

BANGKOK EXPRESSWAY AND METRO PLC

No. 70/2024
30 April 2024

CORPORATES

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

Last Review Date: 08/01/24

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 ratings on BEM's outstanding senior unsecured debentures at "A-" with a "stable" rating outlook. The ratings continue to reflect BEM's strong business profile, supported by its portfolio of high-quality concessional assets, strong and steady operating cash flow from its expressway operation, and the growth prospects of the mass rapid transit (MRT) operation. However, these strengths are weighed down by BEM's high leverage, primarily due to the front-loaded investment nature of its concessionaire business.

The ratings also incorporate our anticipation that BEM's leverage will spike from potential new investments in the MRT Orange Line. While BEM has some headroom for temporary spikes in leverage ratios during the investment, given the long-term nature of the contractual concessionaire business, we expect the company to exercise prudence in funding management to control its debt level.

KEY RATING CONSIDERATIONS

Strong business profile

BEM's solid business profile is underpinned by its portfolio of quality concessionaire assets including expressways and mass transit. Both businesses 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 rails.

The company's business strength is also supported by a track 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 over the long term.

The growth prospects of BEM are also aligned with government policies to promote an integrated mass transit network. BEM is well positioned to capitalize on the opportunities as an experienced and well-equipped operator. Also, the strategic advantage of the MRT Blue Line as a circle line, allows it to collect feed-in passenger from other rail mass transit lines.

Strong growth in MRT ridership

We view that ridership growth of the MRT Blue Line will remain strong, driven by its status as one of the core modes of transportation in Bangkok. Expanding economic and tourism activities, the ramping up of new MRT lines, and opening of new landmarks such as the One Bangkok Project and the Dusit Central Park Project support the growth. Our baseline forecast projects average daily ridership on the MRT Blue Line at 437,000-490,000 trips during 2024-2026. For the first quarter of 2024, BEM reported average daily ridership at 430,447 trips.

Meanwhile, we expect modest growth in BEM's expressway traffic. The adoption of hybrid work models, alongside the expansion of mass transit networks, is likely to prolong the time it takes for toll traffic to return to pre-pandemic levels. We project the average daily traffic volume at 1.14-1.17 million trips during 2024-2026, compared with over 1.2 million trips pre-pandemic.

Earnings pressured by MRT remuneration

Although the strong growth in MRT Blue Line ridership and resilient toll traffic will contribute to BEM's revenue growth, the higher amount of remuneration to be paid under the MRT Blue Line concession agreement will pressure BEM's earnings.

Our base-case forecast projects BEM's revenue to reach THB17-THB18.5 billion per annum during 2024-2026. Its earnings before interest, taxes, depreciation, and amortization (EBITDA) are, however, limited by the escalating remuneration BEM is committed to pay to the Mass Rapid Transit Authority of Thailand (MRTA) annually until 2029. The remuneration amount increases annually, estimated at THB4.5-THB6 billion per annum during 2024-2026.

We treat the whole amount paid to MRTA as its operating costs. As a result, we forecast BEM's EBITDA margin to be around 24%-30% during the forecast period, translating into EBITDA of THB4.5-THB5.1 billion annually. Funds from operations (FFO) are projected to be around THB1.6-THB2.6 billion annually during the forecast period.

Leverage to spike from new investments

BEM is entering a new investment cycle leading to a spike in debt level. Incorporating the investment in the MRT Orange Line, our baseline projection projects BEM's leverage as measured by the adjusted debt to EBITDA ratio to spike and stay elevated at the mid-teen levels over the next 3-5 years.

BEM won the bidding for the MRT Orange Line concession announced by the MRTA in September 2022. The project requires Cabinet's 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 funding. 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. Total investment in the M&E system and rolling stocks is estimated at around THB32 billion, spread over six years. In our base-case scenario, we assume BEM will begin investing in the project in 2025. Also, we project that BEM will have other capital expenditures totaling THB2-THB3 billion during 2024-2026.

Another potential new investment is the Double Deck Expressway, requiring similar total investment cost to the MRT Orange Line over a period of five years. While this investment will ensure long-term steady and reliable cash flows from expressway operations, it will put a short-term burden on BEM's balance sheet. Currently, the project is under consideration by authorities, and the timing of the investment remains uncertain. We expect BEM to prudently manage its funding plan should the investment timing of these two sizable projects overlap, to limit a surge in financial leverage and to maintain a financial risk profile commensurate with the "A-" rating.

