

BUY (Unchanged)

Company Update

TP: Bt 13.00 (Unchanged)

Upside : 36.1%

7 OCTOBER 2021

BTS Group Holdings Pcl (BTS TB)

Indirect beneficiary

We view BTS as an indirect beneficiary of the country's reopening. Although we project its earnings to fall by 5-17% y-y in FY22-24F, this is due to lower non-cash construction earnings from the completion of the Pink and Yellow lines. The concession extension is delayed but we still expect BTS to win it, boosting its long-term core value. BUY.



SAKSID PHADTHANARAK

662 – 779 9112
saksid.pha@thanachartsec.co.th

A reopening play but we prefer BEM

BTS is another play on the country's reopening but we prefer Bangkok Expressway and Metro (BEM TB, Bt8.9, BUY) (see our BEM report, *A reopening play*, 13 September 2021). **First**, BEM is a direct play on a recovery of its traffic volume and ridership while BTS is an indirect beneficiary (see the next paragraph).

Second, we estimate BEM's earnings growth at 277% y-y in 2022F and 47% y-y in 2023F vs. BTS's earnings drop of 5-17% for FY23-24F (BTS's fiscal year ends in March). **Third**, valuation looks less expensive at PE multiples of 42-61x in 2022-23F vs. BTS's 64-67x in FY23-24F. **Finally**, we also see BEM as a potential winner of the West Orange Line which we expect to open for bidding next year.

Core earnings weighed down by non-core items

We see BTS as an indirect beneficiary of the country reopening as 63% of its core revenue comes from O&M services where fee income is based on the mass-transit line distance while it should enjoy a recovery in ridership and ad spend once Thailand reopens via its 33%-owned BTS Rail Mass Transit (BTSGIF TB, Bt4.6, BUY) and 52%-owned VGI (VGI TB, Bt6.4, HOLD). Unfortunately, core earnings growth will likely be impacted by lower non-cash construction earnings from completion of the Pink and Yellow lines' construction and our forecast for the Pink and Yellow lines to make losses in the first four years of operation. We thus project BTS's earnings to fall by 5-17% over FY23-24F.

Concession extension only delayed

Despite delays in cabinet approval, we still expect BTS to be awarded the 30-year concession extension to operate the Green Line network as we believe this is the best method for the government with its tight budget to exchange for **1)** a lower fare for the longest trip of Bt65 instead of Bt158, **2)** Bt32bn in debt the Bangkok Metropolitan Administration (BMA) owes BTS for operating the Green Line extensions and signaling system investments, **3)** some debt services which the BMA owes the Mass Rapid Transit Authority (MRTA) from taking over the Green Line extensions, and **4)** BMA's fare subsidization on the Green Line extensions which causes a loss of around Bt3-4bn a year.

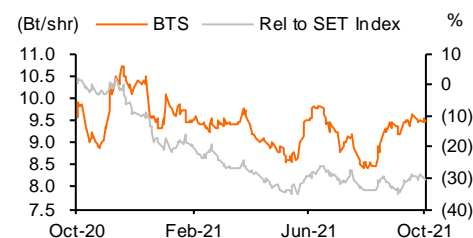
Maintaining BUY

Despite this, we maintain our BUY rating on BTS as its earnings decline is mainly from non-core non-cash items while we still expect the 30-year concession extension to boost long-term core value. In our DCF-derived SOTP-based 12-month TP of Bt13/sh, Bt9.8 comes from its mass-transit business, Bt2.1 from VGI and Bt0.9 from its 40%-owned BSGR Consortium and 36%-owned U City (U TB, not rated).

