BUY (Unchanged)

Change in Numbers

TP: Bt 10.50 (From: Bt 10.00)

Upside : 21.4%

20 JULY 2022

Bangkok Exp. & Metro (BEM TB)

Unjustified share price fall

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BEM's share price drop of 5% from its peak this year despite earnings growth of 106/49/14% y-y in 2022-24F driven by strong traffic volume, a ridership recovery and operating leverage benefits looks unjustified to us. Its potential West Orange Line project also offers possible upside to our higher TP of Bt10.5. Reaffirm BUY.

Thanachart Securities

Addressing some concerns

The new COVID-19 wave and rising electricity and interest expenses have raised market concerns over BEM's earnings recovery story. However, we foresee only a slight impact. ***First,*** BEM still reported a strong traffic volume recovery from 76% of the pre-COVID 2019 level in 1Q22 to 84% in 2Q22 and likely 85% this month with ridership up from 58% in 1Q22 to 76% in 2Q22 and likely 80% this month. ***Second,*** utilities expenses make up 10% of BEM's operating costs and we already factor in the tariff rising by 16-26% in 2022-23F. ***Third,*** BEM carried out interest rate swap agreements to change floating rates to fixed rates, leaving 75% of its debts now based on fixed rates and we bake in an interest rate hike of 25bp this year and 50bp next year.

202-456% y-y growth in 2Q-3Q22F

Given strong traffic volume and the ridership recovery, operating leverage benefits, and its low earnings base last year, we estimate BEM's earnings growth at 202% y-y in 2Q22F and 456% y-y in 3Q22. On a yearly basis, with our assumptions for BEM's traffic volume at 84/97/98% of the pre-COVID 2019 level in 2022-24F (vs. 80% in 6M22) and ridership at 70/98/107% (vs. 62% in 6M22), we project growth of 106/49/14% y-y in 2022-24F.

Raising our TP to Bt10.5; still a BUY

We fine-tune our earnings for BEM. After rolling over our base year to 2023F, we raise our SOTP-derived DCF-based 12-month TP to Bt10.5/share from Bt10.0. We reaffirm our BUY call. Besides its strong earnings turnaround, we expect share price catalysts from its potential West Orange Line project which is under the bidding process, the South Purple Line project which the Mass Rapid Transit Authority of Thailand (MRTA) will likely launch the bidding for an operator in 2026-27, and a double-deck expressway project which is under the EIA process.

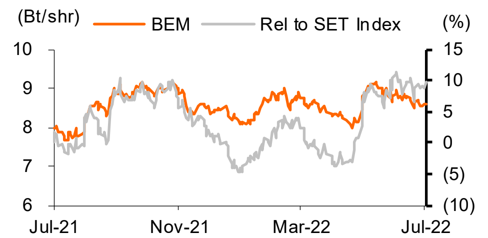
If West Orange Line is delayed, it won't be long

The West Orange Line project is under the bidding process with the bid submission date scheduled for 27 July. The winner will build the West Orange Line and operate the whole Orange Line network. However, there is a risk of a bid delay given the court case between the MRTA and BTS Group (BTS TB, Bt8.6, BUY). If that happens, we do not expect a lengthy delay as construction of the East Orange Line should be completed next year and, without a winner for the West Orange Line project, there would be no operator for the East Orange Line. We still see BEM as the potential winner and if we assume a 10% IRR for the project, we estimate an additional value of Bt1/share on top of our TP.

