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KEY HIGHLIGHTS

Update

BTS Group Holdings (BTS TB/BUY/Bt8.05/Target: Bt10.20)

BTS takes its first step into the lending business.

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KEY INDICES

Symbol	Close	Chg	%Chg
SET	1,578.00	19.95	1.28
SET50	946.89	9.34	1.00
Value (Btm) - SET	58,518		
Top 5 Sector			
BANK	368.00	4.57	1.26
PETRO	931.22	6.92	0.75
PROP	245.33	4.41	1.83
ENERG	24,263.19	225.24	0.94
ICT	168.51	1.51	0.90

Source: Bloomberg

TOP VOLUME

Symbol	Price (Bt)	Chg (%)	Volume ('000)
DELTA	668.00	7.74	6,472.7
24CS	7.15	(29.90)	330,707.4
CPALL	54.00	(0.46)	47,381.2
AOT	72.25	0.70	31,385.3
PTTEP	165.00	0.30	12,146.5

TOP GAINERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
NV	3.52	15.79	24,817.3
GCAP	1.41	15.57	106,807.8
ETE	1.59	14.39	35,969.1
CRANE	1.76	14.29	202,763.1
SUSCO	4.94	13.82	56,364.0

TOP LOSERS

Symbol	Price (Bt)	Chg (%)	Volume ('000)
24CS	7.15	(29.90)	330,707.4
WAVE	0.17	(10.53)	14,121.5
INSURE	219.00	(8.75)	3.5
ALL	0.79	(5.95)	20,729.9
STARK	3.78	(5.50)	106,685.0

KEY STATISTICS

Commodity	Current Price	%Chg		
		1m	3M	YTD
Brent crude*	91.8	(2.8)	(1.6)	25.1
Dubai crude*	89.1	(3.7)	(22.5)	16.5
Baltic Dry Index	1,788.0	57.8	(14.8)	(19.4)
Gold Spot***	1,722.8	0.7	(2.4)	(5.8)

*(US\$/bbl), *** (US\$/toz)

FOREIGN PORTFOLIO INVESTMENT IN EQUITIES (THAILAND)

Day (Mil US\$)	MTD Net (Mil US\$)	YTD Net (Mil US\$)	YTD Net YoY%
(35.1)	33.4	4,550.9	7,122.9

Source: Bloomberg

Foreign Exchange Rate - THB/US\$ (onshore) = 37.46

Interest Rate (%) - TH 1-day RP = 1.50

Thai Lending Rate (%)* - MLR = 5.25

COMPANY UPDATE

BTS Group Holdings (BTS TB)

BTS Takes Its First Step Into The Lending Business

BTS has announced an investment in TNL in order to operate a big-ticket secured lending business together with SPI. We are slightly positive on the acquisition given BTS' and SPI's strong connection with several HNW clients and lower risk, despite the potentially highly competitive landscape in the next few years. In the near term, we expect the acquisition to have an inconsequential impact on BTS' earnings. Maintain BUY. Target price: Bt10.20.

WHAT'S NEW

- **An investment in TNL.** BTS Group Holdings (BTS) has announced an investment in newly issued ordinary shares of Thanalux (TNL). 87,237,766 shares (41.09% of TNL's total issued shares) will be offered under a private placement (PP) at Bt33.06/share totalling Bt2,882m. In addition, BTS will make a mandatory tender offer for the remaining 17.82% of TNL's outstanding shares not held by Saha-Pathana Inter-Holding (SPI). The transaction is financed by working capital and some short-term loans.
- TNL will utilise the PP and its rights offering (RO) proceeds to: a) acquire 90% of the shares in Oxygen Asset Company Limited (Oxygen), a big-ticket secured lending business, from SPI, and b) acquire seven property development JVs with Noble Development (NOBLE) divested by U City (U) (which will also be renamed to Rabbit Holdings) worth Bt532m. The divestment is in line with U's transformation from a property and hospitality business towards being a financial business. The transactions are scheduled to be completed within Dec 22. Assuming no subscription to the tender offer, BTS will require about Bt4b of funds for the entire transaction.
- Seeking opportunities in lending business. TNL is expected to act as a flagship between BTS and SPI in providing land-backed loans to entrepreneurs. Hence, the acquisition of Oxygen will not result in any business conflict with Rabbit Cash (operated by VGI), which focuses on digital lending business to retail customers. Oxygen was launched in 2021 and has around Bt2.5b in total loans, 6-7 tickets, 50% loan-to-value (LTV) ratio, and interest rates of 10-12% p.a., with a loan target of Bt10b within five years supported by capital raised by TNL and strong connections with high net worth (HNW) clients. Hence, during the early stages, TNL should have adequate funding support without having to issue additional debt, which would minimise interest rate risk on finance cost. Moreover, in the case of a default, TNL can create value from property development on those lands by utilising BTS' expertise.

