

20 April 2016

Transportation & Logistics

BEM
Bangkok Expressway and Metro
**Current
T-BUY**
**Previous
BUY**
**Close
5.60**
**2016 TP
6.00**
**Exp Return
+ 7.1%**
**Anti-corrupt
-**
**CGR 2015
-**
Consolidated earnings - Ended March

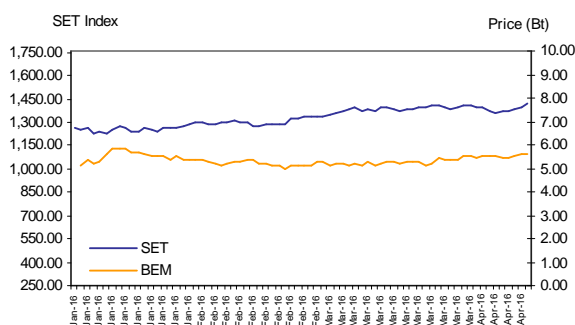
BT (mn)	2014	2015	2016E	2017E
Normalized profit	2,208	2,160	2,958	3,904
Net profit	2,745	2,650	2,958	3,904
EPS (Bt)-Norm	0.1444	0.1413	0.1935	0.2554
EPS (Bt)	0.1796	0.1734	0.1935	0.2554
% EPS growth	-37.3	-3.5	11.6	32.0
Dividend (Bt)	0.09	0.13	0.11	0.14
BV/share (Bt)	1.93	1.91	2.01	2.13
EV/EBITDA (x)	16.7	17.9	14.8	12.1
PER (x) - Norm	38.8	39.6	28.9	21.9
PER (x)	31.2	32.3	28.9	21.9
PBV(x)	2.90	2.94	2.79	2.63
Dividend yield (%)	1.95	2.25	1.90	2.51
YE No. of shares (mn)	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

Share data

Close (19/04/2016)	5.60
SET Index	1,416.00
Foreign limit/actual (%)	49.00/10.59
Paid-up shares (million)	15,285.00
Free float (%)	56.02
Market cap (Bt m)	85,596.00
Avg daily T/O (Bt m) (2016 YTD)	679.83
Hi, lo, avg (Bt) (2016 YTD)	6.00, 4.90, 5.37

Source: Setsmarts



Source: SET

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Bet on strong 1Q16 earnings results

We have cut our 2016-2017E net profit by 11% on average. After which, our forecast now calls for BEM's net profit to amount to about Bt3bn (+12% Y-Y) this year and Bt3.9bn (+32% Y-Y) next year. Such downward revision reflects (1) a decrease in feed-in passengers from the Purple to the Blue Line to 60,000 daily after the service is lost from Bangsue to Tao Poon and, consequently, (2) a cut in our revenues estimate by 3% on average. Despite such cuts, we stand by our 2016 TP at Bt6 (DCF) because we believe that feed-in passengers from the Purple Line will increase after the service is complete. Moreover, we expect strong profit growth thanks to inauguration of Sri Rat Expressway and the Purple Line in August this year. In 1Q16, our forecast calls for BEM's normalized earnings to be outstanding (+46% Q-Q). However, we lower our rating on BEM to Trading BUY in the light of narrower upside of 7.1% and to bet on strong 1Q16 earnings results.

Cut 2016-2017E net profit by 11% on average

We have slashed our 2016-2017E net profit by 11% on average. After which, our forecast now calls for BEM's net profit to amount to about Bt3bn (+12% Y-Y) this year and Bt3.9bn (+32% Y-Y) next year. Such downward revision reflects a cut in feed-in passengers from the Purple to the Blue Line from 70,000 to 60,000 daily after the service is lost from Bangsue to Tao Poon. Although the Metropolitan Rapid Transit Authority (MRTA) has prepared a shuttle service for the lost connection, it is possible that passengers will not use the service in the beginning. Lately, the Cabinet has resolved that BEM operates the service from Bangsue to Tao Poon for two years for a compensation of Bt52mn annually. Hence, we believe that feed-in passengers will increase to 60,000-70,000 daily after the service is complete. After the cut in feed-in passengers, we also decrease our revenue estimate by 3% on average and increase operating expense estimate to 8.5% to 8% to incorporate a run-in after the merger.

Expect 1Q16 normalized earnings to jump 46% Q-Q

Our forecast calls for BEM's 1Q16 normalized earnings to amount to Bt727mn. It implies a jump of 46% Q-Q thanks to revenue of Bt3.4bn (+15% Q-Q), in line with rises in toll revenue (+18% Q-Q, +22% Y-Y) after the daily average traffic increased to a new high of 1.2mn trips per day during the quarter. Moreover, we expect interest expense to decrease 3.75% p.a. thanks to the MLR cut and BEM's strong credit rating. However, the company's net profit is likely to fall 26% Q-Q owing to absence of the extra gain from sales of investment booked in 4Q15.

