

# Bangkok Expressway and Metro

(BEM.BK/BEM TB)\*

## Outperform-Maintained

|                                   |           |
|-----------------------------------|-----------|
| Price as of 26 Feb 2016           | 5.30      |
| 12M target price (Bt/shr)         | 6.30      |
| Unchanged / Revised up (down) (%) | Unchanged |
| Upside/downside (%)               | 18.9      |

### Key messages

BEM reported 4Q15 earnings of Bt870mn, down 66% YoY but rising 47% QoQ. The company's full-year earnings were 24% below our estimate. The key reasons for the lower-than-expected earnings were i) higher operating cost from mass transit and toll-roads, ii) higher administration expenses from amalgamation, and iii) rising finance cost for bond redemption. Further, BEM announced a dividend payment of Bt0.07/share with XD on April 11, 2016. However, we are still positive about the company's 2016 outlook. Hence, we maintain a rating of Outperform with a DCF target price of Bt6.30.

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## 4Q15 earnings review: Below our expectation

### Event

BEM reported 4Q15 earnings of Bt870mn, down 66% YoY but rising 47% QoQ. The company's full-year earnings of Bt2.65bn, which was 24% below our estimate.

### Impact

#### Weaker-than-expected 4Q15 earnings

The key reason for the lower-than-expected earnings were i) higher operating cost from mass transit and toll-roads, ii) higher administration expenses from amalgamation, and iii) rising finance cost for bond redemption. Further, BEM announced a dividend payment of Bt0.07/share with XD on April 11, 2016.

#### 2016 is still expected to be an exciting year

The new expressway and mass transit projects will play a key role in driving BEM's earnings growth in the longer term. For 2016, the company's core earnings outlook would be more interesting from i) Si-Rat Outer Ring Road Expressway (SOE), which is scheduled to operate in 3Q16 and ii) Purple Line (Bang Yai-Bang Sue), planned to open on August 12, 2016. Looking ahead, we believe BEM will get a good chance to operate the Blue Line extension (BLE) project with additional revenue forecast of Bt5.7bn per year. We think that the opening of both projects will help i) raise traffic volume and ridership and ii) feed traffic and ridership to BEM's existing expressway and MRT systems.

### Valuation & action

We are maintaining a rating of Outperform for BEM with a DCF target price of Bt6.30, reflecting the positive impact from the opening of the Purple Line and potential Blue Line extension projects. These two projects will help boost the company's ridership numbers into the backbone (existing Blue Line).

### Risks

Lower-than-expected economic recovery and major terrorist attack.

**Figure 1: 4Q15 earnings were 24% below our expectation**

| Bt mn             | 4Q15    | 4Q14    | YoY (%)    | 3Q15    | QoQ (%)    | Comment                        |
|-------------------|---------|---------|------------|---------|------------|--------------------------------|
| Sale revenue      | 6,457   | 6,496   | (1)        | 5,889   | 10         | Stable YoY, but improved QoQ   |
| Operating cost    | (5,578) | (4,237) | 32         | (4,673) | 19         |                                |
| Gross profit      | 879     | 2,259   | (61)       | 1,216   | (28)       |                                |
| SG&A              | (1,299) | (1,204) | 8          | (833)   | 56         | Amalgamation expenses          |
| Pretax profit     | 2,495   | 3,325   | (25)       | 676     | 269        |                                |
| Net profit        | 870     | 2,586   | (66)       | 591     | 47         | Recovering QoQ, but softer YoY |
| Normalized profit | 1,213   | 2,652   | (54)       | 413     | 194        | No significant gain in 4Q15    |
| EPS (Bt)          | 0.06    | 0.2     | (66)       | 0.04    | 47         |                                |
| Percent           | 4Q15    | 4Q14    | YoY (ppts) | 3Q15    | QoQ (ppts) |                                |
| Gross margin      | 13.6    | 34.8    | (21.2)     | 20.7    | (7.0)      |                                |
| Net profit margin | 13.5    | 39.8    | (26.3)     | 10.0    | 3.4        |                                |

Source: KGI Research

**KGI Locations**

|                  |          |   |
|------------------|----------|---|
| <b>China</b>     | Shanghai | Room 1907-1909 , Tower A, No. 100 Zunyi Road, Shanghai, PRC 200051  |
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| <b>Rating</b>     | <b>Definition</b>   |
|-------------------|---|
| Outperform (OP)   | The stock's excess return* over the next twelve months is ranked in the top 40% of KGI's coverage universe in the related market (e.g. Taiwan).   |
| Neutral (N)       | The stock's excess return* over the next twelve months is ranked in the range between the top 40% and the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).1.3   |
| Under perform (U) | The stock's excess return* over the next twelve months is ranked in the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).  |
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