

BANGKOK EXPRESSWAY AND METRO PLC

No. 70/2023
27 April 2023

CORPORATES

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

Last Review Date: 23/02/23

Company Rating History:

Date	Rating	Outlook/Alert
01/04/21	A-	Stable
28/05/20	A	Negative
05/04/16	A	Stable

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RATIONALE

TRIS Rating affirms the company rating on Bangkok Expressway and Metro PLC (BEM) and the issue ratings on BEM's outstanding senior unsecured debentures at "A-" with a "stable" rating outlook. The ratings reflect BEM's strong business profile, underpinned by a portfolio of quality concessional assets, strong and steady operating cash flow from its expressway operation, and the growth prospects of the mass rapid transit (MRT) operation. The ratings also factor in BEM's high leverage, resulting from front-loaded investment in the MRT Blue Line made over the past few years.

Our baseline projection forecasts the leverage ratio to rise further as it incorporated the investment in the MRT Orange Line. We view the company as having some headroom for temporary spikes in leverage ratios during the investment. For its credit profile to remain commensurate with the "A-" rating, we expect the company to maintain the adjusted debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio not exceeding 10 times on a sustainable basis.

KEY RATING CONSIDERATIONS

Strong business profile

BEM has a strong business profile. Its main lines of business in expressways and mass transit operation are protected by high barriers to entry. Only a few operators in Thailand have the capability and required capital to bid for the construction and operation of expressways or mass transit rail.

BEM's solid business profile is also underpinned by its record of steady and stable earnings in expressway operation, thanks to the strategic location of the Second Stage Expressway (SES) which is connected to the First Stage Expressway (FES). The extension of the SES and the Bang Pa-in - Pak Kret Expressway (Sector C+) concessions will help BEM secure steady cash flows in the long term.

BEM is well positioned to capitalize on growth opportunities in its mass transit operation, given the government policies to promote an integrated mass transit network. As an experienced and well-equipped operator, BEM is in an advantageous position to win future concessions. Furthermore, the strategic advantage of the MRT Blue Line as a circle line, allows it to collect feed-in traffic from other rail mass transit lines.

Improving operation

Since COVID-19 was declared endemic together with the return of tourism, we expect BEM's operation to continue improving, particularly MRT Blue Line ridership numbers. Our base-case scenario forecasts average daily ridership on the MRT Blue Line at 415,000-520,000 trips during 2023-2025. The ramping up in ridership is supported by better utilization of the fully operated Blue Line post-pandemic. Also, as a key mode of transportation for tourists in Bangkok, the MRT Blue Line is well-positioned to benefit from increasing tourism activities. Also, the opening of new MRT lines such as the MRT Yellow Line and new landmarks, for example, the Queen Sirikit National Convention Center and the One Bangkok project will help boost MRT Blue Line ridership. For the resilient expressway business, we forecast the average daily traffic volume to return to over 1.2 million trips in 2024.

EBITDA projected at THB5.4-THB6 billion

Based on our assumptions on traffic and ridership numbers, we project BEM's revenue to reach THB16.8-THB19.3 billion per annum during 2023-2025. BEM's earnings growth, however, will be impacted by higher amount of remuneration BEM is committed to pay to the Mass Rapid Transit Authority of Thailand (MRTA) annually until 2029 as stipulated in the MRT Blue Line concession agreement. We treat the whole amount of cash paid as its operating costs. The amount of remuneration is increasing every year, estimated at THB3.5-THB5.5 billion per annum during 2023-2025. As a result, we forecast BEM's EBITDA margin to be around 29%-33% in 2023-2025, translating into EBITDA of THB5.4-THB6 billion annually. Funds from operations (FFO) are projected to be around THB2.7-THB3 billion annually during the forecast period.

Leverage to rise from new investment

We forecast BEM's leverage to rise due mainly to its new investment in the MRT Orange Line, which is incorporated in our baseline projection. BEM won the bidding of the MRT Orange Line concession announced by the MRTA in September 2022. The project requires cabinet approval. Investment in the MRT Orange Line consists of civil works, mechanical and electrical (M&E) systems, and rolling stocks. The company plans to finance the project mainly through debt. However, we will exclude all debts related to the civil work investment from the company's adjusted debt calculation since they are fully subsidized by the MRTA. The project requires an estimated total investment in the M&E system and rolling stocks of around THB32 billion, spanning over six years. Our base-case scenario assumes that BEM will sign the contract and start investing in the project in late 2023 or beginning of 2024.

