BTS GROUP HOLDINGS PLC

No. 76/2020
28 May 2020

CORPORATES

Company Rating:	A
Issue Ratings:	
Senior unsecured	A
Outlook:	Negative

Last Review Date: 23/05/19

Company Rating History:

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

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RATIONALE

TRIS Rating affirms the company rating on BTS Group Holdings PLC (BTS) and the ratings on BTS's outstanding senior unsecured debentures at "A", but revises the outlook to "negative" from "stable". The "negative" outlook reflects the high probability of a significant rise in BTS's financial leverage as a result of the potential investment in a new mass transit concession by its core subsidiary, Bangkok Mass Transit System PLC (BTSC).

The ratings continue to reflect the company's strong business profile based on the steady service income from the mass transit train operation, stable dividend income received from its 33.33% investment in BTS Rail Mass Transit Growth Infrastructure Fund (BTSGIF), and its entrenched position in the media business. The ratings, however, are constrained by a potential surge in financial leverage to fund the above mentioned project.

KEY RATING CONSIDERATIONS

Predictable and growing service income

We expect BTS's revenue and cash flow from operating and maintenance (O&M) services will rise substantially with the operation of two new Green Line extensions. BTS provides O&M services through BTSC. The Southern Green Line extension started operation in late 2018, while the Northern Green Line extension will be in full operation in 2020. The O&M service income is highly predictable as service fees are largely fixed. O&M services also generate a healthy gross profit margin. We project the annual O&M service fees to gradually increase to Bt6.5 billion in fiscal year (FY) 2022 from around Bt2.3 billion in FY2019.

Short-term impact from the COVID-19 pandemic will lower dividend income

The dividend income from BTSGIF will be affected by the coronavirus (COVID-19) pandemic. In FY2021, BTSGIF's performance is expected to weaken due to the lockdown measures to contain the spread of the COVID-19. The ridership will substantially drop in the first quarter of FY2021, but will start to recover in the second quarter of FY2021 once the virus outbreak is largely under control and the government eases its lockdown measures. We believe ridership will increase in FY2022 as there will be more passengers using the expanded mass transit networks with core network passing through the high-traffic areas of downtown Bangkok. For the above reasons, we project dividend income to drop by 25% in FY2021 before increasing by 40% in FY2022.

Substantial investment required if new projects approved

The company will need a substantial amount of funds to invest in several projects in the next five years if these projects materialize. The major potential project is the Green Line concession which requires significant investment. BTS has two O&M contracts with the Bangkok Metropolitan Administration (BMA) to operate the Green Line Skytrain and its extensions. However, the BMA intends to restructure the existing O&M contracts and concession contract as well as BTS intends to invest in a new concession agreement. BTS has already finalized the terms and conditions with BMA, pending government approval which is expected to happen within this year.

In addition, the company and its partners were officially announced as the best bidders for 30-year O&M contracts of two motorway projects (Bang

Pa In - Nakhon Ratchasima (M6) and Bang Yai – Kanchanaburi (M81)) and a 50-year Public Private Partnership (PPP) Net Cost concession for the U-Tapao International Airport Project. We estimate the company will have to secure funding of around Bt55 billion for all these investments over the next five years.

Declining revenue from media business but expected to improve

TRIS Rating projects BTS's revenue from media business to drastically drop in FY2021, by around 55% from the previous year, due to the deconsolidation of Master Ad PLC (MACO) and the lower demand from advertisers affected by the COVID-19 pandemic. However, we expect the media segment revenue will recover by around 30% in FY2022 assuming the advertising industry will gradually recover with the pandemic largely under control by the end of first half 2020. In addition, the opening of the Green Line extension routes will increase advertising media revenue inside the BTS trains. There is a high probability that the company will receive the rights to manage the advertising space and commercial areas in the new stations of the Green Line extension routes.

