

# Bangkok Expressway and Metro (BEM)

## Key messages

The amalgamation of Bangkok Expressway (BECL.BK/BECL TB)\* and Bangkok Metro (BMCL.BK/BMCL TB)\* has been moving forward since early-2015. Currently, BEM starts trading on January 5, 2016 following the cabinet approved the amalgamation. We view the merger between BECL and BMCL as a positive, as it will combine the strengths of the two companies to grow further with lower volatility in the long run. Hence, BEM will be able to expand in the mass transit system in Thailand in the longer term, and have enough funding. Further, we value BEM at Bt6.00, based on DCF valuation (WACC 8%).

## Becomes a giant in Thailand's mass transport

### Event

The amalgamation of Bangkok Expressway (BECL.BK/BECL TB)\* and Bangkok Metro (BMCL.BK/BMCL TB)\* has been moving forward since early-2015. Currently, BEM starts trading on January 5, 2016 following the cabinet approved the amalgamation deal.

### Impact

#### Recap: The amalgamation deal

Following the approval of the amalgamation plan at the annual general shareholders' meeting, the deal looks positive for long-term investors. The key highlights are that the amalgamation serves as a strategy to synergize the strengths of both companies in order to expand the variety of services, enhance business capability and growth opportunity as well as improve the image of the new company (the "MergedCo" or "BEM"). For BEM, shareholders of BECL and BMCL will be allocated shares in the following ratios:

1 existing share in BECL to 8.65537841 shares in BEM

1 existing share in BMCL to 0.42050530 shares in BEM

After the amalgamation, BEM will have registered and paid-up capital of Bt15,285mn, divided into 15,285mn ordinary shares, with a par value of Bt1 each.

#### BEM: Brighter outlook

We view the merger between BECL and BMCL as a positive, as it will combine the strengths of the two companies to grow further with lower volatility in the long run. The stronger points after the amalgamation would be i) strong financial position, ii) wider range of transportation and communication system, and iii) higher ranking in SET50. After the completion of the deal, BEM's financial position will be stable with estimated net D/E ratio of 1.3x. This is mainly supported by the solid financial base of BECL from its cash-cow business. Additionally, BEM will have great room for growth in both mass transit systems and toll-roads (or motorway) in the long run.

Note that the two companies (BECL and BMCL) held the joint shareholders' meeting on December 28, 2015. Later, these two companies suspended their shares trading (during December 21, 2015 to January 4, 2016) for the amalgamation process. Finally, the merged company or "BEM" starts trading on January 5, 2016.

#### Valuation and Action

We consider this deal as positive, as BEM will be able to expand in the mass transit system in Thailand in the longer term, and have enough funding. Hence, BECL and BMCL are attractive for existing shareholders to swap considering the swap ratio and longer-term prospect. Further, we value BEM at Bt6.00, based on DCF valuation (WACC 8%). Considering the current share price of BECL and BMCL, BEM's share price is expected to start trading at Bt5.25 (based on the closing prices of BECL and BMCL at Bt45.25 and Bt2.22, respectively), or offering 14% upside to our preliminary fair value of Bt6.00.

#### Risks

Major risks will come from slower-than-expected economic recovery and political uncertainty.

**Background of BECL: An expressway operator with financial strength**

BECL is the operator of i) Second Stage Expressway System (SES: Sector A-B-C-D) under two concession agreements ending in 2020 and 2027, respectively, and ii) Si-Rat Outer Ring Road Expressway (SOE), under construction and expected to start operations in 2016. Further, NECL, a subsidiary of BECL, is the operator of Bangpain-Pak Kret expressway (Sector C+) under a concession agreement ending in 2026.

Currently, BECL's toll-road system for Bangkok traffic exceeds 1mn journeys daily with more coming next year. Thailand is the 8<sup>th</sup> most traffic congested city in the world, but investment opportunities for new expressway systems are limited due to the growing move toward mass transit systems, which is supported by the government's policy.

**Figure 1: Toll-roads related to BECL**



Source: Company data

**Background of BMCL: A mass transit system operator with growth opportunities**

BMCL is granted two concession agreements to construct and operate: i) Initial Blue Line (IBL) with the rights to operate commercial development ending in 2029, and ii) Purple Lines, which is now under construction and expected to start operations in 2016. The company is expecting to negotiate with MRTA on terms of concession agreement to be an operator of the Blue Line Extension (BLE). There are substantial investment opportunities in new transit systems due to concrete progress in project development supported by various authorities (i.e. MRTA, SRT and BMA).

