

Current	Previous	Close	2018 TP	Exp Return	THAI CAC	CG 2017
BUY	BUY	7.70	10.00	+29.9%	N/A	4

Consolidated earnings				
BT (mn)	2016	2017	2018E	2019E
Normalized earnings	2,575	3,123	3,709	4,093
Net profit	2,606	3,123	3,709	4,093
Normalized EPS (Bt)	0.17	0.20	0.24	0.27
EPS (Bt)	0.17	0.20	0.24	0.27
% growth	-1.7	19.9	18.8	10.3
Dividend (Bt)	0.1	0.1	0.2	0.2
BV/share (Bt)	1.9	2.0	2.1	2.2
EV/EBITDA (x)	20.0	19.5	17.6	16.8
Normalized PER (x)	45.7	37.7	31.7	28.8
PER (x)	45.2	37.7	31.7	28.8
PBV (x)	4.0	3.8	3.6	3.5
Dividend yield (%)	1.4	1.7	2.0	2.2
ROE (%)	8.7	10.0	11.5	12.2
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

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1Q18 normalized earnings grow strong, in line

1Q18 normalized earnings up 6% Q-Q and 15% Y-Y

BEM's 1Q18 net profit comes in at Bt736mn (-3% Q-Q, +5% Y-Y). Excluding extra items, i.e. prepayment penalty of Bt112mn and a gain of Bt42mn from sales of investment, the company's normalized earnings are equal to Bt806mn (+6% Q-Q, +15% Y-Y), in line. Such gains are made possible by the followings. First, revenues increased 2% Q-Q and 4% Y-Y to Bt3.9bn thanks to growth in all of its three main businesses. In particular, its expressway unit grew thanks to a rise in the daily average traffic of Sri-Rat Outer Ring Road Expressway, while its mass transit business rose after the Purple and Blue Lines were connected. Second, gross margin was strong. To elaborate, it was close to the 39.2% in 4Q17 and higher than the 37.8% in 1Q17 after depreciation expense decreased thanks to the extension of the Blue Line's concession. Third, profit sharing from associates, i.e. CKP and TTW, was strong at Bt96mn (-6% Q-Q, +33% Y-Y).

Debt restructuring offers long-term positive impacts, positive factors await in 2Q18

BEM has refinanced long-term loans for Sri-Rat Outer Ring Road Expressway through its issuance of Bt10bn debenture in April 2018. This has resulted in extra expense of Bt112mn in 1Q18. However, we view that such debenture is worth issuing and will offer long-term positive impacts because it will help save interest expense of Bt100mn p.a. Looking ahead, we expect 2Q18 net profit to continue to grow to a new high. Although it's a low season due to a number of long holidays, there are also supports from an extra gain of Bt240mn (net-of-tax) from sales of XPCL shares to CKP. Moreover, BEM has raised train fare by Bt1 per trip at the 5th, 8th and 11th station starting from July 3, 2017, while funding cost has decreased after the debt restructuring in 1Q18.

Maintain BUY rating at TP of Bt10

We stand by our 2018E net profit at Bt3.7bn (+19% Y-Y) and retain our BUY rating on BEM at our 2018 TP of Bt10. We have a positive view about the company's long-term operating performance which will grow strong thanks mainly to its expressway and mass transit units. Moreover, the company's investments in its associates have increased, while there is an upside risk from an auction of new expressway and train lines. Finally, there are hidden assets, e.g. the company's planned listing of BMN (in which BEM owns 65% stake) in the SET within 2019.

Risks - A delay in its planned commercial run, lower-than-expected level of ridership in the Blue Line's extensions, a delay in the planned auction for motorway and train lines, failure to get a renewal for the Second Stage Expressway System

1Q18 Earnings Results						
(Bt mn)	1Q18	4Q17	%Q-Q	1Q17	%Y-Y	Comment
Revenue	3,886	3,817	1.8	3,731	4.1	<ul style="list-style-type: none"> In 1Q18, revenues sharply increased thanks to growth in the revenues of its three main businesses, i.e. expressway (+1% Q-Q, +3% Y-Y), mass transit (+6% Q-Q, +5% Y-Y), and commercial (-7% Q-Q, +10% Y-Y). Gross margin was strong after costs decreased after the concession of the Blue Line was extended. SG&A expense-to-revenues ratio was down to 7.6% from the 9% in 4Q17 when the company booked annual employee bonus.
Costs	2,363	2,303	2.6	2,321	1.8	
Gross profit	1,523	1,514	0.6	1,410	8.0	
SG&A costs	296	345	-14.2	265	11.5	
Interest charge	482	487	-1.0	379	27.1	
Norm profit	806	760	6.1	700	15.1	
Net profit	736	758	-2.9	702	4.8	
Gross margin (%)	39.2	39.7	-0.5	37.8	1.4	
Norm earnings margin (%)	20.8	19.9	0.8	18.8	2.0	
Net profit margin (%)	18.9	19.9	-0.9	18.8	0.1	