KEY FINANCIALS

Year to 31 Mar (Btm)	2021	2022	2023F	2024F	2025F
Net turnover	35,128	26,056	19,290	19,800	23,033
EBITDA	4,896	4,277	4,034	6,728	8,591
Operating profit	4,084	3,406	3,041	4,995	6,534
Net profit (rep./act.)	4,576	3,826	2,813	4,439	5,671
Net profit (adj.)	2,920	2,527	2,813	4,439	5,671
EPS (Bt)	0.2	0.2	0.2	0.2	0.3
PE (x)	36.3	52.9	50.9	32.2	25.2
P/B (x)	1.8	1.7	1.6	1.5	1.3
EV/EBITDA (x)	56.5	64.7	68.6	41.1	32.2
Dividend yield (%)	5.6	3.9	3.9	3.9	3.8
Net margin (%)	13.0	14.7	14.6	22.4	24.6
Net debt/(cash) to equity (%)	178.3	236.4	196.8	182.7	121.6
Interest cover (x)	2.0	1.3	1.0	1.5	2.0
ROE (%)	8.0	6.3	4.2	6.2	6.9
Consensus net profit	-	-	3,090	3,743	4,214
UOBKH/Consensus (x)	-	-	0.91	1.19	1.35

Source: BTS Group Holdings, Bloomberg, UOB Kay Hian

BUY

(Maintained)

Share Price	Bt8.05
Target Price	Bt10.20
Upside	+26.7%

COMPANY DESCRIPTION

BTS Group Holdings is a multi-industry conglomerate in Thailand specialised in mass transit business, especially rail transport, media and digital services seeking to amplify value from data integration and cross-business synergies.

STOCK DATA

GICS sector	Industrials
Bloomberg ticker:	BTS TB
Shares issued (m):	13,167.6
Market cap (Btm):	105,999.5
Market cap (US\$m):	2,823.9
3-mth avg daily t'over (US\$m):	7.8

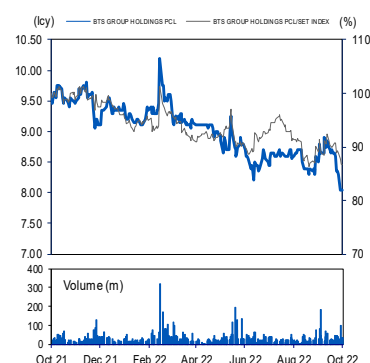
Price Performance (%)

52-week high/low	Bt10.20/Bt8.05			
1mth	3mth	6mth	1yr	YTD
(6.4)	(5.3)	(11.5)	(14.8)	(13.9)

Major Shareholders

	%
Kanjanapas Group	24.8
THAI NVDR COMPANY LIMITED	9.9
UBS AG SINGAPORE BRANCH	7.1
FY23 NAV/Share (Bt)	5.12
FY23 Net Debt/Share (Bt)	10.08

PRICE CHART



Source: Bloomberg

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- BTS's management considers the purchase price attractive despite 12-month trailing PE (calculated from TNL's original business in clothing and leather goods) of 73.51x on: a) higher profitability from Oxygen, and b) hidden value of TNL's landbank of around 20 rai (3.2 hectares) with an appraised value of Bt1b-1.4b, although this value is unlikely to be realised until the monetisation of those assets.