**Figure 2: Mass transit network related to BMCL**



Source: Company data

**Rationale for the amalgamation**

We view the merger between BECL and BMCL as positive. This will combine the strengths of the two companies together to support the merged company (BEM) for future growth with lower volatility in the long run. The stronger points after the amalgamation would be i) strong financial position, ii) wider range of transportation and communication system, and iii) higher ranking in SET50.

According to the IFA opinions toward the amalgamation deal, the share price of BMCL valued by the IFA is Bt1.81-2.05 per share and the share price of BECL is Bt38.28-40.78 per share. Further, there are three interesting points for BEM:

- i) Higher operational capabilities
- ii) Appropriate share allocation ratio
- iii) Risk factors are manageable

**Figure 3: Good business combination in the long run**

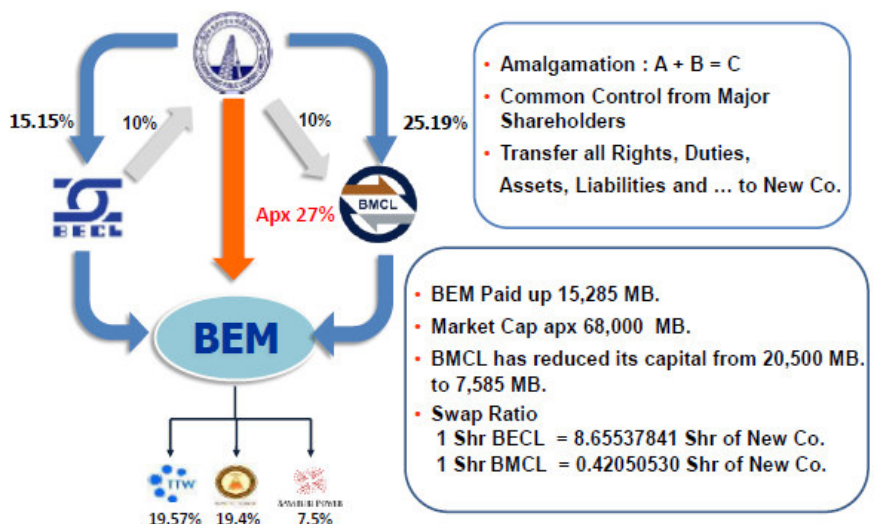


Source: Company data

**Background of the merged company**

The merger between BECL and BMCL will be called 'BEM' with the transfer of all rights, duties, assets, liabilities and so on from both companies.

**Figure 4: Amalgamation of transactions**



Source: Company data

Note that BEM's paid up capital will be Bt15.285bn following the share swap of the previous shareholders of BECL and BMCL. The swap ratios are as follow:

1 share of BECL = 8.65537841 shares of BEM

1 share of BMCL = 0.42050530 shares of BEM

The swap ratio means that share prices movements of BECL and BMCL will have high correlation in terms of theoretical value as summarized below:

**Figure 5: Share prices correlation between BECL and BMCL (based on SWAP ratio)**

BECL	BMCL	BECL	BMCL	BECL	BMCL	BECL	BMCL	BECL	BMCL
35.00	1.70	40.00	1.94	45.00	2.19	50.00	2.43	55.00	2.67
35.25	1.71	40.25	1.96	45.25	2.20	50.25	2.44	55.25	2.68
35.50	1.72	40.50	1.97	45.50	2.21	50.50	2.45	55.50	2.70
35.75	1.74	40.75	1.98	45.75	2.22	50.75	2.47	55.75	2.71
36.00	1.75	41.00	1.99	46.00	2.23	51.00	2.48	56.00	2.72
36.25	1.76	41.25	2.00	46.25	2.25	51.25	2.49	56.25	2.73
36.50	1.77	41.50	2.02	46.50	2.26	51.50	2.50	56.50	2.74
36.75	1.79	41.75	2.03	46.75	2.27	51.75	2.51	56.75	2.76
37.00	1.80	42.00	2.04	47.00	2.28	52.00	2.53	57.00	2.77
37.25	1.81	42.25	2.05	47.25	2.30	52.25	2.54	57.25	2.78
37.50	1.82	42.50	2.06	47.50	2.31	52.50	2.55	57.50	2.79
37.75	1.83	42.75	2.08	47.75	2.32	52.75	2.56	57.75	2.81
38.00	1.85	43.00	2.09	48.00	2.33	53.00	2.57	58.00	2.82
38.25	1.86	43.25	2.10	48.25	2.34	53.25	2.59	58.25	2.83
38.50	1.87	43.50	2.11	48.50	2.36	53.50	2.60	58.50	2.84
38.75	1.88	43.75	2.13	48.75	2.37	53.75	2.61	58.75	2.85
39.00	1.89	44.00	2.14	49.00	2.38	54.00	2.62	59.00	2.87
39.25	1.91	44.25	2.15	49.25	2.39	54.25	2.64	59.25	2.88
39.50	1.92	44.50	2.16	49.50	2.40	54.50	2.65	59.50	2.89
39.75	1.93	44.75	2.17	49.75	2.42	54.75	2.66	59.75	2.90
								60.00	2.91

