

DON MUANG TOLLWAY PLC

No. 119/2017

26 September 2017

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Company Rating History:

Date	Rating	Outlook/Alert
13/10/15	BBB+	Stable
11/11/10	A-	Stable

Contacts:

Pramuansap Phonprasert
pramuansap@trising.com

Chanaporn Pinphithak
chanaporn@trising.com

Parat Mahuttano
parat@trising.com

Sakda Pongcharoenyong
sakda@trising.com

WWW.TRISING.COM

Rating Rationale

TRIS Rating affirms the company rating of Don Muang Tollway PLC (DMT) and the ratings of DMT's outstanding senior unsecured debentures at "BBB+". At the same time, TRIS Rating assigns the rating of "BBB+" to DMT's proposed issue of up to Bt800 million in senior unsecured debentures. The proceeds from the proposed debenture issue will be used to refinance maturing debentures. The ratings reflect the strategic advantage of DMT's tollway location wise, low operating risk, and predictable cash flow. These strengths are partially offset by the reliance on one single cash-generating asset and the uncertainty concerning the legality of the latest amendment to the concession agreement, pending the final ruling from the Supreme Administration Court.

Founded in 1988, DMT constructed and now operates a 21-kilometer (km.) elevated tollway running from Din Daeng to the National Memorial Monument. The tollway was constructed under a Build-Transfer-Operate (BTO) concession granted by the Department of Highways (DOH). The concession was amended three times. The latest amendment to the concession agreement (MOA3) was made on 12 September 2007 pursuant to the Cabinet resolutions made on 11 April 2006 and 10 April 2007. MOA3 was concluded as a remedy to offset the losses DMT incurred when actions taken by the government deviated from the concession agreement. The key amendments contained in the MOA3 extend the maturity of the concession from 2021 to 2034, and pre-approve the toll fee increases suggested in the previous amendment.

Three legal cases were filed at the Administrative Court, challenging the legality of the MOA3. After years of court proceedings, the Supreme Administrative Court dismissed two of the three cases. In the pending case, the plaintiffs claim that the Cabinet resolutions on 11 April 2006 and 10 April 2007, granting approval of the MOA3, were illegal. This case has been elevated to the Supreme Administrative Court, following a ruling by the Central Administrative Court in 2015 that revoked the Cabinet resolutions pertaining to the MOA3. There is no clear timeline on the final court ruling, but DMT's management remains confident of a positive outcome.

DMT continues to deliver good operating performance. Total traffic volume increased by 12.3% in 2016 and 1% year-on-year (y-o-y) in the first half of 2017. The rise in traffic was driven by the strong growth in the number of passengers at Don Mueang airport, the expansions of communities near the tollway, traffic congestion on public roads due to the development of the Red Line and Green Line extension mass transit lines, and low oil prices. As a result, revenue increased by 12.5% in 2016 and rose by 1.9% y-o-y in the first half of 2017. DMT's operating profit margin remained high but slipped from 83% in 2016 to 78% in the first half of 2017. Funds from operations (FFO) were Bt1,943 million in 2016 and stood at Bt910 million in the first half of 2017. The debt to capitalization ratio declined from 43.5% in 2015 to 38.3% as of June 2017, in tandem with the redemption of the outstanding debentures. At the end of December 2017, total debt will declined to Bt3,540 million, compared with Bt4,463 million at the end of December 2016.

Going forward, DMT's revenue is projected to grow moderately, as the population residing in the Northern suburbs of Bangkok continues to grow. The operating profit margin will remain high and stable. The cash flow protection and leverage ratios will improve as DMT plans to repay the outstanding debentures.

DMT's management expects to continue paying dividends of around Bt800-Bt1,000 million per annum, depending on the amount of cash available. To address the uncertainty surrounding the pending court case, the company plans to repay all interest-bearing debt by the end of 2020.

Rating Outlook

The "stable" outlook reflects DMT's stable and predictable operating performance and financial policies. DMT's ratings could be upgraded if the final ruling of the Supreme Administrative Court on the pending case affirms the legality of the MOA3 agreement. On the other hand, a downgrade scenario could be triggered by a significant drop in financial performance or a cash drain, caused by excessive dividend payments, that would materially reduce DMT's financial flexibility or any material adverse effect if the final court ruling goes against the company's interest.

Don Muang Tollway PLC (DMT)

Company Rating:	BBB+
Issue Ratings:	
DMT17DA: Bt1,478 million senior unsecured debentures due 2017	BBB+
DMT18NA: Bt500 million senior unsecured debentures due 2018	BBB+
DMT19DA: Bt1,100 million senior unsecured debentures due 2019	BBB+
DMT20DA: Bt1,140 million senior unsecured debentures due 2020	BBB+
Up to Bt800 million senior unsecured debentures due within 3 years	BBB+
Rating Outlook:	Stable

Financial Statistics and Key Financial Ratios*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Jun 2017	2016	2015	2014	2013	2012
Toll revenue	1,467	2,953	2,625	2,133	2,028	1,791
Gross interest expense	104	239	276	308	337	336
Net income from operations	677	1,498	1,279	914	785	628
Funds from operations (FFO)	910	1,943	1,651	1,202	1,056	824
Capital expenditures	22	25	15	10	36	26
Total assets	12,250	12,385	12,663	12,407	12,636	13,277
Total debt	4,464	4,463	5,172	5,726	6,242	6,977
Shareholders' equity	7,188	7,312	6,723	6,175	5,983	5,871
Operating income before depreciation and amortization as % of revenue	78.3	83.4	82.0	77.7	78.8	75.3
Pretax return on permanent capital (%)	17.0**	17.9	15.8	12.0	11.2	8.9
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	11.4	10.4	7.9	5.6	4.8	4.1
FFO/total debt (%)	42.7**	43.5	31.9	21.0	16.9	11.8
Total debt/capitalization (%)	38.3	37.9	43.5	48.1	51.1	54.3

* Consolidated financial statements

** Annualized from the trailing 12 months

TRIS Rating Co., Ltd.

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

© Copyright 2017, TRIS Rating Co., Ltd. All rights reserved. Any unauthorized use, disclosure, copying, republication, further transmission, dissemination, redistribution, or storing for subsequent use for any purpose, in whole or in part, in any form or manner or by any means whatsoever, by any person, of the credit rating reports or information is prohibited, without the prior written permission of TRIS Rating Co., Ltd. The credit rating is not a statement of fact or a recommendation to buy, sell or hold any debt instruments. It is an expression of opinion regarding credit risks for that instrument or particular company. The opinion expressed in the credit rating does not represent investment or other advice and should therefore not be construed as such. Any rating and information contained in any report written or published by TRIS Rating has been prepared without taking into account any recipient's particular financial needs, circumstances, knowledge and objectives. Therefore, a recipient should assess the appropriateness of such information before making an investment decision based on this information. Information used for the rating has been obtained by TRIS Rating from the company and other sources believed to be reliable. Therefore, TRIS Rating does not guarantee the accuracy, adequacy, or completeness of any such information and will accept no liability for any loss or damage arising from any inaccuracy, inadequacy or incompleteness. Also, TRIS Rating is not responsible for any errors or omissions, the result obtained from, or any actions taken in reliance upon such information. All methodologies used can be found at http://www.trisrating.com/en/rating_information/rating_criteria.html.