

BEC WORLD PLC

No. 19/2022
7 March 2022

CORPORATES

Company Rating:	BBB
Issue Rating:	
Senior unsecured	BBB
Outlook:	Positive

Last Review Date: 30/03/21

Company Rating History:

Date	Rating	Outlook/Alert
27/03/20	BBB	Stable
11/03/19	A-	Stable
27/03/18	A	Stable
17/02/17	A+	Stable

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RATIONALE

TRIS Rating affirms the company rating on BEC World PLC (BEC) at “BBB” and revises the rating outlook to “positive”, from “stable”. At the same time, we assign the rating of “BBB” with a “positive” outlook to BEC’s proposed issue of up to THB2 billion in senior unsecured debentures. The proceeds from the new debentures will be used to refinance its maturing debentures.

The ratings reflect BEC’s leading position in the TV broadcasting industry, its strong library of content, and its strong balance sheet. At the same time, the ratings take into account BEC’s operating pressure on TV advertising revenue from the ongoing shift in audience eyeballs toward digital media, stiff competition across all media ecosystems, and economic headwinds.

The revision of outlook to “positive” reflects improvement in BEC’s operating efficiency with leaner cost structure. The ratings could be revised upward should BEC be able to demonstrate its ability to continue expanding its revenue stream from selling content to third-party platforms and from other businesses while maintaining its strength in the core TV advertising segment and keeping costs under control.

KEY RATING CONSIDERATIONS

Improved profitability from cost optimization efforts

Several developments on the cost side during the past years have come to fruition. Leaner organization with optimized personnel costs, selective and more cost conscious content production/acquisition, plus network related expenses constituted the key components helping to significantly improve BEC’s profitability. In 2021, the adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) margin was 26.2%, compared to the range of 5%-10% during 2017-2020. BEC reported a leap in EBITDA to THB1.5 billion, compared with 433 million in 2020. In our analysis, the amortization of content rights is treated as an operating cost and has not been added back in our EBITDA calculation.

The company reported THB5.7 billion in revenue, a 3% year-on-year (y-o-y) drop from 2020. The revenue drop was, in part, attributable to the absence of Tero Entertainment PLC (formerly BEC-Tero Entertainment PLC), following a divestment in December 2020. BEC’s advertising revenue grew by 4% y-o-y to THB4.8 billion, driven by both utilization and advertising rates in its revamped news programs and prime-time drama series. Meanwhile, revenue from global content licensing and digital media declined by 19.7% y-o-y to THB846 million as the simulcast plan was affected by the Coronavirus Disease 2019 (COVID-19) disrupted drama series production.

Revenue projected to stop declining

Our base-case assumption forecast BEC’s revenue to be THB6-THB6.2 billion per annum during 2022-2024. It is our view that advertising demand will undergo a moderate recovery, following a return to more normal social and economic activities compared to the past two years. Additionally, we expect higher advertising revenue from its prime-time drama series due to fewer series reruns, compared with 2021 when BEC used series reruns to fill about one-fourth of its prime-time series slots. We also expect revenue from global content licensing and digital media to improve from 2021 levels, especially revenue from simulcast due to less disruption to content production. We

view that BEC's endeavors in new businesses including movies, music, and application (CH3 Plus and CH3 Plus Premium) will strengthen its business ecosystems. However, this is still in the initial stages and will take more time to make a meaningful revenue contribution.

With the expectation of less rerun content, we project higher content costs compared to 2021. Our base-case assumption also projects the EBITDA margin at 18%-20% during 2022-2024 which will translate into an EBITDA of THB1-THB1.2 billion per annum. Secular changes in audience viewing habits and intense competition across media ecosystems, as well as economic headwinds due to the pandemic will continue to weigh down BEC's earnings. However, we believe TV will remain the main medium for brands to reach consumers. Additionally, we view that BEC's cash generating capacity has significantly improved compared to the past few years, with a cost structure that is more commensurate with current operations.

Strong balance sheet with adequate liquidity

At the end of 2021, BEC has a negative carry with excess cash against its financial obligations. At the end of 2021, BEC reported cash and cash equivalent balance of THB4.7 billion against outstanding debentures of THB3 billion. Our base-case scenario projects BEC's leverage to remain low with adjusted debt to EBITDA ratio below 0.5 times during 2022-2024. The projection takes into account BEC's dividend payment policy of at least 90% of net profit and capital expenditures which are forecast to be around THB1.3 billion in total during 2022-2024.

We assess BEC to have adequate liquidity over the next 12 months. Sources of funds comprise funds from operations are forecast to add up to THB915 million, plus cash and cash equivalents of THB4.7 billion recorded at the end of 2021. The uses of funds comprise capital expenditure of THB700-THB800 million and maturing debt of THB3 billion, which will be partially refinanced by the new debentures issuance of THB2 billion

BASE-CASE ASSUMPTIONS

- Revenues of THB6-THB6.2 billion per annum during 2022-2024.
- EBITDA margin in the 18%-20% range during 2022-2024.
- Capital expenditure of THB1.3 billion in total during 2022-2024.

RATING OUTLOOK

The "positive" outlook reflects our view that BEC will be able to build a stronger track record of profitable operations with its improved cost structure.

RATING SENSITIVITIES

A rating upgrade could occur if BEC demonstrates its ability to grow its revenue base while keeping costs under control so that BEC's EBITDA is above THB1 billion on a sustained basis. The rating outlook could be revised to "stable" if BEC's operating performance is weaker-than-projected, pressured by ongoing weak advertising spending and intensified competition across media ecosystems.

COMPANY OVERVIEW

BEC was incorporated in 1969 and started broadcasting Channel 3 in March 1970 under an agreement with MCOT PLC (MCOT). The broadcasting agreement for Channel 3 ended in March 2020. Currently, BEC operates one digital TV channel, Channel 33, under a 15-year license, which will end in April 2029. BEC's current strategy is "Single Content, Multiple Platforms" with the aim to leverage its content through various platforms including digital platforms and global content licensing. BEC was listed on the Stock Exchange of Thailand (SET) in July 1996. The Maleenont family is the major shareholder, holding 40% of the company's outstanding shares.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2021	2020	2019	2018	2017
Total operating revenues	5,717	5,900	8,387	10,220	11,140
Earnings before interest and taxes (EBIT)	1,168	25	(189)	(205)	202
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	1,500	433	414	672	1,108
Funds from operations (FFO)	1,327	240	172	565	640
Adjusted interest expense	99	124	141	179	192
Capital expenditures	66	133	38	39	56
Total assets	10,323	9,519	11,354	14,320	14,331
Adjusted debt	0	769	1,169	4,003	4,768
Adjusted equity	6,193	5,409	5,718	6,236	6,546
Adjusted Ratios					
EBITDA margin (%)	26.23	7.33	4.94	6.57	9.95
Pretax return on permanent capital (%)	12.77	0.27	(1.71)	(1.64)	1.58
EBITDA interest coverage (times)	15.12	3.50	2.94	3.75	5.77
Debt to EBITDA (times)	0.00	1.78	2.82	5.96	4.30
FFO to debt (%)	n.m.	31.20	14.68	14.11	13.42
Debt to capitalization (%)	0.00	12.44	16.97	39.10	42.14

* Amortization of content rights is treated as an operating cost.

RELATED CRITERIA

- Key Financial Ratio and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021
- Rating Methodology – Corporate, 26 July 2019

BEC World PLC (BEC)

Company Rating:	BBB
Issue Rating:	
Up to THB2,000 million senior unsecured debentures due within 5 years	BBB
Rating Outlook:	Positive

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