

BEM

Bangkok Expressway and Metro

Current	Previous	Close	2016 TP	Exp Return	Anti-corrupt	CGR 2015
BUY	--	5.26	6.00	+ 14.1%	-	N/R

Consolidated earnings

BT (mn)	2013	2014	2015E	2016E
Normalized earnings	1,361	2,208	2,247	3,178
Net profit	4,375	2,745	2,222	3,178
Normalized EPS (Bt)	0.0890	0.1444	0.1470	0.2079
EPS (Bt)	0.2862	0.1796	0.1453	0.2079
% growth Y-Y	104.8	-37.3	-19.1	43.0
Dividend (Bt)	0.08	0.09	0.08	0.11
BV/share (Bt)	1.83	1.93	2.08	2.17
EV/EBITDA (x)	16.6	16.0	15.8	13.2
Normalized PER (x)	59.1	36.4	35.8	25.3
PER (x)	18.4	29.3	36.2	25.3
PBV (x)	2.87	2.72	2.53	2.42
Dividend yield (%)	1.82	1.95	1.52	2.17
YE No. of shares (million)	15,285	15,285	15,285	15,285
No. of shares - full dilution	15,285	15,285	15,285	15,285
Par (Bt)	1.0	1.0	1.0	1.0

Source: Company data, FSS estimates

Strong profit growth plus solid dividend yield

We initiate BEM with BUY rating and 2016 TP of Bt6. BEM is a merged company between BECL and BMCL. BECL is Thailand's only concession-based private expressway operator. BMCL is the country's only subway operator. Both companies have specific strength that complements each other and weakness that can be overcome through merger. Specifically, BECL is financially strong, but lacks long-term growth prospect, while BMCL has plenty of room to grow, but is financially weak. Given that, now that they are merged, BEM will have BMCL's strong growth potential and BECL's solid financial position. Following the merger, we expect BEM's 2016 revenues to jump 22% Y-Y. What's more, we expect the company to benefit from a decline in interest rate to 4%, which will send interest coverage ratio to 4.4x and D/E ratio to 1.1x, while its 2016 normalized earnings are set to surge by 42% Y-Y to about Bt3.2bn. Our 2016 TP of Bt6 has upside from future auctions of the various train lines. Moreover, we expect the company to maintain dividend payout ratio of no less than 40% and anticipate the counter to pay DPS of Bt0.11 for its performance in 2016. For this reason, we view that BEM is both a growth stock and a dividend play.

Strong synergy

We view that the merger is a strong fit and complements both companies. To elaborate, BECL is financially sound, but lacks growth potential. Meanwhile, BMCL has large room to grow, but is financially weak. After the merger, BEM's revenues will sharply increase by 22% Y-Y thanks to the Purple Train line and the Sri-Rat Outer Ring Road Expressway; both of which are scheduled to commence service in 3Q16. What's more, the merged company will benefit from interest rate which is expected to fall to 4%, sending interest coverage ratio to 4.4x and D/E ratio to 1.1x, while its normalized earnings are set to surge by 42% Y-Y to about Bt3.2bn this year. Given that, BEM will have both growth and financial strength.

Wide upside from investment plan for mass transit system

BEM has wide upside from the government's plan for infrastructure project. Specifically, the state is aiming to develop transport system. Moreover, it has put public-private partnership (PPP) program of three train lines on a fast track. They include an extension of the Blue Line train project, the Pink Line train project and the Yellow Line train project. Besides these three, there is also the Orange Line train project, which the Cabinet has recently approved. Regarding to an extension of the Blue Line, we view that BEM has an edge over its rivals because the current Blue Line has been planned as a circle line for Bangkok's inner city with connections to other train projects. Hence, there is prospect that BEM will also get concession for such extension in the near future.

Initiate with BUY rating and 2016 TP of Bt6

As a concession-based mass transit company normally has stable revenues and expenses, we value BEM using the DCF method and derive our 2016 TP at Bt6. Finally, we initiate BEM with a BUY rating because there is prospect that it will grow strongly thanks to the government's development plan for infrastructure project. Furthermore, the counter is set to pay satisfactory DPS of Bt0.11 next year.

