Bangkok Mass Transit System PLC

No. 98/2017 11 August 2017

Company Rating: A

Issue Ratings:
Senior unsecured A

Outlook: Stable

Company Rating History:

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

Contacts:

Pramuansap Phonprasert
pramuansap@trisrating.com

Chanaporn Pinphithak
chanaporn@trisrating.com

Parat Mahuttano
parat@trisrating.com

Sakda Pongcharoenyong
sakda@trisrating.com

WWW.TRISRATING.COM

Rating Rationale

TRIS Rating affirms the company rating of Bangkok Mass Transit System PLC (BTSC) and the ratings of BTSC's senior unsecured debentures at "A". The ratings reflect BTSC's strong business profile as one of the two dominant mass transit system operators in Thailand, the steady growth and predictability of the cash flows from the train operation and its entrenched position in media businesses. However, BTSC's financial profile is expected to be weighed by a surge in debt over the next few years as it carries out the work in the recently awarded contracts for Bangkok metropolitan mass transit expansion projects. BTSC is the core business and key revenue and profit contributor of BTS Group Holdings PLC (BTS). The credit profiles of BTSC and BTS are closely linked. Currently, BTS is rated "A" with a "stable" outlook by TRIS Rating.

Established in 1992, BTSC is currently 97.46% owned by BTS. BTSC was initially set up to build and operate the Bangkok Mass Transit System (BTS Skytrain) under a 30-year build-transfer-operate concession (1999-2029) awarded by the Bangkok Metropolitan Administration (BMA). In 2013, the company sold its future net farebox revenue from its train operation under the concession to the BTS Rail Mass Transit Growth Infrastructure Fund (BTSGIF), an infrastructure investment fund, for Bt61 billion. BTS, its parent company, holds 33.33% of total investment units in BTSGIF. Under contracts entered into with Krungthep Thanakom Co., Ltd. (KT), a wholly owned subsidiary of BMA, BTSC is going through a crucial expansion in its train operation by providing electrical and mechanical (E&M) work, as well as train operating and maintenance (O&M) services for several of BTS Skytrain's expansion projects.

BTSC's media business has been an important revenue and profit contributor. The company has seen its media business growing as BTS Skytrain ridership increases. As the sole provider of advertising media inside the trains and in the commercial space around BTS train stations, BTSC has a unique competitive advantage. Operations in the media segment are carried out through a subsidiary, VGI Global Media PLC (VGI). For fiscal year 2017 (FY2017, April 2016-March 2017), BTSC's revenue was derived from media services (39%), O&M service fees (27%), and E&M work and train procurement (24%), while other services contributed the rest.

BTSC achieved a solid performance in FY2017. Revenues increased to Bt6,276 million compared to Bt4,033 million in FY2016. The rise was mainly due to the recognition of revenue from E&M services and train procurement, and the consolidation of Master Ad PLC (MACO), a major acquisition made in 2016 in an effort to expand in the media business. However, BTSC's operating profit margin (excluding E&M services and train procurement revenue) declined from 51.6% in FY2016 to 42.4% in FY2017. The drop resulted from the inclusion of the operating performance of MACO which carried a lower operating profit margin.

Revenue of O&M services, covering the expanded mass transit system in Bangkok, will be the key driver of growth. For FY2018-FY2020, TRIS Rating projects significant jumps in BTSC's revenue from sizable increases in O&M service fees. Service fees are forecast to rise once the two new mass transit expansion projects (the Southern and the Northern Green Line Extension) open up. In addition, TRIS

Rating expects the company to recognize Bt25,500 million revenue from E&M services and train procurement over the next four years. The operating profit margin will remain high above 40%.

The projected steady rise in revenue from O&M services is expected to stabilize BTSC's revenue. This is viewed as a positive development. Unlike the original build-transfer-operate concession, train operation under O&M contracts do not expose BTSC to ridership risk.