COMPANY VALUATION

Y/E Mar (Bt m)	2021A	2022F	2023F	2024F
Sales	35,128	24,185	11,058	11,832
Net profit	4,576	2,349	1,956	1,863
Norm profit	2,544	2,349	1,956	1,863
Consensus NP	—	3,025	3,467	4,159
Diff frm cons (%)	—	(22.4)	(43.6)	(55.2)
Prev. Norm profit	—	2,349	1,932	1,833
Chg frm prev (%)	—	0.0	1.2	1.7
Norm EPS (Bt)	0.2	0.2	0.1	0.1
Norm EPS grw (%)	(29.6)	(7.7)	(16.7)	(4.8)
Norm PE (x)	49.4	53.5	64.2	67.4
EV/EBITDA (x)	45.7	65.0	76.8	67.6
P/BV (x)	2.1	2.1	2.1	2.1
Div yield (%)	4.8	1.1	0.9	0.9
ROE (%)	4.4	4.0	3.3	3.1
Net D/E (%)	115.6	140.8	151.2	150.9

PRICE PERFORMANCE

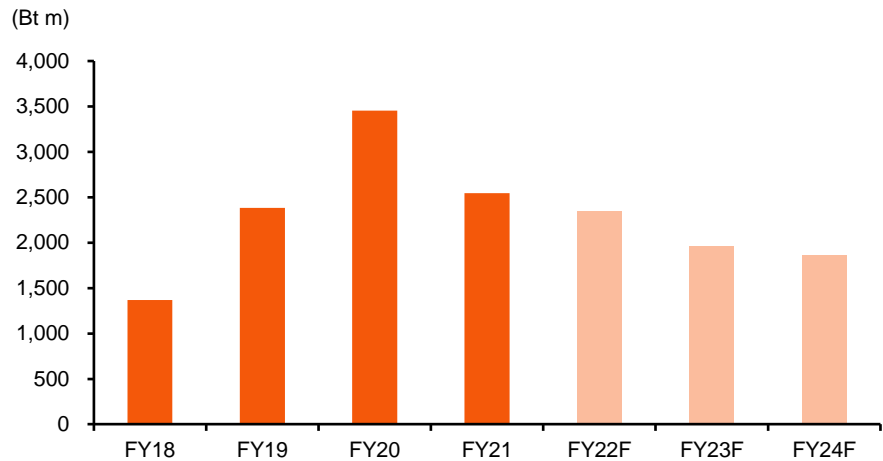


COMPANY INFORMATION

Price as of 7-Oct-21 (Bt)	9.55
Market Cap (US\$ m)	3,720.6
Listed Shares (m shares)	13,163.2
Free Float (%)	59.7
Avg Daily Turnover (US\$ m)	11.5
12M Price H/L (Bt)	10.70/8.40
Sector	Transportation
Major Shareholder	Mr. Keeree Kanjanapas's group
	41%

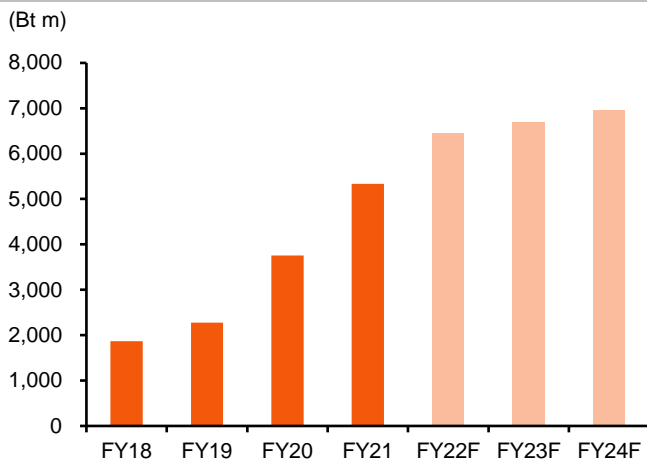
Sources: Bloomberg, Company data, Thanachart estimates

Ex 1: Our Estimates For BTS's Norm Earnings Driven By...



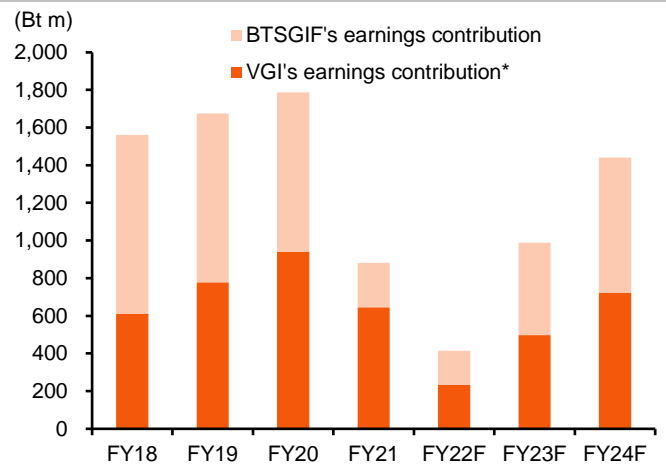
Sources: Company data, Thanachart estimates

Ex 2: ...BTS's O&M Revenue Growth And...



