

# BTS GROUP HOLDINGS PLC

No. 66/2018  
24 May 2018

## CORPORATES

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

### Company Rating History:

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

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## RATIONALE

TRIS Rating affirms the company rating of BTS Group Holdings PLC (BTS) and the ratings of BTS's senior unsecured debentures at "A". 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 its 33.33% investment in the BTS Rail Mass Transit Growth Infrastructure Fund (BTSGIF), and its entrenched position in the media business. However, BTS's financial profile will be weighed down by a surge in debt over the next four years as BTS must fund several large investments in a number of large mass transit projects.

## KEY RATING CONSIDERATIONS

### Cash flow increases from mass transit network expansion and ridership growth

Two factors are expected to boost BTS's revenue and cash flow in the future. Firstly, the revenue and cash flow from operating and maintenance (O&M) services that BTS provides through its subsidiary, Bangkok Mass Transit System PLC (BTSC), for the Southern Green Line and Northern Green Line will rise substantially after they start to operate in 2018 and 2020, respectively. The O&M services, apart from generating a stable stream of revenue, provide a healthy gross profit margin.

Secondly, BTS will receive higher dividend income from its 33.33% stake in BTSGIF. TRIS Rating forecasts dividend income to grow at 6% per annum in fiscal year 2019-2021 (FY2019-2021) because the continuous expansion of mass transit networks will feed more passengers to the core network that passes through high-traffic areas of downtown Bangkok. Average daily ridership on the BTS network has continuously risen, climbing to 652,156 passengers in FY2017 from 161,059 passengers in FY2001, a compound annual growth rate (CAGR) of 9%.

### Revenue grows in the media segment

TRIS Rating projects steady improvement in the revenue and the EBITDA (earnings before interest, taxes, depreciation, and amortization) from the media segment, operated by BTS's subsidiary, VGI Global Media PLC (VGI). This segment is second-largest source of cash flow for BTS. For the first nine months of FY2018, EBITDA from media segment comprised around 40% of BTS's total EBITDA. VGI has a strong competitive advantage as the sole provider of advertising media inside the trains and in the commercial space around BTS train stations. The competitive advantage pushed revenue higher despite a slowdown in the advertising industry in 2016 and 2017. For example, in the first nine months of FY2018, media sales on the BTS Skytrain system increased by 25% year-on-year (y-o-y), outpacing a 6% y-o-y drop in total advertising expenditures across the industry.

In the future, the expansions of the mass transit network will boost revenue in the media segment further. There is a high probability that VGI will receive the rights to manage the advertising space and commercial areas in the new stations of the Green Line extensions. Moreover, VGI is expanding into other out-of-home (OOH) media through acquisitions. The acquisitions will enlarge its revenue base and create synergies in terms of cross-selling and pooling consumer data.

## Leverage is rising but will gradually decline

Over the next four years, BTS's total debt will rise due to forthcoming sizable investments in several mass transit lines. TRIS Rating projects the net debt to EBITDA ratio will peak at 4.7 times in FY2020 and will gradually decline to 3.4 times in FY2022. BTS's total debt includes Bt22,000 million in debentures issued by BTSC in 2016 to supply and install the electrical and mechanical (E&M) systems and acquire the rolling stock for the Green Line extensions.

BTS plans additional borrowings of up to Bt63,360 million to invest in the Pink Line and Yellow Line monorail systems. However, TRIS Rating does not include the borrowings for the investments in these projects as part of BTS's total debt. This is because the expenditures for civil work, and the new borrowing needed for them, will eventually be reimbursed in full by the government. Under the terms of the concessions for the Pink Line and Yellow Line, the government will bear the cost of land acquisition and civil work. The borrowings for the installation of the E&M are also non-recourse.

The ratings are based on our expectation that BTS's management will maintain its stated financial discipline. BTS has a policy to gradually divest its investment portfolio to repay debt and keep its leverage at an acceptable level.

## Acceptable liquidity profile

BTS's liquidity is adequate. As of December 2017, the company had cash on hand of Bt13,222 million and securities available for sale and trading worth Bt20,899 million. In addition, the company has undrawn credit facilities available from commercial banks of Bt29,615 million. Based on BTS's debt repayment schedule over the next 12 months, outstanding debt includes Bt143 million in long-term obligations and Bt18,888 million in short-term obligations. BTS plans to gradually repay the short-term debts, which are mainly bills of exchange (B/Es).

In FY2019, capital expenditures will be around Bt24,000 million. Most of the expenditures will be funded by project loans. In the first nine months of FY2018, funds from operations (FFO) were Bt3,001 million. The FFO to total debt ratio was 7.3% (annualized, from the trailing 12 months) while the EBITDA interest coverage ratio stood at 4.4 times.

