

# Bangkok Expressway and Metro

BEM TB / BEM.BK

26 February 2016

## FY15 earnings undershot estimates; on-year growth on track for 1Q16

### Below estimates

BEM posted a 2015 net profit of Bt2,650m, down 3% YoY. Stripping out Bt1,298m gain on sales of investment, the 4Q15 core earnings would be Bt1,620m, down 30% YoY. The core profit was somewhat below our forecast and the consensus, due to higher-than-expected interest and tax expenses.

### Results highlights

The key reasons behind the core profit contraction were: 1) lower profit sharing from associates, 2) higher SG&A expenses, 3) higher interest expenses and 4) higher effective tax rate. The profit-sharing from TTW decreased by 15% YoY to Bt381m, while the profit-sharing from CK Power dropped by 18% YoY to Bt80m. The SG&A/sales ratio rose to 9.5% from 8.2% in 2014. In addition, the effective tax rate increased to 21.1% from 20.0% in 2014. However, the average daily traffic volume of expressways increased 3.2% YoY to 1.07m trips, while the average daily ridership of the MRT rose 2.8% YoY to 260k trips.

### Outlook

We expect the firm's 1Q16 earnings to increase YoY, driven by greater traffic, higher average daily revenue and greater profit-sharing from TTW and CK Power. However, we expect BEM's 1Q16 profit to soften QoQ, as the first quarter is normally low season for expressway and mass-transit usage.

### What's changed?

We have maintained our FY16 net profit forecast of Bt2,272m.

### Recommendation

In our view, BEM's strong earnings growth profile, to be brought about by the opening of new expressways and mass transit lines—a 30% CAGR during 2015-17—the strongest among Thai ground transport operators and higher than the broad SET's core earnings growth of 9% CAGR during 2015-17 should catalyze the share price going forward. In addition, the completion of negotiations with MRTA on the Blue Line Extension in 1H16 should also be a near-term catalyst for the share price. Moreover, there is scope for upside to the firm's long-term earnings from the right to operate the Blue Line Extension and the commercial development business for new mass transit lines.

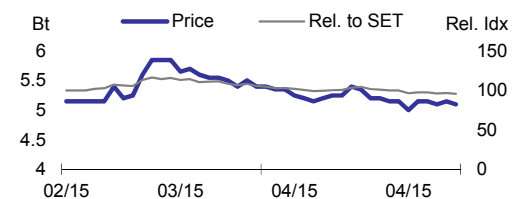
Sector: Transportation – NEUTRAL

Rating: BUY

Target Price: Bt5.90

Price (25 February 2016): Bt5.10

### Price chart

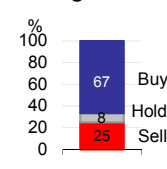


Share price perf. (%)	1M	3M	12M
Relative to SET	(10.7)		
Absolute	(5.6)		

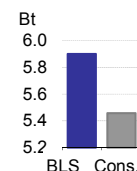
### Key statistics

Market cap	Bt78.0bn	USD2.2bn
12-mth price range	Bt4.9/Bt6.0	
12-mth avg daily volume	Bt138m	USD3.9m
# of shares (m)	15,285	
Est. free float (%)	56.0	
Foreign limit (%)	49.0	

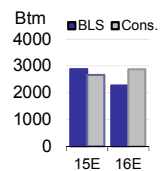
### Consensus rating



### BLS Target price vs. Consensus



### BLS earnings vs. Consensus



### Financial summary

FY Ended 31 Dec	2015	2016E	2017E	2018E
Revenues (Btm)	11,738	12,654	15,685	17,644
Net profit (Btm)	2,650	2,272	2,731	3,743
EPS (Bt)	0.17	0.15	0.18	0.24
EPS growth (%)	+78.1%	-14.3%	+20.2%	+37.0%
Core profit (Btm)	1,612	2,272	2,731	3,743
Core EPS (Bt)	0.11	0.15	0.18	0.24
Core EPS growth (%)	+28.4%	+41.0%	+20.2%	+37.0%
PER (x)	29.4	34.3	28.5	20.8
PBV (x)	2.7	2.4	2.3	2.1
Dividend (Bt)	0.1	0.1	0.1	0.1
Dividend yield (%)	1.4	1.2	1.4	1.9
ROE (%)	9.6	7.4	8.2	10.6

### CG/Anti-Corruption

N/A / -

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Securities Fundamental Investment Analyst

