

BEM (BEM TB)

Bangkok Expressway and Metro

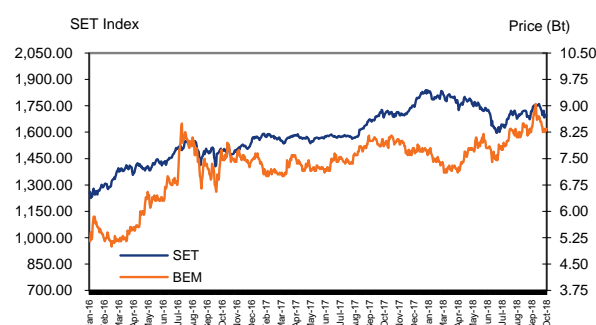
Current	Previous	Close	2018 TP	Exp Return	THAI CAC	CG 2017
BUY	BUY	8.40	10.00	+19.0%	N/A	4

Consolidated earnings				
BT (mn)	2016	2017	2018E	2019E
Normalized earnings	2,575	3,123	3,524	4,101
Net profit	2,606	3,123	5,950	4,101
Normalized EPS (Bt)	0.17	0.20	0.23	0.27
EPS (Bt)	0.17	0.20	0.39	0.27
% growth	-1.7	19.9	90.5	-31.1
Dividend (Bt)	0.1	0.1	0.1	0.2
BV/share (Bt)	1.9	2.0	2.2	2.2
EV/EBITDA (x)	21.2	20.6	19.1	17.9
Normalized PER (x)	49.9	41.1	36.4	31.3
PER (x)	49.3	41.1	21.6	31.3
PBV (x)	4.3	4.1	3.9	3.8
Dividend yield (%)	1.3	1.5	1.7	2.0
ROE (%)	8.7	10.0	18.0	12.0
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

Share data	
Sector	Transportation & Logistics
Close (17/10/2018)	8.40
SET Index	1,695.04
Foreign limit/actual (%)	49.00/9.98
Paid up shares (million)	15,285.00
Free float (%)	53.75
Market cap (Bt m)	128,394.00
Avg daily T/O (Bt m) (2018 YTD)	299.23
hi, lo, avg (Bt) (2018 YTD)	9.05, 7.00, 7.92

Source: SetSMARTS



Source: SET

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3Q18 profit set to grow strong and there are catalysts from auctions

Our forecast calls for BEM's 3Q18 net profit to amount to Bt3.2bn (+229% Q-Q, +242% Y-Y) thanks to an extra gain of Bt2.3bn from sales of CKP shares. Excluding extra items, we expect normalized earnings of Bt905mn. It decreases 4% Y-Y due to changes in the company's investment in CKP. However, it jumps 14% Q-Q thanks to seasonality because there were a small number of holidays during the quarter. We have cut our 2018E net profit by 5% to Bt3.5mn (+13% Y-Y) to factor in the higher-than-expected cost. However, we stand by our 2019 forecast of Bt4.1bn (+16% Y-Y) thanks to the launch of the Blue Line's extension Phase 2. Finally, we retain our BUY rating on BEM at our 2018 TP of Bt10. In the near term, there is a catalyst from the company's bid for the high-speed train to connect three airports on November 12. Moreover, there are upsides from auctions for two motorways and two train lines, which will take place in 4Q18-1Q19.