Sources: Company data; Thanachart estimates

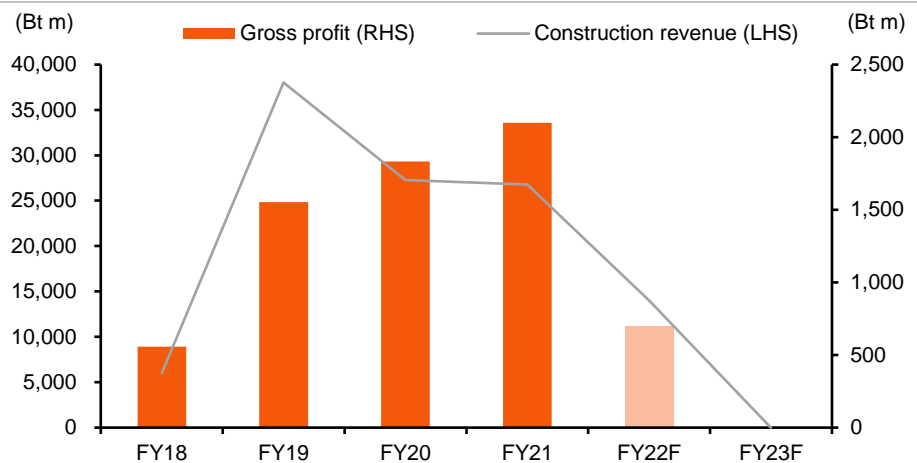
Ex 3: ...BTSGIF & VGI's Earnings Turnaround But...



Sources: Company data; Thanachart estimates

*VGI's earnings contribution to BTS is calculated based on BTS's stake in VGI.

Ex 4:Being Weighed Down By Lower Non-core Construction Earnings



Sources: Company data, Thanachart estimates

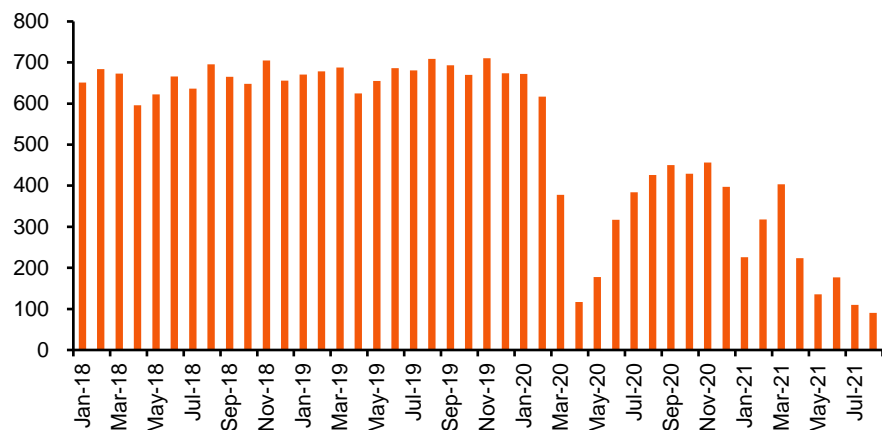
Ex 5: Our Sum-of-the-parts Valuation For BTS

Bt per BA share	% Holding	Our value
O&M services & Pink and Yellow lines	—	5.5
Additional value for the concession extension	—	3.5
VGI	50.9	2.1
BTSGIF	33.3	0.8
BGSR	40.0	0.7
U City	36.2	0.2
MACO	14.6	0.0
Total	—	13.0

Source: Thanachart estimates

Ex 6: Core Green Line's Ridership

(average passengers per day)