BTS operates its media business through its subsidiary, VGI PLC (VGI). VGI has a strong competitive advantage because it is the sole provider of advertising media inside the BTS trains and the commercial space in the BTS train stations. Moreover, VGI is expanding into other out-of-home (OOH) media through the acquisitions of strategic interests in several related businesses. In 2020, BTS held 41.16% of MACO, 23% of Kerry Express (Thailand) Co., Ltd., and 18.86% of Plan B Media PLC (PLANB). The acquisitions will enlarge its revenue base and create synergies in terms of cross-selling and the pooling of consumer data. VGI also offers online media services to consumer product businesses, leveraging its ample offline consumer data.

Potential rise in leverage

A significant rise in leverage will likely happen in the scenario of the conversion of O&M contracts with the BMA into a new BTS Green Line concession as discussed above. As the new concession is still pending government approval, our base case forecast has not incorporated the effect of the potential new investment. In the first nine months of FY2020, the ratio of adjusted net debt to earnings before interest, tax, depreciation and amortization (EBITDA) improved to 6.2 times (annualized, from the trailing 12 months), from 7.4 times in FY2019, due mainly to the enlargement of EBITDA. In our base case, we project the adjusted net debt to EBITDA ratio to decline to 4-5 times in FY2021-FY2022. The projected improvement in the debt ratio comes from the enlarged EBITDA and the BMA taking over the responsibility of paying for the electrical and mechanical (E&M) work of the South and North Green Line extensions. However, in the scenario of a new Green Line concession, the company's financial profile will likely weaken significantly should BTS fund the new investment primarily with debt financing.

BTS takes out project loans to finance two large investments in the Pink Line and Yellow Line new mass transit projects. TRIS Rating does not include these borrowings as part of BTS's total debt. This is because the expenditures for civil work and the new borrowings needed to fund the work 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 E&M work are also in the form of project finance with no recourse to the sponsors of the projects.

Acceptable liquidity profile

We assess BTS to have adequate liquidity over the next 12 months. As of December 2019, the company had cash on hand of Bt3.8 billion and securities available for sale and trading worth Bt3.8 billion. In addition, the company has undrawn credit facilities available from commercial banks of Bt21.6 billion. The debt repayment schedule over the next 12 months includes Bt5.1 billion in long-term obligations and Bt11.8 billion in short-term obligations.

In FY2021, capital expenditures will be around Bt32 billion. Most of the expenditures will be funded by project loans. For the first nine months of FY2020, funds from operations (FFO) were Bt4.2 billion. The FFO to debt ratio was 10.3% (annualized, from the trailing 12 months) while the EBITDA interest coverage ratio stood at 3.8 times.

TRIS Rating believes that BTS will comply with the debenture covenants over the next 12 to 18 months. The net interest-bearing debt to equity ratio at the end of December 2019 was 0.1 times, well below the debenture covenant of 2.5 times.

BASE CASE ASSUMPTIONS

During the next three years from FY2020 to FY2022, TRIS Rating's assumptions are as follows:

- O&M revenue to gradually increase to Bt6.5 billion in FY2022 from around Bt2.3 billion in FY2019.
- Dividend income from BTSGIF to decline by 25% in FY2021, and increase by 40% in FY2022.
- Advertising revenue to drop by 55% in FY2021, and increase by 30% in FY2022.
- BTS to recognize revenue of around Bt68 billion from E&M services, train procurement services, and revenue from the

development of the Pink Line and Yellow Line.

- EBITDA margin to be in a range of 60%-70%.
- Capital expenditures to total around Bt77 billion over the three-year forecast period.

RATING OUTLOOK

The "negative" outlook reflects the high probability of a significant rise in BTS's financial leverage from new investments which could lead to material deterioration in credit metrics to a degree that may not commensurate with the current ratings.

RATING SENSITIVITIES

The prospect for a rating upgrade is unlikely over the next few years as we expect the company's leverage will remain high. The ratings could be revised downward if the adjusted net debt to EBITDA ratio stays over 5 times on a sustained basis. A material deterioration in the company's financial profile could be caused by debt-funded investments or a significant drop in operating performance.