Source: Company and FSS Research

Income Statement (Consolidated)						Cash Flow Statement (Consolidated)					
(Bt mn)	2015	2016	2017	2018E	2019E	(Bt mn)	2015	2016	2017	2018E	2019E
Revenue	11,738	13,104	15,153	16,489	18,237	Net profit	2,650	2,606	3,123	3,709	4,093
Cost of sales	7,094	8,247	9,206	9,376	10,514	Depreciation etc.	3,226	3,911	3,941	3,900	3,957
Gross profit	4,643	4,857	5,947	7,113	7,723	Change in working cap	18,940	-24,813	6,814	1,233	689
SG&A	1,115	1,131	1,144	1,286	1,422	Other adjustments	0	0	0	0	0
Operating profit	3,528	3,727	4,803	5,827	6,301	CFO	24,816	-18,297	13,879	8,843	8,739
Other income	69	98	240	130	146	Capital expenditure	-8,797	-4,601	-22,108	-3,838	-6,468
EBIT	4,059	4,591	5,449	6,412	6,939	Others	-1,679	-625	-906	-779	0
EBITDA	7,285	8,502	9,390	10,312	10,896	CFI	-10,476	-5,226	-23,014	-4,617	-6,468
Interest charge	1,934	1,446	1,611	1,766	1,813	Free cash flow	14,340	-23,523	-9,136	4,226	2,271
Tax on income	721	563	696	929	1,025	Net borrowings	-12,505	21,770	12,712	-1,738	268
Earnings after tax	1,403	2,582	3,142	3,717	4,101	Equity capital raised	-12,915	0	0	0	0
Minority interest	51	7	19	7	8	Dividends paid	-1,925	-1,834	-1,834	-2,596	-2,865
Normalized earnings	1,352	2,575	3,123	3,709	4,093	Others	15,112	-119	108	7	8
Extraordinary items	1,298	31	0	0	0	CFF	-12,233	19,817	10,986	-4,327	-2,589
Net profit	2,650	2,606	3,123	3,709	4,093	Net change in cash	2,106	-3,706	1,850	-101	-318

Balance Sheet (Consolidated)						Important Ratios (Consolidated)					
(Bt mn)	2015	2016	2017	2018E	2019E		2015	2016	2017	2018E	2019E
Cash	4,483	777	2,627	2,526	2,208	Growth (%)					
Current investment	497	5,941	1,449	1,449	1,449	Revenue	4.5	11.6	15.6	8.8	10.6
Accounts receivable	649	2,371	2,076	1,538	1,551	EBITDA	-2.9	16.7	10.4	9.8	5.7
Other current asset	240	130	128	128	128	Net profit	-3.5	-1.7	19.9	18.8	10.3
Total current assets	5,869	9,219	6,280	5,641	5,336	Normalized earnings	-38.8	90.4	21.3	18.8	10.3
Investment	10,870	11,026	11,367	11,367	11,367	Profitability (%)					
PPE	59,085	60,500	66,150	67,497	71,415	Gross profit margin	39.6	37.1	39.2	43.1	42.3
Other assets	2,296	2,040	15,122	14,492	13,085	EBITDA margin	62.1	64.9	62.0	62.5	59.7
Total Assets	78,120	82,786	98,919	98,997	101,202	EBIT margin	34.6	35.0	36.0	38.9	38.0
Short-term loans	22,410	4,716	3,629	3,500	4,000	Norm profit margin	11.5	19.6	20.6	22.5	22.4
Account payable	2,580	819	2,108	3,409	3,823	Net profit margin	22.6	19.9	20.6	22.5	22.4
Current maturities	1,619	3,567	5,409	4,954	4,698	Normalized ROA	1.8	3.2	3.3	3.7	4.1
Other current liabilities	707	456	437	415	459	Normalized ROE	4.9	8.7	10.1	11.7	12.4
Total current liabilities	27,315	9,558	11,583	12,278	12,980	Normalized ROCE	6.2	7.4	7.9	8.4	8.7
Long-term debt	21,421	42,956	55,436	53,915	54,183	Risk (x)					
Other LT liabilities	254	489	721	504	504	D/E	1.68	1.78	2.03	2.17	2.06
Total non-cu	21,675	43,445	56,157	54,419	54,687	Net D/E	1.35	1.57	1.81	1.70	1.67
Total liabilities	48,990	53,003	67,740	66,697	67,667	Net debt/EBITDA	5.40	5.52	6.01	5.32	5.14
Registered capital	15,285	15,285	15,285	15,285	15,285	Per share data (Bt)					
Paid-up capital	15,285	15,285	15,285	15,285	15,285	Reported EPS	0.17	0.17	0.20	0.24	0.27
Share Premium	5,817	5,817	5,817	5,817	5,817	Normalized EPS	0.09	0.17	0.20	0.24	0.27
Legal reserve	800	929	1,077	1,263	1,468	EBITDA	0.48	0.56	0.61	0.67	0.71
Retained earnings	7,254	7,764	8,948	9,876	10,899	Book value	1.91	1.95	2.04	2.11	2.19
Others	-113	-105	-60	-60	-60	Dividend	0.07	0.11	0.13	0.15	0.17
Minority Interest	86	93	111	119	127	Par	1.00	1.00	1.00	1.00	1.00
Shareholders' equity	29,130	29,783	31,179	32,299	33,535	Valuations (x)					
						P/E	44.4	45.2	37.7	31.7	28.8
						Norm P/E	87.1	45.7	37.7	31.7	28.8
						P/BV	4.0	4.0	3.8	3.6	3.5
						EV/EBITDA	22.3	20.0	19.5	17.6	16.8
						Dividend yield (%)	0.9	1.4	1.7	2.0	2.2

Source: Company data, FSS research

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Udon Thani

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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 2017

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 2017 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 July 31, 2017) are categorised into:

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