Expect 3Q18 net profit to grow strong thanks to extra items

Our forecast calls for BEM's 3Q18 net profit to amount to Bt3.2bn (+229% Q-Q, +242% Y-Y). Such sharp gains should be made possible by extra items of Bt2.3bn. They include an extra gain from sales of CKP shares and a revaluation of its investment in CKP, a non-cash item, from an investment in associates to an investment for sales after BEM has sold 111.2mn CKP shares in July 2018, resulting in a decline in its stake in CKP from 19.34% to 17.83%. Excluding such items, we expect BEM's normalized earnings at Bt905mn (+14% Q-Q, -4% Y-Y). The sharp Q-Q gain is expected to be attributed to seasonal factor because there were a small number of holidays during the quarter. In particular, we expect revenues at about Bt4bn (+4% Q-Q, +2% Y-Y). It's supported by the followings. First, we anticipate revenues from its expressway unit to increase 3% Q-Q and 0.4% Y-Y. Second, we anticipate revenues from its mass transit unit to increase 6% Q-Q and 5% Y-Y, in line with its daily average ridership which was up to 319,000 trips (+8% Q-Q, +5% Y-Y). However, our normalized earnings forecast declines Y-Y because we predict profit sharing to fall 23% Y-Y after the change in the company's investment in CKP now resulted in realization of dividend (vs. profit sharing).

Trim 2018E normalized earnings while 2019 forecast maintained

We have trimmed our 2018E normalized earnings by 5% to Bt3.5bn (+13% Y-Y). It factors in the higher-than-expected cost. In particular, we revise up our repair and maintenance estimate for the Blue Line and BEM's expressway. As a result, our gross margin estimate decreases to 39.4% (from 43%). Nonetheless, we stand by our 2019E normalized earnings at Bt4.1bn (+16% Y-Y). Such strength will be supported by the Blue Line's extension Phase 2 (Hua Lamphong - Lak Song) in August 2019. It has a total of 11 stations. Given that, we expect daily average ridership to increase from 310,000 trips to 400,000 trips. After which, it's anticipated to continue to climb to 500,000 trips after the Blue Line's extension Phase 3 which comprises the last eight stations is put into service and completes the whole Blue Line in March 2020. Meanwhile, the Bt1 raise on the Blue Line's fare at the 5th, 8th, and 11th station was moved from October 3 to November 16, 2018. If the raise does take place, it will have a full-year impact in 2019. If not, there will be a downside of 1-2% on our estimate.

Solid fundamentals with many upsides

We retain our BUY rating on BEM at our 2018 TP of Bt10. In the near term, there is a catalyst, i.e. the company's bid for the high-speed train to connect three airports, totaling Bt200bn, on November 12. The results of this auction will be announced on November 13, 2018. Other than that, there are upsides from auctions of expressways and a number of train lines. We expect them to take place in 4Q18-1Q19 before a general election. They comprise Bang Pa-in - Nakhon Ratchasima motorway, Bang Yai - Kanchanaburi motorway, the South Purple Line, and the Orange Line. Finally, the Supreme Administrative Court has ruled in favor of NECL, a subsidiary of BEM, in a competitive expressway case and ordered the Expressway Authority of Thailand (EXAT) to pay Bt4bn in damages and interest to NECL. This is equal to Bt0.26 per share. Currently, EXAT is studying on how to make the said payment to NECL.

Risks - A delay in service commencement, lower-than-expected ridership on the Blue Line's extensions, a delay in motorway and train lines auctions

3Q18E Earnings Preview

(Bt mn)	3Q18E	2Q18	%Q-Q	3Q17	%Y-Y
Revenue	3,959	3,799	4.2	3,900	1.5
Costs	2,383	2,321	2.7	2,305	3.4
Gross profit	1,576	1,479	6.6	1,595	-1.1
SG&A costs	291	312	-6.8	251	16.1
Interest charge	440	430	2.4	364	20.7
Norm profit	905	794	14.0	940	-3.7
Net profit	3,217	978	228.9	940	242.3
Gross margin (%)	39.8	38.9	0.9	40.9	-1.1
Norm earnings margin (%)	22.9	20.9	2.0	24.1	-1.2
Net profit margin (%)	81.3	25.7	55.5	24.1	57.2

Source: FSS Research

Figure 1: Daily Average Traffic (thousand trips)