COMPANY VALUATION

Y/E Dec (Bt m)	2021A	2022F	2023F	2024F
Sales	10,727	13,318	15,763	16,491
Net profit	1,010	2,080	3,091	3,520
Norm profit	1,010	2,080	3,091	3,520
Consensus NP	—	*2,511*	*3,627*	*4,189*
Diff frm cons (%)	—	(17.2)	(14.8)	(16.0)
Prev. Norm profit	—	2,125	3,155	3,586
Chg frm prev (%)	—	*(2.1)*	*(2.0)*	*(1.8)*
Norm EPS (Bt)	0.1	0.1	0.2	0.2
Norm EPS grw (%)	(50.7)	106.0	48.6	13.9
Norm PE (x)	130.9	63.6	42.8	37.6
EV/EBITDA (x)	54.4	35.7	27.5	25.3
P/BV (x)	3.5	3.4	3.2	3.0
Div yield (%)	0.9	0.4	0.6	0.7
ROE (%)	2.7	5.4	7.7	8.2
Net D/E (%)	184.1	168.2	146.2	140.0

PRICE PERFORMANCE



COMPANY INFORMATION

Price *as of* 20-Jul-22 (Bt)	8.65
Market Cap (US$ m)	3,606.3
Listed Shares (m shares)	15,285.0
Free Float (%)	53.7
Avg Daily Turnover (US$ m)	10.1
12M Price H/L (Bt)	9.15/7.65
Sector	Transportation
Major Shareholder	CK Pcl 31.3%

Sources: Bloomberg, Company data, Thanachart estimates

Unjustified share price fall in our view

We raise our TP for BEM to Bt10.5 and reaffirm our BUY call

We fine-tune our earnings estimates for Bangkok Expressway and Metro Pcl (BEM). After rolling over the base year in our model to 2023F, we lift our SOTP-derived DCF-based 12-month TP to Bt10.5/share from Bt10.0 and we reaffirm our BUY call on BEM.

Ex 1: Our Sum-of-the-parts Valuation For BEM

BBG code	% holding	15% disc. from our fair value (Bt m)	Market value (Bt m)
TTW TB	18.5%	6.765	7,959
CKP TB	16.8%	7,376	6,508
Total		**14,141**	**14,467**
Per BA share (Bt)		**0.9**	**0.9**
Expressway & Mass Transit (Bt) (DCF derived)		**1.5**	
Our TP (Bt)		**10.5**	

Sources: Company data, Thanachart estimates

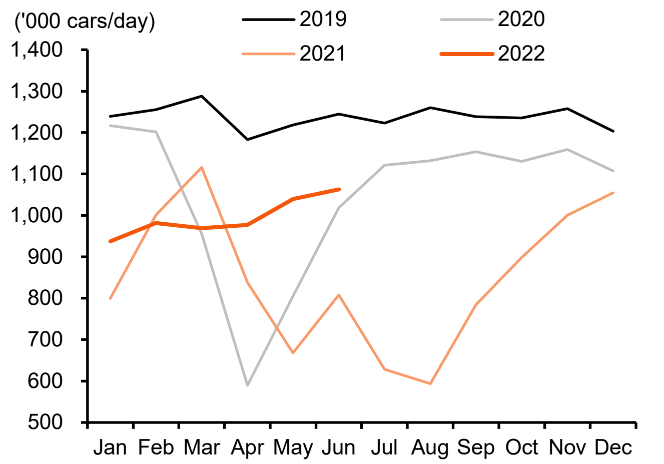
We see BEM's share price fall as unjustified

BEM's share price has fallen by 5% from its peak this year given market concerns about the new COVID-19 wave and rising electricity and interest expenses putting its earnings under pressure. However, we expect BEM's revenue recovery with operating leverage benefits to more than offset these rising costs.