Maintain 2016 TP of Bt6; lower rating to Trading BUY

Despite the profit estimate cut, we stand by our 2016 TP at Bt6 (DCF) because we believe that feed-in passengers from the Purple Line will increase after the service is complete in the next one year. In addition, our current profit estimate still implies a strong average growth rate of 22% Y-Y during 2016-2017. Such sharp gain should be made possible by inauguration of Sri Rat Expressway and the Purple Line in August 2016. However, we lower our rating on BEM to Trading BUY in the light of narrower upside of 7.1% and to bet on strong 1Q16 earnings results.

1Q16E Earnings Preview

(Bt mn)	1Q16E	4Q15	%Q-Q	2016E	2015	%Y-Y
Sales revenue	3,446	3,004	14.7	13,972	11,738	19.04
Costs	2,066	1,866	10.7	8,261	7,094	16.44
Gross profit	1,380	1,138	21.3	5,711	4,643	23.00
SG&A costs	316	409	-22.6	1,282	1,115	14.96
Interest charge	273	358	-23.7	1,100	1,455	-24.44
Norm profit	727	499	45.6	2,958	2,160	36.97
Net profit	727	989	-26.5	2,958	2,650	11.64
EPS (Bt/share)	0.048	0.065	-26.5	0.194	0.173	11.64
Gross margin (%)	40.1	37.9	2.2	40.9	39.6	1.3
Norm earnings margin (%)	21.1	16.6	4.5	21.2	18.4	2.8
Net profit margin (%)	21.1	32.9	-11.8	21.2	22.6	-1.4

Source: FSS Estimates

Income Statement (Consolidated)

(Bt mn)	2013	2014	2015	2016E	2017E
Revenue	10,597	11,234	11,738	13,972	16,777
Costs of sales	5,272	6,556	7,094	8,261	9,767
Gross profit	5,326	4,677	4,643	5,711	7,009
SG&A costs	1,983	923	1,115	1,282	1,455
Operating profit	3,342	3,754	3,528	4,429	5,554
Other income	136	113	69	48	70
EBIT	3,879	4,413	4,059	4,885	6,074
EBITDA	6,997	7,505	7,285	8,376	9,858
Interest charge	2,029	1,437	1,455	1,100	1,078
Tax on income	467	702	392	757	999
Earnings after tax	1,383	2,274	2,211	3,028	3,996
Minority interests	22.0	65.9	51.3	70.2	92.7
Normalized earnings	1,361	2,208	2,160	2,958	3,904
Extraordinary items	3,014	537	490	0	0
Net profit	4,375	2,745	2,650	2,958	3,904

Balance Sheet (Consolidated)

(Bt mn)	2013	2014	2015	2016E	2017E
Cash	5,029	4,374	4,483	3,419	5,371
Current investment	775	2,348	497	4,078	4,078
Accounts receivable	644.0	663.1	648.6	122.1	146.6
Other current asset	197.5	198.3	239.9	196.6	196.6
Total current assets	6,645	7,583	5,869	7,815	9,792
Investment	10,020	9,714	10,870	10,518	10,518
PPE	50,425	54,273	59,085	52,067	49,121
Other assets	1,576	1,762	2,296	2,049	2,049
Total Assets	68,666	73,332	78,120	72,449	71,479
Short-term loans	0	2000	22410	1500	0
Account payable	1,864	2,296	2,580	3,151	3,725
Current maturities	4,743	4,541	1,619	2,713	2,630
Other current liabilities	574	800	707	786	786
Total current liabilities	7,182	9,637	27,315	8,149	7,140
Long-term debt	32,882	33,941	21,421	33,321	31,512
Other LT liabilities	583	240	254	306	306
Total non-cu	33,465	34,180	21,675	33,627	31,817
Total liabilities	40,647	43,817	48,990	41,776	38,958
Registered capital	15,285	15,285	0	15,285	15,285
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
Legal reserve	800	800	800	948	1144
Retained earnings	6059	7490	7254	8438	9999
Others	-33	-34	-113	-102	-102
Minority Interest	91	157	86	287	379
Shareholders' equity	28,019	29,514	29,130	30,672	32,522

Cash Flow Statement (Consolidated)

