

26 July 2016

Transportation &amp; Logistics

**BEM**
**Bangkok Expressway and Metro**
**Current  
BUY**

 Previous  
BUY

 Close  
7.35

 2016 TP  
12.00

 Exp Return  
+ 63.3%

 Anti-corrupt  
-

 CGR 2015  
-

**Consolidated earnings - Ended March**

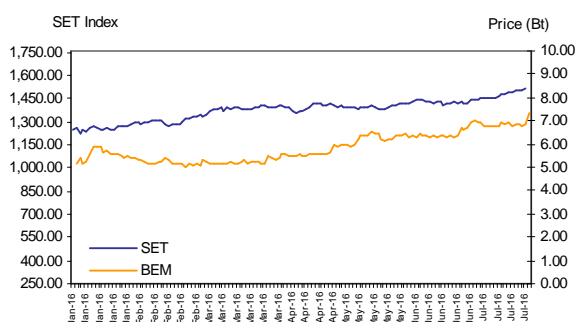
BT (mn)	2014	2015	2016E	2017E
Normalized profit	2,208	2,160	3,350	4,296
Net profit	2,745	2,650	3,350	4,296
EPS (Bt)-Norm	0.1444	0.1413	0.2191	0.2810
EPS (Bt)	0.1796	0.1734	0.2191	0.2810
% EPS growth	-37.3	-3.5	26.4	28.2
Dividend (Bt)	0.09	0.13	0.12	0.15
BV/share (Bt)	1.93	1.91	2.02	2.15
EV/EBITDA (x)	20.2	21.5	17.3	14.2
PER (x) - Norm	50.9	52.0	33.5	26.2
PER (x)	40.9	42.4	33.5	26.2
PBV(x)	3.81	3.86	3.64	3.42
Dividend yield (%)	1.95	1.71	1.64	2.10
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 (25/07/2016)	7.35
SET Index	1,512.66
Foreign limit/actual (%)	49.00/10.55
Paid-up shares (million)	15,285.00
Free float (%)	55.55
Market cap (Bt m)	112,344.75
Avg daily T/O (Bt m) (2016 YTD)	703.60
Hi, lo, avg (Bt) (2016 YTD)	7.40, 4.90, 5.86

Source: Setsmarts



Source: SET

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**Lower interest and Blue Line's extensions factored in**

We have increased our 2016-2017E net profit by 12% on average. After which, our forecast now calls for BEM's net profit to amount to Bt3.4bn (+26% Y-Y) this year and Bt4.3bn (+28% Y-Y) next year. Such upward revision reflects a cut in 2016-2017E interest rate to 3.2%-3.1%, respectively, after BEM has restructured its finance through issuance of Bt15bn debenture at interest rate of just 2.86%. In addition, we believe BEM has upside from prospect that it will be selected as operator for the extensions of the Blue Line train project after the NCPO has invoked Section 44 to stem a problem over the recruitment of operator for such extensions through direct negotiation with BEM. Similarly, we have raised our 2016 TP to Bt12 (DCF), assuming WACC of 4.8% and growth rate of 3%. Finally, we retain our BUY rating on BEM in the light of upside of 63.3%.

**Raise 2016-2017E net profit by 12% on average**

We have increased our 2016-2017E net profit by 12% on average. After which, our forecast now calls for BEM's net profit to amount to about Bt3.4bn (+26% Y-Y) this year and Bt4.3bn (+28% Y-Y) next year. Such upward revision reflects a decrease in interest expense estimate after BEM has restructured its finance. To elaborate, the company used to have just short- and long-term loans. Now, it has bank loans of Bt29.6bn and debenture of Bt15bn at an interest rate of 2.86%. Given that, we now expect BEM's average annual interest rate at 3.19% in 2016 and 3.06% in 2017, lower than our previous estimate of 3.75%.

**Expect 2Q16 normalized earnings to down 4% Q-Q to Bt674mn**

Our forecast calls for BEM's 2Q16 normalized earnings to amount to Bt674mn. It implies a loss of 4% Q-Q due to seasonal factor. Specifically, we expect revenues to decrease 4% Q-Q to Bt2.9bn. Toll revenue is likely to ease 4% Q-Q after daily average traffic dropped to 1,137,000 trips in 2Q16. Fare revenue is set to fall 5% Q-Q after daily average ridership was down by 5% Q-Q because there were quite a number of holidays in April. Furthermore, we expect extra expense from the issuance of its Bt15bn debenture, whose fee is estimated at 0.5-1% of total value.