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. In March 2018, the company sold nearly its entire property portfolio to U City PLC. Presently, BTS has a 37.87% stake in U City. For the first nine months of FY2020, the mass transit segment contributed approximately 70% of EBITDA, while the media segment contributed about 30%. Contributions from the other two segments remained minimal.

For the mass transit business, the company operates the Green Line Skytrain through its core subsidiary, BTSC. BTSC operates the core network of the Green Line Skytrain through a 30-year build-operate-transfer concession which already sold the future net farebox revenue over the remaining concession period (2013-2029) to BTSGIF. BTS holds 33.33% of the investment units of BTSGIF. BTSC also has two O&M contracts to provide O&M services for the two Green Line extension routes and the core network from 2012 to 2042. BTS has set up joint ventures (JV) with its two partners to invest in the Pink Line and the Yellow Line monorail projects. The JV will invest in the two projects, at a total cost of around Bt90 billion, and receive the rights to operate the rails for a period of 33.3 years. In 2019, the company and its partners were officially announced as the best bidders for 30-year O&M contracts of two motorway projects (Bang Pa In - Nakhon Ratchasima (M6) and Bang Yai – Kanchanaburi (M81) and a 50-year PPP Net Cost concession of the U-Tapao International Airport Project).

In the media segment, the company sells advertising and rents retail space on the BTS Skytrain network through VGI, a 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 continuously expanded its business scope. VGI now offers other types of OOH media through companies it acquired. In 2020, BTS held 41.16% of MACO, 23% of Kerry Express (Thailand), and 18.86% of PLANB. The acquisitions will enlarge its revenue base and create synergies in terms of cross-selling and the pooling of consumer data.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	Apr-Dec 2019		------------------Year Ended 31 March 2019	2018	2017	-------------- 2016
Total operating revenues***	7,378		7,770	6,579	5,320	5,455
Earnings before interest and taxes (EBIT)	7,632		5,827	3,818	3,117	2,621
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,734		7,842	6,252	4,590	4,069
Funds from operations (FFO)	4,169		5,252	4,177	3,230	2,598
Adjusted interest expense	1,753		1,724	1,299	702	350
Capital expenditures	14,772		16,622	1,314	1,478	1,634
Total assets	171,955		144,315	106,258	93,631	65,259
Adjusted debt	56,640		58,111	32,763	21,871	5,467
Adjusted equity	72,078		52,150	46,364	45,182	46,901
Adjusted Ratios						
EBITDA margin (%)	91.28		100.93	95.02	86.27	74.59
Pretax return on permanent capital (%)	7.44	**	5.47	4.25	4.25	4.39
EBITDA interest coverage (times)	3.84		4.55	4.81	6.54	11.64
Debt to EBITDA (times)	6.20	**	7.41	5.24	4.76	1.34
FFO to debt (%)	10.27	**	9.04	12.75	14.77	47.52
Debt to capitalization (%)	44.00		52.70	41.41	32.62	10.44

* *Consolidated financial statements*
** *Annualized with the trailing 12 months*
*** *Excluding revenue from installation and construction services and train procurement service*

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

BTS Group Holdings PLC (BTS)

Company Rating:	A
Issue Ratings:	
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
BTSG209A: Bt3,550 million senior unsecured debentures due 2020	A
BTSG239A: Bt1,290 million senior unsecured debentures due 2023	A
BTSG289A: Bt4,660 million senior unsecured debentures due 2028	A
BTSG245A: Bt3,000 million senior unsecured debentures due 2024	A
BTSG265A: Bt2,700 million senior unsecured debentures due 2026	A
BTSG295A: Bt5,000 million senior unsecured debentures due 2029	A
BTSG215A: Bt1,000 million senior unsecured debentures due 2021	A
BTSG225A: Bt1,300 million senior unsecured debentures due 2022	A
Rating Outlook:	Negative

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