

BTS GROUP HOLDINGS PLC

No. 84/2022
26 May 2022

CORPORATES

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

Last Review Date: 10/03/22

Company Rating History:

Date	Rating	Outlook/Alert
28/05/20	A	Negative
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", with a "negative" rating outlook. The "negative" outlook reflects the likelihood 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 its metro train operation, sizable cash flow 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 the surge in financial leverage to fund several investment projects.

KEY RATING CONSIDERATIONS

Growing, predictable income from O&M services

We expect BTS's revenue and cash flow from operating and maintenance (O&M) services to continue to rise with the operation of two new Green Line extensions. BTS provides O&M services through BTSC. In the first nine months of fiscal year (FY) 2022 (1 April to 31 December 2021), O&M service fees stood at THB4.6 billion, rising from THB3.8 billion in the same period of FY2021 due to the Green Line extension fully operate. Since the service fees are largely fixed as stipulated in the contract, the O&M service income is highly predictable with no ridership risk. We project the annual O&M service fees to gradually increase to THB7 billion in FY2024.

Currently, the new Green Line concession is under consideration and awaiting government approval. Based on the financial statement, as of December 2021, the company has not yet received the O&M service fees of about THB16 billion and the electrical and mechanical (E&M) work of around THB21 billion. The payments are pending the government decision on whether to grant a new operating concession to the company in exchange for offsetting the owed amounts, or to continue with the existing O&M agreement and pay the owed amounts to the company.

Two monorails to commence full operation in 2023

BTS has majority equity stakes in two joint ventures (JV) with its two partners to invest in and operate two monorail projects (the Pink Line and Yellow Line), under Public Private Partnership (PPP)-Net Cost concessions awarded in 2017. Under the concessions, the JVs will invest in the monorail E&M work in exchange for ridership revenue and related commercial and media income. Both projects are expected to commence full operation in 2023, postponed from 2022 due to construction delays caused by the Coronavirus Disease 2019 (COVID-19) lockdown measures. Partial commissioning is targeted in late 2022 for both Yellow Line and Pink Line. We project the revenue for each line to be around THB1-THB1.2 billion in FY2024.

Recovery of BTSGIF cash flow expected

Over the past two years, successive waves of the COVID-19 pandemic had severely impacted BTSGIF's operating performance. During FY2021-FY2022, ridership dropped substantially due to the lockdown measures. As a result, the cash flow from BTSGIF substantially declined from THB1.6 billion in FY2020 to

THB750 million in FY2021 and THB95 million in the first nine months of FY2022. However, we expect BTSGIF's performance to gradually recover as the government has adopted policies of returning to normalcy and living with COVID-19. Also, the spread of the less harmful Omicron variant has appeared to be largely under control. In our base-case forecast, we assume cash flow from BTSGIF will gradually increase to THB1.3 billion in FY2024 in tandem with the recovery in ridership.

Substantial investment required if new projects approved

The company will need a substantial amount of financing to fund potential investment in the Green Line concession. BTS currently has two O&M contracts with the Bangkok Metropolitan Administration (BMA) to operate the Green Line and its extensions. However, the BMA intends to replace the existing O&M contracts with a new operating concession while BTS is also interested in investing in a new concession. BMA and BTS have already finalized the terms and conditions of the concession agreement, pending government approval.

In addition, the company has planned to invest in several infrastructure projects in the next three years. The company and its partners have been granted a 50-year PPP-Net Cost concession for the U-Tapao International Airport Project and two 30-year O&M contracts for two motorway projects (Bang Pa In – Nakhon Ratchasima (M6) and Bang Yai – Kanchanaburi (M81)). The company is also undertaking a mixed-use development project, Mo Chit Land, which involves constructing a twin office building and commercial retail spaces. We estimate the company will have to seek funding of around THB40.6 billion for all these investments.

Revenue enhancement from transforming media business to mix business

The company has transformed its media business into an omni-channel marketing platform (mix business) as part of its offline-to-online (O2O) strategy. The media business is operated through its subsidiary VGI PLC (VGI), the sole provider of advertising media inside the BTS trains and commercial space in the BTS train stations. VGI has recently expanded into other out-of-home (OOH) media through the investment of Plan B Media PLC (PLANB). The O2O strategy also involves collaborations with other key offline channels through VGI's strategic investments in business partners in various targeted channels. These investments include a 18% stake in Kerry Express (Thailand) PLC, a 51% stake in Fanslink Communication Co., Ltd. (Fanslink), a 15% stake in Jay Mart PLC, and a potential 60% stake in Nation International Edutainment PLC (NINE). The O2O solution is designed to combine all of BTS's offline and online channels to provide comprehensive marketing coverage for its clients, with an access to all of BTS's marketing channels to advertise or sell products/services to consumers. This will enlarge its revenue base and create synergies in terms of cross-selling and the pooling of consumer data. The success of the O2O strategy and the targeted synergy remains to be seen.

