

12 May 2017

Transportation &amp; Logistics

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

Current	Previous	Close	2017 TP	Exp Return	THAI CAC	CG 2016
<b>BUY</b>	BUY	7.25	9.70	33.7%	N/A	4

**Consolidated earnings**

BT (mn)	2015	2016	2017E	2018E
Normalized earnings	1,352	2,575	3,150	3,594
Net profit	2,650	2,606	3,150	3,594
EPS (Bt) - Norm	0.088	0.168	0.206	0.235
EPS (Bt)	0.173	0.170	0.206	0.235
% EPS growth	-3.7	-1.7	20.9	14.4
Dividend (Bt)	0.13	0.12	0.14	0.16
BV/share (Bt)	1.91	1.95	2.01	2.09
EV/EBITDA (x)	21.3	19.2	17.1	16.3
PER (x) - Norm	81.97	43.04	35.18	30.84
PER (x)	41.82	42.53	35.18	30.84
4kpPBV (x)	3.80	3.72	3.60	3.47
Dividend yield (%)	1.74	1.66	1.99	2.27
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

**1Q17 profit in line**
**1Q17 net profit up 18.7% Q-Q and flat Y-Y**

BEM's 1Q17 net profit comes in at Bt702mn (+18.7% Q-Q, flat Y-Y), in line. The sharp Q-Q gain is made possible by a decline in SG&A expense (-28% Q-Q) after the company booked expenses related to its new project in the previous quarter. The net profit is flat Y-Y because positive factors offset negative ones. To elaborate, revenues jumped 23.3% Y-Y. Such sharp gain is attributed to (1) revenue from its expressway business which increased 7.7% Y-Y due to the toll of Bt193mn from Sri-Rat Outer Ring Road, (2) revenue from its mass transit unit which jumped 83% Y-Y thanks to O&M revenue of Bt460mn from the Purple Line and a rise in the ridership of the existing Blue Line (+7% Y-Y). However, there were pressures from (1) a rise in operating cost (+30.6% Y-Y) in line with its new projects, and (2) an increase in funding cost (+36% Y-Y) due to Sri-Rat Outer Ring Road. Given that, gross margin narrowed to 37.8% (vs. 41.3% a year ago).

**Cut profit estimate and TP**

Since its inauguration in August 2016, Sri-Rat Outer Ring Road reports daily average traffic of 42,000 trips with the highest daily average traffic of 47,000 in March 2017. Such figure is lower than the company's target of 100,000 and our estimate of 80,000. Given that, we have cut our daily average traffic forecast to 50,000 in the first 1-2 years. After which, we also cut our net profit estimate by 5.5% to Bt3.1bn (+21% Y-Y) in 2017 and to Bt3.6bn (+14% Y-Y) in 2018. Moreover, we slash our 2017 DCF-based TP from Bt10.5 to Bt9.7 (WACC 7.5%, Terminal Growth 2%). Finally, we retain our BUY rating on BEM.

**Maintain bullish view on long-term profit**

We retain our bullish view on BEM's long-term profit that it will grow thanks to its mass transit business. Specifically, we expect realization of O&M revenue from the Purple Line, feed-in passengers to the existing Blue Line after inauguration of the connection between Bang Sue - Tao Poon in August, and starting of service of the Blue Line extensions in 2019, while its expressway unit continues to grow strong. Currently, BEM is negotiating with Expressway Authority of Thailand (EXAT) to construct a ramp that connects Sri-Rat Outer Ring Road with Sector C at Chaengwattana. Once approved, it is expected to help increase traffic. What's more, there are upsides that are yet to be incorporated, e.g. auctions of operation and management of train lines in 2H17.

**1Q17 Earnings Results**

(Bt mn)	1Q17	4Q16	%Q-Q	1Q16	%Y-Y	Comment
Revenues	3,731	3,728	0.1	3,026	23.3	<ul style="list-style-type: none"> <li>In 1Q17, revenues were up 0.1% Q-Q and 23.3% Y-Y to Bt3.7bn. The sharp Y-Y gain is made possible after revenue from its expressway, mass transit and commercial units increased 7.7% Y-Y, 83% Y-Y and 14% Y-Y, respectively.</li> </ul>
Operating Cost	2,321	2,335	-0.6	1,777	30.6	
Gross profit	1,410	1,393	1.2	1,248	13.0	
SG&A	265	366	-27.5	233	13.9	<ul style="list-style-type: none"> <li>Operating cost surged 30.6% Y-Y after the cost of its mass transit business jumped 69% Y-Y due to the Purple Line. Moreover, the cost of its expressway unit soared 12% Y-Y.</li> </ul>
Interest expense	379	385	-1.4	279	36.1	
Normalized earnings	702	561	25.3	702	0.03	<ul style="list-style-type: none"> <li>Gross margin narrowed to 37.8% (vs. 41.3% a year ago). Although revenues increased, there was pressure from operating cost which was up in line with its new projects.</li> </ul>
Net profit	702	592	18.7	702	0.03	
Gross margin (%)	37.8	37.4	0.4	41.3	-3.5	
Norm earnings margin (%)	18.8	15.0	3.8	23.2	-4.4	
Net profit margin (%)	18.8	15.9	3.0	23.2	-4.4	

Source: Company and FSS Research

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**Sriracha**

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Aumphoe Sriracha, Chonburi

**Chiangmai 2**

310 Chiang Mai Land,  
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Muang  
Chiangmai

**Samutsakorn**

1045/16-17 Vichienchodok,  
Tumbon Mhachai, Aumphoe  
Meungsamutsakorn, Samutsakorn

**Hatyai 3**

200/222, 200/224, 200/226  
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**Thaisummit Tower**

1768 Thaisammit Tower Building,  
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**Bangna**

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Bangkok

**Prachachuen**

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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**

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**Rang sit**

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Pratumtanee

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Khonkaen

**Chiangrai**

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Tumbon Rimkok  
Aumphoe Muang, Cheangrai

**Phuket**

22/18 Vanish Plaza Shopping  
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Tumbon Talad Yai,

**Trang**

59/28 Huaiyod Road,  
Tumbon Thaptieng,  
Aumphoe Meungtrang, Trang

**Amarin Tower**

496-502 Amarin Tower  
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Bangkok

**Kian Gwan (Sindhorn 2)**

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104/6, 2 fl., ICBC Bank Tower  
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Aumphoe Muang Udon Thani,  
Udon Thani

**Measai**

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**Chiangmai 1**

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Muang  
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**Nakornratchasima**

1242/2 A3 room, 7 fl.,  
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Mittraphap rood Tumbon Nai Muang  
Aumphoe Muang Nakornratchasima  
Nakornratchasima

**Hatyai 2**

106 Prachathipat Road,  
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**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.