

DON MUANG TOLLWAY PLC

No. 142/2020
22 September 2020

CORPORATES

Company Rating:	BBB+
Issue Ratings:	
Senior unsecured	BBB+
Outlook:	Stable

Last Review Date: 06/09/19

Company Rating History:

Date	Rating	Outlook/Alert
13/10/15	BBB+	Stable
11/11/10	A-	Stable

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RATIONALE

TRIS Rating affirms the company rating on Don Muang Tollway PLC (DMT) and the ratings on DMT's senior unsecured debentures at "BBB+" with a "stable" outlook. The ratings reflect DMT's reliable cash flow and low financial leverage. The strategic location of DMT's elevated tollway also helped its operating performance recover rapidly after being adversely affected by the Coronavirus Disease 2019 (COVID-19) pandemic. These strengths are partially offset by the company's reliance on a single cash-generating asset and the uncertainty concerning the legality of the latest amendment to the concession agreement, pending the final ruling from the Supreme Administrative Court.

KEY RATING CONSIDERATIONS

Traffic volume recovered from impacts of the COVID-19 outbreak

Thanks to the strategic location of DMT's tollway, traffic volume recovered quickly after being adversely affected by the COVID-19 outbreak. During the implementation of travel restriction and lockdown measures in April 2020, the average traffic volume on DMT's toll road declined drastically, to 18,511 vehicles per day in April and 32,292 vehicles in May, compared with an average of 92,942 vehicles per day in 2019. However, after the government eased its domestic lockdown measures, average traffic volume rapidly rebounded by 59% month-on-month (m-o-m) in June 2020 and 17% m-o-m in July 2020. The quick revival reflects the toll road's strategic importance as a major route connecting the heart of Bangkok with several densely populated areas in northern Bangkok and Don Mueang international airport. The toll road also serves as a gateway from Bangkok to the northern and northeastern regions.

Under our base-case scenario, we project that DMT's traffic volume will drop by 35% in 2020 and will recover by around 30% in 2021 and 6% in 2022. However, as the company raised the toll rate in late 2019, DMT's revenue is expected to drop by just 27% in 2020 and will rebound by 30% in 2021 and 6% in 2022.

Legal risk constrains the ratings

The legality of the latest amendment to the concession agreement (MOA3) remains the key issue constraining the ratings on DMT. The worst-case scenario is a court ruling in favor of the plaintiff that may cause the concession to end in 2021 rather than in 2034.

The MOA3 was made on 12 September 2007 pursuant to two Cabinet resolutions made on 11 April 2006 and 10 April 2007. MOA3 was a remedy to offset losses incurred by DMT as a result of the past government's actions in allegedly not conforming to the concession agreement. The key amendments contained in the MOA3 are the extension of the expiry date of the concession from 2021 to 2034 and the pre-approval of the toll rate increases as suggested in the previous amendment.

Three legal cases, filed at the Administrative Court, have challenged the legality of the MOA3. After years of court proceedings, the Supreme Administrative Court has dismissed two of the three cases. For the remaining case, the plaintiffs claim that the Cabinet resolutions approving MOA3 were

illegal. A ruling by the Central Administrative Court in 2015 revoked the Cabinet resolutions pertaining to MOA3. Currently, the remaining case is under the consideration of the Supreme Administrative Court, with no clear timeline for the judgment date. However, we believe that the company will continue to operate the toll road, even if the Supreme Administrative Court reaches a final verdict resolving the legality of the MOA3 agreement after 2021. DMT's management remains confident of a positive outcome from the Supreme Administrative Court's proceedings.

Reliance on a single cash-generating asset

Since DMT operates a single toll road, its traffic volume is exposed to event risk. For example, traffic volume dropped significantly during the financial crisis in 1997, the relocation of Bangkok's international airport from Don Mueang to Suvarnabhumi, and the opening of a competing toll road. However, traffic volume on DMT's toll road rebounded each time and has grown steadily since 2011. In 2020, the impact of the COVID-19 outbreak caused a plunge in traffic volume for a short period. Traffic recovered rapidly after the outbreak was brought under control. We do not expect any significant unfavorable events to lower traffic volume substantially or for an extended period over the forecast horizon.