**Extensions of Blue Line closer to reality**

Last week, the National Council for Peace and Order (NPCO) has invoked Section 44 to tackle a problem over the recruitment of operator for the extensions of the Blue Line train project (Hua Lamphong - Bangkhae and Bang Sue - Tha Phra), which are currently unable to connect to the current line (Hua Lamphong - Bang Sue). In this regard, the Mass Rapid Transit Authority of Thailand (MRTA) will discuss criteria and revenue sharing with four state agencies, i.e. the Ministry of Transport, the Office of the National Economic and Social Development Board (NESDB), the State Enterprise Policy Office (SEPO) and the Anti-Corruption Cooperation Committee, on July 26, 2016. After which, the MRTA board will meet to discuss how it will change concession period for the initial Blue Line (IBL) and its extensions so that they end on the same date. As this process might take 15 - 30 days, we expect the MRTA to begin negotiation with BEM in early September. Assuming the current concession period for IBL of 25 years and commencement date of the extensions in 2019, we expect IBL's concession to be extended by 15 years.

**Revise up 2016 TP to Bt12; maintain BUY rating**

We have increased our 2016 TP to Bt12 (DCF). Our new TP reflects our expectation that BEM will be selected as operator for the extensions of the Blue Line, which will become fully operational in 2019. Moreover, it factors in the 12% average rise in our 2016-2017E net profit mentioned above and a decrease in our WACC assumption to 4.8%. Finally, we retain our BUY rating on BEM.

**2Q16E Earnings Preview**

(Bt mn)	2Q16E	1Q16	%Q-Q	2016E	2015	%Y-Y
Sales revenue	2,914	3,026	-3.7	13,925	11,738	18.64
Costs	1,713	1,777	-3.6	7,649	7,094	7.81
Gross profit	1,202	1,248	-3.7	6,277	4,643	35.18
SG&A costs	253	233	8.6	1,278	1,115	14.58
Interest charge	190	279	-31.9	1,179	1,455	-18.97
Norm profit	674	702	-4.0	3,350	2,160	55.09
Net profit	674	702	-4.0	3,350	2,650	26.41
EPS (Bt/share)	0.044	0.046	-4.0	0.219	0.173	26.41
Gross margin (%)	41.2	41.3	-0.02	45.1	39.6	5.5
Norm earnings margin (%)	23.1	23.2	-0.09	24.1	18.4	5.7
Net profit margin (%)	23.1	23.2	-0.09	24.1	22.6	1.5

Source: FSS Estimates

**Income Statement (Consolidated)**

(Bt mn)	2013	2014	2015	2016E	2017E
Revenue	10,597	11,234	11,738	13,925	16,685
Costs of sales	5,272	6,556	7,094	7,649	9,270
Gross profit	5,326	4,677	4,643	6,277	7,415
SG&A costs	1,983	923	1,115	1,278	1,448
Operating profit	3,342	3,754	3,528	4,999	5,968
Other income	136	113	69	59	132
EBIT	3,879	4,413	4,059	5,466	6,550
EBITDA	6,997	7,505	7,285	9,040	10,572
Interest charge	2,029	1,437	1,455	1,179	1,052
Tax on income	467	702	392	857	1,099
Earnings after tax	1,383	2,274	2,211	3,429	4,398
Minority interests	22.0	65.9	51.3	79.5	102.0
Normalized earnings	1,361	2,208	2,160	3,350	4,296
Extraordinary items	3,014	537	490	0	0
Net profit	4,375	2,745	2,650	3,350	4,296

**Cash Flow Statement (Consolidated)**

(Bt mn)	2013	2014	2015	2016E	2017E
Net profit	n.a.	2,745	2,650	3,350	4,296
Depreciation &	n.a.	3,092	3,226	3,574	4,022
Change in working capital	n.a.	862	19,501	-16,934	-4,581
Other adjustments	n.a.	0	0	0	0
Cash flow from operation	n.a.	6,699	25,377	-10,010	3,737
Capital expenditure	n.a.	-6,939	-8,049	-2,114	162
Others	n.a.	120	-1,679	589	0
Cash flow from investing	n.a.	-6,820	-9,729	-1,525	162
Free cash flow	n.a.	-121	15,648	-11,535	3,899
Net borrowings	n.a.	715	-12,505	20,251	-5,155
Equity capital raised	n.a.	0	0	0	0
Dividends paid	n.a.	-1,309	-1,925	-1,842	-2,363
Others	n.a.	59	-1,109	220	102
Cash flow from financing	n.a.	-535	-15,539	18,629	-7,416
Net change in cash	n.a.	-656	110	7,094	-3,516

