected to rely mainly on debt financing to fund the investment costs for the Pink Line and Yellow Line monorail projects. The construction work for both projects is tentatively scheduled to commence by the end of 2017, and to be completed in approximately three years. BTS and its two JV partners have set up two project companies to undertake the projects, with a tentative debt to equity financing structure of approximately 2 : 1. The debt portion is likely to be syndicated project loans extended by banks. 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 to 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 company's total debt on the basis of the certainty of payments from the government.

BTS's liquidity profile is adequate. As of March of 2017, the company had cash on hand of Bt15,095 million and securities available for sale and trading worth Bt19,897 million. In addition, the company has undrawn credit facilities of around Bt31,000 million. During the next 12 months, BTS has scheduled principal repayments of Bt246 million, and outstanding short-term obligations of Bt14,156 million, plus capital expenditures of around Bt24,000 million. In FY2017, the company reported funds from operations (FFO) of Bt3,460 million. The FFO to total debt ratio and the EBITDA interest coverage ratio stood at 7.8% and 6.0 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 new mass transit projects under taken through its subsidiaries. However, net cash flow from the existing businesses is also expected to rise substantially, enabling the company to maintain an acceptable debt to cash generation ratio. The prospect for a rating upgrade is unlikely over the next couple of years due to the rise in consolidated debt. The rating and/or outlook could be revised downward if the debt to cash generation ratio deteriorates significantly from TRIS Rating's projection.

BTS Group Holdings PLC (BTS)

Company Rating:	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

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

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