Plans to repay all debts

DMT plans to repay all of its financial obligations by the end of 2022. As of June 2020, the company had outstanding debt obligations of THB3.06 billion. Based on our projections, DMT's funds from operations (FFO) will total THB4.64 billion during the next three years. The adjusted debt to capitalization ratio consequently is projected to drop to 0% in 2022, from 31.6% in 2019. The company has planned for a normal level of capital expenditure over the next three years, forecast at THB800 million, which is likely to be financed by internal cash flow.

Adequate liquidity

We assess DMT's liquidity to be adequate for the next 12 months. As of June 2020, sources of funds comprised cash on hand of THB650 million and investments worth THB470 million. We project FFO to be around THB1.45 billion over the next 12 months. The company has also secured THB1.6 billion in committed facilities from banks to refinance maturing debentures. These sources of funds should be sufficient to cover the cash needed for debt service and investments over the next 12 months. The debt repayment schedule over the next 12 months includes THB1.64 billion in debentures and THB1.41 billion in promissory notes and financial lease. The company plans to roll over some of the maturing promissory notes to 2021. Capital expenditure will be THB356 million in 2020.

TRIS Rating believes DMT will comply with the debenture covenants over the next 12 to 18 months. Its debt to equity ratio at the end of June 2020 was 0.55 times, way below the debenture covenant of 2 times.

BASE-CASE ASSUMPTIONS

TRIS Rating's assumptions for the performance of DMT during 2020 to 2022 are as follows:

- Revenues to drop by 27% in 2020 and will rebound by 30% in 2021 and 6% in 2022.
- EBITDA margin to be 65%-80%.
- Capital expenditure to be around THB800 million over the forecast period.
- Adjusted debt to capitalization ratio to gradually drop to 0% in 2022.

RATING OUTLOOK

The "stable" outlook reflects the expectation of a rapid recovery in DMT's operating performance from the impacts of the COVID-19, as well as steady cash flow. The outlook also reflects our expectation that the company will continue to operate the toll road, even if the Supreme Administrative Court reaches a final verdict resolving the legality of the MOA3 agreement after 2021.

RATING SENSITIVITIES

DMT's ratings could be upgraded if the Supreme Administrative Court rules the MOA3 agreement is legally binding. On the other hand, a downgrade could be triggered by a significant drop in DMT's operating performance for a prolonged period.

COMPANY OVERVIEW

DMT was incorporated in 1988 by Dyckerhoff & Widmann A.G. of Germany and Delta Engineering Construction Co., Ltd. of Thailand. Currently, DMT's major shareholders are the Phanichewa family (37%), AIF Toll Roads Holdings (Thailand) Ltd. (29%), and the Ministry of Finance (MOF) (25%).

The company received a 25-year build-transfer-operate (BTO) concession from the Department of Highways (DOH) in April 1989 to construct and operate an elevated toll road, the "Don Muang Tollway", situated above Vibhavadi-Rangsit highway.

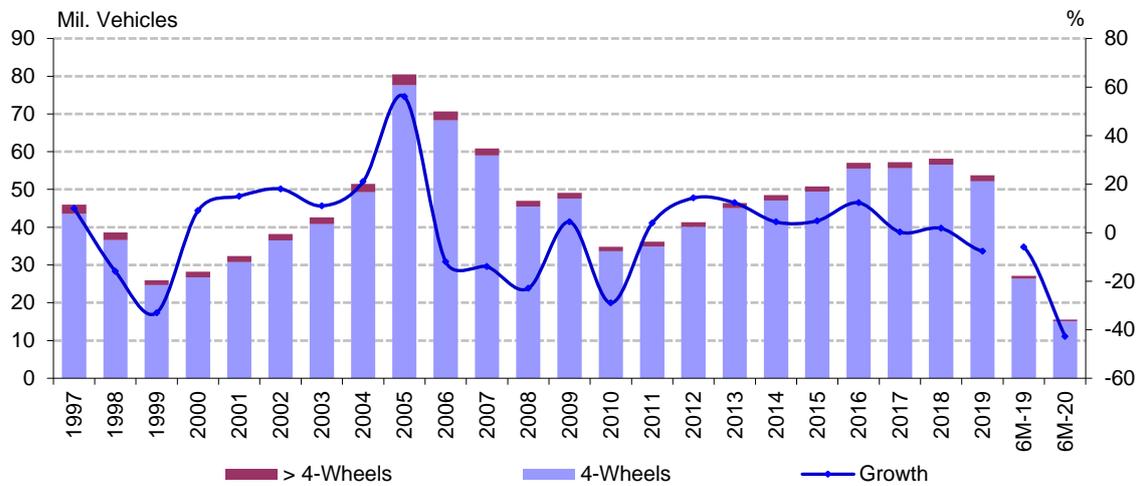
The concession covers 15.4 kilometers (km.) of the original tollway (Din Daeng-Don Muang) and 5.6 km. of the northern extension (Don Muang-National Memorial Monument). The original tollway opened to traffic in December 1994, while the northern extension opened in December 1998. The combined cost of both sections was approximately THB15 billion.