In the first nine months of FY2022, BTS's mix business revenue increased by around 57% from the same period of the previous year, mainly due to the consolidation of Fanslink. This was despite revenue from the media segment declined by 9% due to lower demand from advertisers affected by the pandemic. However, we expect revenue from the mix business to recover by around 16% in FY2023 and 27% in FY2024 assuming a gradual recovery in the advertising industry in tandem with the recovery of ridership. Also, there is a high probability that the company will receive the rights to manage the advertising space and commercial areas in the new stations on the extension routes of the Green Line, the new Pink Line and Yellow Line. We project revenue from Fanslink to increase by 5% per annum during the forecast period.

Potential rise in leverage

A significant rise in leverage will likely happen in the scenario of the O&M contracts being replaced with a new Green Line concession as discussed above. As the new concession is still pending government approval, our base-case forecast has not incorporated the impact of the potential new investment.

BTS's debt to earnings before interest, taxes, depreciation, and amortization (EBITDA) ratio rose to 12.2 times (annualized, from the trailing 12 months) in the first nine months of FY2022, compared with 9.7 times in FY2021. In our base-case forecast, we project the adjusted net debt to EBITDA ratio to fall to around 8 times during FY2023-FY2024 once BMA pays for the E&M work of the Southern and Northern Green Line extensions and O&M service fees it owes to BTS. We also take into consideration the company's flexibility in selling its investment portfolio worth around THB9 billion, and its commitment to maintain its debt to EBITDA ratio below our downgrade threshold of 8 times.

Previously, we excluded all project loans to finance the Pink and Yellow Line monorails from BTS's adjusted debt. We are of the view that it will be more consistent with our practice to only exclude the loans related to civil work, and to include those related to E&M work in the calculation of adjusted debt. The reason for continuing to exclude loans related to civil work is that the government will eventually reimburse these expenditures in full. As of December 2021, the total outstanding debt related to the Pink and Yellow Lines was THB52.5 billion, consisting of THB19.5 billion debt for E&M work and the rest for civil work.

Acceptable liquidity profile

We assess BTS to have adequate liquidity over the next 12 months. As of December 2021, the company's source of funds include cash on hand of THB3.9 billion and short-term investments worth THB2.9 billion. The company also has undrawn credit facilities available from commercial banks of THB24.5 billion. Over the next 12 months, we project funds from operations (FFO) to be around THB3.6 billion. We believe this source of funds to be adequate to service its use of funds which consists of THB4.5 billion scheduled term loan repayments over the next 12 months and THB30.1 billion short-term obligations. In FY2023, capital expenditures will be around THB15 billion with most being funded by project loans.

We believe that BTS should have no problems complying with the debenture covenants over the next 12 to 18 months, which requires the company to maintain a net interest-bearing debt to equity ratio below 2.5 times. At the end of December 2021, the ratio was 0.45 times.

As of December 2021, BTS's total interest-bearing debt of THB91 billion included THB25 billion priority debt. This priority debt was unsecured debt at the subsidiary level. The priority debt to total debt ratio was 27.5%.

BASE-CASE ASSUMPTIONS

During FY2022 to FY2024, TRIS Rating's assumptions for the operations of BTS are as follows:

- O&M revenue to gradually increase to THB7 billion in FY2024 from around THB5.3 billion in FY2021.
- BTS to recognize revenue from the Pink and Yellow Lines in FY2024 of around THB1-THB1.2 billion for each line.
- Revenue from mix business to increase by 59% in FY2022, then increase by around 16% in FY2023 and 27% in FY2024.
- BTS to recognize revenue of around THB23 billion from E&M services and revenue from the development of the Pink and Yellow Lines.
- EBITDA margin to be in the range of 55%-75%.
- Capital expenditures to total around THB35 billion over the forecast period.

