

Bangkok Expressway and Metro

BEM.TB / BEM.BK

4 January 2016

Debut of ground transport titan

Investment thesis

In our view, BEM's strong earnings growth profile is to come from the opening of expressway and mass transit routes. A 21% core profit growth in 2016 and a 21% CAGR during 2015-17 will be the strongest among Thai ground transport operators and higher than the broad SET's core earnings growth of 11% for 2016 and a 9% CAGR during 2015-17, this should catalyze the share price going forward. Also, the completion of talks with MRTA over the Blue Line extension project in 1H16 should also be a near-term catalyst for the price. And, there is scope for upside to long-term earnings from rights to operate the Blue Line extension and the commercial development business for the new mass transit lines. We therefore initiate our coverage with a BUY rating and a YE16 target price of Bt5.90, based on the SOTP methodology.

Year 2016 ... to be a glorious year for BEM

BEM should shine in 2016 as it will be the first year of service for the new expressway project (Si Rat – Outer Ring Road Expressway [SOE]), which is scheduled to open in 3Q16. In addition, BEM will start revenue recognition from its O&M contract for the new mass transit project (Purple Line, Bang Yai – Bang Sue), set to open officially on 12 Aug 2016.

Opening of projects to drive FY16 strong earnings growth

The opening of expressway and mass transit projects will drive BEM's strong earnings growth going forward. The traffic from the new expressway, SOE, and the new mass transit project, the Purple Line, will capture new traffic volume and ridership, and feed traffic and ridership to the existing expressway system and the first and only existing line of the MRT system. We therefore expect the firm to post core profit growth of 21% in 2016 and a CAGR of 21%, FY15-17.

Blue Line extension ... substantial earnings upside

Apart from new projects that are to come on stream this year, BEM is seeking for an opportunity to operate the Blue Line extension. BEM expects negotiations with MRTA to be completed in late 1Q16 or early 2Q16. We think that the completion such negotiations will be a near-term catalyst for the BEM share price. Also, if the firm is assigned as operator of the extension, there will be a substantial scope for earnings upside for BEM. We preliminarily estimate that long-term earnings will rise 13% on average.

Good long-term growth prospects in sight

There are a lot of potential growth opportunities for BEM in the long term, especially in running the mass transit system. Large numbers of new mass transit system projects are under construction or are under consideration by the government, whose progress is concrete and probable, for instance, the Orange Line (Taling Chan – Min Buri) and the Purple Line extension (Bang Sue – Rat Burana).

Sector: Transportation – NEUTRAL
Rating: BUY
Target Price: Bt5.90
Price (18 December 2015); Bt5.26

Financial Summary

FY Ended 31 Dec	2014	2015E	2016E	2017E
Revenues (Btm)	11,234	11,523	12,654	15,685
Net profit (Btm)	2,745	2,879	2,272	2,731
EPS (Bt)	0.18	0.19	0.15	0.18
EPS growth (%)	-37.6%	+4.9%	-21.1%	+20.2%
Core profit (Btm)	2,208	1,881	2,272	2,731
Core EPS (Bt)	0.14	0.12	0.15	0.18
Core EPS growth (%)	+62.3%	-14.8%	+20.8%	+20.2%
PER (x)	29.3	27.9	35.4	29.4
PBV (x)	2.7	2.3	2.2	2.1
Dividend (Bt)	na	na	0.1	0.1
Dividend yield (%)	na	na	1.1	1.4
ROE (%)	9.6	9.0	6.5	7.5

CG/Anti-Corruption


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BEM: Financial Tables – Year