Source: KGI Research

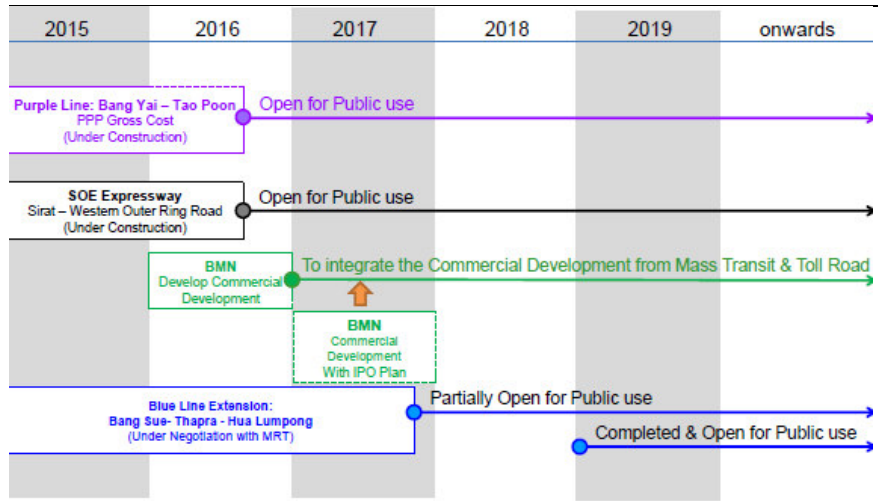
#### Key success factors for BEM

In terms of new opportunities, we think that BEM looks attractive after the amalgamation for several reasons. The key success factors are i) perfect qualification in engineering, technician and management work from the past record, ii) strong experience in 'Toll Road and Mass Transit', iii) strength in resources to serve government development projects, iv) competitiveness in transportation and concession expertise, and v) flexibilities in all dimensions. Looking ahead, we believe that the company will continue to grow with new investment projects related to government spending, in line with Thailand's mega projects in the pipeline.

#### BEM's roadmap: On-hand and future projects

There are many existing projects and upcoming projects considering the government's policy to boost the domestic economy coupled with sustainability development. Following the completed process, BEM will become a leader in Thailand's transportation as it is the operator of expressways (70.5 kms) and two mass transit concession agreements (43 kms).

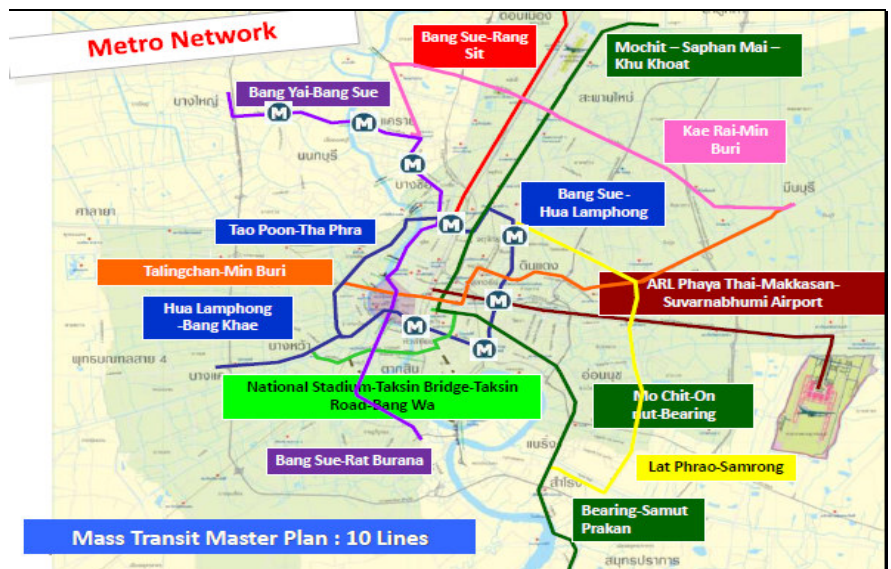
Figure 6: BEM roadmap : On-hand projects



Source: Company data

Looking ahead, there will be projects for both toll-road and mass transit under consideration coming into the system to complete the transportation network i.e. Blue Line Extension (Bang Sue-Thapra-Hua Lumpong), Expressway & Motorway, Mass Transit (Orange Line, Pink Line, Yellow Line).

