



ALERT

Thailand

Bangkok Expressway and Metro

Neutral · Maintained

Price as of 10 Nov 2016	7.75
12M target price (Bt/shr)	7.48
Unchanged / Revised up (down) (%)	Unchanged
Upside/downside (%)	(3.5)

Key messages

BEM reported 3Q16 earnings of Bt808mn (-47% YoY; +60% QoQ). The result was above our expectation by 16% and the market consensus by 14%. Further, 9M16 earnings accounted for 80% of our full-year forecast of Bt2.53bn. The key supporting factors were i) revenue rising to Bt3.4bn (+16% YoY; +18% QoQ), led by a 5% QoQ increase in expressway and 10% QoQ increase in subway traffic volume. We are maintaining a rating of Neutral with a DCF target price of Bt7.48. Further, additional upside of Bt1.90 per share would come from the IBL concession extension and awarded Yellow Line.

3Q16 earnings review: Above expectations

Event

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Impact

3Q16 earnings were above expectations

The key supporting factors were i) revenue rising to Bt3.4bn (+16% YoY; +18% QoQ), led by a 5% QoQ increase in expressway and 10% QoQ increase in subway traffic volume, and ii) no negative impact from a one-time item (penalty fee of around Bt200mn from loan refinancing) that occurred in 2Q16. Moreover, loan prepayment led to lower interest expenses in the quarter (Bt296mn versus Bt368mn in 3Q15 and Bt487mn in 2Q16). However, gross margin remained stable QoQ at 41.4%, from 41.5% in 2Q16 and 39.7% in 1Q16. Normalized profit was in line with our estimate at Bt695mn as the company had an extra item of around Bt113mn during the period.

Positive longer term outlook remains

The company's core earnings outlook for this year would be more interesting from i) Si-Rat Outer Ring Road Expressway (SOE), which is scheduled to operate August 20, 2016, and ii) Purple Line (Bang Yai-Bang Sue), which opened August 6, 2016. Further, we believe BEM has a good chance to be chosen to operate the Blue Line extension (BLE) project with additional revenue forecast at Bt1.1-3.4bn per year. We think that the opening of both projects will help i) raise traffic volume and ridership and ii) feed traffic and ridership to BEM's existing expressway and MRT systems.

Looking ahead, upcoming infrastructure projects will be driven by the government, and BEM will be a major player. In the longer-term, BEM is expected to be a high growth potential company as the new expressway and mass transit projects will play key roles in driving its earnings growth.

Valuation & action

We are maintaining a rating of Neutral with a DCF target price of Bt7.48. Further, additional upside of Bt1.90 per share would come from the IBL concession extension and awarded Yellow Line.

Risks

Lower-than-expected economic recovery and delay in government infrastructure projects.

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Item	3Q16	3Q15	YoY (%)	2Q16	QoQ (%)	Comment
Sale revenue	3,431	2,953	16.2	2,919	17.6	Higher-than-expected sales revenue
Operating cost	(2,009)	(1,781)	12.8	(1,707)	17.7	
Gross profit	1,422	1,172	21.3	1,212	17.3	
SG&A	(290)	238	(221.7)	(242)	19.5	
Pretax profit	1,166	979	19.0	1,097	6.3	
Net profit	808	1,519	(46.8)	504	60.1	Significantly lower extra gains YoY
Normalized profit	695	196	253.9	504	37.8	Improving earnings both YoY and QoQ
EPS(Bt)	0.05	0.10	(46.8)	0.03	60.1	
Percent	3Q16	3Q15	YoY (ppts)	2Q16	QoQ (ppts)	
Gross margin	41.4	39.7	1.8	41.5	(0.1)	Slightly lower than anticipated margin
Net profit margin	23.5	51.4	(27.9)	17.3	6.3	

Source: KGI Research

KGI Locations

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Rating	Definition
Outperform (OP)	The stock's excess return* over the next twelve months is ranked in the top 40% of KGI's coverage universe in the related market (e.g. Taiwan).
Neutral (N)	The stock's excess return* over the next twelve months is ranked in the range between the top 40% and the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).1.3
Under perform (U)	The stock's excess return* over the next twelve months is ranked in the bottom 40% of KGI's coverage universe in the related market (e.g. Taiwan).
Not Rated (NR)	The stock is not rated by KGI Securities.
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