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Income Statement (Consolidated)					
(Bt mn)	2012	2013	2014	2015E	2016E
Revenue	10,002	10,597	11,234	11,840	14,400
Cost of sales	5,510	5,272	5,455	5,974	7,063
Gross profit	4,492	5,326	5,779	5,866	7,337
SG&A	1,955	1,983	2,025	2,194	2,683
Operating profit	2,537	3,342	3,754	3,672	4,654
Other income	305	136	113	118	144
EBIT	2,843	3,879	4,413	4,281	5,206
EBITDA	5,920	6,997	7,505	7,561	8,772
Interest charge	2,015	2,029	1,437	1,365	1,193
Tax on income	-770	467	702	610	802
Earnings after tax	1,597	1,383	2,274	2,306	3,210
Minority Interests	6.8	22.0	65.9	59.5	32.1
Norm profit	1,590	1,361	2,208	2,247	3,178
Extraordinary items	1,198	3,014	537	-25	0
Net profit	2,788	4,375	2,745	2,222	3,178

Cash Flow Statement (Consolidated)					
(Bt mn)	2012	2013	2014	2015E	2016E
Net profit	2,788	4,375	2,745	2,222	3,178
Depreciation etc.	3,078	3,118	3,092	3,279	3,567
Change in working capital	4,124	335	862	-2,221	-915
Other adjustments	0	0	0	0	0
Cash flow from operation	9,989	7,828	6,699	3,280	5,830
Capital expenditures	-2,722	-4,463	-6,939	-5,215	686
Others	-2,999	-3,736	120	-286	-804
Cash flow from investing	-5,721	-8,199	-6,820	-5,501	-119
Free cash flow	4,268	-372	-121	-2,221	5,711
Net borrowings	-2,759	4,178	715	1,650	-2,106
Equity capital raised	0	-4,365	0	0	0
Dividend paid	-1,016	-1,217	-1,309	-1,222	-1,748
Others	-381	7,207	59	1,213	32
Cash flow from financing	-4,157	5,804	-535	1,641	-3,822
Net Change in cash	111	5,432	-656	-580	1,889

Balance Sheet (Consolidated)					
(Bt mn)	2012	2013	2014	2015E	2016E
Cash	345	5,029	4,374	6,821	5,710
Current investment	2,938	775	2,348	2,348	4,078
Accounts receivable	71.0	644.0	663.1	89.0	125.8
Inventory	0	0	0	0	0
Other current asset	157.1	197.5	198.3	160.5	196.6
Total current assets	3,511	6,645	7,583	9,418	10,110
Investment	6,851	10,020	9,714	9,713	10,518
PPE	49,074	50,425	54,273	56,209	51,957
Other assets	267	1,576	1,762	1,301	1,301
Total Assets	59,703	68,666	73,332	76,641	73,886
Short-term loans	6	0	2000	5000	1500
Account payable	768	1,864	2,296	1,989	2,694
Current maturities	7,106	4,743	4,541	2,030	2,713
Other current liabilities	517	574	800	786	786
Total current liabilities	8,397	7,182	9,637	9,804	7,693
Long-term debt	28,133	32,882	33,941	35,524	33,419
Other LT liabilities	1,154	583	240	306	306
Total non-cu	29,287	33,465	34,180	35,830	33,724
Total liabilities	37,684	40,647	43,817	45,634	41,417
Registered capital	19,950	15,285	15,285	15,585	15,585
Paid-up capital	19,650	15,285	15,285	15,285	15,285
Share Premium	5,817	5,817	5,817	5,817	5,817
Legal reserve	800	800	800	800	959
Retained earnings	-5826	6059	7490	7552	8823
Others	1508	-33	-34	1357	1357
Minority Interest	69	91	157	195	227
Shareholders' equity	22,019	28,019	29,514	31,007	32,469