(Bt mn)	2013	2014	2015	2016E	2017E
Net profit	n.a.	2,745	2,650	2,958	3,904
Depreciation &	n.a.	3,092	3,226	3,491	3,784
Change in working capital	n.a.	862	19,501	-22,176	-1,034
Other adjustments	n.a.	0	0	0	0
Cash flow from operation	n.a.	6,699	25,377	-15,727	6,654
Capital expenditure	n.a.	-6,939	-8,049	3,538	-838
Others	n.a.	120	-1,679	589	0
Cash flow from investing	n.a.	-6,820	-9,729	4,127	-838
Free cash flow	n.a.	-121	15,648	-11,600	5,816
Net borrowings	n.a.	715	-12,505	11,952	-1,810
Equity capital raised	n.a.	0	0	0	0
Dividends paid	n.a.	-1,309	-1,925	-1,627	-2,147
Others	n.a.	59	-1,109	211	93
Cash flow from financing	n.a.	-535	-15,539	10,536	-3,864
Net change in cash	n.a.	-656	110	-1,065	1,952

Important Ratios (Consolidated) - Ended March

	2013	2014	2015	2016E	2017E
Growth (%)					
Sales	5.9	6.0	4.5	19.0	20.1
EBITDA	18.2	7.3	-2.9	15.0	17.7
Net profit	56.9	-37.3	-3.5	11.6	32.0
Norm profit	-14.4	62.3	-2.2	37.0	32.0
Profitability Ratios (%)					
Gross profit margin	50.3	41.6	39.6	40.9	41.8
EBITDA margin	66.0	66.8	62.1	59.9	58.8
EBIT margin	36.6	39.3	34.6	35.0	36.2
Norm profit margin	12.8	19.7	18.4	21.2	23.3
Net profit margin	41.3	24.4	22.6	21.2	23.3
Normalized ROA	2.1	3.1	2.9	3.9	5.4
Normalized ROE	5.4	7.7	7.4	9.9	12.4
Normalized ROCE	6.3	6.9	8.0	7.6	9.4
Risk (x)					
D/E	1.17	1.22	1.50	1.14	0.97
Net D/E	0.99	1.07	1.35	1.02	0.80
Net debt/EBITDA	3.98	4.21	5.40	3.75	2.65
Per share data (Bt)					
Reported EPS	0.2862	0.1796	0.1734	0.1935	0.2554
Norm EPS	0.0890	0.1444	0.1413	0.1935	0.2554
EBITDA	0.46	0.49	0.48	0.55	0.64
Book value	1.83	1.93	1.91	2.01	2.13
Dividend	0.00	0.09	0.13	0.11	0.14
Par (Bt)	1.00	1.00	1.00	1.00	1.00
Valuations (x)					
P/E	19.6	31.2	32.3	28.9	21.9
Norm P/E	62.9	38.8	39.6	28.9	21.9
P/BV	3.05	2.90	2.94	2.79	2.63
EV/EBITDA	17.3	16.7	17.9	14.8	12.1
Dividend Yield	n.a.	1.95	2.25	1.90	2.51

Source: Company data, FSS research

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Sriracha

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Tumbon Sriracha
Aumphoe Sriracha, Chonburi

Chiangmai 2

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Chang Klan R., Chang Klan
Muang
Chiangmai

Samutsakorn

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

Hatyai 3

200/222, 200/224, 200/226
Juldis Hadyai Plaza, 2rd Floor,
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Aumphoe Hadyai, Songkhla

Thaisummit Tower

1768 Thaisammit Tower Building,
5th, 31th Fl., New Petchburi Road,
Bangkapi, Huaykwang,
Bangkok

Bangna

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

Prachachuen

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

Khonkaen 1

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

Chiangmai 3

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

Nakornpathom

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

Krabi

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

Alma Link

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

Sindhorn 1

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

Rang sit

1/832 Phaholyothin 60
Kukod, Lumlookka
Pratumtanee

Khonkaen 3

311/1
Khang Meung Road,
Tumbon Nai Meung,
Aumphoe Meung Khonkaen,
Khonkaen

Chiangrai

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

Phuket

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

Trang

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

Amarin Tower

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

Sindhorn 2

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

Thaisummit Tower

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

Udonthani

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

Measai

119 Moo 10,
Tumbon Maesai,
Aumphoe Muang, Cheangrai

Hatyai 1

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

Suratthani

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

Central Pinklao 1

7/129-221 Central Pinklao Office
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Arunamarin, Bangkoknoi, Bangkok

Sindhorn 3

130-132 Sindhorn Building 3,
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Bangkok

Rattanatibet

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

Chiangmai 1

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

Nakornratchasima

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

Hatyai 2

106 Prachathipat Road,
Aumphoe Hadyai, Songkhla

Pattane

300/69-70 Moo 4,
Tumbon Rusamirae,
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)