Source: Company data

Ex 7: 12-month DCF-derived SOTP-based TP Calculation, Using a FY22F Base Year

(Bt m)	FY22F	FY23F	FY24F	FY25F	FY26F	FY27F	FY28F	FY29F	FY30F	FY31F	FY32F	FY33F	Terminal Value (FY36F)
EBITDA excl. depreciation from right of use	3,563	3,135	3,579	4,635	5,713	6,570	7,606	8,733	9,952	8,632	9,241	9,920	—
Free cash flow	(23,016)	(18,499)	3,182	7,020	8,981	9,817	10,730	11,731	12,816	11,256	12,370	8,172	263,725
PV of free cash flow	(22,953)	(16,669)	2,721	5,603	6,775	7,004	7,235	7,477	7,721	6,167	6,380	3,958	106,545
Risk-free rate (%)	2.5												
Market risk premium (%)	8.0												
Beta	1.0												
WACC (%)	5.4												
Terminal growth (%)	2.0												
Enterprise value - add investments	144,565												
Net debt (end FY21)	87,894												
Minority interest	15,876												
Equity value	40,795												
No. of shares	13,155												
Equity value/share	3.1												

Investment:	% holding	(Bt m)
Enterprise value from the core business		144,565
Investment equity value		23,027
MACO	14.6%	552
U City	36.2%	3,050
BTSGIF	33.3%	10,224
BGSR	40.0%	9,200
New farebox concession contract		105,860
Total enterprise value		273,452
(Less) Net debt		87,894
(Less) Minority interest		15,876
Total enterprise value		169,682
# of shares (fully diluted) (m shares)		13,155
Sum-of-the-parts		13.00

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 8: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth		— PE —		— P/BV —		EV/EBITDA		Div yield	
			21F	22F	21F	22F	21F	22F	21F	22F	21F	22F
			(%)	(%)	(x)	(x)	(x)	(x)	(x)	(x)	(%)	(%)
MTR Corp	66 HK	Hong Kong	116.3	60.3	27.9	17.4	1.5	1.4	25.5	13.4	2.9	3.0
Kintetsu Corp	9041 JP	Japan**	na	15.7	31.6	27.3	2.1	1.9	32.9	18.7	0.2	1.0
Odakyu Electric Railway	9007 JP	Japan**	na	154.9	122.0	47.9	2.5	2.4	26.5	19.6	0.4	0.7
Hankyu Hanshin Holdings	9042 JP	Japan**	na	287.7	82.8	21.4	0.9	0.9	20.8	13.8	1.5	1.5
BTS Group Holdings*	BTS TB**	Thailand	(7.7)	(16.7)	53.5	64.2	2.1	2.1	65.0	76.8	1.1	0.9
Average			54.3	100.4	63.6	35.6	1.8	1.7	34.1	28.5	1.2	1.4

Source: Bloomberg

Note: * Thanachart estimates, using Thanachart normalized EPS

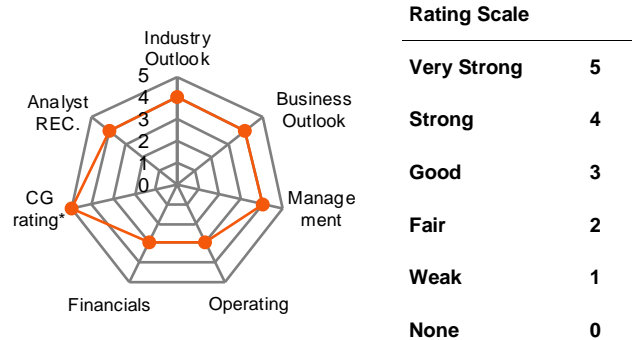
** FY22F year-end March 2022, FY23F year-end March 2023

COMPANY DESCRIPTION

BTS Group Holdings (BTS TB), formerly known as Tanayong Pcl, is a privately owned, multi-industry conglomerate that focus on 3 business platforms: mass transit, out-of-home media and investments in related businesses. Through its subsidiaries and associates, BTS operates the Green Line network, manages the out-of-home media advertising and partners with leading companies to invest in related businesses.