STOCK IMPACT

- **Slightly positive deal.** We are cautiously optimistic on the transaction due to: a) BTS' and SPI's strong connections with some HNW clients, which means they are willing to become TNL's new customers, and b) lower default risk and less impact on finance cost under the rising rate environment as compared with Srisawad Corporation (SAWAD) and Muangthai Capital (MTC), who have total outstanding loans with similar characteristics of roughly 30% (Bt10b) and 10% (Bt8b) out of their respective total loans, which would lead to lower credit cost. Nonetheless, in the long term (after 2-3 years), TNL will find it challenging to maintain exponential growth and expand its customer base due to competition from other players in the financial services industry that offer higher LTV or lower credit cost. For example, some Thai banks offer similar loans at a minimum retail rate (MRR)+2% (roughly 8% in Oct 22), which is less than 10-12% which is less than 10-12% interest rate charged by Oxygen.
- **Negligible impact on earnings in the short term.** We expect the transaction to have no significant impact on BTS's earnings in FY23 and FY24. Assuming: a) Bt3b financed by short-term loans at 3% interest rate p.a., b) net interest income (NII) of Bt300m (Bt3b total loan and net interest margin (NIM) of 10%) at 10% net profit margin, and c) Bt1.8b revenue from apparel business at 5% net profit margin, we expect roughly only 1.3% upside to BTS' FY24 bottom line.

EARNINGS REVISION/RISK

- **None.** We await additional clarifications on the lending business before incorporating any upside/downside into our assumption.

VALUATION/RECOMMENDATION

- **Maintain BUY with SOTP-based target price of Bt10.20.** The fair price does not include additional upside/downside from the investment in TNL, which is unlikely to be realised in the imminent future. However, BTS' share price may react negatively to a rising debt-to-equity (D/E) ratio under the rising interest rate environment. In 2QFY23, we foresee BTS' service revenue to continue growing qoq thanks to the recovery in ridership and advertising revenue, despite the expected gigantic loss from its investment in Kerry Express (KEX).

SHARE PRICE CATALYST

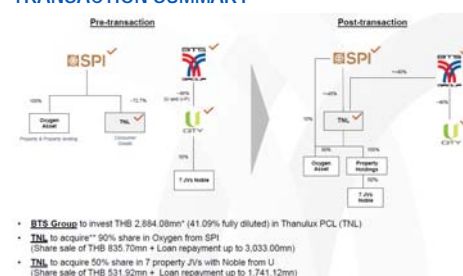
- Increasing clarity on BTS's 3M Strategy (MOVE, MIX and MATCH) which will result in investors being able to evaluate business prospects easily.
- Better-than-expected loan growth, net interest income (NII) and robust asset quality.
- The recovery of existing businesses, such as ridership on Green Line core concession, advertising revenue and revenue under the distribution segment (under VGI).
- Positive improvement on the Green Line dispute.

SOTP-BASED VALUATION

Business(es)	Value (Btm)	Note
Mass Transit - Green Line O&M	86,178	DCF, WACC 5.7%
Mass Transit - BTSGIF	12,728	DCF, WACC 6.5%
Mass Transit - Pink Line	52,918	DCF, WACC 5.3%
Mass Transit - Yellow Line	54,708	DCF, WACC 5.3%
MIX Business (Media)	32,945	Based on VGI's Fair value
Property/Financial Services	21,611	x1.3 PBV
Intercity Motorways	5,904	DCF, WACC 5.0%
- Adjusted Net Debt	-126,034	
Total Value	140,958	
number of shares (m)	13,822	
Fair Value (Bt)	10.20	

Source: BTS, UOB Kay Hian

TRANSACTION SUMMARY



Source: BTS, UOB Kay Hian

JV DIVESTED BY U CITY TO TNL

Ordinary shares of	No. shares ('000)	Purchasing Value ('000 Bt)
Ratchada Alliance	250	24,100
Phraram 9 Alliance	3,840	6,750
Khu Khot Station Alliance	1,500	113,666
Majestic Park	1,000	148,634
Suksawat Alliance	1,500	156,272
Future Domain	250	27,000
Ratburana Alliance	50	55,503
Total		531,925

Source: U, TNL, UOB Kay Hian

TNL'S HISTORICAL RESULTS



Source: TNL, UOB Kay Hian

Remark: (1) The performance only accounted for the apparel business.