Important Ratios (Consolidated)					
	2012	2013	2014	2015E	2016E
Growth (%)					
Sales	8.6	5.9	6.0	5.4	21.6
EBITDA	9.1	18.2	7.3	0.7	16.0
Net profit	127.2	56.9	-37.3	-19.1	43.0
Norm profit	44.7	-14.4	62.3	1.7	41.5
Profitability Ratios (%)					
Gross profit margin	44.9	50.3	51.4	49.5	50.9
EBITDA margin	59.2	66.0	66.8	63.9	60.9
EBIT margin	28.4	36.6	39.3	36.2	36.1
Norm profit margin	15.9	12.8	19.7	19.0	22.1
Net profit margin	27.9	41.3	24.4	18.8	22.1
Normalized ROA	2.7	2.1	3.1	3.0	4.3
Normalized ROE	7.5	5.4	7.7	7.3	9.8
Normalized ROCE	5.5	6.3	6.9	6.3	7.8
Risk (x)					
D/E	1.28	1.17	1.22	1.18	1.05
Net D/E	1.26	0.99	1.07	1.06	0.88
Net debt/EBITDA	4.69	3.98	4.21	4.46	3.33
Per share data (Bt)					
Reported EPS	0.1397	0.2862	0.1796	0.1453	0.2079
Norm EPS	0.0797	0.0890	0.1444	0.1470	0.2079
EBITDA	0.30	0.46	0.49	0.49	0.57
Book value	1.10	1.83	1.93	2.08	2.17
Dividend	0.05	0.08	0.09	0.08	0.11
Par (Bt)	1.00	1.00	1.00	1.00	1.00
Valuations (x)					
P/E	37.6	18.4	29.3	36.2	25.3
Norm P/E	66.0	59.1	36.4	35.8	25.3
P/BV	4.77	2.87	2.72	2.53	2.42
EV/EBITDA	24.0	16.6	16.0	15.8	13.2
Dividend Yield	1.99	1.82	1.95	1.52	2.17

Source: Company data, FSS research

Finansia Syrus Securities Public Company Limited
Head Office

999/9 The offices at Central World
18th, 25th Fl.,
Rama 1 Rd., Patumwan,
Bangkok

Alma Link

9th, 14th, 15th Fl.,
Alma Link Building 25
Soi Chidlom, Ploenchit, Lumpini,
Patumwan, Bangkok

Amarin Tower

496-502 Amarin Tower
20th Floor, Pleonchit,
Lumpini, Pathumwan,
Bangkok

Thaisummit Tower

1768 Thaisammit Tower Building,
5nd, 31th Floor, New Petchburi
Road, Bangkapi, Huaykwang,
Bangkok

Pinklao 1

7/129-221 Central Pinklao Office
Building, Room 1404, 14th Fl.,
Baromratchonnane Road,
Arunamarin, Bangkoknoi, Bangkok

Bangkapi

3105 N Mark Building, 3rd Floor,
Room A3 R02, Ladprao Road,
Klongjan, Bangkapi, Bangkok

Italthai Tower

2034/52 Italthai Tower,
11st Floor, Unit 11-07/01,
New Petchburi Road, Bangkapi,
Huaykwang, Bangkok

Bangna

1093 Tower 1 Office, 19th Floor,
Room 1093/105 Moo 12,
Bangna-Trad Road, Bangna,
Bangkok

Sindhorn 1

130-132 Sindhorn Building 1,
2nd Floor, Wireless Road,
Lumpini, Pathumwan,
Bangkok

Sindhorn 2

130-132 Sindhorn Building 3,
24th Floor, Wireless Road,
Lumpini, Pathumwan,
Bangkok

Sindhorn 3

130-132 Sindhorn Building 3,
19th Floor, Wireless Road,
Lumpini, Pathumwan,
Bangkok

Ladprao

555 Rasa Tower 2, 11st Floor,
Unit 1106, Phaholyothin Road,
Chatuchak, Bangkok

Prachachuen

105/1 B Building, 4th Floor,
Thessabansongkhrao Road,
Ladyao, Jutajak, Bangkok

Rang sit

1/832 Phaholyothin 60
Kukod, Lumlookka
Pratumtanee

Thaisummit Tower

1768 Thaisammit Tower Building,
2nd Floor, New Petchburi Road,
Bangkapi, Huaykwang,
Bangkok

Rattanatibet

68/127 Moo 8 Rattanatibet Road,
Tumbon Banggrasor,
Aumphoe Muang,
Nonthaburi

Sriracha

135/99 (G fl.) Sukumvit Road,
Tumbon Sriracha
Aumphoe Sriracha, Chonburi

Khonkaen 1

311/16 2nd Floor, Klangmeung
Road, Tumbon Nai Meung,
Aumphoe Meung,
Khonkaen

Khonkaen 3

4/6, 2 fl., ICBC Bank Tower
Khang Meung Road,
Tumbon Nai Meung,
Aumphoe Meung Khonkaen,
Khonkaen