Source: Thanachart

COMPANY RATING



Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- The skytrain business has little competition and offers stable and strong cash flows.
- The service areas of the BTS Skytrain are in the heart of Bangkok with high potential for passenger growth.
- The advertising business on the BTS skytrain and at stations is secured with high gross margins.

O — Opportunity

- Route extensions would help to feed passengers into the BTS Skytrain system.
- The route extensions will also benefit BTS's media business due to more advertising space with higher viewer exposure.

W — Weakness

- Mass transit and related businesses requires high investments causing BTS to often raise funds via loans and capital increases.
- The government could intervene BTS's fare price hikes if people's pockets feel the pinch.

T — Threat

- The disease outbreak and working-from-home trend could result in lower demand for public transport.
- Consumer preference in digital media could cause lower demand for the out-of-home media.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	11.98	13.00	9%
Norm profit 2022F (Bt m)	3,025	2,349	-22%
Norm profit 2023F (Bt m)	3,467	1,956	-44%
Consensus REC	BUY: 14	HOLD: 2	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our FY22-23F earnings are 22-44% below the Bloomberg consensus numbers, which we attribute to us being more conservative on a recovery in ridership and ad spend.
- However, our TP is 9% higher, likely as we are more bullish on the value of the new concession contract.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Delays to skytrain route extensions would be the key downside risk to our call.
- Working-from-home trend and an economic slowdown could put our ridership growth assumptions at risk, while government intervention in fare adjustments could impact our passenger fare assumptions.
- Intense competition, especially from digital media, could put at risk our utilization and advertising rate assumptions for the media business.
- Adverse changes in the terms of the concession and O&M contracts could also cause downside risk to our earnings forecasts.

Source: Thanachart

INCOME STATEMENT

FY ending Mar (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	35,405	35,128	24,185	11,058	11,832
Cost of sales	29,566	28,674	18,969	6,752	7,594
Gross profit	5,839	6,454	5,215	4,306	4,239
% gross margin	16.5%	18.4%	21.6%	38.9%	35.8%
Selling & administration expenses	2,810	2,597	2,660	2,765	2,840
Operating profit	3,029	3,857	2,555	1,541	1,399
% operating margin	8.6%	11.0%	10.6%	13.9%	11.8%
Depreciation & amortization	971	811	1,008	1,594	2,180
EBITDA	4,000	4,668	3,563	3,135	3,579
% EBITDA margin	11.3%	13.3%	14.7%	28.3%	30.2%
Non-operating income	3,276	3,747	3,873	3,639	3,524
Non-operating expenses	0	0	0	0	0
Interest expense	(2,245)	(2,509)	(2,728)	(3,318)	(3,606)
Pre-tax profit	4,060	5,095	3,700	1,861	1,317
Income tax	903	1,019	740	372	263
After-tax profit	3,158	4,076	2,960	1,489	1,054
% net margin	8.9%	11.6%	12.2%	13.5%	8.9%
Shares in affiliates' Earnings	953	(748)	(72)	714	1,073
Minority interests	(656)	(783)	(539)	(247)	(264)
Extraordinary items	4,706	2,032	0	0	0
NET PROFIT	8,162	4,576	2,349	1,956	1,863
Normalized profit	3,455	2,544	2,349	1,956	1,863
EPS (Bt)	0.6	0.3	0.2	0.1	0.1
Normalized EPS (Bt)	0.3	0.2	0.2	0.1	0.1

We expect BTS's earnings to fall in FY22-24F but...