PROFIT & LOSS (Btm)	2013	2014	2015E	2016E	2017E
Revenue	10,597	11,234	11,523	12,654	15,685
Cost of sales and services	(5,272)	(5,455)	(5,565)	(6,164)	(7,732)
Gross profit	5,326	5,779	5,957	6,490	7,953
SG&A	(1,983)	(2,025)	(2,252)	(2,378)	(3,223)
EBIT	3,342	3,754	3,706	4,113	4,730
Interest expense	(2,029)	(1,437)	(1,701)	(1,747)	(1,857)
Other income/exp.	136	113	69	72	74
EBT	1,449	2,430	2,074	2,438	2,947
Corporate tax	(467)	(702)	(876)	(666)	(730)
After-tax net profit (loss)	982	1,727	1,199	1,772	2,217
Minority interest	(22)	(66)	(59)	(46)	(56)
Equity earnings from affiliates	401	546	491	547	570
Extra items	3,039	537	1,248	0	0
Net profit (loss)	4,399	2,745	2,879	2,272	2,731
Reported EPS	0.29	0.18	0.19	0.15	0.18
Fully diluted EPS	0.29	0.18	0.19	0.15	0.18
Core net profit	1,361	2,208	1,881	2,272	2,731
Core EPS	0.09	0.14	0.12	0.15	0.18
EBITDA	6,172	6,508	6,295	6,723	7,952
KEY RATIOS					
Revenue growth (%)	5.9	6.0	2.6	9.8	23.9
Gross margin (%)	50.3	51.4	51.7	51.3	50.7
EBITDA margin (%)	58.2	57.9	54.6	53.1	50.7
Operating margin (%)	31.5	33.4	32.2	32.5	30.2
Net margin (%)	41.5	24.4	25.0	18.0	17.4
Core profit margin (%)	12.8	19.7	16.3	18.0	17.4
ROA (%)	6.4	3.9	3.7	2.8	3.3
ROCE (%)	15.2	4.5	4.2	3.1	3.7
Asset turnover (x)	0.2	0.2	0.1	0.2	0.2
Current ratio (x)	0.9	0.8	0.8	0.9	1.4
Gearing ratio (x)	1.1	1.1	1.1	1.0	1.0
Interest coverage (x)	1.6	2.6	2.2	2.4	2.5
BALANCE SHEET (Btm)					
Cash & Equivalent	5,029	4,374	5,283	5,316	5,634
Accounts receivable	83	102	107	143	194
Inventory	0	0	0	0	0
PP&E-net	3,049	10,896	18,063	18,382	1,187
Other assets	58,972	54,852	54,751	52,234	72,993
Total assets	68,666	73,332	82,491	80,576	84,733
Accounts payable	1,464	1,983	1,487	1,465	1,718
ST debts & current portion	3,543	5,041	7,843	6,310	2,810
Long-term debt	26,462	28,678	30,964	29,567	35,604
Other liabilities	7,003	5,502	4,981	4,514	4,093
Total liabilities	40,647	43,817	48,020	44,737	47,252
Paid-up capital	15,285	15,285	15,285	15,285	15,285
Share premium	5,817	5,817	5,817	5,817	5,817
Retained earnings	6,859	8,290	11,937	13,300	14,939
Shareholders equity	27,928	29,357	34,396	35,759	37,398
Minority interests	91	157	76	79	83
Total Liab.&Shareholders' equity	68,666	73,332	82,491	80,576	84,733
CASH FLOW (Btm)					
Net income	na	na	2,879	2,272	2,731
Depreciation and amortization	na	na	2,590	2,610	3,222
Change in working capital	na	na	(501)	(58)	202
FX, non-cash adjustment & others	na	na	1,418	(357)	(92)
Cash flows from operating activities	na	na	6,386	4,467	6,063
Capex (Invest)/Divest	na	na	(14,075)	(3,180)	13,710
Others	na	na	4,419	2,768	(20,495)
Cash flows from investing activities	na	na	(9,656)	(412)	(6,785)
Debt financing (repayment)	na	na	5,088	(2,930)	2,537
Equity financing	na	na	0	0	0
Dividend payment	na	na	(909)	(1,092)	(1,497)
Others	na	na	4,419	2,768	(20,495)
Cash flows from financing activities	na	na	4,179	(4,023)	1,040
Net change in cash	na	na	909	33	318
Free cash flow (Btm)	na	na	(7,689)	1,287	19,773
FCF per share (Bt)	na	na	(0.50)	0.08	1.29
Key assumptions	2013	2014	2015E	2016E	2017E
Average daily traffic volume (m trips/day)	1.1	1.1	1.1	1.2	1.2
Average toll fee (Bt/trip)	20.0	20.9	20.9	20.9	20.9
Average daily ridership (m trips/day)	86	92	95	104	114
Average fare price (Bt/pax)	24.2	24.2	25.0	27.1	28.1

