

# Bangkok Expressway and Metro (BEM.BK/BEM TB) \*

**Outperform·Maintained**

|                                      |           |
|--------------------------------------|-----------|
| Price as of 10 Aug 2017              | 7.40      |
| 12M target price (Bt/shr)            | 8.68      |
| Unchanged / Revised up (down)<br>(%) | Unchanged |
| Upside/downside (%)                  | 17.3      |

**Key messages**

BEM reported 2Q17 earnings of Bt723mn (+43% YoY, +3% QoQ). The result was 9.4% above our estimate and the market consensus. Its 1H17 net profit accounts for 40% of our full-year forecast of Bt3.59bn. In the longer-term, we are optimistic about the potential benefit from additional ridership on its Blue Line Extension (BLE) project. We maintain our earnings forecasts for 2017-18 and rate the counter Outperform with a DCF target price of Bt8.68, including the BLE

**2Q17 earnings review: 9.4% above our estimate**
**Event**

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**Impact**
**2Q17 earnings were stronger than expected**

Revenue rose 27% YoY to Bt3.7bn, in line with traffic volume from its expressway and underground mass-transit. The key factors were i) continued growth in expressway and subway traffic volume, up 5% YoY and 9% YoY, respectively, and ii) lower interest expenses YoY of Bt380mn, from Bt484mn in 2Q16, following loan refinancing in 2H16. Meanwhile, gross margin was 38.5%, from 37.8% in 1Q17 and 40.6% in 2Q16.

**Positive on longer term outlook**

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 it has a great chance to combine a strong financial base (from BECL) and mass transit system expertise (from BMCL). Further, the new expressway and mass transit projects will play key roles in driving the company's earnings growth.

In the longer-term, we are optimistic about the potential benefit from additional ridership on its Blue Line Extension (BLE) project. Moreover, it is likely that the company's earnings will be driven by potential operation of the Orange Line project as this line will link to BEM's backbone at Thailand's Cultural Center station. Assuming BEM is the operator of this project, it would add around Bt0.9/share to BEM's valuation.

**Valuation & action**

We maintain our earnings forecasts for 2017-18 and rate the counter Outperform with a DCF target price of Bt8.68, including the BLE project.

**Risks**

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

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**Figure 1: 2Q17 earnings result**

| Bt mn                    | 2Q17       | 2Q16       | YoY (%)     | 1Q17       | QoQ (%)    | Comment                          |
|--------------------------|------------|------------|-------------|------------|------------|----------------------------------|
| Sale revenue             | 3,705      | 2,919      | 26.9        | 3,731      | (0.7)      | 5.8% higher than our estimate    |
| Operating cost           | (2,277)    | (1,734)    | 31.3        | (2,321)    | (1.9)      |                                  |
| Gross profit             | 1,428      | 1,185      | 20.5        | 1,410      | 1.2        |                                  |
| SG&A                     | (284)      | (218)      | 30.3        | (265)      | 7.0        |                                  |
| Pretax profit            | 1,267      | 1,094      | 15.8        | 1,256      | 0.9        |                                  |
| <b>Net profit</b>        | <b>723</b> | <b>504</b> | <b>43.3</b> | <b>702</b> | <b>2.9</b> | <b>9.4% above our forecast</b>   |
| <b>Normalized profit</b> | <b>723</b> | <b>504</b> | <b>43.3</b> | <b>702</b> | <b>2.9</b> | <b>No extra items</b>            |
| EPS (Bt)                 | 0.05       | 0.03       | 43.3        | 0.05       | 2.9        |                                  |
| Percent                  | 2Q17       | 2Q16       | YoY (ppts)  | 1Q17       | QoQ (ppts) |                                  |
| Gross margin             | 38.5       | 40.6       | (2.1)       | 37.8       | 0.7        | Slightly lower than our estimate |
| Net profit margin        | 19.5       | 17.3       | 2.2         | 18.8       | 0.7        |                                  |

Source: KGI Research

**KGI Locations**

|                  |          |   |
|------------------|----------|---|
| <b>China</b>     | Shanghai | Room 1907-1909 , Tower A, No. 100 Zunyi Road,<br>Shanghai, PRC 200051   |
|                  | Shenzhen | Room 24D1, 24/F, A Unit, Zhen Ye Building, 2014 Bao'annan Road,<br>Shenzhen, PRC 518008   |
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| <b>Rating</b>     | <b>Definition</b>   |
|-------------------|---|
| 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   |
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