

# Bangkok Expressway and Metro

BEM TB / BEM.BK

13 May 2016

## First-quarter profit outshone forecast; second-quarter earnings to swell YoY

### Above estimates

BEM posted a 1Q16 net profit of Bt702m, up 22% YoY. Its 1Q16 core profit was also Bt702m, up 22% YoY. The result was somewhat above our estimate and that of the consensus, due to lower-than-expected SG&A and interest expenses.

### Results highlights

The key drivers for the YoY earnings growth were: 1) greater expressway traffic (total average daily traffic volume (BECL+NECL) which increased 2% both YoY and QoQ to 1.2m trips), 2) higher average daily revenue from expressways (up 3% YoY and 2% QoQ to Bt25m), 3) greater ridership numbers (average daily rider rose 4% YoY and 3% QoQ to 272,133 trips), 4) higher average daily revenue from the MRT (up 4% both YoY and QoQ to Bt6.8m), 5) lower SG&A expenses—the SG&A ratio decreased to 7.7% from 8.7% in 1Q15 and 6) lower interest expenses (down 22% YoY to Bt279m) on lower interest rates.

### Outlook

We expect 2Q16 earnings to rise YoY, driven by greater traffic, higher average daily revenue from both expressway and MRT. However, we expect BEM's 2Q16 profits to soften QoQ, as the second quarter is usually the lowest season for expressway and mass transit usage.

### What's changed?

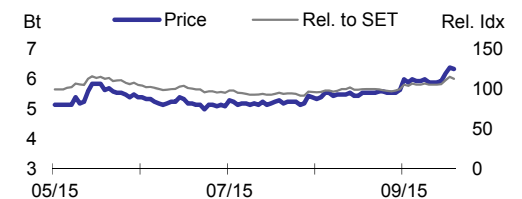
Net profit for 3M16 represents 31% of our FY16 net profit forecast of Bt2,272m which we maintain unchanged.

### Recommendation

In our view, BEM's strong earnings growth profile, to be brought about by the opening of a new expressway and mass transit lines—a 20% core profit growth in 2016 and a 30% CAGR during 2015-17—represents the strongest among Thai ground transport operators and higher than the broad SET's core earnings growth of 11% for 2016 and a 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 the 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: U/R**
**Price (12 May 2016): Bt6.35**

### Price chart

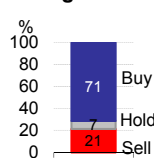


Share price perf. (%)	1M	3M	12M
Relative to SET	15.5	11.3	
Absolute	16.5	21.0	

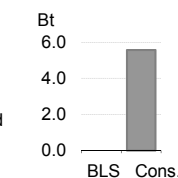
### Key statistics

Market cap	Bt97.1bn	USD2.7bn
12-mth price range	Bt4.9/Bt6.5	
12-mth avg daily volume	Bt242m	USD6.9m
# of shares (m)	15,285	
Est. free float (%)	56.0	
Foreign limit (%)	49.0	

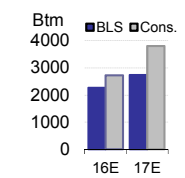
### Consensus rating



### 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)	36.6	42.7	35.5	25.9
PBV (x)	3.3	3.0	2.8	2.7
Dividend (Bt)	0.1	0.1	0.1	0.1
Dividend yield (%)	1.1	0.9	1.1	1.5
ROE (%)	9.6	7.4	8.2	10.6

**CG/Anti-Corruption**

N/A

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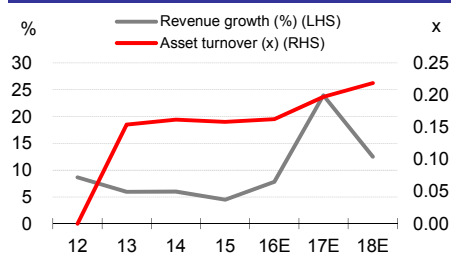
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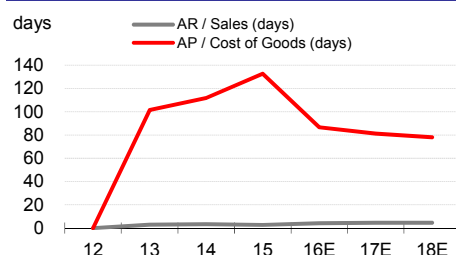
## BEM: Financial Tables – Year

PROFIT & LOSS (Btm)	2014	2015	2016E	2017E	2018E
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>	<b>2014</b>	<b>2015</b>	<b>2016E</b>	<b>2017E</b>	<b>2018E</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