Manageable liquidity

We assess BEM's liquidity to be manageable over the next 12 months. Main sources of funds are FFO estimated at around THB2.6 billion, cash and cash equivalents of THB2.1 billion at the end of December 2023, and proceeds from new debentures issued of THB5 billion in February 2024. The primary uses of funds are scheduled debt repayments of around THB11.7 billion, capital spending of around THB2.2 billion, and dividend payments of THB2.1 billion. Also, BEM has some financial flexibility from its equity investments in TTW PLC and CK Power PLC. The combined market value of these two investments was THB11.9 billion as of 29 April 2024.

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 2023, the ratio was 1.64 times and 2.26 times, respectively. We believe that BEM should have no problem complying with the financial covenants over the forecast period.

Debt structure

As of December 2023, BEM's debts consisted of THB15.2 billion of priority debt out of its total interest-bearing debt of THB63.9 billion (excluding the THB4 billion debt of the MRT Purple Line since this is backed by an agreement with the MRTA which stipulates that the debt is repaid by MRTA in 10 years), translating into a priority debt ratio of 24%.

BASE-CASE ASSUMPTIONS

TRIS Rating's base-case assumptions for BEM's operations in 2024-2026 are as follows:

- Revenue to be THB17-THB18.5 billion per annum.
- EBITDA of THB4.5-THB5.1 billion annually.
- Capital spending will total THB2-THB3 billion.
- To invest in the MRT Orange Line with a total investment of THB32 billion over six years, starting in 2025.

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 a debt level align with our baseline forecast.

RATING SENSITIVITIES

A rating upgrade is unlikely in the near term considering BEM’s high debt level which is poised to rise further from potential sizable investment in the MRT Orange Line and new investment in the Double Deck Expressway. A rating downgrade could materialize if BEM’s financial metrics weaken significantly which could occur from excessive debt-funded investments.

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 2023, BEM reported revenue of THB16 billion, of which 54% came from the expressway segment, 39% 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.

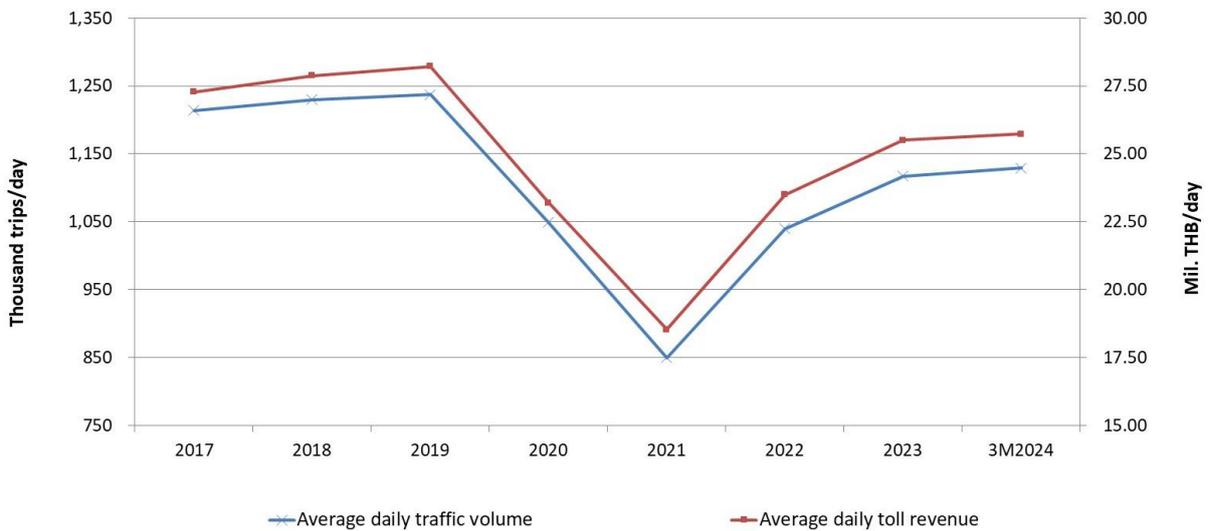
KEY OPERATING PERFORMANCE

Table 1: Revenue Breakdown

Revenue (Unit: THB mil)	2017	2018	2019	2020	2021	2022	2023
Toll road	9,957	10,174	10,302	8,145	6,450	8,192	8,919
Mass Transit	4,521	4,736	5,022	4,520	3,454	4,917	6,339
Commercial development	675	705	783	825	822	921	1,117
Total	15,153	15,615	16,107	13,490	10,726	14,030	16,375
Contribution	2017	2018	2019	2020	2021	2022	2023
Toll road	66%	65%	64%	60%	60%	58%	54%
Mass Transit	30%	30%	31%	34%	32%	35%	39%
Commercial development	4%	5%	5%	6%	8%	7%	7%
Total	100%						
Change (y-o-y)	2017	2018	2019	2020	2021	2022	2023
Toll road	7%	2%	1%	-21%	-21%	27%	9%
Mass Transit	40%	5%	6%	-10%	-24%	42%	29%
Commercial development	18%	4%	11%	5%	0%	12%	21%
Total	16%	3%	3%	-16%	-20%	31%	17%