BEM's traffic volume and ridership continue to recover strongly

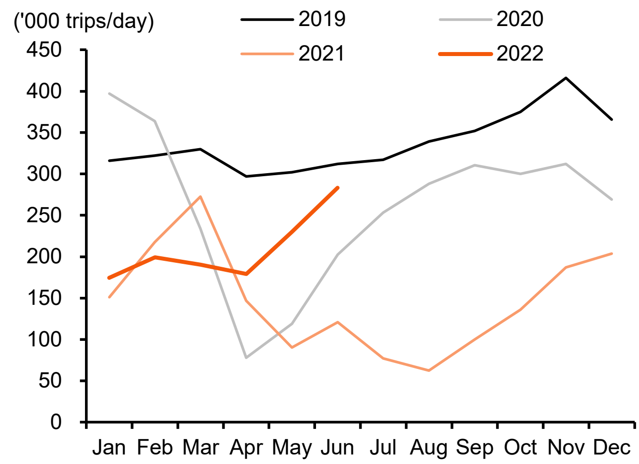
First, despite the new COVID-19 wave, BEM's traffic volume and ridership have continued to recover strongly. Its traffic volume rebounded from 69% of the pre-COVID 2019 level in 2021 to 76% in 1Q22, 84% in 2Q22, and likely 85% this month. Its ridership also increased from 44% of the pre-COVID 2019 level in 2021 to 58% in 1Q22, 76% in 2Q22, and likely 80% this month. We estimate BEM's traffic volume at 84/97/98% of the pre-COVID 2019 level in 2022-24F (vs. 80% in 6M22) and ridership at 70/98/107% (vs. 62% in 6M22), and for this to boost its revenues by 24/18/5% y-y in 2022-24F.

Ex 2: BEM's Traffic Volume



Source: Company data

Ex 3: BEM's Ridership

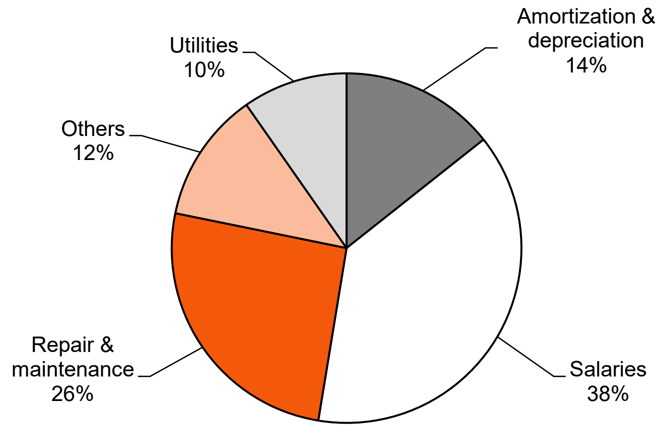


Source: Company data

We factor in an electricity tariff increase of 16-26% in 2022-24F

Second, utilities expenses make up around 10% of BEM's total operating costs. In line with our house view, we assume the electricity tariff increases by 16% y-y this year and 26% y-y in 2023F before falling by 6% y-y in 2024F.

Ex 4: BEM's Cost Breakdown



Sources: Company data, Thanachart estimates

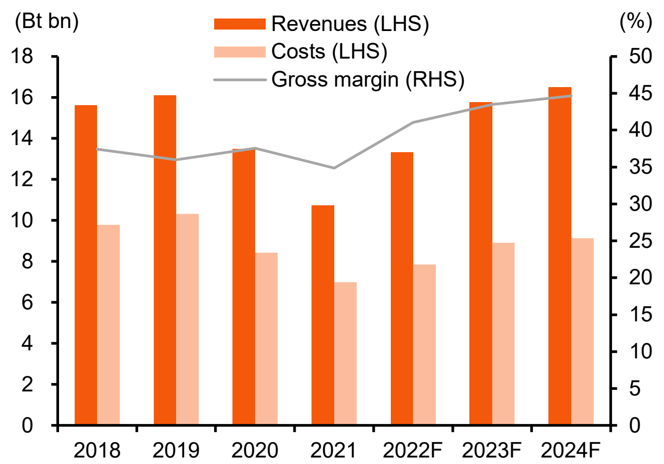
We also assume interest rate hikes of 25-50bp in 2022-23F

Third, BEM's total interest-bearing debt (excluding Bt7bn of debt for the Purple Line project where the MRTA will repay BEM the remuneration and interest) stood at Bt63bn as of end 1Q22. Some 75% of total debts is under fixed interest rates while the remainder is under floating rates. In line with our house view, we assume an interest rate hike of 25bp this year and 50bp next year.