Outlook

Year 2016 ... a glorious year for BEM: This year should be a glorious one for Bangkok Expressway and Metro Public Company Limited (BEM), as it will be the first year of service for the new expressway project (Si Rat – Outer Ring Road Expressway [SOE]) which is scheduled to open in 3Q16, six months ahead of its original schedule. In addition, BEM will start revenue recognition from the O&M contract for the new mass transit project (Purple Line: Bang Yai – Bang Sue), which started test runs on 14 Dec 2015, and will have a soft opening in May 2016. The Purple Line is schedule to open officially on 12 Aug 2016, five months ahead of schedule.

Figure 1 : Bangkok and suburbs toll road network



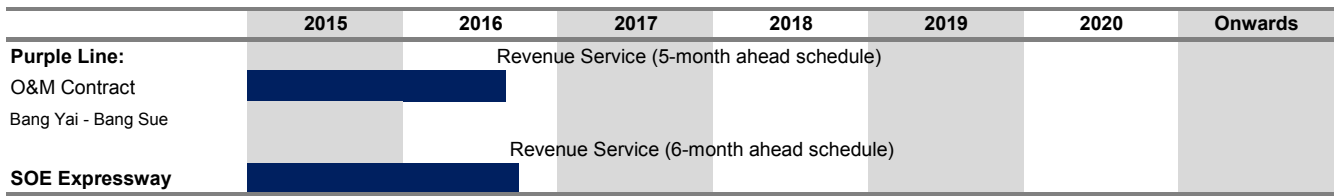
Source: Company data

Figure 2 : Bangkok's mass transit network

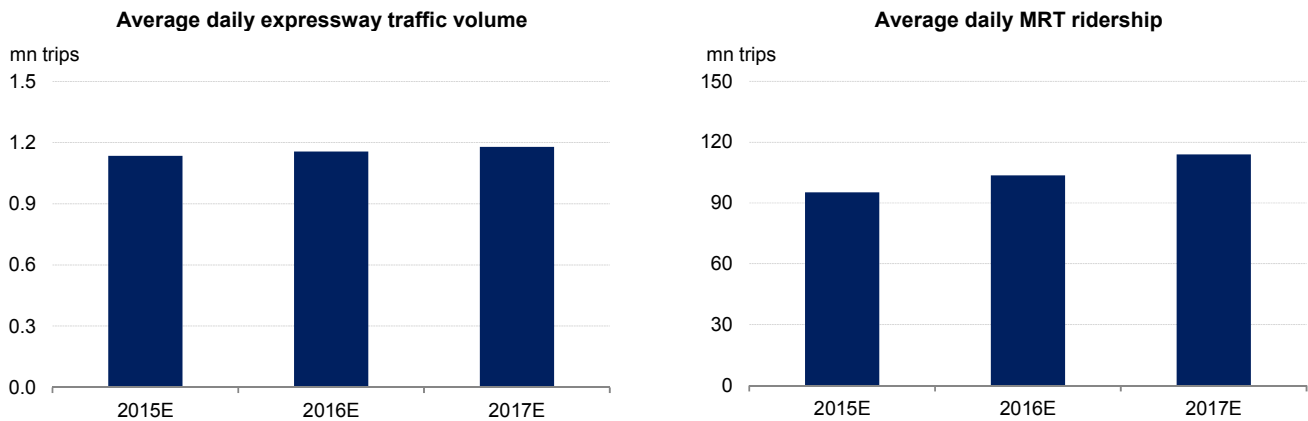


Source: Company data

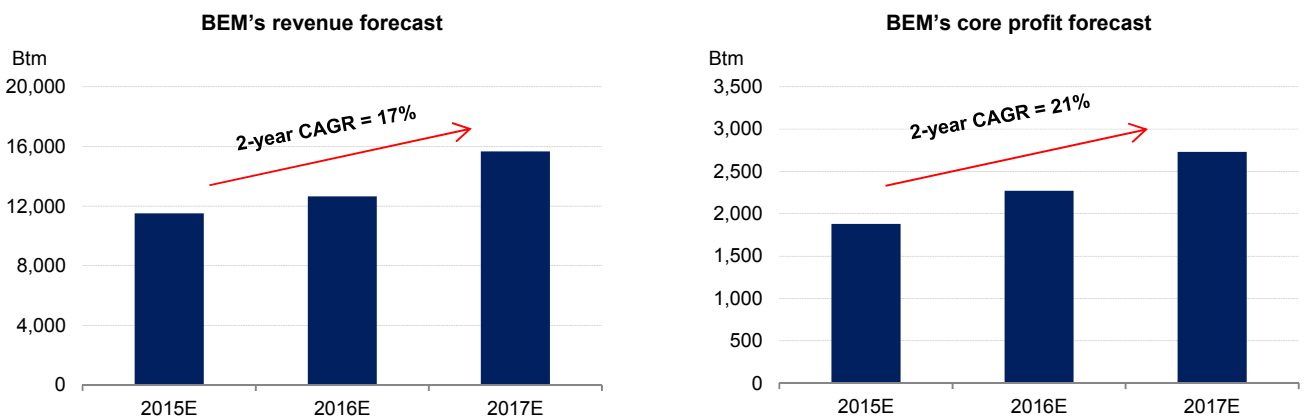
Opening of projects to drive strong earnings growth in FY16: The opening of expressway and mass transit projects will drive strong earnings growth for BEM. The traffic from the SOE expressway and the new mass transit project, the Purple Line, will not only capture new traffic volume and ridership, but will also feed traffic and ridership to the existing expressway system and the MRT's original Blue Line (Bang Sue – Hua Lamphong). We therefore expect the firm to post a core profit growth of 21% in 2016 and a CAGR of 21%, FY15-17.

Figure 3 : BEM's new projects to be in service in 2016


Sources: Company data, Bualuang Research estimates

Figure 4 : Organic growth and new projects to drive BEM's traffic growth from 2016 onwards


Source: Bualuang Research estimates

Figure 5 : BEM is expected to post strong revenue and earnings growth going forward


Source: Bualuang Research estimates

Closing Blue Line extension deal to be near-term catalyst and sizable earnings upside:

Apart from new projects coming on stream this year, BEM is seeking the opportunity to operate the Blue Line extension (Bang Sue – Tha Phra and Hua Lamphong – Bang Khae). As the extension will be connected to the Blue Line, of which BEM is the operator, the firm is therefore expected to negotiate with the MRTA (Mass Rapid Transit Authority of Thailand) to be the operator of the Blue Line extension. BEM expects the negotiation with MRTA to be completed in late 1Q16 or early 2Q16 and the Blue Line Extension to be in operation within 2018.

We think that the completion of the negotiations for the Blue Line extension will be a near-term catalyst for BEM's share price. In addition, if the firm is assigned to be the operator of this extension, there will be a substantial scope for earnings upside for BEM, as the contract for the extension is expected to be on a PPP (Public-Private Partnership scheme), Net Cost (private firm obtains fare revenue and revenue from the commercial development of station areas and carry out revenue sharing with the government on a performance-based agreement) basis. We preliminarily estimate that BEM's long-term earnings will increase by an average of 13%.

Figure 6 : Scope for earnings upside from Blue Line Extension

	2015	2016	2017	2018	2019	2020	Onwards
Blue Line Extension		Negotiation Complete		Partial Opening	Fully Opening		
Bang Sue - Tha Phra - Hua Lumpong							

Sources: Company data, Bualuang Research estimates

Good long-term growth prospects in sight: There is a lot of potential growth opportunities for BEM over the long term, especially involving the mass transit system. Large numbers of new system projects are under construction or under consideration by the government, whose progress will be concrete and probable. For instance, the Orange Line (Taling Chan – Cultural Center) and the Purple Line extension (Bang Sue – Rat Burana).

