

11 August 2016

Transportation &amp; Logistics

**BEM****Bangkok Expressway and Metro**

Current	Previous	Close	2016 TP	Exp Return	Anti-corrupt	CGR 2015
<b>BUY</b>	BUY	8.05	12.00	+ 49.1%	-	N/R

Consolidated earnings				
BT (mn)	2014	2015	2016E	2017E
Normalized profit	2,208	2,160	3,350	4,295
Net profit	2,745	2,650	3,180	4,295
EPS (Bt)-Normalized	0.14	0.14	0.22	0.28
EPS (Bt)	0.18	0.17	0.21	0.28
% growth y-y	-37.3	-3.5	20.0	35.1
Dividend (Bt)	0.09	0.13	0.11	0.15
BV/share (Bt)	1.93	1.91	2.01	2.15
EV/EBITDA (x)	21.7	23.0	18.5	15.2
PER (x) - Normalized	55.7	57.0	36.7	28.6
PER (x)	44.8	46.4	38.7	28.6
PBV (x)	4.17	4.22	4.00	3.75
Dividend yield (%)	1.95	1.56	1.42	1.92
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

## 2Q16 net profit misses estimate due to surprise expense

### 2Q16 normalized earnings down 4% Q-Q, but up 36% Y-Y

BEM's 2Q16 normalized earnings come in at Bt674mn (-4% Q-Q, +36% Y-Y). It nearly matches our estimate of Bt673mn. The Q-Q loss can be blamed on seasonal factor because there were a number of holidays in April. In the April-June quarter, revenues are equal to about Bt2.9bn (-4% Q-Q, +2% Y-Y), in line. Toll revenue was down by 4% Q-Q after daily average traffic decreased. Moreover, fare revenue eased 5% Q-Q owing to a decline in daily average ridership. During the quarter, the company booked unexpected fee of Bt212mn for early debt payment. Given that, BEM's 2Q16 net profit is equal to Bt504mn (-28% Q-Q, +2% Y-Y), below our estimate.

### Extensions of Blue Line progress

On August2, 2016, the National Council for Peace and Order (NCPO) invoked Section 44 to stem problems related to operator for the extensions of the Blue Line (Hua Lamphong - Bang Khae and Bang Sue - Tha Phra). After which, the MRTA board resolved to hire BEM to operate and manage such extensions through special method. The contract which has a budget of Bt693mn covers operation and installation of train system for one station, i.e. Tao Poon - Bang Sue. It is temporary while waiting for negotiation of a contract for the extensions of the Blue Line. What's more, the MRTA also approved profit sharing that is similar to the contract for the initial Blue Line to BEM and will present it to the Transport Ministry. After which, a committee set under Section 35 together with a committee set under Section 43 will have two months to get into details and negotiate with BEM. In this regard, we expect negotiation to finish and contract to be signed within December 2016.

### Maintain profit estimate, 2016 TP and BUY rating

BEM's 1H16 normalized earnings are equal to about Bt1.4bn (+28% Y-Y). It's sufficient to secure 41% of our full-year estimate. Looking ahead, we believe 2H16 operating performance will grow both H-H and Y-Y because the Purple Line has commenced service on August 6, while Sirat Outer Ring Road Expressway will begin service on August 22. Furthermore, the M&A expenses booked in 4Q15 will disappear. As a result, we stand by our 2016E net profit at roughly Bt3.4bn (+26% Y-Y) and maintain our 2016 TP of Bt12 (DCF). Finally, we retain our BUY rating on BEM.

2Q16 Earnings Results						Comment
(Bt mn)	2Q16	1Q16	%Q-Q	2Q15	%Y-Y	
Revenues	2,919	3,026	-3.5	2,859	2.1	<ul style="list-style-type: none"> <li>In 2Q16, revenues decreased 4% Q-Q, but continued to grow by 2% Y-Y to about Bt2.9bn.</li> <li>Net profit is equal to Bt504mn (-28% Q-Q, +2% Y-Y). It's lower than our estimate due to unexpected fee of 212mn for early debt repayment.</li> </ul>
Operating Cost	1,707	1,777	-4.0	1,722	-0.9	
Gross profit	1,212	1,248	-2.9	1,136	6.7	
SG&A	242	233	4.1	253	-4.3	
Interest expense	317	279	13.7	395	-19.8	
Normalized earnings	674	702	-4.0	496	35.8	
Net profit	504	702	-28.2	496	1.6	
EPS	0.0330	0.0459	-28.2	0.0325	1.6	
Gross margin (%)	41.5	41.3	0.3	39.7	1.8	
Norm earnings margin (%)	23.1	23.2	-0.1	17.4	5.7	
Net profit margin (%)	17.3	23.2	-5.9	17.4	-0.1	

Source: Company Data

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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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**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)*