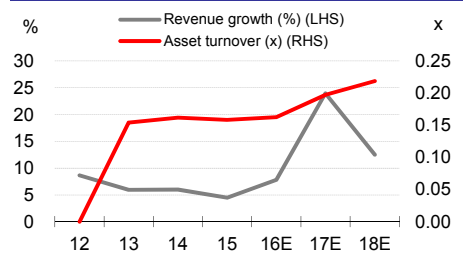
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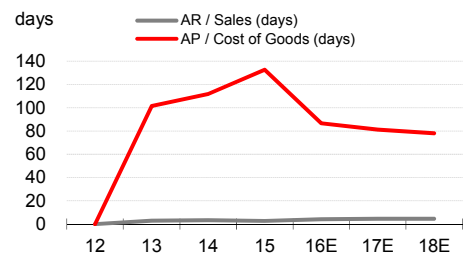
## BEM: Financial Tables – Year

	2014	2015	2016E	2017E	2018E
<b>PROFIT &amp; LOSS (Btm)</b>					
Revenue	11,234	11,738	12,654	15,685	17,644
Cost of sales and services	(6,556)	(7,094)	(6,164)	(7,732)	(8,321)
<b>Gross profit</b>	<b>4,677</b>	<b>4,643</b>	<b>6,490</b>	<b>7,953</b>	<b>9,323</b>
SG&A	(923)	(1,115)	(2,378)	(3,223)	(3,666)
<b>EBIT</b>	<b>3,754</b>	<b>3,528</b>	<b>4,113</b>	<b>4,730</b>	<b>5,657</b>
Interest expense	(1,437)	(1,934)	(1,747)	(1,857)	(1,586)
Other income/exp.	113	69	72	74	77
<b>EBT</b>	<b>2,430</b>	<b>1,663</b>	<b>2,438</b>	<b>2,947</b>	<b>4,147</b>
Corporate tax	(702)	(721)	(666)	(730)	(955)
<b>After-tax net profit (loss)</b>	<b>1,727</b>	<b>942</b>	<b>1,772</b>	<b>2,217</b>	<b>3,192</b>
Minority interest	(66)	(51)	(46)	(56)	(76)
Equity earnings from affiliates	546	461	547	570	627
Extra items	537	1,298	0	0	0
<b>Net profit (loss)</b>	<b>2,745</b>	<b>2,650</b>	<b>2,272</b>	<b>2,731</b>	<b>3,743</b>
Reported EPS	0.10	0.17	0.15	0.18	0.24
<b>Fully diluted EPS</b>	<b>0.10</b>	<b>0.17</b>	<b>0.15</b>	<b>0.18</b>	<b>0.24</b>
<b>Core net profit</b>	<b>2,315</b>	<b>1,612</b>	<b>2,272</b>	<b>2,731</b>	<b>3,743</b>
Core EPS	0.08	0.11	0.15	0.18	0.24
<b>EBITDA</b>	<b>6,508</b>	<b>6,399</b>	<b>6,723</b>	<b>7,952</b>	<b>9,084</b>
<b>KEY RATIOS</b>					
Revenue growth (%)	6.0	4.5	7.8	23.9	12.5
Gross margin (%)	41.6	39.6	51.3	50.7	52.8
EBITDA margin (%)	57.9	54.5	53.1	50.7	51.5
Operating margin (%)	33.4	30.1	32.5	30.2	32.1
Net margin (%)	24.4	22.6	18.0	17.4	21.2
Core profit margin (%)	20.6	13.7	18.0	17.4	21.2
ROA (%)	4.0	3.6	2.9	3.4	4.6
ROCE (%)	4.7	4.1	3.3	3.9	5.2
Asset turnover (x)	0.2	0.2	0.2	0.2	0.2
Current ratio (x)	0.5	0.2	0.6	1.0	1.0
Gearing ratio (x)	1.3	1.4	1.1	1.1	0.9
Interest coverage (x)	2.6	1.8	2.4	2.5	3.6
<b>BALANCE SHEET (Btm)</b>					
Cash & Equivalent	2,377	4,483	2,162	2,481	6,495
Accounts receivable	102	85	143	194	225
Inventory	0	0	0	0	1
PP&E-net	10,896	19,780	18,382	1,187	1,562
Other assets	54,105	52,471	52,234	72,993	66,470