Despite rising costs, we expect earnings growth of 106/49/14% in 2022-24

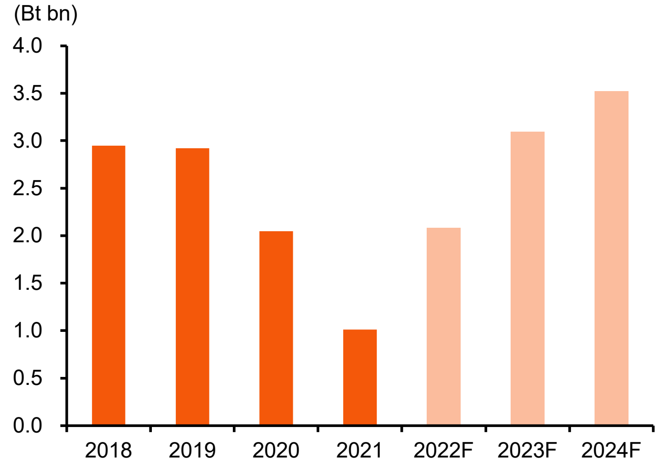
Therefore, despite higher utilities and interest expenses, we expect increasing revenues with operating leverage benefits to more than offset the rising costs and boost BEM's earnings by 106/49/14% y-y in 2022-24F.

Ex 5: BEM's Revenues, Costs And Gross Margin



Sources: Company data, Thanachart estimates

Ex 6: BEM's Normalized Earnings



Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 7: Valuation Comparison With Regional Peers

Name	BBG Code	Country	EPS growth 22F (%)	EPS growth 23F (%)	PE 22F (x)	PE 23F (x)	P/BV 22F (x)	P/BV 23F (x)	EV/EBITDA 22F (x)	EV/EBITDA 23F (x)	Div Yield 22F (%)	Div Yield 23F (%)
Guangshen Railway	601333 CH	China	36.9	na	na	116.1	0.6	0.5	16.1	7.3	0.0	1.0
Central Japan Railway	9022 JP	Japan	na	41.8	15.7	11.0	0.8	0.8	9.9	8.1	0.8	0.9
Keisei Electric Railway	9009 JP	Japan	na	33.0	24.3	18.3	1.4	1.4	22.0	17.6	0.5	0.5
MTR Corp Ltd	66 HK	Hong Kong	18.7	8.5	22.7	20.9	1.4	1.3	20.1	15.4	3.2	3.3
Jungfraubahn Holding	JFN SW	Switzerland	na	184.1	52.6	18.5	1.2	1.2	14.4	9.7	1.3	2.0
Jiangsu Expressway	177 HK	China	(15.1)	27.0	8.8	7.0	1.0	0.9	9.0	7.6	7.4	7.5
Shenzhen Expressway	548 HK	China	8.7	5.0	5.3	5.0	0.6	0.5	8.6	8.3	10.3	10.7
Zhejiang Expressway	576 HK	China	36.5	6.8	5.4	5.1	0.8	0.7	4.5	4.1	6.6	7.1
Anhui Expressway	995 HK	China	na	na	na	18.1	0.7	0.7	3.8	3.6	10.7	12.0
Jasa Marga Persero	JSMR IJ	Indonesia	na	25.4	15.7	12.5	1.1	1.0	9.6	8.2	1.1	1.5
Bangkok Express & Metro	BEM TB*	Thailand	106.0	48.6	63.6	42.8	3.4	3.2	35.7	27.5	0.4	0.6
BTS Group Holdings	BTS TB*	Thailand	(28.9)	(4.8)	57.8	60.7	1.9	1.9	72.8	64.1	1.0	1.0
Average			**23.3**	**37.5**	**27.2**	**28.0**	**1.2**	**1.2**	**18.9**	**15.1**	**3.6**	**4.0**

Source: Bloomberg

Note: * Thanachart estimates , using Thanachart normalized EPS

** BTS's FY22 financial year ends in March 2022. Its first forecast year is FY23F.

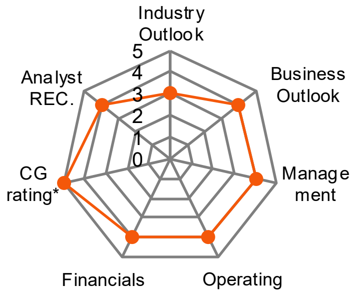
Based on 20-Jul-22 closing prices

COMPANY DESCRIPTION

Bangkok Expressway and Metro Pcl is the amalgamated company between Bangkok Expressway (BECL) and Bangkok Metro (BMCL). It operates expressway and mass-transit projects in Thailand under build-transfer-operate concession contracts from the Expressway Authority of Thailand and the State Railway of Thailand.