Total debt will surge in order to meet the funding requirements for E&M work and train procurement. BTSC's total debt jumped from Bt1,829 million in FY2016 to Bt24,935 million in FY2017, after it issued debentures worth Bt22,000 million in 2016. The purpose of the debt issue was to secure the funding required for carrying out the E&M work and train procurement under the contracts signed with KT. The E&M contracts require that BTSC prefunds the E&M costs for rail expansion projects. BTSC will then be reimbursed by KT for all E&M costs, including accrued interest, within a four year timeframe. KT has the option to extend the payment for another two years.

BTSC is expected to pay down its newly incurred debt with the payments due from KT. BTSC's total debt to capitalization ratio leaped from 6.3% in FY2016 to 48.7% in FY2017, but is expected to drop substantially once it begins to receive the payments from KT. TRIS Rating projects the debt to EBITDA ratio will peak at around 6 times in 2020 before declining to stay below 3.5 times the in following years. TRIS Rating holds the view that the financial risk arising from the sharp rise in total debt is mitigated by the high certainty of payments from KT, a BMA subsidiary. Currently, BMA is rated "AA+" with a "stable" outlook by TRIS Rating.

BTSC has an adequate liquidity profile. In FY2017, the company reported funds from operations (FFO) of Bt2,027 million. The FFO to total debt ratio and the EBITDA interest coverage ratio were 8.1% and 6.7 times, respectively. As of March of 2017, the sources of fund comprised Bt12,982 million cash on hand, Bt11,575 million in securities available for sale and trading, and Bt22,000 million in undrawn credit facilities. This level of liquidity is expected to be sufficient to cover the uses of fund during the next 12 months. Uses of funds comprise scheduled principal repayments of Bt246 million, outstanding short-term obligations of Bt778 million, and capital expenditures of around Bt8,800 million. However, the company may be called upon to provide more funds to BTS, its parent company, in the form of dividends to BTS which may need the funds in connection with its new investments in mass transit projects.

Rating Outlook

The "stable" outlook is based on the expectation that BTSC will be able to maintain steady growth in revenue in its mass transit operation and media businesses. The rating and/or outlook could be revised downward if the financial profile of BTSC significantly deteriorates from the projections, which could be a result of aggressive debt-funded investments and/or a significantly deterioration in operating performance. BTSC's credit upside in the next couple of years is limited as the level of indebtedness has risen in order for the company to make the large capital expenditures.

Since BTSC is a core subsidiary of BTS, BTSC's rating will be aligned with the rating of BTS. Any change in BTS's credit rating will also impact the rating of BTSC.

Bangkok Mass Transit System PLC (BTSC)

Company Rating:	A
Issue Ratings:	
BTSC19NA: Bt5,500 million senior unsecured debentures due 2019	A
BTSC21NA: Bt2,200 million senior unsecured debentures due 2021	A
BTSC23NA: Bt4,100 million senior unsecured debentures due 2023	A
BTSC26NA: Bt10,200 million senior unsecured debentures due 2026	A
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	Year Ended 31 March				
	2017	2016	2015	2014	2013
Sales	6,276	4,033	4,903	5,567	4,059
Gross interest expense	469	288	433	611	808
Net income from operations	1,359	1,440	1,845	1,821	1,878
Funds from operations (FFO)	2,027	1,770	2,596	2,260	4,252
Capital expenditures	258	202	587	549	908
Total assets	61,542	37,781	38,583	41,605	50,259
Total debt	24,935	1,829	3,575	6,655	9,827
Shareholders' equity	26,316	27,345	26,119	25,870	37,700
Operating income before depreciation and amortization as % of sales	42.4	51.6	49.8	45.0	81.6
Pretax return on permanent capital (%)	6.8	8.9	10.4	9.1	7.7
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	6.7	10.1	8.1	6.3	6.6
FFO/total debt (%)	8.1	96.7	72.6	34.0	43.3
Total debt/capitalization (%)	48.7	6.3	12.0	20.5	20.7

* *Consolidated financial statements*

TRIS Rating Co., Ltd.
Tel: 0-2231-3011 ext 500 / Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand www.trisrating.com