(2) Years in this chart refer to calendar year, not BTS's fiscal year.

PROFIT & LOSS

Year to 31 Mar (Btm)	2022	2023F	2024F	2025F
Net turnover	26,056	19,290	19,800	23,033
EBITDA	4,277	4,034	6,728	8,591
Deprec. & amort.	871	993	1,733	2,056
EBIT	3,406	3,041	4,995	6,534
Total other non-operating income	3,942	4,229	4,308	4,044
Associate contributions	(671)	691	1,818	2,386
Net interest income/(expense)	(3,220)	(4,078)	(4,581)	(4,377)
Pre-tax profit	3,457	3,884	6,540	8,587
Tax	(1,214)	(639)	(945)	(1,240)
Minorities	(55)	(432)	(1,157)	(1,676)
Net profit	3,826	2,813	4,439	5,671
Net profit (adj.)	2,527	2,813	4,439	5,671

CASH FLOW

Year to 31 Mar (Btm)	2022	2023F	2024F	2025F
Operating	(25,153)	10,294	13,860	15,684
Pre-tax profit	5,095	3,884	6,540	8,587
Tax	(1,214)	(639)	(945)	(1,240)
Deprec. & amort.	871	993	1,733	2,056
Associates	(671)	691	1,818	2,386
Working capital changes	(18,823)	(6,935)	5,955	5,112
Non-cash items	(10,412)	12,301	(1,241)	(1,217)
Other operating cashflows	0	0	0	0
Investing	(11,524)	(3,324)	(3,008)	(4,315)
Capex (growth)	(10,581)	(5,445)	(1,181)	(1,236)
Investments	(15,500)	(5,950)	(2,498)	(3,093)
Others	14,557	8,071	670	14
Financing	35,077	(4,501)	(8,746)	10,357
Dividend payments	(4,081)	(4,285)	(4,285)	(4,650)
Issue of shares	13	2,629	4	5,271
Proceeds from borrowings	48,020	0	0	0
Loan repayment	(10,200)	(4,911)	(4,469)	(675)
Others/interest paid	1,325	2,065	5	10,411
Net cash inflow (outflow)	(1,600)	2,470	2,107	21,726
Beginning cash & cash equivalent	7,276	5,676	8,145	10,252
Ending cash & cash equivalent	5,676	8,145	10,252	31,978

BALANCE SHEET

Year to 31 Mar (Btm)	2022	2023F	2024F	2025F
Fixed assets	61,132	65,585	65,032	64,211
Other LT assets	171,581	186,469	184,448	183,035
Cash/ST investment	5,676	8,145	10,252	31,978
Other current assets	17,478	5,173	6,970	8,545
Total assets	255,867	265,373	266,702	287,769
ST debt	41,178	28,676	33,880	38,676
Other current liabilities	6,346	9,459	11,214	11,929
LT debt	111,197	118,787	109,115	103,643
Other LT liabilities	11,018	13,501	13,783	14,328
Shareholders' equity	62,063	70,783	72,672	90,733
Minority interest	24,065	24,165	26,038	28,458
Total liabilities & equity	255,867	265,373	266,702	287,769

KEY METRICS

Year to 31 Mar (%)	2022	2023F	2024F	2025F
Profitability				
EBITDA margin	16.4	20.9	34.0	37.3
Pre-tax margin	13.3	20.1	33.0	37.3
Net margin	14.7	14.6	22.4	24.6
ROA	1.6	1.1	1.7	2.0
ROE	6.3	4.2	6.2	6.9
Growth				
Turnover	(25.8)	(26.0)	2.6	16.3
EBITDA	(12.6)	(5.7)	66.8	27.7
Pre-tax profit	(25.8)	12.4	68.4	31.3
Net profit	(16.4)	(26.5)	57.8	27.8
Net profit (adj.)	(13.5)	11.3	57.8	27.8
EPS	(31.5)	4.1	57.8	27.8
Leverage				
Debt to total capital	63.9	60.8	59.2	54.4
Debt to equity	245.5	208.3	196.8	156.9
Net debt/(cash) to equity	236.4	196.8	182.7	121.6
Interest cover (x)	1.3	1.0	1.5	2.0

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