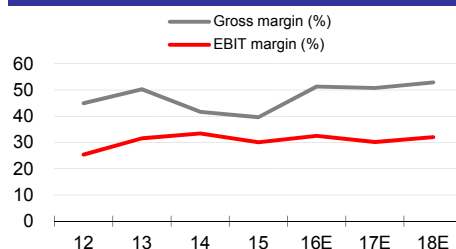
### Revenue growth and asset turnover



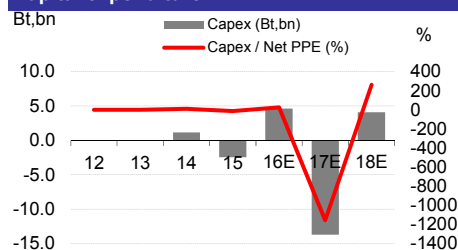
### A/C receivable & A/C payable days



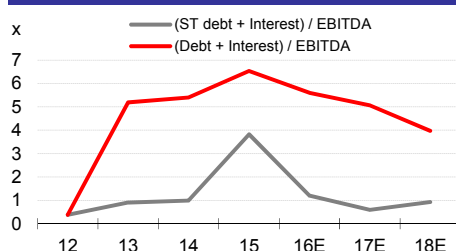
### Profit margins



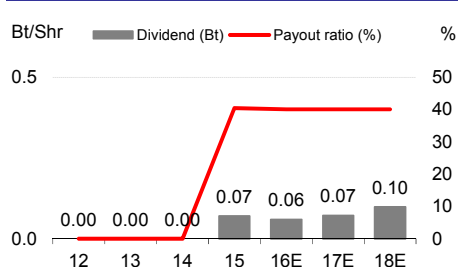
### Capital expenditure



### Debt serviceability



### Dividend payout



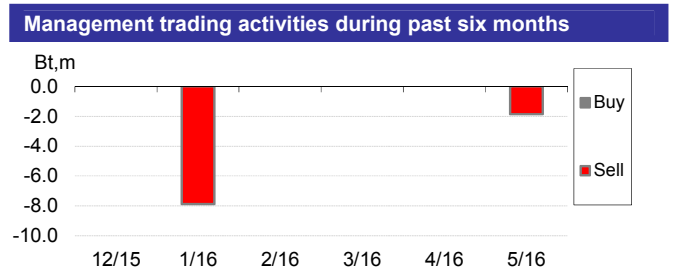
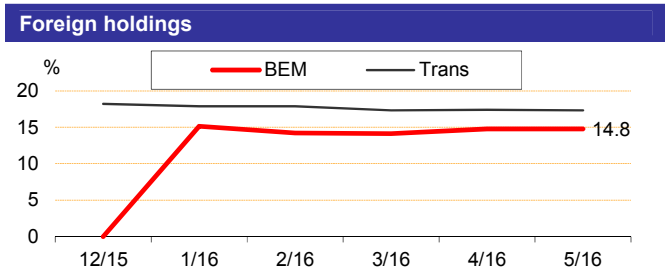
**Figure 1 : 1Q16 results**

FY Ended 31 Dec (Btm)	1Q16	1Q15	YoY %	3M16	3M15	YoY %	3M16 vs. FY16E	
<b>Income Statement</b>								
Revenue	3,026	2,921	4	3,026	2,921	4	24	
Cost of sales and services	(1,777)	(1,724)	3	(1,777)	(1,724)	3	29	• The revenue growth was driven by greater traffic volume and higher average daily revenue
EBITDA	1,862	1,758	6	1,862	1,758	6	28	
EBIT	1,016	944	8	1,016	944	8	25	
Interest expense	(279)	(355)	(22)	(279)	(355)	(22)	16	
Other income/exp.	33	46	(28)	33	46	(28)	47	
Equity earnings from affiliates	93	122	(24)	93	122	(24)	17	• The SG&A/sales ratio decreased YoY
Extra items	0	0	<i>nm</i>	0	0	<i>nm</i>	<i>nm</i>	
<b>EBT</b>	<b>770</b>	<b>635</b>	<b>21</b>	<b>770</b>	<b>635</b>	<b>21</b>	<b>32</b>	
Corporate tax	(162)	(161)	0	(162)	(161)	0	24	
Minority interest	0	(18)	<i>nm</i>	0	(18)	<i>nm</i>	<i>nm</i>	• Financial costs decreased YoY
<b>Net profit (loss)</b>	<b>702</b>	<b>578</b>	<b>22</b>	<b>702</b>	<b>578</b>	<b>22</b>	<b>31</b>	
Reported EPS	0.05	0.04	22	0.05	0.04	22	31	
<b>Core net profit</b>	<b>702</b>	<b>578</b>	<b>22</b>	<b>702</b>	<b>578</b>	<b>22</b>	<b>31</b>	• Equity income from TTW and CKP decreased YoY
<b>Key ratios</b>								
Gross margin (%)	41.3	41.0		41.3	41.0			• Lower effective tax rate YoY
EBITDA margin (%)	61.5	60.2		61.5	60.2			
EBIT margin (%)	33.6	32.3		33.6	32.3			
Tax rate (%)	21.0	25.3		21.0	25.3			
Net margin (%)	23.2	19.8		23.2	19.8			• Net profit was above our estimate and the consensus
Current ratio (x)	0.0	0.0		0.0	0.0			
Interest coverage (x)	3.6	2.7		3.6	2.7			

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 (%)	
				2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E
Hopewell Highway Infrastructur	737 HK	HKD3.9	1,541	16.7	15.6	-51.7	26.3	1.5	1.5	8.1	9.2	5.6	6.2
Zhejiang Expressway	576 HK	HKD7.3	4,080	9.8	9.2	169.0	6.6	1.4	1.3	14.5	14.5	5.9	6.2
Shenzhen Expressway	548 HK	HKD7.0	2,443	11.3	10.4	-27.4	8.7	1.0	0.9	8.5	8.8	3.9	4.3
Sichuan Expressway	107 HK	HKD2.6	1,688	8.8	7.3	-47.8	52.9	0.5	0.5	5.9	6.6	2.8	3.3
Anhui Expressway	995 HK	HKD5.9	2,502	8.8	8.5	4.3	0.0	0.9	0.9	12.0	11.6	5.0	5.2
Lingkar Trans Kota Holding	LTK MK	MYR5.3	685	16.6	13.5	15.8	13.9	4.8	3.8	30.7	37.3	4.4	4.6
Bangkok Expressway and Metr	BEM TB	THB6.35	2,747	42.7	35.5	-14.3	20.2	3.0	2.8	7.4	8.2	0.9	1.1
<b>Simple average</b>				<b>16.4</b>	<b>14.3</b>	<b>6.9</b>	<b>18.4</b>	<b>1.9</b>	<b>1.7</b>	<b>12.4</b>	<b>13.7</b>	<b>4.1</b>	<b>4.4</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.