

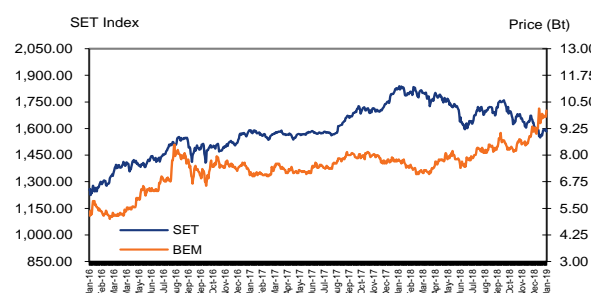
Current	Previous	Close	2019 TP	Exp Return	THAI CAC	CG 2018
<b>BUY</b>	BUY	10.20	11.70	+14.7%	N/A	4

Consolidated earnings				
BT (mn)	2016	2017	2018E	2019E
Normalized earnings	2,575	3,123	3,524	4,086
Net profit	2,606	3,123	5,839	4,086
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	-30.0
Dividend (Bt)	0.1	0.1	0.1	0.2
BV/share (Bt)	1.9	2.0	2.3	2.3
EV/EBITDA (x)	24.5	23.5	21.7	20.3
Normalized PER (x)	60.6	49.9	44.2	38.2
PER (x)	59.8	49.9	26.7	38.2
PBV (x)	5.2	5.0	4.5	4.4
Dividend yield (%)	1.1	1.3	1.4	1.7
ROE (%)	8.7	10.0	16.9	11.4
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 (14/01/2019)	10.20
SET Index	1,582.57
Foreign limit/actual (%)	49.00/10.71
Paid up shares (million)	15,285.00
Free float (%)	53.75
Market cap (Bt m)	155,907.00
Avg daily T/O (Bt m) (2019 YTD)	692.82
hi, lo, avg (Bt) (2019 YTD)	10.30, 9.70, 9.90

Source: SetSMARTS



Source: SET

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## Profit set to be strong in 4Q18 and sees several catalysts in 2019

Our forecast calls for BEM's 4Q18 normalized earnings to amount to Bt828mn. It's up by 9% Y-Y thanks to increased traffic and ridership. Moreover, interest expense should decrease after debt restructuring. However, it drops 10% Q-Q due to annual employee expenses. Looking ahead, 2019 will continue to be a good year for BEM. To elaborate, we expect the company's normalized earnings at Bt4bn (+16% Y-Y), supported by an opening of the Blue Line's extension (Phase 2) in August 2019. Moreover, there will be catalysts from BEM's participation in a large number of auctions. They will serve as upside risk for our future estimate. We retain our BUY rating on BEM after we have revised up our 2019 TP to Bt11.7 to factor in the value of an extended expressway concession. In the near term, we recommend that investors keep an eye on the high-speed train project to connect three airports because results will be announced late this month.

### Expect 4Q18 normalized earnings to decrease Q-Q and increase Y-Y

Our forecast calls for BEM's 4Q18 normalized earnings to amount to Bt828mn (-10% Q-Q, +9% Y-Y). It should be supported by the followings. First, we expect revenues to be equal to about Bt4bn (+4% Y-Y) thanks to revenues from its expressway unit which are anticipated to increase 3% Y-Y after daily average traffic was organically up by 3% Y-Y to 1.24mn trips. Moreover, we expect revenues from its mass transit business to increase 8% Y-Y, in line with daily average ridership which climbed to 318,000 trips (+6% Y-Y). Second, we expect funding cost to decrease by 12% Y-Y thanks to the debt restructuring in 1Q18. However, we expect BEM's normalized earnings to decrease Q-Q due to SG&A expense which is anticipated to jump 23% Q-Q owing to annual employee expense. Profit sharing from associates is predicted to drop 35% Q-Q in line with TTW whose earnings are expected to decline in line with seasonality. Given that, we stand by our 2018E normalized earnings at Bt3.5bn (+13% Y-Y). However, there is a modest downside of about 5% due to lower-than-expected daily average traffic.