Incorporating the Orange Line investment and other BEM's capital spendings of THB2-THB3 billion in total during 2023-2025, we project BEM's adjusted debt to EBITDA ratio to be 11-15 times during the forecast period. We also expect the leverage ratio to stay in this range until the Orange Line project finishes. The leverage could rise further if BEM needs to invest in the Double Deck Expressway which requires a total investment cost of around THB31-THB32 billion over five years. Currently, the project is under the environmental impact assessment (EIA) study.

Considering the nature of front-loaded investment in concessional infrastructure projects, we view BEM as having some headroom for temporary spikes in the leverage ratio during the investment period. However, this is subject to the timing and funding plan for both projects. We expect BEM to prudently manage the funding plan should the investment timing of the two sizable projects overlap to not overly leverage and to stay commensurate with the "A-" rating.

As of December 2022, BEM's debts consisted of THB16.1 billion of priority debt out of its total interest-bearing debt of THB64.5 billion (excluding the THB5.5 billion debt of the MRT Purple Line since this is backed by an agreement with the MRTA which stipulates that the debt be repaid by MRTA in 10 years), translating into a priority debt ratio of 25%.

The main financial covenants on its debt obligations require the maintenance of BEM's interest-bearing debt to equity ratio below 2.5 times, and a debt service coverage ratio of more than 1 times. As of December 2022, the ratio was 1.66 times and 1.89 times, respectively. We believe that BEM should have no problem complying with the financial covenants over the forecast period.

Manageable liquidity

We assess BEM's liquidity should be manageable over the next 12 months. Main sources of funds are FFO estimated to be around THB3 billion, cash and cash equivalents of THB2.7 billion at the end of December 2022 and proceeds from the recent debentures issued of THB6.5 billion. The primary uses of funds are scheduled debt repayments of approximately THB8.1 billion, capital spending of around THB1 billion, and dividend payments of THB1.8 billion. Also, BEM has some financial flexibility from its significant equity investments in TTW PLC and CK Power PLC. The combined market value of these two investments was THB11.8 billion as of 24 April 2023.

BASE-CASE ASSUMPTIONS

- Revenue to be THB16.8-THB19.3 billion per annum during 2023-2025.
- EBITDA margin is forecast to be 29%-33% in 2023-2025.
- EBITDA of around THB5.4-THB6 billion annually in 2023-2025.
- Capital spendings will be THB2-THB3 billion in total during 2023-2025.
- To invest in the MRT Orange Line with a total investment of THB32 billion over 6 years, starting in late 2023 or beginning of 2024.

RATING OUTLOOK

The "stable" outlook reflects our expectation that BEM's business profile will remain strong with operating cash flows from both the expressway and the mass transit businesses as well as the level of debt in accordance with our baseline forecast.

RATING SENSITIVITIES

The ratings upside is limited in the near term considering BEM's current leverage profile and sizable investment in the MRT Orange Line and potential new investment in the Double Deck Expressway. Ratings downgrade pressure could materialize if BEM's financial metrics weaken significantly mainly from extensive debt-funded investments such that its adjusted debt to EBITDA ratio stays considerably above 10 times over a sustained period.

COMPANY OVERVIEW

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. As of March 2023, BEM's major shareholder was CH. Karnchang PLC (CK) with 34.4% of outstanding shares.

BEM has three main lines of business: constructing and operating expressways, providing mass rapid transit service, and engaging in commercial development related to its expressway and mass transit networks. In 2022, BEM reported revenue of THB14 billion, of which 58% came from the expressway segment, 35% from the mass transit segment, and 7% from the commercial development segment.

BEM built and operates the elevated Si Rat Expressway (SES), the Udon Rattaya Expressway (Sector C+), and the Sirat - Outer Ring Road Expressway (SOE). All the expressways are operated under 30-year Build-Transfer-Operate (BTO) concessions awarded by the Expressway Authority of Thailand (EXAT). Due to the contract amendment in February 2020, the concessions for SES Sector A, B, C, D, and Sector C+ have been extended to expire in October 2035, while the concession for SOE will still expire in December 2042.

In March 2017, BEM entered into a new MRT Blue Line concession agreement with the MRTA. The new MRT Blue Line concession covers the MRT Initial Blue Line project (Hua Lamphong - Bang Sue Section) which has been operated since 2004 and the MRT Blue Line Extension project (Hua Lamphong - Bang Khae Section and Bang Sue - Tha Phra Section) which became fully operational in March 2020. The new concession will end in 2050. The MRT Blue Line concession is on a Public-Private Partnership (PPP) Net Cost agreement basis with BEM holding the rights to collect farebox revenue, undertake commercial development activities, and bear the risk of ridership.