Source: Thanachart

COMPANY RATING



Rating Scale	
Very Strong	5
Strong	4
Good	3
Fair	2
Weak	1
None	0

Source: Thanachart; *CG Rating

THANACHART'S SWOT ANALYSIS

S — Strength

- BEM's expressways and subway go through the center of Bangkok, with secure traffic volume and ridership growth.
- Its businesses generate secure and stable cash flows.

W — Weakness

- BEM's revenue-generating market is limited to Bangkok.
- Its businesses are under concession contracts, thereby leading to continuity risk.

O — Opportunity

- The extensions of BEM's networks would help to feed passengers and cars into its systems.
- The government's infrastructure investments will likely create opportunities for BEM to grow.
- There are only two private companies operating mass-transit projects in Thailand at present.

T — Threat

- The government has intervened in the past in BEM's toll and fare rate revisions even though there's a concession contract.
- Delays to the government's infrastructure investments.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	10.01	10.50	5%
Norm profit 22F (Bt m)	2,511	2,080	-17%
Norm profit 23F (Bt m)	3,627	3,091	-15%
Consensus REC	BUY: 15	HOLD: 2	SELL: 0

HOW ARE WE DIFFERENT FROM THE STREET?

- Our 2022-23F earnings are 14-17% below the Bloomberg consensus numbers, which we attribute to us being more conservative on BEM's traffic volume and ridership recovery.
- However, our TP is slightly higher than the consensus number, likely due to us having a more bullish view on BEM's long-term outlook and SOTP value.

Sources: Bloomberg consensus, Thanachart forecasts

RISKS TO OUR INVESTMENT CASE

- The ongoing COVID-19 crisis could continue to put traffic volume and ridership under pressure, leading to downside risk to our earnings forecasts.
- Government intervention in its tolls and fare rate hikes could pose another downside risk to our earnings estimates.

Source: Thanachart

We expect a strong earnings recovery from 2022F onward

INCOME STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Sales	13,489	10,727	13,318	15,763	16,491
Cost of sales	8,427	6,990	7,853	8,906	9,126
Gross profit	**5,063**	**3,737**	**5,465**	**6,857**	**7,365**
% gross margin	37.5%	34.8%	41.0%	43.5%	44.7%
Selling & administration expenses	1,347	1,160	1,332	1,419	1,451
Operating profit	**3,716**	**2,577**	**4,133**	**5,438**	**5,914**
% operating margin	27.5%	24.0%	31.0%	34.5%	35.9%
Depreciation & amortization	1,858	1,129	1,408	1,564	1,759
EBITDA	**5,574**	**3,706**	**5,541**	**7,002**	**7,673**
% EBITDA margin	41.3%	34.5%	41.6%	44.4%	46.5%
Non-operating income	830	755	726	755	770
Non-operating expenses	0	0	0	0	0
Interest expense	(2,113)	(2,187)	(2,257)	(2,328)	(2,281)
Pre-tax profit	**2,433**	**1,145**	**2,602**	**3,866**	**4,402**
Income tax	382	134	520	773	880
After-tax profit	**2,051**	**1,011**	**2,082**	**3,093**	**3,522**
% net margin	15.2%	9.4%	15.6%	19.6%	21.4%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	(4)	(1)	(1)	(1)	(1)
Extraordinary items	4	0	0	0	0
NET PROFIT	**2,051**	**1,010**	**2,080**	**3,091**	**3,520**
Normalized profit	**2,048**	**1,010**	**2,080**	**3,091**	**3,520**
EPS (Bt)	0.1	0.1	0.1	0.2	0.2
Normalized EPS (Bt)	0.1	0.1	0.1	0.2	0.2

