

10 November 2017

Transportation & Logistics

BEM
Bangkok Expressway and Metro

Current	Previous	Close	2018 TP	Exp Return	THAI CAC	CG 2016
BUY	BUY	8.10	10.00	+ 23.5%	N/A	4

Consolidated earnings

BT (mn)	2015	2016	2017E	2018E
Normalized earnings	1,352	2,575	3,150	3,709
Net profit	2,650	2,606	3,150	3,709
EPS (Bt) - Norm	0.088	0.168	0.206	0.243
EPS (Bt)	0.173	0.170	0.206	0.243
% EPS growth	-3.7	-1.7	20.9	17.8
Dividend (Bt)	0.07	0.11	0.13	0.16
BV/share (Bt)	1.91	1.95	2.01	2.09
EV/EBITDA (x)	23.1	20.7	18.5	17.7
PER (x) - Norm	91.6	48.1	39.3	33.4
PER (x)	46.7	47.5	39.3	33.4
PBV (x)	4.3	4.2	4.0	3.9
Dividend yield (%)	0.9	1.4	1.6	1.9
ROE (%)	9.1	8.7	10.2	11.6
YE No. of shares (million)	15,285	15,285	15,285	15,285
Par (Bt)	1.0	1.0	1.0	1.0

Source: Company data, FSS estimates

3Q17 profit hits record high
3Q17 net profit up 30% Q-Q and 16% Y-Y, higher than expected

BEM's 3Q17 net profit comes in at Bt940mn (+30% Q-Q, +16% Y-Y). It's higher than both our estimate and street forecast thanks to larger-than-expected profit contribution of Bt140mn (+48% Q-Q, +23% Y-Y) from its associates, i.e. CKP and TTW, and lower-than-expected SG&A expense because expenses related to its new launches were smaller than last year and there was benefit from economies of scale. The sharp gains are made possible by a rise in the company's investment in its associates and revenues which increased 5% Q-Q and 14% Y-Y to Bt3.9bn. To elaborate, revenues from its expressway business were up by 5% Q-Q and 8% Y-Y after daily average traffic continued to increase to a new high of 1.25mn. Such gain was supported mainly by Sri-Rat Outer Ring Road Express Way, whose daily average traffic continued to hit record high. Revenues from its mass transit business increased 6% Q-Q and jumped 28% Y-Y after daily average ridership surged to a new high of 320,000 trips after the connection between Bang Sue and Tao Poon stations in mid-August, while O&M revenues from the Purple Line also increased. Finally, revenues from its commercial development business soared 7% Q-Q and 22% Y-Y.

Positive view toward rising operating performance outlook

BEM's 9M17 net profit amounts to Bt2.4bn (+17% Y-Y). It's enough to secure 75% of our full-year estimate. Looking into 4Q17, we expect net profit to fall Q-Q due to seasonality because there are a number of holidays in this quarter. However, it will continue to grow strong Y-Y thanks to a rise in fare revenue after the Purple and Blue Lines are connected for full-quarter. Moreover, amortization expense is expected to fall by Bt150mn after the concession period for the Blue Line was extended in 2Q17. In this regard, we stand by our 2017E net profit of Bt3.2bn (+21% Y-Y). In 2018, we anticipate net profit will continue to jump by 18% Y-Y, supported by revenues growth in the company's three businesses, the plan to hike its toll by Bt5-10 in the NECL and SES routes, and the outlook for daily average traffic to increase because it is predicted that the North Sri-Rat Outer Ring Road Expressway will be completed and begin service next year.

Maintain BUY rating at 2018 TP of Bt10

We retain our BUY rating on BEM at our 2018 TP of Bt10 due to the followings. First, the company has high potential because it operates both rail (underground and sky train) and expressway systems. Second, BEM has stable long-term revenues structure thanks to the seven concessions on hand. Third, there is large upside because there are chances that it will win in many more auctions. They comprise an auction for a new section of expressway (Pharam 3 - Dao Khanong), the South Purple Line in which BEM is currently hired to operate, the East Orange Line in which CK (BEM's holding company) is currently constructing through its joint venture with STEC and which will be connected to the current Blue Line. Fourth, BEM has hidden assets. They include its plan to list BMN (in which BEM holds 65% stake) in the SET within 2019 as well as growth of its associates, i.e. CKP, TTW, and XPCL. Fifth, the counter increased by just 9% YTD. It lags behind its associates. In particular, CKP (in which BEM owns 19.4% interest) jumped 25% YTD and TTW (in which BEM holds 19.45% stake) surged 14% YTD. Finally, it traded behind the transport sector, which soared 17% YTD.