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 M&E systems and the rolling stock. The MRTA gradually repays the cost of the M&E equipment to BEM in 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 until the concession ends in 2043. In return, BEM receives service revenue on a cost-plus basis. BEM does not take the risk of ridership under the Gross Cost scheme basis.

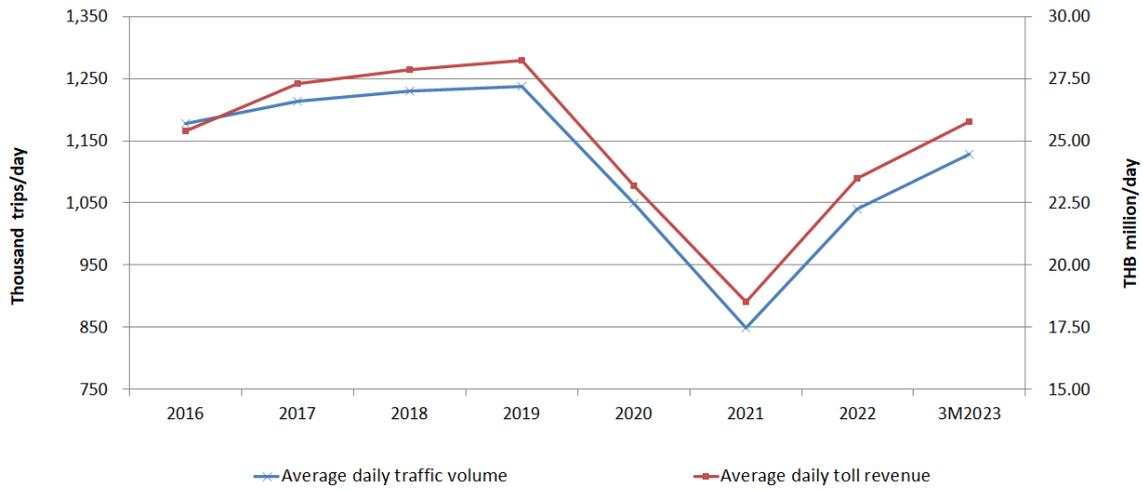
KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

Revenue (Unit: Mil. THB)	2016	2017	2018	2019	2020	2021	2022
Toll road	9,301	9,957	10,174	10,302	8,145	6,450	8,192
Mass transit	3,230	4,521	4,736	5,022	4,520	3,454	4,917
Commercial development	573	675	705	783	825	822	921
Total	13,104	15,153	15,615	16,107	13,490	10,726	14,030
Contribution	2016	2017	2018	2019	2020	2021	2022
Toll road	71%	66%	65%	64%	60%	60%	58%
Mass transit	25%	30%	30%	31%	34%	32%	35%
Commercial development	4%	4%	5%	5%	6%	8%	7%
Total	100%						
Change (y-o-y)	2016	2017	2018	2019	2020	2021	2022
Toll road	6%	7%	2%	1%	-21%	-21%	27%
Mass transit	36%	40%	5%	6%	-10%	-24%	42%
Commercial development	4%	18%	4%	11%	5%	0%	12%
Total	12%	16%	3%	3%	-16%	-20%	31%

