

13 May 2016

Transportation & Logistics

BEM
Bangkok Expressway and Metro
**Current
HOLD**

 Previous
BUY

 Close
6.35

 2016 TP
6.00

 Exp Return
- 5.5%

 Anti-corrupt
-

 CGR 2015
-

Consolidated earnings

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)-Normalized	0.1444	0.1413	0.1935	0.2554
EPS (Bt)	0.1796	0.1734	0.1935	0.2554
% growth y-y	-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) - Normalized	44.0	44.9	32.8	24.9
PER (x)	35.4	36.6	32.8	24.9
PBV (x)	3.29	3.33	3.16	2.98
Dividend yield (%)	1.95	1.98	1.68	2.21
YE no. of shares (mn)	15,285	15,285	15,285	15,285
No. of share-fully diluted	15,285	15,285	15,285	15,285
Par (Bt)	1.0	1.0	1.0	1.0

Source: Company data, FSS estimates

1Q16 normalized earnings in line
1Q16 normalized earnings up 41% Q-Q and 22% Y-Y

BEM's 1Q16 normalized earnings are in line at Bt702mn (+41% Q-Q, +22% Y-Y). Such sharp gains are made possible by declines in interest expense to just Bt279mn (-30% Q-Q, -22% Y-Y) after the lending rate cut and decreases in SG&A expenses (-43% Q-Q, -8% Y-Y). However, the company's net profit tumbles 29% Q-Q due to absence of the extra gain from sales of investment booked in 4Q15.

Latest progress on Blue Line's extension

Regarding the disconnection between Tao Poon - Bangsue, the Cabinet has lately revoked all of its prior resolutions, including the decision to hire BEM to operate the line for two years for Bt52mn each year. Hence, we need to wait for clarity whether the state will talk directly with BEM or open an auction to find a new operator for the extension of the Blue Line or for that one stop. We view that the solution that works best for both the state and the general public is to talk directly with existing operators. To elaborate, the state just wants an operator that is able to operate that one stop as soon as possible and at most economical cost. Meanwhile, the general public wants convenience and speed from their traveling by train. Hence, direct negotiation is more reasonable than other options due to the followings. First, it does not need addition investment for a depot and a power supply for the one station. Second, the general public can save the time to change train and the money to travel just from Bang Sue to Tao Poon. Third, use of existing operators can expedite launch of new stations along the extension because one or more stations can commence service even if civil works of the entire line is incomplete.

Maintain profit estimate and 2016 TP; lower rating to HOLD

BEM's 1Q16 normalized earnings are enough to secure 24% of our full-year estimate. Hence, we stand by our 2016E normalized earnings at about Bt3bn (+12%Y-Y) and maintain our 2016 TP of Bt6. Although the counter now trades above our 2016 TP, we retain our HOLD rating on BEM in the light of upside from feed-in passengers from other lines. In particular, when the Orange Line commences service, we expect it to add value of Bt0.3-0.6 per share to BEM, assuming feed-in passengers of 20%-40% from the Orange Line until 2029.

1Q16 Earnings Results						Comment
(Bt mn)	1Q16	4Q15	%Q-Q	1Q15	%Y-Y	
Revenues	3,026	3,004	0.7	2,921	3.6	<ul style="list-style-type: none"> In 1Q16, revenues were flat Q-Q, but continued to increase 4% Y-Y to Bt3bn thanks to a rise in both the number of train cars and passengers. Net profit is in line at Bt702mn (+41% Q-Q, +22% Y-Y). Such gains are made possible by declines in interest expense (-30% Q-Q, -22% Y-Y) to just Bt279mn.
Operating Cost	1,777	1,866	-4.8	1,724	3.1	
Gross profit	1,248	1,138	9.7	1,197	4.3	
SG&A	233	409	-43.1	253	-7.9	
Interest expense	279	396	-29.6	355	-21.5	
Normalized earnings	702	499	40.6	578	21.5	
Net profit	702	989	-29.0	578	21.5	
EPS	0.0459	0.0647	-29.0	0.0378	21.5	
Gross margin (%)	41.3%	37.9%	3.4	41.0%	0.3	
Norm earnings margin (%)	23.2%	16.6%	6.6	19.8%	3.4	
Net profit margin (%)	23.2%	32.9%	-9.7	19.8%	3.4	

Source: Company Data

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Klongjan, Bangkapi, Bangkok

Ladprao

555 Rasa Tower 2, 11st Floor,
Unit 1106, Phaholyothin Road,
Chatuchak, Bangkok

Sriracha

135/99 (G fl.) Sukumvit Road,
Tumbon Sriracha
Aumphoe Sriracha, Chonburi

Chiangmai 2

310 Chiang Mai Land,
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,
Building, Niphat Uthit 3 Road,
Aumphoe Hadyai, Songkhla

Thaisummit Tower

1768 Thaisummit 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, Jutujak, 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 Thaisummit 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
Building, Room 1404, 14th Fl.,
Baromratchonnanee Road,
Arunamarin, Bangkoknoi, Bangkok

Sindhorn 3

130-132 Sindhorn Building 3,
19th Floor, Wireless Road,
Lumpini, Pathumwan,
Bangkok

Rattanatibet

68/127 Moo 8 Rattanatibet Road,
Tumbon Banggrasor,
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)