<b>Total assets</b>	<b>70,026</b>	<b>78,120</b>	<b>77,422</b>	<b>81,579</b>	<b>79,713</b>
Accounts payable	2,009	2,580	1,465	1,718	1,778
ST debts & current portion	5,041	22,529	6,310	2,810	6,810
Long-term debt	28,683	17,354	29,567	35,604	27,655
Other liabilities	5,497	4,321	4,514	4,093	3,716
<b>Total liabilities</b>	<b>43,817</b>	<b>48,990</b>	<b>44,737</b>	<b>47,252</b>	<b>43,136</b>
Paid-up capital	28,200	15,285	15,285	15,285	15,285
Share premium	5,817	5,817	5,817	5,817	5,817
Retained earnings	(5,591)	8,055	10,146	11,785	14,031
<b>Shareholders equity</b>	<b>26,052</b>	<b>29,044</b>	<b>32,605</b>	<b>34,244</b>	<b>36,490</b>
Minority interests	157	86	79	83	88
<b>Total Liab.&amp;Shareholders' equity</b>	<b>70,026</b>	<b>78,120</b>	<b>77,422</b>	<b>81,579</b>	<b>79,713</b>
<b>CASH FLOW (Btm)</b>					
Net income	2,745	2,650	2,272	2,731	3,743
Depreciation and amortization	2,754	2,871	2,610	3,222	3,427
Change in working capital	(2,693)	(3,720)	(1,173)	202	28
FX, non-cash adjustment & others	2,196	1,492	44	(92)	(140)
<b>Cash flows from operating activities</b>	<b>5,001</b>	<b>3,293</b>	<b>3,753</b>	<b>6,063</b>	<b>7,058</b>
Capex (Invest)/Divest	(1,161)	2,435	(4,625)	13,710	(4,079)
Others	(5,967)	(7,193)	3,650	(20,495)	6,799
<b>Cash flows from investing activities</b>	<b>(7,128)</b>	<b>(4,758)</b>	<b>(975)</b>	<b>(6,785)</b>	<b>2,721</b>
Debt financing (repayment)	2,780	5,496	(4,006)	2,537	(3,949)
Equity financing	0	0	0	0	0
Dividend payment	(1,309)	(1,925)	(1,092)	(1,497)	(1,815)
Others	(5,967)	(7,193)	3,650	(20,495)	6,799
<b>Cash flows from financing activities</b>	<b>1,471</b>	<b>3,571</b>	<b>(5,099)</b>	<b>1,040</b>	<b>(5,765)</b>
Net change in cash	(656)	2,106	(2,321)	318	4,014
<b>Free cash flow (Btm)</b>	<b>3,840</b>	<b>5,728</b>	<b>(872)</b>	<b>19,773</b>	<b>2,979</b>
<b>FCF per share (Bt)</b>	<b>0.14</b>	<b>0.37</b>	<b>(0.06)</b>	<b>1.29</b>	<b>0.19</b>
<b>Key assumptions</b>					
Average daily traffic volume (m trips/day)	1.1	1.1	1.2	1.2	1.2
Average toll fee (Bt/trip)	20.9	20.9	20.9	20.9	22.0
Total ridership (m trips)	92	95	104	114	123
Average fare price (Bt/pax)	24.2	25.0	27.1	28.1	30.3