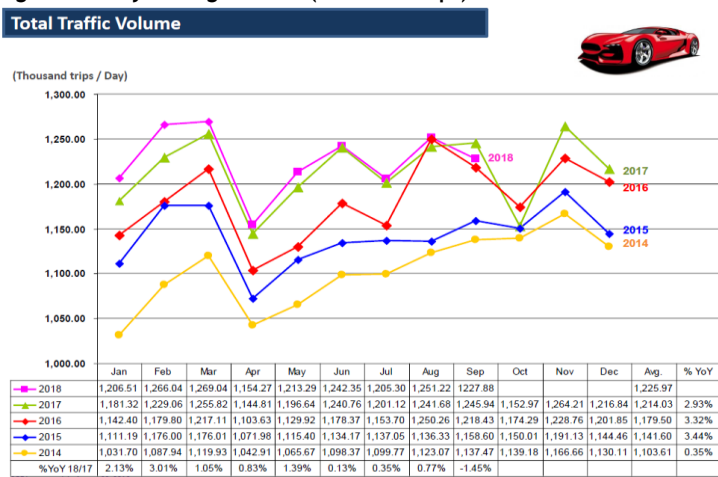


Figure 2: Daily Average Ridership (thousand trips)

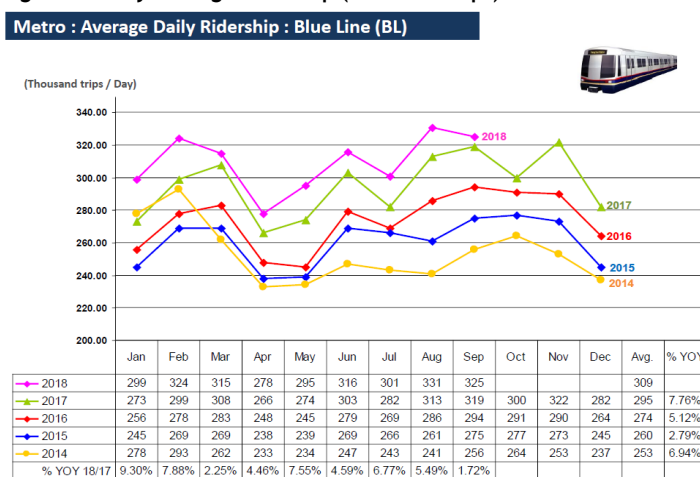


Figure 3: Blue Line Extensions



Source: BEM Presentation

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	16,255	18,023	Net profit	2,650	2,606	3,123	5,950	4,101
Cost of sales	7,094	8,247	9,206	9,858	10,881	Depreciation etc.	3,226	3,911	3,941	3,900	3,957
Gross profit	4,643	4,857	5,947	6,397	7,142	Change in working cap	18,940	-24,813	6,814	1,409	638
SG&A	1,115	1,131	1,144	1,268	1,382	Other adjustments	0	0	0	0	0
Operating profit	3,528	3,727	4,803	5,129	5,759	CFO	24,816	-18,297	13,879	11,259	8,696
Other income	69	98	240	550	699	Capital expenditure	-8,797	-4,601	-22,108	-3,836	-6,468
EBIT	4,059	4,591	5,449	6,134	6,852	Others	-1,679	-625	-906	-779	0
EBITDA	7,285	8,502	9,390	10,035	10,809	CFI	-10,476	-5,226	-23,014	-4,616	-6,468
Interest charge	1,934	1,446	1,611	1,720	1,745	Free cash flow	14,340	-23,523	-9,136	6,643	2,228
Tax on income	721	563	696	883	996	Net borrowings	-12,505	21,770	12,712	-1,738	268
Earnings after tax	1,403	2,582	3,142	3,531	4,111	Equity capital raised	-12,915	0	0	0	0
Minority interest	51	7	19	7	10	Dividends paid	-1,925	-1,834	-1,834	-4,165	-2,871
Normalized earnings	1,352	2,575	3,123	3,524	4,101	Others	15,112	-119	108	7	10
Extraordinary items	1,298	31	0	2,426	0	CFF	-12,233	19,817	10,986	-5,896	-2,593
Net profit	2,650	2,606	3,123	5,950	4,101	Net change in cash	2,106	-3,706	1,850	747	-365