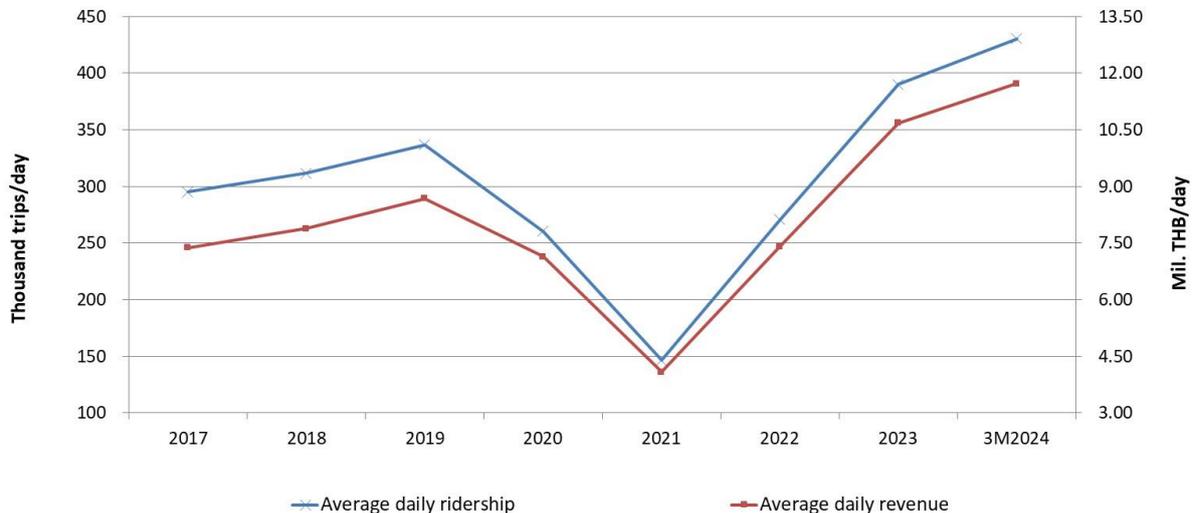
Source: BEM

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 -----				
	2023	2022	2021	2020	2019
Total operating revenues	16,401	14,063	10,762	13,540	16,163
Earnings before interest and taxes (EBIT)	3,543	2,456	669	2,075	3,475
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	5,511	4,046	1,798	3,994	7,971
Funds from operations (FFO)	3,206	1,836	(228)	1,976	6,067
Adjusted interest expense	2,260	2,163	1,962	1,924	1,738
Capital expenditures	1,183	1,308	2,108	4,089	8,018
Total assets	112,496	114,128	115,088	113,616	111,697
Adjusted debt	63,560	63,679	63,575	59,516	55,758
Adjusted equity	37,664	37,264	37,699	38,034	38,823
Adjusted Ratios					
EBITDA margin (%)	33.6	28.8	16.7	29.5	49.3
Pretax return on permanent capital (%)	3.4	2.4	0.7	2.1	3.8
EBITDA interest coverage (times)	2.4	1.9	0.9	2.1	4.6
Debt to EBITDA (times)	11.5	15.7	35.4	14.9	7.0
FFO to debt (%)	5.0	2.9	(0.4)	3.3	10.9
Debt to capitalization (%)	62.8	63.1	62.8	61.0	59.0

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:	
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-
BEM272A: THB1,000 million senior unsecured debentures due 2027	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-
BEM292A: THB1,500 million senior unsecured debentures due 2029	A-
BEM295A: THB1,000 million senior unsecured debentures due 2029	A-
BEM306A: THB1,300 million senior unsecured debentures due 2030	A-
BEM312A: THB1,000 million senior unsecured debentures due 2031	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-
BEM342A: THB1,000 million senior unsecured debentures due 2034	A-
BEM349A: THB1,000 million senior unsecured debentures due 2034	A-
BEM354A: THB1,000 million senior unsecured debentures due 2035	A-
BEM362A: THB500 million senior unsecured debentures due 2036	A-
Rating Outlook:	Stable

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