### 2019 normalized earnings likely to continue to accelerate thanks to catalysts

2019 is a good year for BEM. In terms of performance, we expect the company's normalized earnings to continue to jump by 16% Y-Y to Bt4bn. It will be supported mainly by an opening of the Blue Line's extension (Phase 2) which has 13 stations. It's expected that this will support daily average ridership to increase from 310,000 trips to 400,000 trips. Besides that, there are several more catalysts as follow. First, the Board of the Expressway Authority of Thailand (EXAT) has resolved to extend BEM's concession for the second stage expressway, including Section A, B, C, D, and C+ by 37 years in exchange for a settlement of all pending lawsuits and outstanding debts, amounting to Bt130bn. Currently, the matter is being considered by a committee before it's proposed to the Cabinet for an approval. It's expected that there will be a conclusion in 1Q19. This will unlock any concern over BEM's concession for the second stage expressway, which will expire in 2020, because it's the company's main source of revenues contributing 40% of total income. It will support profit growth because traffic looks set to increase while profitability will be up due to decreased depreciation expense. Second, BEM has participated in an auction for the high-speed train project to connect three airports in a joint venture with the CP Group. This project is valued at Bt200bn and BEM's stake is 10%. The State Railway of Thailand has announced that the CP Group offered the lowest price. Currently, it's under negotiation. It's expected that official results will be announced in late January 2019. Third, the Orange Line is expected to open for auctions in 2Q19. This project is valued at Bt140bn. It comprises constructions of the West Orange Line and O&M works for the entire line of 30 stations, including 23 underground and seven above the ground. We view that BEM has a high possibility to win this project because the company is the only underground train operator in Thailand. What's more, there are stations connecting to the Blue Line. Other than that, there are chances that BEM will participate in auctions for O&M works for Bang Pa-In - Nakhon Ratchasima motorway, Bang Yai - Kanchanaburi motorway, and the South Purple Line; all of which are expected to take place this year.

**Maintain BUY rating after TP revised up to Bt11.7**

We value an extended expressway concession at Bt2 per share. Hence, we have revised up our 2019 TP from Bt9.7 to Bt11.7. After which, we retain our BUY rating on BEM. The company's profit looks set to remain strong. Furthermore, there is an upside from a large number of auctions. BEM has an advantage over its rivals. The company has capability to manage both rail and expressway systems. In the near term, we recommend that investors keep an eye on the auction for the high-speed train project to connect three airports. The results will be announced in January 2019. What's more, pay attention to the progress of the company's negotiation to extend its expressway concession.

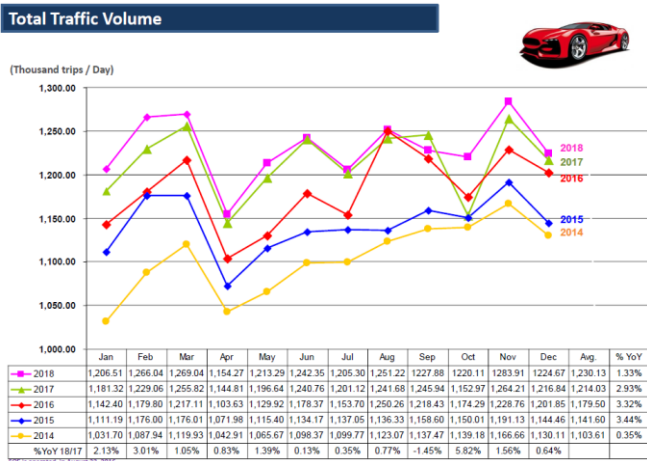
*Risks - A delay in service commencement, lower-than-expected ridership on the Blue Line's extension, a delay in motorway and train line concessions, Cabinet's decision not to approve an extension to expressway concession*

**4Q18E Earnings Preview**

(Bt mn)	4Q18E	3Q18	%Q-Q	4Q17	%Y-Y
Revenue	3,977	3,947	0.8	3,817	4.2
Costs	2,412	2,394	0.8	2,303	4.8
Gross profit	1,565	1,553	0.8	1,514	3.3
SG&A costs	340	275	23.5	345	-1.3
Interest charge	430	420	2.4	487	-11.7
Norm profit	828	918	-9.8	760	9.0
Net profit	828	3,119	-73.4	758	9.2
Gross margin (%)	39.3	39.4	0.0	39.7	-0.3
Norm earnings margin (%)	20.8	23.3	-2.4	19.9	0.9
Net profit margin (%)	20.8	79.0	-58.2	19.9	1.0

