

BANGKOK EXPRESSWAY AND METRO PLC

No. 67/2017

21 June 2017

Company Rating: A**Issue Rating:**
Senior unsecured A**Outlook:** Stable**Company Rating History:**

Date	Rating	Outlook/Alert
05/04/16	A	Stable

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sakda@trisrating.com**WWW.TRISRATING.COM****Rating Rationale**

TRIS Rating affirms the company rating and the ratings of the outstanding senior unsecured debentures of Bangkok Expressway and Metro PLC (BEM) at "A". The ratings reflect BEM's strong business profile, supported by stable and predictable operating cash flow, and the growth prospects in the mass rapid transit (MRT) segment. These strengths are partially offset by the uncertainty over the renewal of the concession for the urban sector expressway which will expire in 2020, plus rising leverage from new investments in MRT projects.

BEM was established on 30 December 2015 through the amalgamation of Bangkok Expressway PLC (BECL) and Bangkok Metro PLC (BMCL). BEM was listed on the Stock Exchange of Thailand (SET) on 5 January 2016. BEM's major shareholder, as of April 2017, was CH. Karnchang PLC (CK), which held 29.98% of the outstanding shares.

BEM has three main lines of businesses: constructing and operating expressways, providing mass rapid transit service, and engaging in the commercial development related to its expressway and metro networks. For the first quarter of 2017, BEM reported revenue of Bt3,731 million, of which 66% was from the expressway segment, 30% from the metro segment, and 4% from the commercial development segment.

BEM built and operates the elevated Si Rat Expressway (the Second Stage Expressway System -- SES), the Udon Rattaya Expressway (Bang Pa In-Pak Kret Expressway, known as Sector C+), and the Si Rat-Outer Bangkok Ring Road Expressway (SOE). All the expressways are operated under the 30-year Build-Transfer-Operate (BTO) concessions awarded by the Expressway Authority of Thailand (EXAT). The concessions carry different expiration dates. The SES concession, covering Sector A, B, C, will expire in 2020. The concessions for the extension of the SES (Sector D), the Sector C+, and the SOE will expire in 2027, 2026, and 2042, respectively.

BEM's strong business profile is supported by stable and predictable performance of the expressway segment. The average daily traffic volume on the expressway network grew by an average of 2.8% per year during 2012-2016. For the first four months of 2017, the average daily traffic volume was 1.2 million trips per day and the average daily toll revenue was Bt26.86 million per day. The main risk associated with the expressway segment is the uncertainty surrounding the SES expressway concession (Sector A, B, and C) which is expiring in 2020 and subject to renewal. This will affect BEM's earnings as around 40% of its revenue and over 50% of earnings before interest, taxes, depreciation, and amortization (EBITDA) are from the operation of the urban sector expressways.

On 31 March 2017, BEM entered into the new MRT Blue Line concession agreement with the Mass Rapid Transit Authority of Thailand (MRTA). The new MRT Blue Line concession covers the MRT Chaloem Ratchamongkhon Line (Hua Lamphong Station - Bang Sue Station) which has been operated since 2004 and the MRT Blue Line Extension project (Hua Lamphong Station - Lak Song Station and Bang Sue Station - Tha Phra Station) which is expected to be fully operational in 2020. The new concession will end in 2050. The MRT Blue Line concession is on a Public-Private Partnership (PPP) Net Cost agreement basis which BEM has the rights to collect fare box revenue, undertake commercial development activities, and bear the risk of ridership.

Ridership on the existing MRT Blue Line has improved continuously during the past five years, supported by the shift in demographics and new population trends toward residential properties along the MRT Line. Ridership grew by an average of 8% per annum during 2012-2016. For the first four month of 2017, the average daily ridership was 286,849 trips and average daily revenue was Bt7.12 million.

BEM also operates the MRT Chalong Ratchadham Line (Purple Line) under a 30-year concession on a PPP Gross Cost scheme basis. Under this type of basis, the MRTA paid for all the civil works while BEM advanced the investment in the mechanical and engineering (M&E) systems and the rolling stocks. The MRTA gradually repays the cost of investment in the M&E equipment to BEM over 10 years after BEM delivered and transferred ownership of the M&E equipment to the MRTA. BEM provides operation and maintenance (O&M) services to the MRTA throughout the concession period which ended in 2043. In return, BEM receives service revenue on a cost-plus basis. BEM does not take risk of the ridership under the Gross Cost scheme basis.

Going forward, BEM's business risk profile will hinge more on the operations of the MRT segment. The government has a policy to push for the development of an integrated mass transit system. As an experienced and equipped operator, BEM is in an advantageous position to win future operating concessions in the government's comprehensive mass transit plan.