BALANCE SHEET

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
ASSETS:					
Current assets:	5,044	4,541	4,453	4,947	5,094
Cash & cash equivalent	2,375	1,897	1,766	1,766	1,766
Account receivables	549	473	588	695	728
Inventories	0	0	0	0	0
Others	2,120	2,170	2,100	2,486	2,600
Investments & loans	15,961	16,030	16,030	16,030	16,030
Net fixed assets	76,385	77,289	77,193	76,943	82,500
Other assets	16,226	17,228	15,767	14,303	12,836
Total assets	**113,616**	**115,088**	**113,443**	**112,223**	**116,460**
LIABILITIES:					
Current liabilities:	13,734	10,645	11,706	11,392	11,621
Account payables	1,745	1,492	1,677	1,902	1,949
Bank overdraft & ST loans	3,000	2,000	3,361	3,112	3,171
Current LT debt	8,360	6,544	6,029	5,584	5,689
Others current liabilities	629	609	640	794	812
Total LT debt	**57,902**	**62,763**	**57,823**	**53,549**	**54,565**
Others LT liabilities	3,947	3,982	5,005	5,927	6,224
Total liabilities	**75,582**	**77,390**	**74,534**	**70,867**	**72,410**
Minority interest	42	2	3	4	6
Preferreds shares	0	0	0	0	0
Paid-up capital	15,285	15,285	15,285	15,285	15,285
Share premium	5,817	5,817	5,817	5,817	5,817
Warrants	0	0	0	0	0
Surplus	(147)	(101)	(101)	(101)	(101)
Retained earnings	**17,037**	**16,697**	**17,906**	**20,350**	**23,044**
Shareholders' equity	37,991	37,697	38,906	41,351	44,045
Liabilities & equity	**113,616**	**115,088**	**113,443**	**112,223**	**116,460**

Sources: Company data, Thanachart estimates

Depreciation expenses fell sharply in 2020…

…because of its concession value being fully depreciated

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2020A	2021A	2022F	2023F	2024F
Earnings before tax	2,433	1,145	2,602	3,866	4,402
Tax paid	(366)	(148)	(510)	(768)	(877)
Depreciation & amortization	1,858	1,129	1,408	1,564	1,759
Chg In working capital	(261)	(177)	70	117	15
Chg In other CA & CL / minorities	19	(98)	91	(236)	(100)
Cash flow from operations	**3,683**	**1,851**	**3,661**	**4,543**	**5,199**
Capex	(3,651)	(2,033)	(1,300)	(1,300)	(7,300)
Right of use	(87)	(53)	(50)	(50)	(50)
ST loans & investments	0	0	0	0	0
LT loans & investments	1,256	(69)	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(665)	(915)	2,523	2,422	1,797
Cash flow from investments	**(3,146)**	**(3,069)**	**1,173**	**1,072**	**(5,553)**
Debt financing	2,817	2,045	(4,094)	(4,968)	1,180
Capital increase	0	0	0	0	0
Dividends paid	(1,376)	(1,529)	(871)	(646)	(826)
Warrants & other surplus	(1,465)	224	0	0	0
Cash flow from financing	**(24)**	**741**	**(4,965)**	**(5,615)**	**354**
Free cash flow	**32**	**(181)**	**2,361**	**3,243**	**(2,101)**

We believe BEM deserves a premium valuation given its strong earnings recovery and many potential projects