Figure 7 : Long-term growth opportunities for BEM in mass transit projects

	2015	2016	2017	2018	2019	2020	Onwards
1 station		Revenue Service					
O&M Contract							
Purple Line - Blue Line							
Orange Line:		Cabinet Approval	Construction Period				Complete
Purple Line Extension							
Construction							
Orange Line		Bidding					Fully Opening
Purple Line Extension:							
O&M Contract							

Sources: Company data, Bualuang Research estimates

Moreover, there are also growth opportunities within the expressway sector despite being limited in nature compared to the mass transit sector. But, most of them are intercity highways, via which traffic is likely to be less than that of the expressway network in urban area.

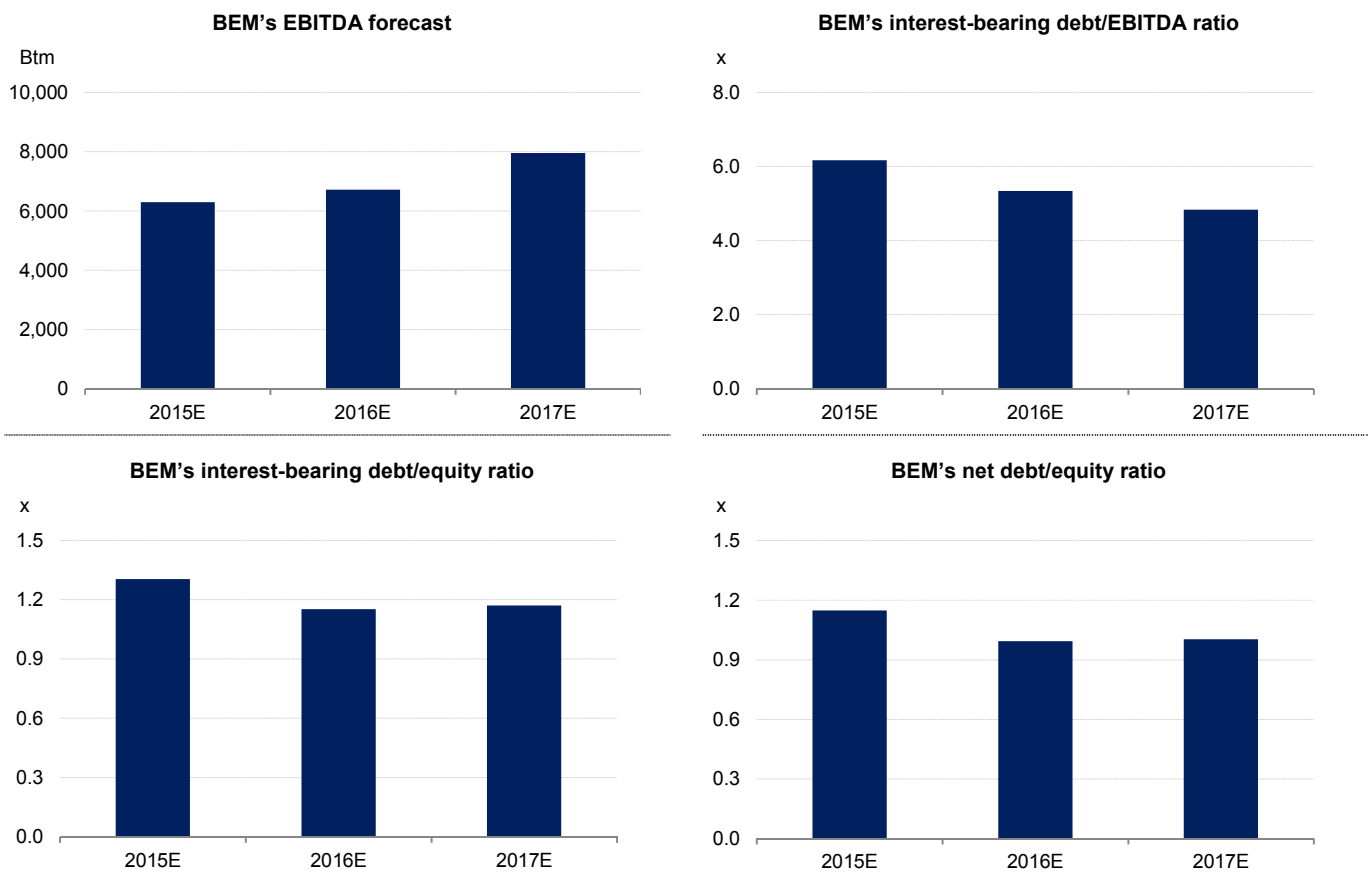
Figure 8 : Long-term growth opportunities for BEM in expressway projects