**Balance Sheet (Consolidated)**

(Bt mn)	2013	2014	2015	2016E	2017E
Cash	5,029	4,374	4,483	11,577	8,061
Current investment	775	2,348	497	4,078	4,078
Accounts receivable	644.0	663.1	648.6	121.7	145.8
Other current asset	197.5	198.3	239.9	196.6	196.6
Total current assets	6,645	7,583	5,869	15,973	12,481
Investment	10,020	9,714	10,870	10,518	10,518
PPE	50,425	54,273	59,085	57,636	53,451
Other assets	1,576	1,762	2,296	2,049	2,049
Total Assets	68,666	73,332	78,120	86,175	78,498
Short-term loans	0	2000	22410	7680	2000
Account payable	1,864	2,296	2,580	2,917	3,535
Current maturities	4,743	4,541	1,619	2,009	2,514
Other current liabilities	574	800	707	786	786
Total current liabilities	7,182	9,637	27,315	13,391	8,835
Long-term debt	32,882	33,941	21,421	41,620	36,465
Other LT liabilities	583	240	254	306	306
Total non-cu	33,465	34,180	21,675	41,926	36,771
Total liabilities	40,647	43,817	48,990	55,317	45,606
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	968	1183
Retained earnings	6059	7490	7254	8594	10312
Others	-33	-34	-113	-102	-102
Minority Interest	91	157	86	296	398
Shareholders' equity	28,019	29,514	29,130	30,858	32,893

**Important Ratios (Consolidated) - Ended March**

	2013	2014	2015	2016E	2017E
<b>Growth (%)</b>					
Sales	5.9	6.0	4.5	18.6	19.8
EBITDA	18.2	7.3	-2.9	24.1	17.0
Net profit	56.9	-37.3	-3.5	26.4	28.2
Norm profit	-14.4	62.3	-2.2	55.1	28.2
<b>Profitability Ratios (%)</b>					
Gross profit margin	50.3	41.6	39.6	45.1	44.4
EBITDA margin	66.0	66.8	62.1	64.9	63.4
EBIT margin	36.6	39.3	34.6	39.2	39.3
Norm profit margin	12.8	19.7	18.4	24.1	25.7
Net profit margin	41.3	24.4	22.6	24.1	25.7
Normalized ROA	2.1	3.1	2.9	4.1	5.2
Normalized ROE	5.4	7.7	7.4	11.2	13.5
Normalized ROCE	6.3	6.9	8.0	7.5	9.4
<b>Risk (x)</b>					
D/E	1.17	1.22	1.50	1.60	1.17
Net D/E	0.99	1.07	1.35	1.22	0.92
Net debt/EBITDA	3.98	4.21	5.40	4.17	2.88
<b>Per share data (Bt)</b>					
Reported EPS	0.28	0.17	0.17	0.21	0.28
Norm EPS	0.08	0.14	0.14	0.21	0.28
EBITDA	0.46	0.49	0.48	0.59	0.69
Book value	1.83	1.93	1.91	2.02	2.15
Dividend	0.00	0.09	0.13	0.12	0.15
Par (Bt)	1.00	1.00	1.00	1.00	1.00
<b>Valuations (x)</b>					
P/E	25.7	40.9	42.4	33.5	26.2
Norm P/E	82.6	50.9	52.0	33.5	26.2
P/BV	4.01	3.81	3.86	3.64	3.42
EV/EBITDA	21.1	20.2	21.5	17.3	14.2
Dividend Yield	0.00	1.95	1.71	1.64	2.10

Source: Company data, FSS research

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Muang  
Chiangmai

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Meungsamutsakorn, Samutsakorn

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**Rang sit**

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Aumphoe Muang Nakornratchasima  
Nakornratchasima

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**Pattane**

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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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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)*