

BEM (BEM TB)

Bangkok Expressway and Metro

Current	Previous	Close	2019 TP	Exp Return	THAI CAC	CG 2017
BUY	BUY	8.70	9.70	+11.5%	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	5,839	4,101
Normalized EPS (Bt)	0.17	0.20	0.23	0.27
EPS (Bt)	0.17	0.20	0.38	0.27
% growth	-1.7	19.9	87.0	-29.8
Dividend (Bt)	0.1	0.1	0.1	0.2
BV/share (Bt)	1.9	2.0	2.3	2.3
EV/EBITDA (x)	21.8	21.1	19.4	18.1
Normalized PER (x)	51.6	42.6	37.7	32.4
PER (x)	51.0	42.6	22.8	32.4
PBV (x)	4.5	4.3	3.8	3.7
Dividend yield (%)	1.3	1.5	1.7	2.0
ROE (%)	8.7	10.0	16.9	11.5
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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3Q18 profits strong, in line plus catalyst ahead

3Q18 net profit up 219% Q-Q and 232% Y-Y

BEM's 3Q18 net profit comes in strong. It jumped 219% Q-Q and 232% Y-Y to Bt3.1bn thanks to an extra gain of Bt2.2bn from sales of CKP shares. It comprises a gain of Bt171mn from such sales and a non-cash gain of about Bt2bn from the company's adjustment of the fair value of its investment. Excluding the said items, the company's normalized earnings are equal to Bt918mn (+16% Q-Q, -2% Y-Y), in line with both our estimate and the street forecast. The Q-Q gain is made possible by the followings. First, revenues increased 4% Q-Q to Bt3.9bn, its seven-quarter high, thanks to growth in all of its three businesses in line with seasonality because there were a small number of holidays in 3Q. Second, gross margin widened to 39.4% (vs. 38.9% in 2Q18) thanks to improved margin at its mass transit unit. Third, profit sharing surged 21% Q-Q in line with TTW which recorded significantly higher sales. Fourth, SG&A expense-to-revenues ratio decreased to 7% (vs. 8.2% in 2Q18). The modest Y-Y loss can be blamed on gross margin which narrowed to 39.4% (vs. 40.9% in 3Q17) after its expressway unit booked a higher amortization expense. Moreover, its mass transit unit's maintenance and repair expenses were up.

Maintain 2018 estimate, expect 2019 normalized earnings to continue to grow

BEM's 9M18 normalized earnings amount to Bt2.5bn (+7% Y-Y). It's enough to secure 72% of our full-year estimate. Looking ahead, we expect the company's 4Q18 profit to slow Q-Q due to seasonal factor because there are a large number of holidays in 4Q. However, it will increase Y-Y in line with a rise in both daily average traffic and ridership, decreased funding cost after BEM's debt restructuring, and a rise in the Blue Line's fare by Bt1 at the 5th, 8th, and 11th station starting from December 1, 2018. Given that, we stand by our 2018E normalized earnings of Bt3.5bn (+13% Y-Y) and expect the company's normalized earnings to continue to jump 16% Y-Y to Bt4.1bn in 2019. Such gain should be supported by the Blue Line's second extension, totaling 13 stations. It is expected to help support daily average ridership from 310,000 to 400,000 trips.

Roll over to 2019 TP of Bt9.7, maintain BUY rating

We have rolled over to our 2019 DCF-based TP of Bt9.7 (WACC 5.6%), which assumes more conservative assumptions. To elaborate, we now expect no expressway toll increase (vs. a Bt5 gain in every five years). In this regard, we anticipate expressway toll to be equal to the rate in 1H18 throughout the concessions. After which, we retain our BUY rating on BEM because the company's profit looks set to continue to grow in 2019. What's more, there are a number of upsides. They comprise the followings. First, BEM will submit bid envelope for the high speed train project to connect three airports today (i.e. November 12). Second, there is a compensation payment of about Bt4bn in a competitive lawsuit with EXAT. It's equal to Bt0.26 per share and is predicted to be finalized in December 2018. Third, BEM will offer bids for Bang Pa-in - Nakhon Ratchasima and Bang Yai - Kanchanaburi motorways, the South Purple Line, and the Orange Line in 4Q18-1Q19. Fourth, BEM will discuss a renewal for its concessions of Sri-Rat Expressway, which will expire in February 2020. It's expected to be finalized in 2019. Fifth, an arbitral tribunal has ruled in favor of BEM, asking EXAT to make a penalty payment of Bt9bn plus Bt7.9bn in interest, in a case where EXAT failed to let BEM raise expressway toll as agreed upon. This is yet to be over and we expect progress in 2019.