	2015	2016	2017	2018	2019	2020
Kaset - Navamin Expressway						
Daokanong - Outer Ring Road Expressway						
Udonrattaya - Ayutthaya Expressway						

Sources: Company data, Bualuang Research estimates

Strong financial capacity for new investments and dividends: The opening of the new SOE expressway and the Purple Line in 2016 would strengthen BEM's cash flow from operations going forward. The firm's financial position is also expected to show gains accordingly—the net debt/equity ratio is expected to decrease to 1.0x in 2017 from 1.1x in 2015. With its strong balance sheet, BEM should have substantial financial capacity to invest in new mass transit projects and pay a good dividend. In addition, an improving financial position should enable BEM to access cheaper sources of funds when acquiring new projects.

Figure 9 : BEM is expected to have strong financial capacity for both new investments and dividends



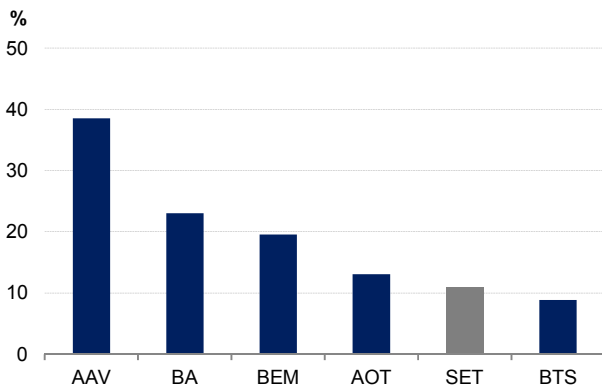
Source: Bualuang Research estimates

Recommendation

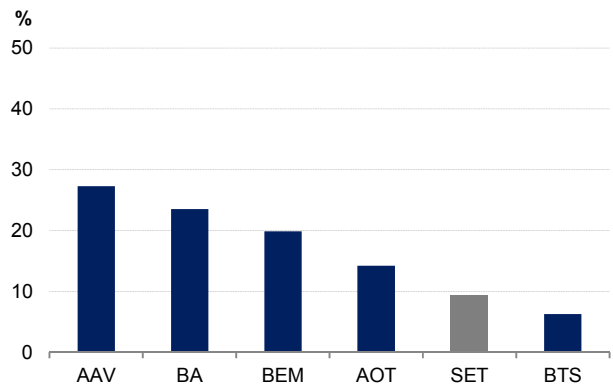
Initiated with a BUY rating (TP Bt5.90): In our view, BEM's strong earnings growth profile, to be brought about by the opening of expressway and mass transit lines—a 21% core profit growth in 2016 and a 21% CAGR during 2015-17—the strongest among Thai ground transport operators and higher than the broad SET's core earnings growth of 11% for 2016 and a 9% CAGR during 2015-17—should catalyze the share price going forward. In addition, the completion of negotiations with the MRTA over the Blue Line extension in 1H16 should also be a near-term catalyst for the share price.

Moreover, apart from earnings upside potential from the Blue Line extension, there is scope for upside to the firm's long-term's earnings from the right to operate the commercial development business for the Purple Line and the Blue Line extension (needs to be negotiated with the MRTA). We therefore initiate our coverage with a BUY rating and a YE16 target price of Bt5.90, based on sum-of-the parts (SOTP) methodology. There is scope for further upside to the BEM's target price if the firm is awarded the contract to operate the Blue Line extension—we preliminarily estimate a Bt1.00/share addition to the firm's equity value.