VALUATION

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Normalized PE (x)	64.6	130.9	63.6	42.8	37.6
Normalized PE - at target price (x)	78.4	158.9	77.1	51.9	45.6
PE (x)	64.5	130.9	63.6	42.8	37.6
PE - at target price (x)	78.2	158.9	77.1	51.9	45.6
EV/EBITDA (x)	35.7	54.4	35.7	27.5	25.3
EV/EBITDA - at target price (x)	40.8	62.0	40.8	31.6	29.0
P/BV (x)	3.5	3.5	3.4	3.2	3.0
P/BV - at target price (x)	4.2	4.3	4.1	3.9	3.6
P/CFO (x)	35.9	71.4	36.1	29.1	25.4
Price/sales (x)	9.8	12.3	9.9	8.4	8.0
Dividend yield (%)	1.2	0.9	0.4	0.6	0.7
FCF Yield (%)	0.0	(0.1)	1.8	2.5	(1.6)
(Bt)					
Normalized EPS	0.1	0.1	0.1	0.2	0.2
EPS	0.1	0.1	0.1	0.2	0.2
DPS	0.1	0.1	0.0	0.1	0.1
BV/share	2.5	2.5	2.5	2.7	2.9
CFO/share	0.2	0.1	0.2	0.3	0.3
FCF/share	0.0	(0.0)	0.2	0.2	(0.1)

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2020A	2021A	2022F	2023F	2024F
Growth Rate					
Sales (%)	(16.3)	(20.5)	24.2	18.4	4.6
Net profit (%)	(62.3)	(50.8)	106.0	48.6	13.9
EPS (%)	(62.3)	(50.8)	106.0	48.6	13.9
Normalized profit (%)	(29.9)	(50.7)	106.0	48.6	13.9
Normalized EPS (%)	(29.9)	(50.7)	106.0	48.6	13.9
Dividend payout ratio (%)	74.5	121.1	25.0	25.0	25.0
Operating performance					
Gross margin (%)	37.5	34.8	41.0	43.5	44.7
Operating margin (%)	27.5	24.0	31.0	34.5	35.9
EBITDA margin (%)	41.3	34.5	41.6	44.4	46.5
Net margin (%)	15.2	9.4	15.6	19.6	21.4
D/E (incl. minor) (x)	1.8	1.9	1.7	1.5	1.4
Net D/E (incl. minor) (x)	1.8	1.8	1.7	1.5	1.4
Interest coverage - EBIT (x)	1.8	1.2	1.8	2.3	2.6
Interest coverage - EBITDA (x)	2.6	1.7	2.5	3.0	3.4
ROA - using norm profit (%)	1.8	0.9	1.8	2.7	3.1
ROE - using norm profit (%)	5.3	2.7	5.4	7.7	8.2
DuPont					
ROE - using after tax profit (%)	5.3	2.7	5.4	7.7	8.2
- asset turnover (x)	0.1	0.1	0.1	0.1	0.1
- operating margin (%)	33.7	31.1	36.5	39.3	40.5
- leverage (x)	2.9	3.0	3.0	2.8	2.7
- interest burden (%)	53.5	34.4	53.5	62.4	65.9
- tax burden (%)	84.3	88.3	80.0	80.0	80.0
WACC (%)	5.7	5.7	5.7	5.7	5.7
ROIC (%)	3.0	2.2	3.1	4.2	4.6
NOPAT (Bt m)	3,133	2,276	3,307	4,350	4,731
invested capital (Bt m)	104,879	107,107	104,354	101,830	105,705

Sources: Company data, Thanachart estimates

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Note: Our major shareholder TCAP (Thanachart Capital Pcl) which holding 50.96% of Thanachart Securities and also TCAP holding 100% of Thanachart SPV1 Co. Ltd. TCAP and Thanachart SPV1 Co. Ltd has stake in THANI for 60% and being the major shareholder of THANI.

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Recommendations are based on absolute upside or downside, which is the difference between the target price and the current market price. If the upside is 10% or more, the recommendation is BUY. If the downside is 10% or more, the recommendation is SELL. For stocks where the upside or downside is less than 10%, the recommendation is HOLD. Unless otherwise specified, these recommendations are set with a 12-month horizon. Thus, it is possible that future price volatility may cause a temporary mismatch between upside/downside for a stock based on the market price and the formal recommendation.

For sectors, an "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

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