Risks: a delay in service commencement, lower-than-expected ridership for the Blue Line's extensions, a delay in the auction of motorways and train lines

3Q18 Earnings Results						
(Bt mn)	3Q18	2Q18	%Q-Q	3Q17	%Y-Y	Comment
Revenue	3,947	3,799	3.9	3,900	1.2	<ul style="list-style-type: none"> In 3Q18, revenues increased 4% Q-Q and 1% Y-Y. To elaborate, revenues from expressway unit were up 3% Q-Q and flat Y-Y. Revenues from mass transit business increased 5% Q-Q and 4% Y-Y. Revenues from commercial unit were up 4% Q-Q and decreased 7% Y-Y. The gross margin of BEM's mass transit unit widened to 23.7% (vs. 20.7% in 2Q18) thanks to economies of scale. Funding cost (excluding the interest paid on the long-term loan for the Purple Line) dropped 14% Q-Q to Bt312mn thanks to the company's refinance of its debts on Sri-Rat Expressway in 1Q18.
Costs	2,394	2,321	3.1	2,305	3.8	
Gross profit	1,553	1,479	5.0	1,595	-2.6	
SG&A costs	275	312	-11.8	251	9.9	
Interest charge	420	430	-2.3	364	15.2	
Norm profit	918	794	15.7	940	-2.3	
Net profit	3,119	978	218.9	940	231.9	
Gross margin (%)	39.4	38.9	0.4	40.9	-1.5	
Norm earnings margin (%)	23.3	20.9	2.4	24.1	-0.8	
Net profit margin (%)	79.0	25.7	53.3	24.1	54.9	

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	16,255	18,023	Net profit	2,650	2,606	3,123	5,839	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	11,148	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	6,532	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	-2,467	-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	2,315	0	CFF	-12,233	19,817	10,986	-4,198	-2,593
Net profit	2,650	2,606	3,123	5,839	4,101	Net change in cash	2,106	-3,706	1,850	2,334	-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	4,961	4,596	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	87.0	-29.8
Total current assets	5,869	9,219	6,280	8,074	7,723	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	101,429	103,588	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	35.9	22.8
Current maturities	1,619	3,567	5,409	4,954	4,698	Normalized ROA	1.8	3.2	3.3	3.5	4.0
Other current liabilities	707	456	437	414	448	Normalized ROE	4.9	8.7	10.1	10.7	11.7
Total current liabilities	27,315	9,558	11,583	12,452	13,103	Normalized ROCE	6.2	7.4	7.9	8.5	7.0
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	1.94
Total non-cu	21,675	43,445	56,157	54,419	54,687	Net D/E	1.35	1.57	1.81	1.52	1.50
Total liabilities	48,990	53,003	67,740	66,871	67,790	Net debt/EBITDA	5.40	5.52	6.01	5.23	4.96
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	0.38	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	1,369	1,574	EBITDA	0.48	0.56	0.61	0.66	0.71
Retained earnings	7,254	7,764	8,948	12,029	13,054	Book value	1.91	1.95	2.04	2.26	2.34
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	34,558	35,799	Valuations (x)					
						P/E	50.2	51.0	42.6	22.8	32.4
						Norm P/E	98.4	51.6	42.6	37.7	32.4
						P/BV	4.6	4.5	4.3	3.8	3.7
						EV/EBITDA	24.4	21.8	21.1	19.4	18.1
						Dividend yield (%)	0.8	1.3	1.5	1.7	2.0

Source: Company data, FSS research

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Khonkaen

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Chiangmai 3

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Pattane

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Tumbon Mak Khaeng,
Aumphoe Muang Udon Thani,
Udon Thani

Measai

119 Moo 10,
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Aumphoe Muang, Cheangrai

Hatyai 2

106 Prachathipat Road,
Aumphoe Hadyai, Songkhla

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.