Figure 10 : BEM's core earnings growth is expected to outpace its Thai ground transport peers and the broad SET
FY16 core profit growth forecast of Thai transport operators versus SET



Core profit growth forecast of Thai transport operators versus SET, FY15-17 CAGR



Source: Bualuang Research estimates

Figure 11 : BEM's sum-of-the-parts valuation

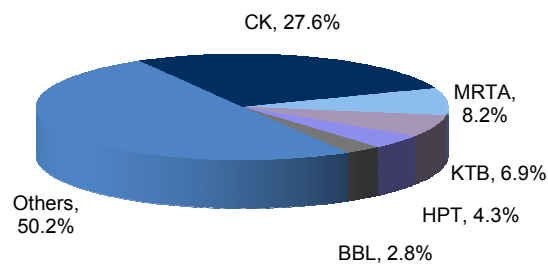
	Sum-of-the parts (Bt/share)	Remark
BECL	1.81	WACC = 10.40%
BMCL	3.24	
TTW	0.56	19.57% holding; DCF-derived target price of Bt11.00/share
CKP	0.22	19.40% holding; DCF-derived target price of Bt2.30/share
XPCL	0.07	7.50% holding; market price of Bt5.40/share
Sum-of-the parts	5.90	

Source: Bualuang Research estimates

Background

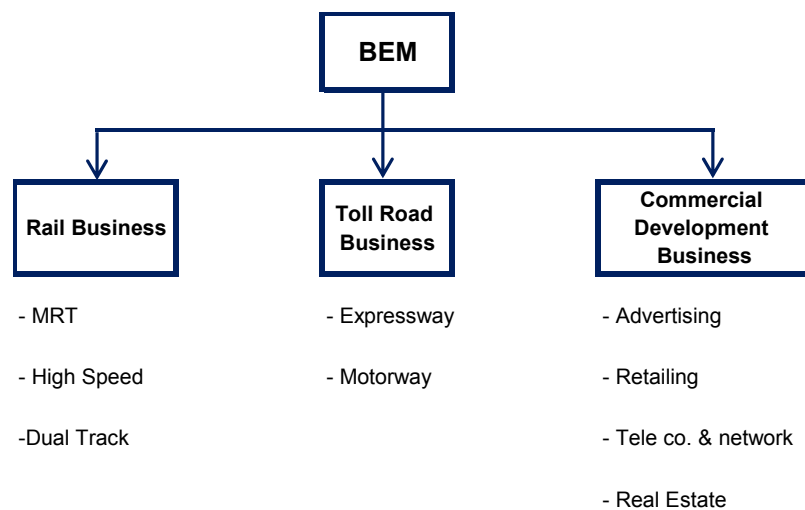
BEM is the result of the amalgamation of Bangkok Expressway Public Company Limited (BECL) and Bangkok Metro Public Company Limited (BMCL). The company was established on 30 Dec 2015 and Ch. Karnchang Public Company Limited (CK) is a major shareholder (holding a 27.6% equity stake). BEM is an integrated ground transport operator that currently operates some expressways (with a total of 70.5km in service as of 2015) and the MRT underground system (the original Blue Line, with a total of 20.0km in service as of 2015). The firm also operates the commercial development business along the mass transit system.

Figure 12 : BEM's shareholding structure



Sources: Company data, Bualuang Research

Figure 13 : BEM's business structure



Source: Company data

Figure 14 : BEM's fact sheet

	Unit	BECL	BMCL
Y2015			
- Distance Services	km	70.5	20.0
- Traffic/Riderships	mn trips/day	1.15	0.26
Y2019			
- Distance Services	km	87.2	69.0
	Distance growth in km	+16.7	+49.0
	Growth (%)	23.69%	245.00%

Sources: Company data, Bualuang Research

Figure 15 : Bangkok and suburban toll road network (both existing and potential projects)

Expressway Network	Distance (km)	Status	Operator	Expected Timeline
First Stage Expressway System	27.1	Operational	EXAT	
Second Stage Expressway System	38.5	Operational	BECL	
Northern Stage Expressway (C+ - Bang Pa In - Pak Kret Expressway)	32.0	Operational	NECL	
Don Muang Tollway	28.0	Operational	DMT	
Ramindra - Atnarong Expressway	28.2	Operational	EXAT	
Ramindra - Outer Ring Road Expressway	9.5	Operational	EXAT	
Bang Pli - Suksawad Expressway (Southern Outer Bangkok Ring Road) and Highway No.37 (Suksawad - Bang Khun Thien Section)	37.8	Operational	EXAT	
Bang Na - Chonburi Expressway	55.0	Operational	EXAT	
Si Rat - Outer Ring Road Expressway	16.7	Constructing	BECL	Opening in 3Q16
Kaset - Navamin Expressway	N/A	Developing	N/A	Opening in 2018
Daokanong - Outer Ring Road Expressway	N/A	Developing	N/A	Opening in 2019
Udonrattaya - Ayutthaya Expressway	N/A	Developing	N/A	Opening in 2020
Total	272.8			