Figure 7: Metro network



Source: Company data

**9M15 performance**

For now, BECL and BMCL are awaiting cabinet approval for the amalgamation. BEM, therefore, has not released its own financial statement. Hence, we combined the separate companies' financial statements to get the company's earnings view. Regarding its pro-forma income statement, we found that BEM's 9M15 revenue was Bt10.1bn with net profit of Bt2.6bn, while its 9M14 revenue was Bt8.5bn with net profit of Bt1.8bn, reflecting that revenue rose 19% YoY and net profit jumped 53% YoY. The strong improvement in its bottom line was mainly led by BECL's gain from divestment in BMCL of about Bt1.2bn in 3Q15.

**Figure 8: 9M15 pro-forma P&L**

(Btmn)	BECL	BMCL	BEM
Operating revenue	6,550	2,142	8,692
Other income	1,373	7	1,380
Total revenue	7,923	2,149	10,072
Operating expenses	(1,375)	(1,721)	(3,096)
EBITDA	6,548	428	6,976
Financial cost	(559)	(549)	(1,108)
Corporate tax	(700)	-	(700)
Cash profit	5,289	(121)	5,168
Depreciation & amortization	(2,126)	(304)	(2,430)
Land acquisition	(445)	-	(445)
Share of income from investment in associate	344	-	344
Profit for the period	3,062	(425)	2,637
<b>Profit attributable to Equity holders of the Co.</b>	<b>3,019</b>	<b>(426)</b>	<b>2,593</b>
<b>EPS (Bt)</b>	<b>3.92</b>	<b>(0.02)</b>	<b>0.17</b>
D/E Ratio (x)	1.71	1.37	1.62
IBD/E Ratio (x)	1.34	1.28	1.32

Source: Company data, KGI Research

**Growth outlook with strong financial support**

We are positive about BEM's fundamentals, due to its integrated transportation network. In the short-term, the upcoming infrastructure development projects will be driven by the government, and BEM will be a major player. In the longer-term, it is expected that BEM will be a high growth potential company as it has a great chance to combine strong financial base (from BECL), together with mass transit system expertise (from BMCL).

**Figure 9: Pro-forma P&L**

Bt mn	2013	2014	2015F	2016F	2017F
Operating revenue	10,568	11,203	11,786	12,423	13,095
Other income	3,307	680	1,524	158	166
Total revenue	13,875	11,883	13,310	12,581	13,261
Operating expenses	(1,136)	(1,141)	(1,197)	(1,238)	(1,305)
EBITDA	12,739	10,743	12,112	11,343	11,956
Financial cost	(2,029)	(1,437)	(1,408)	(1,380)	(1,353)
Corporate tax	(467)	(702)	(1,069)	(766)	(847)
Cash profit	10,242	8,603	9,635	9,196	9,756
Depreciation & amortization	(6,222)	(6,339)	(6,658)	(6,793)	(7,094)
Exceptional items	-	-	-	-	-
Share of income from investment in associate	401	546	601	661	727
Profit for the period	4,421	2,810	3,578	3,064	3,390
<b>Profit attributable to Equity holders of the Co.</b>	<b>4,399</b>	<b>2,745</b>	<b>3,506</b>	<b>3,003</b>	<b>3,322</b>

Source: Company data, KGI Research estimates

With the implementation of the ASEAN Economic Community (AEC), the government of each country has been focusing on investment to develop mega infrastructure projects for growth of their economies and societies in the future. We think that BEM will be ready for investment and operation of the potential mega projects both domestically and abroad to support investment opportunities which are likely to increase in the longer term.

**Figure 10: Preparation for future growth through rail systems**

*"Large amount of investment budget is also allocated for rail system within the next 5 years; with its enhanced competitiveness, BEM may consider investing in those projects as well."*



Source: Company data

#### Valuation

Preliminarily, we value BEM at Bt6.00 (based on DCF valuation, coupled with existing projects of BECL and BMCL). For BECL, those projects are SES, NECL and SOE, while there is only MRT – Blue Line for BMCL. BEM will continue to realize its revenue stream as it combines the mass transit transport from BECL and BMCL into its portfolio. Further, we believe BEM has a great potential to win new mass transit and motorway projects in the future, due mainly to its specialization and cost competitiveness. However, these potential projects have not been incorporated in our fair value as they have not started bidding yet.

**Figure 11: Valuation of BEM**

<b>BEM</b>	<b>2016F</b>
NPV of Enterprise Value (Bt)	94,677
Ke (%)	10.8
Kd (%)	5.00
WACC	8.00
Number of shares	15285
<b>BEM Value (Bt/Shr)</b>	<b>6.0</b>

Source: Company data, KGI Research estimates

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