... its core mass-transit business remains solid

BALANCE SHEET

FY ending Mar (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	36,815	32,035	29,942	29,248	29,292
Cash & cash equivalent	20,354	24,595	22,878	22,878	22,878
Account receivables	6,650	957	663	303	324
Inventories	602	602	520	185	208
Others	9,210	5,882	5,882	5,882	5,882
Investments & loans	36,411	34,127	34,127	34,127	34,127
Net fixed assets	41,983	55,448	69,440	77,847	80,667
Other assets	57,891	90,451	89,731	88,479	87,999
Total assets	173,100	212,063	223,241	229,701	232,085
LIABILITIES:					
Current liabilities:	32,915	32,260	31,290	29,412	29,828
Account payables	7,848	5,804	3,898	1,387	1,560
Bank overdraft & ST loans	17,211	17,481	20,006	21,436	21,624
Current LT debt	5,288	4,359	4,988	5,345	5,392
Others current liabilities	2,568	4,616	2,397	1,243	1,252
Total LT debt	66,051	90,650	103,746	111,163	112,139
Others LT liabilities	6,889	13,116	13,036	13,046	13,056
Total liabilities	105,855	136,025	148,072	153,620	155,024
Minority interest	12,323	15,876	16,415	16,661	16,925
Preferreds shares	0	0	0	0	0
Paid-up capital	52,617	52,645	52,619	52,619	52,619
Share premium	10,324	10,371	10,371	10,371	10,371
Warrants	1	0	0	0	0
Surplus	(1,592)	4,923	4,923	4,923	4,923
Retained earnings	(6,428)	(7,777)	(9,158)	(8,493)	(7,776)
Shareholders' equity	54,923	60,162	58,754	59,419	60,136
Liabilities & equity	173,100	212,063	223,241	229,701	232,085

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Mar (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	4,060	5,095	3,700	1,861	1,317
Tax paid	(903)	(1,019)	(740)	(372)	(263)
Depreciation & amortization	971	811	1,008	1,594	2,180
Chg In working capital	(5,885)	3,649	(1,530)	(1,816)	129
Chg In other CA & CL / minorities	(5,774)	6,891	(2,291)	(440)	1,082
Cash flow from operations	(7,530)	15,427	147	826	4,444
Capex	(16,373)	(14,277)	(15,000)	(10,000)	(5,000)
Right of use	0	(803)	(10)	(10)	(10)
ST loans & investments	0	0	0	0	0
LT loans & investments	(3,801)	2,284	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	1,356	(22,993)	651	1,272	500
Cash flow from investments	(18,818)	(35,789)	(14,359)	(8,738)	(4,510)
Debt financing	16,119	23,940	16,251	9,203	1,212
Capital increase	13,684	74	(26)	0	0
Dividends paid	(5,492)	(5,904)	(3,730)	(1,291)	(1,146)
Warrants & other surplus	(174)	6,493	0	0	0
Cash flow from financing	24,135	24,603	12,495	7,912	66
Free cash flow	(23,902)	1,150	(14,853)	(9,174)	(556)

BTS is in an investment cycle to expand its mass-transit network

VALUATION

FY ending Mar	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	34.8	49.4	53.5	64.2	67.4
Normalized PE - at target price (x)	47.3	67.2	72.8	87.4	91.8
PE (x)	14.7	27.5	53.5	64.2	67.4
PE - at target price (x)	20.0	37.4	72.8	87.4	91.8
EV/EBITDA (x)	47.1	45.7	65.0	76.8	67.6
EV/EBITDA - at target price (x)	57.9	55.5	77.7	91.3	80.3
P/BV (x)	2.3	2.1	2.1	2.1	2.1
P/BV - at target price (x)	3.1	2.8	2.9	2.9	2.8
P/CFO (x)	(16.0)	8.1	854.3	152.0	28.3
Price/sales (x)	3.6	3.6	5.2	11.4	10.6
Dividend yield (%)	5.0	4.8	1.1	0.9	0.9
FCF Yield (%)	(19.9)	0.9	(11.8)	(7.3)	(0.4)
(Bt)					
Normalized EPS	0.3	0.2	0.2	0.1	0.1
EPS	0.6	0.3	0.2	0.1	0.1
DPS	0.5	0.5	0.1	0.1	0.1
BV/share	4.2	4.6	4.5	4.5	4.6
CFO/share	(0.6)	1.2	0.0	0.1	0.3
FCF/share	(1.9)	0.1	(1.1)	(0.7)	(0.0)