Balance Sheet (Consolidated)						Important Ratios (Consolidated)					
(Bt mn)	2015	2016	2017	2018E	2019E		2015	2016	2017	2018E	2019E
Cash	4,483	777	2,627	3,374	3,009	Growth (%)					
Current investment	497	5,941	1,449	1,449	1,449	Revenue	4.5	11.6	15.6	7.3	10.9
Accounts receivable	649	2,371	2,076	1,536	1,549	EBITDA	-2.9	16.7	10.4	6.9	7.7
Other current asset	240	130	128	128	128	Net profit	-3.5	-1.7	19.9	90.5	-31.1
Total current assets	5,869	9,219	6,280	6,487	6,136	Normalized earnings	-38.8	90.4	21.3	12.8	16.4
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	39.4	39.6
Other assets	2,296	2,040	15,122	14,491	13,084	EBITDA margin	62.1	64.9	62.0	61.7	60.0
Total Assets	78,120	82,786	98,919	99,842	102,001	EBIT margin	34.6	35.0	36.0	37.7	38.0
Short-term loans	22,410	4,716	3,629	3,500	4,000	Norm profit margin	11.5	19.6	20.6	21.7	22.8
Account payable	2,580	819	2,108	3,584	3,956	Net profit margin	22.6	19.9	20.6	36.6	22.8
Current maturities	1,619	3,567	5,409	4,954	4,698	Normalized ROA	1.8	3.2	3.3	3.5	4.1
Other current liabilities	707	456	437	414	448	Normalized ROE	4.9	8.7	10.1	11.0	12.2
Total current liabilities	27,315	9,558	11,583	12,452	13,103	Normalized ROCE	6.2	7.0	7.7	8.7	7.2
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	2.03
Total non-cu	21,675	43,445	56,157	54,419	54,687	Net D/E	1.35	1.57	1.81	1.64	1.61
Total liabilities	48,990	53,003	67,740	66,871	67,790	Net debt/EBITDA	5.40	5.52	6.01	5.39	5.10
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	0.39	0.27
Share Premium	5,817	5,817	5,817	5,817	5,817	Normalized EPS	0.09	0.17	0.20	0.23	0.27
Legal reserve	800	929	1,077	1,375	1,580	EBITDA	0.48	0.56	0.61	0.66	0.71
Retained earnings	7,254	7,764	8,948	10,436	11,461	Book value	1.91	1.95	2.04	2.16	2.24
Others	-113	-105	-60	-60	-60	Dividend	0.07	0.11	0.13	0.15	0.17
Minority Interest	86	93	111	118	128	Par	1.00	1.00	1.00	1.00	1.00
Shareholders' equity	29,130	29,783	31,179	32,971	34,211	Valuations (x)					
						P/E	48.5	49.3	41.1	21.6	31.3
						Norm P/E	95.0	49.9	41.1	36.4	31.3
						P/BV	4.4	4.3	4.1	3.9	3.8
						EV/EBITDA	23.7	21.2	20.6	19.1	17.9
						Dividend yield (%)	0.8	1.3	1.5	1.7	2.0

Source: Company data, FSS research

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Pratumtee

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Tumbon Sriracha
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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

197/29, 213/3
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., Room B1-1, B1-2
Tumbon Maehia
Chiangmai

Chiangrai

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

Measai

119 Moo 10,
Tumbon Maesai,
Aumphoe Muang, Cheangrai

Nakornratchasima

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Mitrphap road Tumbon Nai Muang
Aumphoe Muang Nakornratchasima
Nakornratchasima

Samutsakorn

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Trang

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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 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.