TRIS Rating believes that BTS will be able to comply with its debenture covenants over the next 12 to 18 months. The net interest-bearing debt to equity ratio at the end of December 2017 was 0.1 times, significantly below the debenture covenant of 2.5 times.

## RATING OUTLOOK

The "stable" outlook reflects the expectation that the company will achieve steady growth in revenues and cash flow from operations. Total debt is expected to rise substantially because of the new mass transit projects under taken through its subsidiaries. However, net cash flow from the existing businesses is also expected to rise substantially. As a result, the debt to EBITDA ratio will remain acceptable.

Under TRIS Rating's base case scenario, we assume that BTS's revenues will gradually increase to around Bt11,000 million in FY2021. In addition, during FY2019-FY2021, TRIS Rating forecasts the company will recognize revenue of around Bt80,000 million from E&M services, train procurement services, and revenue from the development of the Pink Line and Yellow Line. The operating margin is expected to stay around 30%. The debt to capitalization ratio is expected to decline to around 40% in FY2021, while the EBITDA interest coverage ratio should stay above 2.5 times.

## RATING SENSITIVITIES

The prospect for a rating upgrade is unlikely over the next couple of years because leverage is rising. The ratings and/or outlook could be revised downward if the adjusted debt to EBITDA ratio rises above 5 times.

## 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 Bangkok Mass Transit System PLC (BTSC) in 2010. The company was listed on the Stock Exchange of Thailand (SET) in 1991. As of December 2017, BTS operated in four key business segments: mass transit, media, property development, and services. However, in March 2018, the company sold nearly all of its property portfolio to U City PLC. Presently, BTS has a 38.97% stake in U City. For the first nine months of FY2018, the mass transit segment contributed approximately 60% of EBITDA, while the media segment contributed about 40%. The contributions from the other two segments remained minimal.

The company operates the mass transit business through a subsidiary, BTSC. BTS currently owns 97.46% of the equity of BTSC. BTSC operates the BTS Skytrain, under a 30-year build-transfer-operate concession covering 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 Bt61,000 million. BTS holds 33.33% of the investment units of BTSGIF. BTSC entered into two O&M contracts with Krungthep Thanakom Co., Ltd. (KT), a wholly-owned subsidiary of the BMA. The

contracts call for BTSC to provide O&M services for the BTS extension routes.

Apart from the train operations under BTSC, BTS invested in two new mass transit rail projects in the Bangkok metropolitan area: the Pink Line and the Yellow Line monorails. The new projects are undertaken by joint venture (JV) with 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 JV, STEC holds 15%, and RATCH holds 10%. The JV has entered into public-private partnership investment agreements with the Mass Rapid Transit Authority of Thailand (MRTA). The JV will invest in the two projects, at a total cost of around Bt90,000 million, and receive the rights to operate the rails for a period of 33.3 years.

In the media segment, the company sells advertising and rents retail space on the BTS Skytrain through VGI, its subsidiary. 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 expanded its scope of business continuously. VGI now offers other types of OOH media through companies it acquired, such as Master Ad PLC (MACO).

#### FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS\*

Unit: Bt million

	Apr-Dec 2017	Year Ended 31 December			
		2017	2016	2015	2014
Revenue	9,473	7,585	5,352	6,137	8,151
Gross interest expense	925	647	290	403	628
Net income from operations	1,308	1,230	1,339	2,252	1,417
Funds from operations (FFO)	3,001	3,460	1,891	3,027	3,499
Capital expenditures	7,441	1,346	1,579	1,727	1,660
Total assets	106,914	93,651	65,259	66,810	76,711
Total debt	49,705	38,388	9,957	5,289	7,470
Shareholders' equity	46,475	45,182	46,901	52,012	59,542
Operating income before depreciation and amortization as % of sales	31.5	26.4	32.6	39.5	35.2
Pretax return on permanent capital (%)	4.2 **	4.0	3.7	6.1	6.3
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	4.4	6.0	10.3	11.5	7.4
FFO/total debt (%)	7.3 **	7.8	15.8	57.2	46.8
Total debt/capitalization (%)	54.6	49.4	20.4	9.2	11.1
Total debt/capitalization (%)***	51.7	45.9	17.5	9.2	11.1

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

\* Consolidated financial statements

\*\* Annualized from the trailing 12 months

\*\*\* Excluding proportionate debt from JV

**BTS Group Holdings PLC (BTS)**

<b>Company Rating:</b>	A
<b>Issue Ratings:</b>	
BTSG20DA: Bt1,500 million senior unsecured debentures due 2020	A
BTSG22DA: Bt1,500 million senior unsecured debentures due 2022	A
BTSG27DA: Bt2,000 million senior unsecured debentures due 2027	A
BTSG29DA: Bt2,000 million senior unsecured debentures due 2029	A
<b>Rating Outlook:</b>	Stable

**TRIS Rating Co., Ltd.**

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