Udonthani

104/6, 2 fl., ICBC Bank Tower
Udon Dusadee Road,
Tumbon Mak Khaeng,
Aumphoe Muang Udon Thani,
Udon Thani

Chiangmai

308 Chiang Mai Land,
Chang Klan R., Chang Klan
Muang
Chiangmai

Chiangmai 2

310 Chiang Mai Land,
Chang Klan R., Chang Klan
Muang
Chiangmai

Chiangmai 3

Maliplace Building 32/4 moo 2
1 fl., B1-1, B1-2 room
Tumbon Maehia
Chiangmai

Chiangrai

353/15 Moo 4,
Tumbon Rimkok
Aumphoe Muang, Cheangrai

Measai

119 Moo 10,
Tumbon Maesai,
Aumphoe Muang, Cheangrai

Nakornratchasima

1242/2 A3 room, 7 fl.,
The Mall Ratchasima
Mittraphap rood Tumbon Nai Muang
Aumphoe Muang Nakornratchasima
Nakornratchasima

Samutsakorn

1045/16-17 Vichienchodok,
Tumbon Mhachai, Aumphoe
Meungsamutsakorn, Samutsakorn

Nakornpathom

28/16-17 Yingpao Road,
Tumbon Sanamjan,
Aumphoe Muang, Nakornpathom

Phuket

22/18 Vanish Plaza Shopping
Mall, Luangporwatchalong Road,
Tumbon Talad Yai,

Hatyai 1

200/222, 200/224, 200/226
Juldis Hadyai Plaza, 2rd Floor,
Building, Niphat Uthit 3 Road,
Aumphoe Hadyai, Songkhla

Hatyai 2

106 Prachathipat Road,
Aumphoe Hadyai, Songkhla

Hatyai 3

200/222, 200/224, 200/226
Juldis Hadyai Plaza, 2rd Floor,
Building, Niphat Uthit 3 Road,
Aumphoe Hadyai, Songkhla

Krabi

223/20 Mharaj Road,
Tumbon Paknam,
Aumphoe Meung, Krabi

Trang

59/28 Huaiyod Road,
Tumbon Thaptieng,
Aumphoe Meungtrang, Trang

Suratthani

173/83-84 Moo 1
Watpho-Bangyai Road.,
Tumbon Makamtia,
Aumphoe Mueang, Suratthani

Pattane

Aumphoe Meung, Phuket
300/69-70 Moo 4,
Tumbon Ruramirae,
Aumphoe Meung, Pattane

Recommendation Definitions

BUY	The latest close is below our target price and the estimated upside is 10% or more.
HOLD	The latest close is below our target price and the estimated upside is 0-10%.
SELL	The latest close is above our target price.
TRADING BUY	The latest close is above our target price but the price is expected to be driven by short-term positive factors
OVERWEIGHT	The estimated return is higher than the market average.
NEUTRAL	The estimated return is the same as the market average.
UNDERWEIGHT	The estimated return is lower than the market average

Note: The expected return may change as market risks increase or decline.

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Thai Institute of Directors Association (IOD) - Corporate Governance Report Rating 2015

Score Range	Rating	Description
100-90		Excellent
80-89		Very Good
70-79		Good
60-69		Satisfactory
50-59		Pass
<50	no logo given	n/a

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Anti-corruption Progress Indicator

Level 5	Extended	Extension of the anti-corruption policy to business partners in the supply chain, and disclosure of any current investigations, prosecutions or closed cases
Level 4	Certified	Audit engagement by audit committee or auditors approved by the office of SEC, and receiving certification or assurance by independent external assurance providers (CAC etc.)
Level 3	Established	Carrying out preventive measures, risk assessment, communication and training for all employees, including consistent monitoring and review processes
	- Level 3A	Established by Declaration of Intent
	- Level 3B	Established by Internal Commitment and Policy
Level 2	Declared	Public declaration statement to participate in Thailand's private sector Collective Action Coalition Against Corruption (CAC) or equivalent initiatives
Level 1	Committed	Organization's statement or board's resolution to work against corruption and to be in compliance with all relevant laws

Anti-corruption Progress Indicator from Thaipat Institute (as of November 6, 2015)