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Mar	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(20.5)	(0.8)	(31.2)	(54.3)	7.0
Net profit (%)	184.1	(43.9)	(48.7)	(16.7)	(4.8)
EPS (%)	170.8	(46.4)	(48.7)	(16.7)	(4.8)
Normalized profit (%)	45.0	(26.4)	(7.7)	(16.7)	(4.8)
Normalized EPS (%)	38.2	(29.6)	(7.7)	(16.7)	(4.8)
Dividend payout ratio (%)	77.4	132.2	60.0	60.0	60.0
Operating performance					
Gross margin (%)	16.5	18.4	21.6	38.9	35.8
Operating margin (%)	8.6	11.0	10.6	13.9	11.8
EBITDA margin (%)	11.3	13.3	14.7	28.3	30.2
Net margin (%)	8.9	11.6	12.2	13.5	8.9
D/E (incl. minor) (x)	1.3	1.5	1.7	1.8	1.8
Net D/E (incl. minor) (x)	1.0	1.2	1.4	1.5	1.5
Interest coverage - EBIT (x)	1.3	1.5	0.9	0.5	0.4
Interest coverage - EBITDA (x)	1.8	1.9	1.3	0.9	1.0
ROA - using norm profit (%)	2.2	1.3	1.1	0.9	0.8
ROE - using norm profit (%)	7.4	4.4	4.0	3.3	3.1
DuPont					
ROE - using after tax profit (%)	6.7	7.1	5.0	2.5	1.8
- asset turnover (x)	0.2	0.2	0.1	0.0	0.1
- operating margin (%)	17.8	21.6	26.6	46.8	41.6
- leverage (x)	3.4	3.3	3.7	3.8	3.9
- interest burden (%)	64.4	67.0	57.6	35.9	26.8
- tax burden (%)	77.8	80.0	80.0	80.0	80.0
WACC (%)	0.0	0.0	5.4	5.4	5.4
ROIC (%)	2.7	2.5	1.4	0.7	0.6
NOPAT (Bt m)	2,356	3,086	2,044	1,233	1,119
invested capital (Bt m)	123,118	148,056	164,617	174,485	176,414

Sources: Company data, Thanachart estimates

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Thanachart Securities Pcl.

Research Team

19 Floor, MBK Tower

444 Phayathai Road, Pathumwan Road, Bangkok 10330

Tel: 662 - 779-9119

Email: thanachart.res@thanachartsec.co.th

Pimpaka Nichgaroon, CFA

Head of Research

Tel: 662-779-9199

pimpaka.nic@thanachartsec.co.th

Pattarawan Wangmingmat

Senior Technical Analyst

Tel: 662-779-9105

pattarawan.wan@thanachartsec.co.th

Phannarai Tiyapittayarut

Property, Retail

Tel: 662-779-9109

phannarai.von@thanachartsec.co.th

Sarachada Sornsong

Bank, Finance, Insurance

Tel: 662-779-9106

sarachada.sor@thanachartsec.co.th

Sittichet Rungrassameephat

Analyst, Quantitative

Tel: 662-483-8303

sittichet.run@thanachartsec.co.th

Adisak Phupiphathirungul, CFA

Retail Market Strategy

Tel: 662-779-9120

adisak.phu@thanachartsec.co.th

Nuttapop Prasitsuksant

Telecom, Utilities

Tel: 662-483-8296

nuttapop.pra@thanachartsec.co.th

Rata Limsuthiwanpoom

Auto, Industrial Estate, Media, Prop. Fund

Tel: 662-483-8297

rata.lim@thanachartsec.co.th

Siriporn Arunothai

Small Cap, Healthcare, Hotel

Tel: 662-779-9113

siriporn.aru@thanachartsec.co.th

Thaloengsak Kucharoenpaisan

Analyst, Retail Market

Tel: 662-483-8304

thaloengsak.kuc@thanachartsec.co.th

Chak Reungsinpinya

Energy, Petrochemical, Paper

Tel: 662-779-9104

chak.reu@thanachartsec.co.th

Pattadol Bunnak

Electronics, Food & Beverage, Shipping

Tel: 662-483-8298

pattadol.bun@thanachartsec.co.th

Saksid Phadthanarak

Construction, Transportation

Tel: 662-779-9112

saksid.pha@thanachartsec.co.th

Witchanan Tambamroong

Technical Analyst

Tel: 662-779-9123

witchanan.tam@thanachartsec.co.th