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3Q17 Earnings Results						Comment
(Bt mn)	3Q17	2Q17	%Q-Q	3Q16	%Y-Y	
Revenues	3,900	3,705	5.2	3,431	13.7	<ul style="list-style-type: none"> ■ In 3Q17, revenues jumped 14% Y-Y thanks to revenues realization from Sri-Rat Outer Ring Road Expressway, full-quarter O&M revenues realization from the Purple Line after they began service in August 2016 ■ Operating cost increased 15% Y-Y after more projects began service. ■ Gross margin widened to 41% (vs. 38.5% in 2Q17) thanks to economies of scale.
Operating Cost	2,305	2,277	1.2	2,009	14.7	
Gross profit	1,595	1,428	11.7	1,422	12.2	
SG&A	251	284	-11.7	290	-13.5	
Interest expense	364	380	-4.2	296	23.0	
Normalized earnings	940	723	30.1	808	16.4	
Net profit	940	723	30.1	808	16.4	
Gross margin (%)	40.9	38.5	2.4	41.4	-0.5	
Norm earnings margin (%)	24.1	19.5	4.6	23.5	0.6	
Net profit margin (%)	24.1	19.5	4.6	23.5	0.6	

Source: Company and FSS Research

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Bangkok

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5th, 31th Fl., New Petchburi Road,
Bangkapi, Huaykwang,
Bangkok

Alma Link

9th, 14th, 15th Fl.,
Alma Link Building 25
Soi Chidlom, Ploenchit, Lumpini,
Patumwan, Bangkok

Amarin Tower

496-502 Amarin Tower
20th Floor, Pleonchit,
Lumpini, Pathumwan,
Bangkok

Central Pinklao 1

7/129-221 Central Pinklao Office
Building, Room 1404, 14th Fl.,
Baromratchonnanee Road,
Arunamarin, Bangkoknoi, Bangkok

Bangkapi

3105 N Mark Building, 3rd Floor,
Room A3 R02, Ladprao Road,
Klongjan, Bangkapi, Bangkok

Bangna

1093 Tower 1 Office, 19th Floor,
Room 1093/105 Moo 12,
Bangna-Trad Road, Bangna,
Bangkok

Sindhorn 1

130-132 Sindhorn Building 1,
2rd Floor, Wireless Road,
Lumpini, Pathumwan,
Bangkok

Kian Gwan (Sindhorn 2)

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

Sindhorn 3

130-132 Sindhorn Building 3,
19th Floor, Wireless Road,
Lumpini, Pathumwan,
Bangkok

Ladprao

555 Rasa Tower 2, 11st Floor,
Unit 1106, Phaholyothin Road,
Chatuchak, Bangkok

Prachachuen

105/1 B Building, 4th Floor,
Thessabansongkhrao Road,
Ladyao, Jutujak, Bangkok

Rang sit

1/832 Phaholyothin 60
Kukod, Lumlookka
Pratumtane

Thaisummit Tower

1768 Thaisammit Tower Building,
2nd Floor, New Petchburi Road
Bangkapi, Huaykwang,
Bangkok

Rattanatibet

68/127 Moo 8 Rattanatibet Road,
Tumbon Banggrasor,
Aumphoe Muang,
Nonthaburi

Sriracha

135/99 (G fl.) Sukumvit Road,
Tumbon Sriracha
Aumphoe Sriracha, Chonburi

Khonkaen 1

311/16 2nd Floor, Klangmeung
Road, Tumbon Nai Meung,
Aumphoe Meung,
Khonkaen

Khonkaen 2

26/9 Moo 7, 2nd Floor
Sri Chant Mai Road,
Tumbon Nai Meung,
Aumphoe Meung Khonkaen,
Khonkaen

Khonkaen 3

311/1
Khang Meung Road,
Tumbon Nai Meung,
Aumphoe Meung Khonkaen,
Khonkaen

Udonthani

104/6, 2 fl., ICBC Bank Tower
Udon Dusadee Road,
Tumbon Mak Khaeng,
Aumphoe Muang Udon Thani,
Udon Thani

Chiangmai 1

308 Chiang Mai Land,
Chang Klan R., Chang Klan
Muang
Chiangmai

Chiangmai 2

310 Chiang Mai Land,
Chang Klan R., Chang Klan
Muang
Chiangmai

Chiangmai 3

Malipace Building 32/4 moo 2
1 fl., B1-1, B1-2 room
Tumbon Maehia
Chiangmai

Chiangrai

353/15 Moo 4,
Tumbon Rimkok
Aumphoe Muang, Cheangrai

Measai

119 Moo 10,
Tumbon Maesai,
Aumphoe Muang, Cheangrai

Nakornratchasima

1242/2 A3 room, 7 fl.,
The Mall Ratchasima
Mittraphap road Tumbon Nai Muang
Aumphoe Muang Nakornratchasima
Nakornratchasima

Samutsakorn

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

Nakornpathom

28/16-17 Yingpao Road,
Tumbon Sanamjan,
Aumphoe Muang, Nakornpathom

Phuket

22/18 Vanish Plaza Shopping
Mall, Luangporwatchalong Road,
Tumbon Talad Yai,

Hatyai 1

200/222, 200/224, 200/226
Juldis Hadyai Plaza, 2rd Floor,
Building, Niphat Uthit 3 Road,
Aumphoe Hadyai, Songkhla

Hatyai 2

106 Prachathipat Road,
Aumphoe Hadyai, Songkhla

Hatyai 3

200/222, 200/224, 200/226
Juldis Hadyai Plaza, 2rd Floor,
Building, Niphat Uthit 3 Road,
Aumphoe Hadyai, Songkhla

Krabi

223/20 Mharaj Road,
Tumbon Paknam,
Aumphoe Meung, Krabi

Trang

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

Suratthani

173/83-84 Moo 1
Watpho-Bangyai Road.,
Tumbon Makamtia,
Aumphoe Mueang, Suratthani

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.