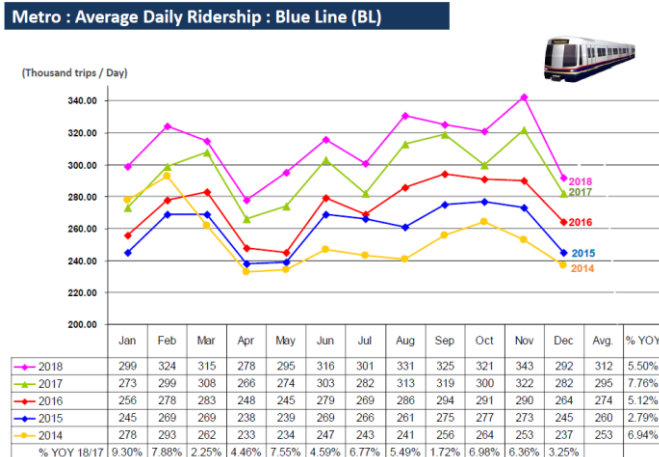
Source: FSS Research

**Figure 1: Daily Average Traffic (thousand trips)**



Source: BEM Monthly report

**Figure 2: Daily Average Ridership (thousand trips)**



Source: BEM Monthly report

Figure 3: Blue Line Extension



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	5,839	4,086
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	1,400	Other adjustments	0	0	0	0	0
Operating profit	3,528	3,727	4,803	5,129	5,741	CFO	24,816	-18,297	13,879	11,148	8,682
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	6,834	Others	-1,679	-625	-906	-779	0
EBITDA	7,285	8,502	9,390	10,035	10,791	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	2,214
Tax on income	721	563	696	883	992	Net borrowings	-12,505	21,770	12,712	-1,738	268
Earnings after tax	1,403	2,582	3,142	3,531	4,096	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	-2,861
Normalized earnings	1,352	2,575	3,123	3,524	4,086	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	-2,583
Net profit	2,650	2,606	3,123	5,839	4,086	Net change in cash	2,106	-3,706	1,850	2,334	-369

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	4,592	<b>Growth (%)</b>					
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	7.5
Other current asset	240	130	128	128	128	Net profit	-3.5	-1.7	19.9	87.0	-30.0
Total current assets	5,869	9,219	6,280	8,074	7,718	Normalized earnings	-38.8	90.4	21.3	12.8	15.9
Investment	10,870	11,026	11,367	11,367	11,367	<b>Profitability (%)</b>					
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	59.9
Total Assets	78,120	82,786	98,919	101,429	103,584	EBIT margin	34.6	35.0	36.0	37.7	37.9
Short-term loans	22,410	4,716	3,629	3,500	4,000	Norm profit margin	11.5	19.6	20.6	21.7	22.7
Account payable	2,580	819	2,108	3,584	3,956	Net profit margin	22.6	19.9	20.6	35.9	22.7
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	11.6
Total current liabilities	27,315	9,558	11,583	12,452	13,103	Normalized ROCE	6.2	7.0	7.7	8.6	9.2
Long-term debt	21,421	42,956	55,436	53,915	54,183	<b>Risk (x)</b>					
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	4.97
Registered capital	15,285	15,285	15,285	15,285	15,285	<b>Per share data (Bt)</b>					
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	13,050	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	35,794	<b>Valuations (x)</b>					
						P/E	58.8	59.8	49.9	26.7	38.2
						Norm P/E	115.3	60.6	49.9	44.2	38.2
						P/BV	5.4	5.2	5.0	4.5	4.4
						EV/EBITDA	27.5	24.5	23.5	21.7	20.3
						Dividend yield (%)	0.7	1.1	1.3	1.4	1.7

Source: Company data, FSS research

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### Sriracha

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Aumphoe Sriracha, Chonburi

### Chiangmai 1

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Muang  
Chiangmai

### Nakornratchasima

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Aumphoe Muang Nakornratchasima  
Nakornratchasima

### Hatyai 3

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### Thaisummit Tower

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Bangkok

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Bangna-Trad Road, Bangna,  
Bangkok

### Prachachuen

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Ladyao, Jutujak, Bangkok

### Khonkaen 1

311/16 2nd Floor, Klangmeung  
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Aumphoe Meung,  
Khonkaen

### Chiangmai 2

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Chang Klan R., Chang Klan  
Muang  
Chiangmai

### Samutsakorn

813/30 Norrasing Road,  
Tumbon Maha Chai,  
Aumphoe Meungsamutsakorn,  
Samutsakorn

### Trang

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Tumbon Thaptieng,  
Aumphoe Meungtrang, Trang

### Alma Link

9th, 14th, 15th Fl.,  
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Patumwan, Bangkok

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2rd Floor, Wireless Road,  
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Bangkok

### Rang sit

1/832 Moo 17  
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Pratumtee

### Khonkaen 2

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Aumphoe Meung Khonkaen,  
Khonkaen

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Tumbon Maehia  
Chiangmai

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Tumbon Talad Yai,  
Amphoe Muang Phuket,  
Phuket

### Suratthani

173/83-84 Moo 1  
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Aumphoe Mueang, Suratthani

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Aumphoe Meung Khonkaen,  
Khonkaen

### Chiangrai

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Aumphoe Meung, Pattane

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576 Rattanatibet Road,  
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Aumphoe Muang, Nonthaburi

### Udonthani

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Udon Dusadee Road,  
Tumbon Mak Khaeng,  
Aumphoe Muang Udon Thani,  
Udon Thani

### Measai

119 Moo 10,  
Tumbon Maesai,  
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 2018**

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 2018 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 August 31, 2018) are categorised into:

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