RATING OUTLOOK

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

RATING SENSITIVITIES

A rating upgrade is unlikely over the next few years as we expect the company's leverage will remain high. The outlook could be revised to "stable" if BTS's leverage significantly declines in the event BMA repays all of its obligations and the company's media business quickly recovers. The ratings could be revised downward if the adjusted net debt to EBITDA ratio stays over 8 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, and services. In March 2018, the company sold nearly its entire property portfolio to U City PLC. As of December 2020, BTS had a 37.87% stake in U City. For the first nine months of FY2022, the move segment contributed approximately 86% of EBITDA, while the mix segment contributed about 6%. The rest was derived from the match segment.

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 JVs with its two partners to invest in the Pink and Yellow Line monorail projects. The JVs will invest in the two projects, at a total cost of around THB90 billion, and receive the rights to operate the rails for a period of 33.3 years. The company and its partners have been granted a 50-year PPP-Net Cost concession for the U-Tapao International Airport Project and two 30-year O&M contracts of two motorway projects (Bang Pa In – Nakhon Ratchasima (M6) and Bang Yai – Kanchanaburi (M81).

In the mix segment, the company provides advertising services and rents retail space on the BTS Skytrain network through its subsidiary VGI. 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 its acquisition of an 18.59% stake in PLANB. The company has also expanded to offline channels by acquiring KERRY, JMART, Fanlinks and potential acquiring NINE. 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: Mil. THB

	Apr-Dec 2021	-----Year Ended 31 March -----			
		2021	2020	2019	2018
Total operating revenues***	8,233	8,567	8,294	6,724	6,579
Earnings before interest and taxes (EBIT)	5,707	5,970	8,178	5,560	3,818
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	6,664	8,714	8,074	7,520	6,252
Funds from operations (FFO)	3,329	4,246	4,284	5,035	4,130
Adjusted interest expense	2,449	2,540	2,313	1,712	1,299
Capital expenditures	10,514	13,522	17,753	16,622	1,314
Total assets	243,641	212,062	173,100	144,398	106,258
Adjusted debt	108,114	84,774	76,586	60,280	32,763
Adjusted equity	79,647	76,037	67,246	52,310	46,364
Adjusted Ratios					
EBITDA margin (%)	80.94	101.71	97.35	111.83	95.02
Pretax return on permanent capital (%)	3.93 **	3.78	6.02	5.16	4.25
EBITDA interest coverage (times)	2.72	3.43	3.49	4.39	4.81
Debt to EBITDA (times)	12.17 **	9.73	9.49	8.02	5.24
FFO to debt (%)	3.75 **	5.01	5.59	8.35	12.61
Debt to capitalization (%)	57.58	52.72	53.25	53.54	41.41

* Consolidated financial statements

** Annualized with the trailing 12 months

*** Excluding revenue from installation and construction services and train procurement service

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Group Rating Methodology, 13 January 2021
- Rating Methodology – Corporate, 26 July 2019

BTS Group Holdings PLC (BTS)

Company Rating:	A
Issue Ratings:	
BTS22NA: THB500 million senior unsecured debentures due 2022	A
BTS22DA: THB1,500 million senior unsecured debentures due 2022	A
BTS239A: THB1,290 million senior unsecured debentures due 2023	A
BTS23NA: THB4,000 million senior unsecured debentures due 2023	A
BTS245A: THB3,000 million senior unsecured debentures due 2024	A
BTS247A: THB1,500 million senior unsecured debentures due 2024	A
BTS255A: THB700 million senior unsecured debentures due 2025	A
BTS25NA: THB1,500 million senior unsecured debentures due 2025	A
BTS265A: THB2,700 million senior unsecured debentures due 2026	A
BTS267A: THB3,500 million senior unsecured debentures due 2026	A
BTS275A: THB2,800 million senior unsecured debentures due 2027	A
BTS27NA: THB2,000 million senior unsecured debentures due 2027	A
BTS27DA: THB2,000 million senior unsecured debentures due 2027	A
BTS289A: THB4,660 million senior unsecured debentures due 2028	A
BTS295A: THB5,000 million senior unsecured debentures due 2029	A
BTS295B: THB3,800 million senior unsecured debentures due 2029	A
BTS29DA: THB2,000 million senior unsecured debentures due 2029	A
BTS30NA: THB600 million senior unsecured debentures due 2030	A
BTS317A: THB8,000 million senior unsecured debentures due 2031	A
BTS325A: THB3,700 million senior unsecured debentures due 2032	A
Rating Outlook:	Negative

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