During the first 10 years of operation, DMT went through a few rounds of debt restructuring because traffic volumes were lower than expected and because the company had large foreign exchange losses involving US dollar loans.

In 2007, DMT renegotiated and amended the concession with the DOH to conclude feasible terms and conditions. Under the MOA3 agreement, the concession period was extended from 2021 to 2034. The amendment also mitigated the risk stemming from the toll rate adjustment process. The toll rate adjustments have been pre-approved for the remainder of the concession period; the amounts and timing of the toll rate increases are fixed. The toll rises will take effect no less than 30 days after the company submits a notice to the DOH and announces the rise to the public. DMT can raise the toll rate every five years, by THB10 for the original tollway section and by THB5 for the northern extension, through the end of the concession.

KEY OPERATING PERFORMANCE

Chart 1: DMT's Traffic Volume by Type of Vehicle



Source: DMT

Table 1: Toll Rate Schedule According to Concession Agreement

Unit: THB/vehicle

Period	Original Tollway		Northern Extension	
	4-Wheels	>4-Wheels	4-Wheels	>4-Wheels
22 Dec 07 - 21 Dec 09	35	65	20	30
22 Dec 09 - 21 Dec 14	60	90	25	35
22 Dec 14 - 21 Dec 19	70	100	30	40
22 Dec 19 - 21 Dec 24	80	110	35	45
22 Dec 24 - 21 Dec 29	90	120	40	50
22 Dec 29 - 11 Sep 34	100	130	45	55

Source: DMT

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*
Unit: Mil. THB

	Jan-Jun 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	914	2,829	3,042	2,982	2,957
Earnings before interest and taxes (EBIT)	457	1,618	1,972	1,958	2,120
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	613	2,114	2,470	2,452	2,515
Funds from operations (FFO)	475	1,654	1,955	1,892	1,893
Adjusted interest expense	58	169	152	209	242
Capital expenditures	6	16	12	13	25
Total assets	11,331	11,095	11,638	13,392	12,385
Adjusted debt	2,746	3,228	4,656	3,376	4,481
Adjusted equity	7,292	6,983	6,246	7,650	7,312
Adjusted Ratios					
EBITDA margin (%)	67.04	74.72	81.21	82.24	85.06
Pretax return on permanent capital (%)	11.38 **	14.68	16.22	15.58	17.46
EBITDA interest coverage (times)	10.50	12.48	16.30	11.73	10.37
Debt to EBITDA (times)	1.64 **	1.53	1.88	1.38	1.78
FFO to debt (%)	47.63 **	51.24	42.00	56.04	42.24
Debt to capitalization (%)	27.36	31.62	42.70	30.62	38.00

* Consolidated financial statements

** Annualized from the trailing 12 months

RELATED CRITERIA

- Rating Methodology – Corporate, 26 July 2019
- Key Financial Ratios and Adjustments, 5 September 2018

Don Muang Tollway PLC (DMT)

Company Rating:	BBB+
Issue Ratings:	
DMT20NA: THB500 million senior unsecured debentures due 2020	BBB+
DMT20DA: THB1,140 million senior unsecured debentures due 2020	BBB+
Rating Outlook:	Stable

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