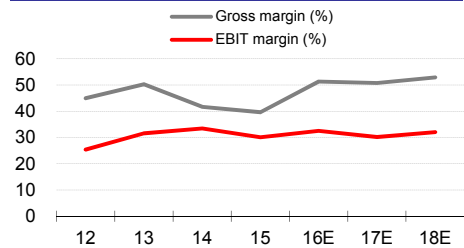
### Revenue growth and asset turnover



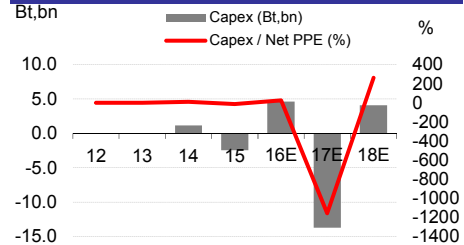
### A/C receivable & A/C payable days



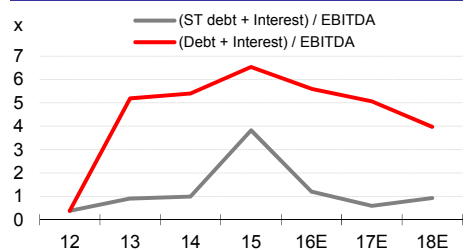
### Profit margins



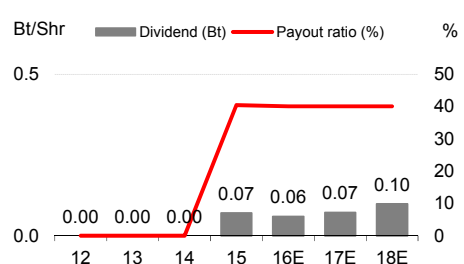
### Capital expenditure



### Debt serviceability



### Dividend payout



**Figure 1 : FY15 results**

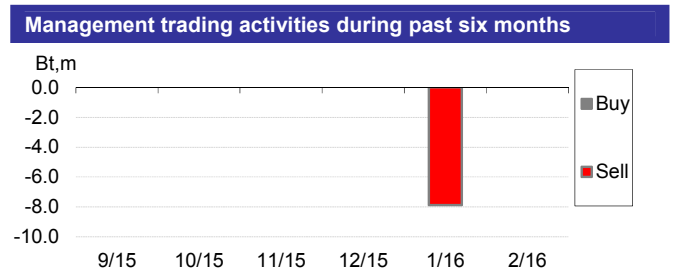
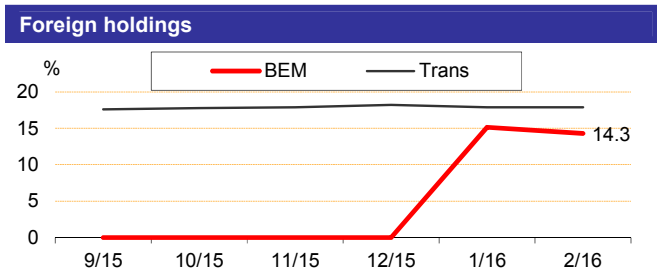
FY Ended 31 Dec (Btm)	2015	2014	YoY %
<b>Income Statement</b>			
Revenue	11,738	11,234	4
Cost of sales and services	(7,094)	(6,556)	8
EBITDA	6,399	6,508	(2)
EBIT	3,528	3,754	(6)
Interest expense	(1,934)	(1,437)	35
Other income/exp.	69	113	(38)
Equity earnings from affiliates	461	546	(16)
Extra items	1,298	537	142
<b>EBT</b>	<b>1,663</b>	<b>2,430</b>	(32)
Corporate tax	(721)	(702)	3
Minority interest	(51)	(66)	(22)
<b>Net profit (loss)</b>	<b>2,650</b>	<b>2,745</b>	(3)
Reported EPS	0.17	0.10	78
<b>Core net profit</b>	<b>1,612</b>	<b>2,315</b>	(30)
<b>Key ratios</b>			
Gross margin (%)	39.6	41.6	
EBITDA margin (%)	54.5	57.9	
EBIT margin (%)	30.1	33.4	
Tax rate (%)	43.4	28.9	
Net margin (%)	22.6	24.4	
Current ratio (x)	0.0	0.5	
Gearing ratio (x)	0.0	1.0	
Interest coverage (x)	1.8	2.6	

- The revenue growth was driven by greater traffic volume
- The SG&A/sales ratio increased YoY
- Financial costs rose YoY
- Equity income from TTW and CKP decreased YoY
- Higher effective tax rate YoY
- Gain on sales of investment
- Core profit was below our estimate and the consensus

Sources: Company data, Bualuang Research estimates

## 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	HKD3.5	3,779	20.4	18.8	55.6	16.4	0.8	0.7	3.6	4.0	2.3	2.6
MTR Corp	66 HK	HKD36.5	27,522	19.8	23.9	19.5	-17.1	1.3	1.3	6.5	5.4	3.0	5.4
West Japan Railway	9021 JP	JPY6,893.0	11,827	13.8	12.8	44.7	8.5	1.5	1.4	11.7	11.8	2.0	2.1
Nippon Express	9062 JP	JPY508.0	4,670	14.6	13.1	33.7	11.3	0.9	0.9	6.7	7.0	2.0	2.1
SMRT Corp	MRT SP	SGD1.6	1,772	25.5	25.5	5.0	4.8	2.7	2.6	11.2	11.0	2.1	2.1
Bangkok Expressway and Metr	BEM TB	THB5.10	2,185	n.a.	n.a.	4.9	-21.1	n.a.	n.a.	9.0	6.5	n.a.	n.a.
BTS Group Holdings	BTS TB	THB8.30	2,776	29.2	62.9	52.0	-53.6	2.0	1.9	9.2	4.4	8.5	1.1
<b>Simple average</b>				<b>20.6</b>	<b>26.1</b>	<b>30.8</b>	<b>-7.3</b>	<b>1.5</b>	<b>1.5</b>	<b>8.3</b>	<b>7.2</b>	<b>3.3</b>	<b>2.6</b>



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**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.