Source: Company data

Figure 16 : Bangkok's mass transit network (both existing and potential projects)

Mass Transit Network	Distance (km)	Status	Operator	Expected Timeline
Mo Chit - On Nut - Bearing	21.8	Operational	BTS	
National Stadium - Bangwa	14.5	Operational	BTS	
Bang Sue - Hua Lamphong	20.0	Operational	BMCL	
ARL: Phaya Thai - Suvamabhumi	28.5	Operational	SRT	
Bearing - Samut Prakan	12.8	Constructing	N/A	O&M award in mid 2016; Opening in late 2019
Mo Chit - Saphan Mai - Khu Khot	18.4	Constructing	N/A	
Bang Sue - Tha Phra Hua Lamphong - Bang Kae (Blue Line Extension)	27.0	Constructing	BMCL	Negotiation complete in 1Q16; partial opening (to be negotiated) in 3Q18 and fully opening in 4Q19
Bang Yai - Bang Sue (Purple Line)	23.0	Constructing	BMCL	Soft opening in May 2016; fully opening in August 2016
Bang Sue - Rangsit (Red Line)	26.3	Constructing	N/A	
Bang Sue - Rat Burana (Purple Line Extension)	20.0	Developing	N/A	
Taling Chan - Cultural Center - Minburi (Orange Line)	17.5	Developing	N/A	
Kae Rai - Minburi (Pink Line)	36.0	Developing	N/A	
Lad Phrao - Samrong (Yellow Line)	30.4	Developing	N/A	
Total	296.2			

Source: Company data

Regional Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US\$ equivalent)	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
				2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
Guangshen	525 HK	HKD3.9	5,080	23.3	20.8	55.6	28.6	0.8	0.8	3.4	4.1	2.0	2.4
MTR Corp	66 HK	HKD38.4	29,021	20.7	24.6	19.9	-15.6	1.3	1.3	6.5	5.5	2.9	4.8
West Japan Railway	9021 JP	JPY8,394.0	13,483	16.4	15.4	48.7	6.8	1.9	1.7	12.1	11.8	1.6	1.7
Nippon Express	9062 JP	JPY572.0	4,923	16.4	14.8	34.4	10.4	1.0	1.0	6.7	6.9	1.8	1.9
SMRT Corp	MRT SP	SGD1.5	1,618	26.9	24.7	-5.0	10.5	2.6	2.5	9.7	10.1	2.1	2.2
Bangkok Expressway and Metr	BEM TB	THB5.26	2,297	n.a.	n.a.	7.0	-21.1	n.a.	n.a.	9.2	6.6	n.a.	n.a.
BTS Group Holdings	BTS TB	THB9.10	3,010	30.0	56.7	63.9	-47.0	2.2	2.1	9.8	5.3	7.7	2.1
Simple average				22.3	26.1	32.1	-3.9	1.6	1.6	8.2	7.2	3.0	2.5

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
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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
SPRC	SPRC

CG Rating

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 00359		Pass
Below 50	No logo given	N/A

Anti-Corruption Progress Indicator

Level	Description
5	Extended
4	Certified
3B	Established by Commitment and Policy
3A	Established by Declaration of Intent
2	Declared
1	Committed
Partially progress	Partially progress
No progress	No progress

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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

STOCK RECOMMENDATIONS

BUY: Expected positive total returns of 15% or more over the next 12 months.

HOLD: Expected total returns of between -15% and +15% over the next 12 months.

SELL: Expected negative total returns of 15% or more over the next 12 months.

TRADING BUY: Expected positive total returns of 15% or more over the next 3 months.

SECTOR RECOMMENDATIONS

OVERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

NEUTRAL: The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

UNDERWEIGHT: The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.