BEM's financial risk profile is underpinned by steady operating cash flows but is offset by high financial leverage due to the capital intensive nature of its main lines of business. BEM reported Bt13,104 million in revenue in 2016, up by 11.64% year-on-year (y-o-y), and Bt3,731 million in the first quarter of 2017, up by 23% from the same period last year. The rise in revenue was mainly due to the operation of the MRT Purple Line and the SOE expressway, both opened in August 2016. The operating margin (operating income before depreciation and amortization as a percentage of sales) remains healthy at 54.14% in the first quarter of 2017. Under TRIS Rating's base-case scenario, BEM's revenue is forecast to grow at least 7% annually, on average during 2017-2018. The operating margin is expected to stay around 50%, taking into account the step-up in the amount of remuneration BEM is committed to pay to the MRTA annually.

BEM's financial leverage is rising. The MRT Blue Line Extension project requires a total investment of Bt22,036 million during 2017-2019. BEM plans to fund the investment with bank loans and debentures. The ratio of total debt (including provisions for land site acquisition in the expressway business) to capitalization will increase from 62.35% at the end of March 2017 to a peak of 65%-70% in 2018-2019. When calculating the ratios, TRIS Rating excludes a debt of approximately Bt14,000 million from the investment in the M&E systems and the rolling stock of the Purple Line, which is currently on the books of CK. This amount of debt is backed by the agreement with the MRTA, stipulating that the debt will be paid back in 10 years.

BEM's liquidity profile is supported by steady operating cash flow and the financial flexibility from its investments in associated companies. For the first three months of 2017, the ratio of funds from operations (FFO) to total debt was 13.80% (annualized from trailing 12 months) while the EBITDA interest coverage ratio stayed at 5.62 times.

Over the next 12 months, BEM's liquidity position is assessed to be adequate. BEM's primary funding needs are scheduled debt repayments of approximately Bt5,200 million, planned capital expenditures of Bt10,000-Bt12,000 million, and dividend payments forecast at Bt1,600-Bt1,800 million. Sources of funds include expected FFO of at least Bt6,000 million, plus cash and cash equivalents of Bt7,898 million on hand at the end of March 2017. Capital expenditures are expected to be funded mainly by bank loans and new debt issuances in the capital markets. In addition, BEM has financial flexibility from its investments in TTW PLC and CK Power PLC, of which the combined market value was Bt12,782 million as of 20 June 2017.

Rating Outlook

The "stable" outlook reflects TRIS Rating's expectation that BEM will maintain its strong business profile and steady cash flows from its two core lines of business. BEM's credit upside is limited, given the large debt-funded investment planned over the next three years and the uncertainty surrounding the renewal of the urban sector expressway concession. A credit downgrade will be triggered if BEM's business profile weakens and its financial profile materially deteriorates such that the debt to capitalization ratio stays over 65% on a sustained basis.

Bangkok Expressway and Metro PLC (BEM)

Company Rating:	A
Issue Ratings:	
BEM196A: Bt5,000 million senior unsecured debentures due 2019	A
BEM200A: Bt2,500 million senior unsecured debentures due 2020	A
BEM216A: Bt1,615 million senior unsecured debentures due 2021	A

BEM236A: Bt2,000 million senior unsecured debentures due 2023	A
BEM250A: Bt2,500 million senior unsecured debentures due 2025	A
BEM266A: Bt3,335 million senior unsecured debentures due 2026	A
BEM270A: Bt3,000 million senior unsecured debentures due 2027	A
BEM286A: Bt2,750 million senior unsecured debentures due 2028	A
BEM286B: Bt500 million senior unsecured debentures due 2028	A

Rating Outlook: Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Jan-Mar 2017	----- Year Ended 31 December -----		
		2016	2015	2014
Sales	3,731	13,104	11,738	11,234
Gross interest expense	379	1,748	2,320	1,687
Net income from operations	532	1,902	719	1,899
Funds from operations (FFO)	2,047	6,519	4,725	6,389
Capital expenditures	394	6,741	7,354	6,311
Total assets	83,303	82,786	78,095	70,026
Total debt	50,524	51,220	45,424	40,276
Shareholders' equity including minority interests	30,506	29,783	29,130	26,209
Operating income before depreciation and amortization as % of sales	54.14	56.82	57.60	64.23
Pretax return on permanent capital (%)	5.16 **	5.04	4.86	6.17
Earnings before interest, taxes, depreciation, and amortization (EBITDA) interest coverage (times)	5.62	4.51	3.14	4.67
FFO/total debt (%)	13.80 **	12.73	10.40	15.86
Total adjusted debt/capitalization (%)	62.35	63.23	60.93	60.58

* Consolidated financial statements

** Annualized from the trailing 12 months

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