

23 February 2017

Transportation & Logistics

BEM
Bangkok Expressway and Metro

Current	Previous	Close	2017 TP	Exp Return	THAI CAC	CG 2016
BUY	BUY	7.15	10.50	+46.9%	N/A	4

Consolidated earnings

BT (mn)	2014	2015	2016	2017E
Normalized earnings	2,208	1,352	2,575	3,325
Net profit	2,745	2,650	2,606	3,325
EPS (Bt) - Norm	0.078	0.088	0.168	0.218
EPS (Bt)	0.180	0.173	0.170	0.218
% EPS growth	-37.3	-3.7	-1.7	27.6
Dividend (Bt)	0.05	0.13	0.12	0.11
BV/share (Bt)	0.92	1.91	1.95	2.11
EV/EBITDA (x)	32.4	21.1	19.0	15.2
PER (x) - Norm	91.32	80.83	42.45	32.87
PER (x)	73.47	41.24	41.94	32.87
PBV (x)	7.78	3.75	3.67	3.39
Dividend yield (%)	0.65	1.76	1.68	1.52
YE No. of shares (million)	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

4Q16 profit misses estimate
4Q16 normalized earnings down 30.6% Q-Q, but up 12.2% Y-Y

BEM's 4Q16 net profit comes in at Bt591.6mn (-26.8% Q-Q, -40.2% Y-Y). Excluding extra gain of Bt31mn from its sales of investment, normalized earnings are equal to Bt561mn (-30.6% Q-Q, +12.2% Y-Y), missing both our estimate and street forecast. The sharp Q-Q loss can be blamed on the followings. First, its mass transit's expenses jumped 43% Q-Q in line with the rise in ridership, train operation cost and maintenance cost for the Purple Line. Second, SG&A expenses surged 37.5% Q-Q after more projects began service. However, they were partly offset by revenues which continued to increase 8.7% Q-Q and 24% Y-Y after traffic increased in all routes. In addition, its mass transit unit's ridership was up. As a result, gross margin only slightly narrowed to 37.4% (from 37.9% in 4Q15). For full year, BEM's normalized earnings surge 90.4% Y-Y to Bt2.6bn. However, net profit inches down 1.7% Y-Y to Bt2.6bn due to the absence of extra gain of Bt1.2bn from its sales of BECL shares, while gross margin widened to 40.3% (from 39.6% in 2015).

2017 sees full-year benefit from Purple Line and Sri-rat Expressway

For 2017, our forecast calls for BEM's operating performance to be strong. To elaborate, we expect normalized earnings to jump 27.6% Y-Y to Bt3.3bn thanks to full-year realization of O&M revenues from the Purple Line and toll revenue from Sri-rat Outer Ring Road Expressway. In this regard, we expect revenues from its mass transit business to surge 27.5% Y-Y. Such sharp gain should be supported by commencement of the connection between Bang Sue and Tao Poon, which BEM receives annual operating income of Bt52mn for two years. After the connection starts service in August 2017, we believe it will feed in 20,000-30,000 passengers daily to the original Blue Line. Meanwhile, its expressway business is set to rise in all routes. Given that, we anticipate revenues to jump 20% Y-Y.

Maintain BUY rating at 2017 TP of Bt10.5

We retain our BUY rating on BEM after our 2017 TP is reiterated at Bt10.5 (DCF). Such TP already includes the Blue Line's extensions, whose contract is expected to be signed in March 2017. After which, service for certain stations, i.e. Hua Lamphong - Bang Kae, will begin within 2019, while service for the whole line (which includes the route from Bang Sue to Tha Phra) will start in 2020. We believe that after the whole line is in service, the number of passengers will increase by 100,000 trips per day in the first 1-2 years. What's more, BEM will benefit from the extension of the contract for the original Blue Line to 2049, the same year that the Blue Line's extensions will end. We maintain our bullish view toward BEM's long-term profit after the Purple Line, Sri-rat Outer Ring Road Expressway and the Blue Line's extensions commenced service. The company has announced 2H16 DPS of Bt0.06, implying dividend yield of 0.8%. The stock will go XD on April 19, 2017.

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4Q16 Earnings Results						Comment
(Bt mn)	4Q16	3Q16	%Q-Q	4Q15	%Y-Y	
Revenues	3,728	3,431	8.7	3,004	24.1	<ul style="list-style-type: none"> In 4Q16, revenues increased 8.7% Q-Q and 24% Y-Y to Bt3.7bn after revenues from its expressway, mass transit and commercial units were up by 4% Q-Q, 22% Q-Q and 7% Q-Q, respectively. Operating cost jumped 16.2% Q-Q and 25% Y-Y after its mass transit unit's cost surged 43% Q-Q due to operating and maintenance cost of the Purple Line. Normalized earnings are equal to Bt561mn (-30.6% Q-Q, +12.2% Y-Y), lower than expected. It's pressured by a rise in both operating cost and SG&A expenses.
Operating Cost	2,335	2,009	16.2	1,866	25.1	
Gross profit	1,393	1,422	-2.0	1,138	22.4	
SG&A	366	290	26.3	409	-10.5	
Interest expense	385	296	29.9	396	-2.9	
Normalized earnings	561	808	-30.6	499	12.3	
Net profit	592	808	-26.8	989	-40.2	
Gross margin (%)	37.4	41.4	-4.1	37.9	-0.5	
Norm earnings margin (%)	15.0	23.5	-8.5	16.6	-1.6	
Net profit margin (%)	15.9	23.5	-7.7	32.9	-17.0	

Source: Company and FSS Research

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Ladprao

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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 Thaisammit 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, Jutajak, 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,
2rd 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

Kian Gwan (Sindhorn 2)

140/1 Kian Gwan House II
18th Floor, Wireless Road,
Lumpini, Pathumwan,
Bangkok

Thaisummit Tower

1768 Thaisammit 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
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Baromratchonnanee Road,
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Sindhorn 3

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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 2016

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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Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC)

1 CG Score 2016 from Thai Institute of Directors Association (IOD)

2 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors

(as of October 28, 2016) are categorised into:

- companies that have declared their intention to join CAC, and
- companies certified by CAC.