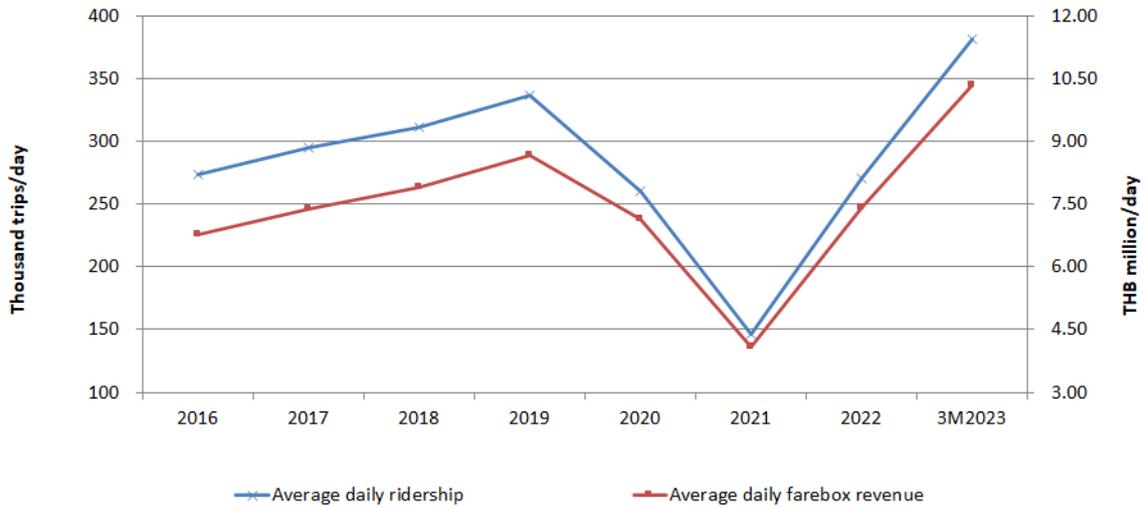
Source: BEM

Chart 1: Average Daily Traffic Volume and Revenue



Source: BEM

Chart 2: Average Daily Ridership and Farebox Revenue



Source: BEM

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	14,063	10,762	13,540	16,163	15,641
Earnings before interest and taxes (EBIT)	2,456	669	2,075	3,475	3,978
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	4,046	1,798	3,994	7,971	8,387
Funds from operations (FFO)	1,836	(228)	1,976	6,067	6,421
Adjusted interest expense	2,163	1,962	1,924	1,738	1,625
Capital expenditures	1,308	2,108	4,089	8,018	10,484
Total assets	114,128	115,088	113,616	111,697	103,831
Adjusted debt	63,679	63,575	59,516	55,758	51,674
Adjusted equity	37,264	37,699	38,034	38,823	35,612
Adjusted Ratios					
EBITDA margin (%)	28.77	16.71	29.50	49.32	53.62
Pretax return on permanent capital (%)	2.38	0.66	2.12	3.76	4.63
EBITDA interest coverage (times)	1.87	0.92	2.08	4.59	5.16
Debt to EBITDA (times)	15.74	35.36	14.90	7.00	6.16
FFO to debt (%)	2.88	(0.36)	3.32	10.88	12.43
Debt to capitalization (%)	63.08	62.78	61.01	58.95	59.20

RELATED CRITERIA

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

Bangkok Expressway and Metro PLC (BEM)

Company Rating:	A-
Issue Ratings:	
BEM236A: THB2,000 million senior unsecured debentures due 2023	A-
BEM244A: THB2,000 million senior unsecured debentures due 2024	A-
BEM245A: THB2,000 million senior unsecured debentures due 2024	A-
BEM246A: THB1,000 million senior unsecured debentures due 2024	A-
BEM249A: THB3,000 million senior unsecured debentures due 2024	A-
BEM254A: THB3,500 million senior unsecured debentures due 2025	A-
BEM259A: THB1,000 million senior unsecured debentures due 2025	A-
BEM250A: THB2,500 million senior unsecured debentures due 2025	A-
BEM264A: THB2,000 million senior unsecured debentures due 2026	A-
BEM264B: THB1,800 million senior unsecured debentures due 2026	A-
BEM265A: THB1,000 million senior unsecured debentures due 2026	A-
BEM266A: THB3,335 million senior unsecured debentures due 2026	A-
BEM279A: THB1,500 million senior unsecured debentures due 2027	A-
BEM270A: THB3,000 million senior unsecured debentures due 2027	A-
BEM284A: THB1,000 million senior unsecured debentures due 2028	A-
BEM284B: THB300 million senior unsecured debentures due 2028	A-
BEM286A: THB2,750 million senior unsecured debentures due 2028	A-
BEM286B: THB500 million senior unsecured debentures due 2028	A-
BEM295A: THB1,000 million senior unsecured debentures due 2029	A-
BEM306A: THB1,300 million senior unsecured debentures due 2030	A-
BEM314A: THB1,000 million senior unsecured debentures due 2031	A-
BEM326A: THB700 million senior unsecured debentures due 2032	A-
BEM329A: THB1,000 million senior unsecured debentures due 2032	A-
BEM334A: THB3,400 million senior unsecured debentures due 2033	A-
BEM349A: THB1,000 million senior unsecured debentures due 2034	A-
BEM354A: THB1,000 million senior unsecured debentures due 2035	A-
Rating Outlook:	Stable

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