

BEC WORLD PLC

No. 41/2021
30 March 2021

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 27/03/20

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” with a “stable” outlook. The rating reflects BEC’s leading position in the TV broadcasting industry and its sound balance sheet. The rating also takes into account BEC’s improving profitability from its cost rationalization measures. However, the secular changes in audience viewing habits, stiff competition across all media ecosystems, and fragile economic conditions remain key downside risks to the company’s earnings capability.

KEY RATING CONSIDERATIONS

Revenues hit by COVID-19 but gradual recovery expected

In 2020, BEC reported a 30% year-on-year (y-o-y) drop in revenue to THB5.9 billion, compared with THB8.4 billion in 2019. The revenue slump was largely attributable to the high uncertainty and gloomy business environment brought on by the Coronavirus Disease 2019 (COVID-19). Advertisers scaled back their marketing campaigns, and advertising budgets were spent cautiously. The absence of revenues from concerts and shows was another key contributing factor to the subdued revenue performance.

While we expect advertising demand to recover from last year as sentiment related to the COVID-19 pandemic improves, we do not expect a strong rebound in advertising spending, given the uncertainty surrounding COVID-19 developments and subsequent vulnerable economic conditions. Secular changes in audience viewing habits and intense competition across media ecosystems will continue to pressure the company’s advertising revenues.

Our base-case assumption projects BEC’s revenue to be around THB5.4-THB5.7 billion per annum during 2021-2023. We anticipate a moderate recovery in advertising, following improved consumer spending sentiment, which is likely to lead to higher marketing demand from advertisers. We also expect BEC to be able to command higher advertising rates, particularly during its prime-time programs. In 2020, BEC used rerun series to fill about one-third of its prime-time series slots while this year the company plans to mainly air new series. We also expect revenues from global content licensing and digital media to grow by 10%-15% annually. The assumption takes into consideration a decline in some advertising revenues from TV and radio as well as revenues from concerts & shows resulting from the divestment of Tero Entertainment PLC (formerly BEC-Tero Entertainment PLC) in late 2020.

Improved profitability from cost rationalization

BEC’s cost rationalization undertaken over the past few years has helped improve its profitability. Despite a substantial decline in revenues, BEC’s adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) margin improved to 7.8% in 2020, compared to 4.9% in 2019. In TRIS Rating’s analysis, the amortization of content rights is treated as an operating cost, and not being added back in our EBITDA calculation. The cost savings were mainly achieved through reduced personnel costs, and costs related to analog switch off. The use of program reruns in 2020 also helped with content costs.

We expect that cost savings from payroll and network-related costs will be offset by higher content costs compared to 2020, as the company plans to use much less rerun content. Our base-case assumption projects a high-

single-digit percentage EBITDA margin during 2021-2023. The profit margin is expected to translate into EBITDA of THB400-THB500 million per year in 2021-2023.

Strong balance sheet

BEC's strong balance sheet supports its financial profile. At the end of 2020, BEC's adjusted debt was THB769 million, down from THB1.2 billion in 2019. Adjusted debt to EBITDA was 1.7 times. Our base-case scenario projects the leverage ratio to stay around the 2020 level before improving to 0.8-1.2 times during 2022-2023. The assumption incorporates expected capital expenditures of THB100-THB140 million per year.

We assess BEC's liquidity to be sufficient over the next 12 months, considering the sources and uses of funds. Sources of funds comprise funds from operations forecast at around THB300 million, plus cash and cash equivalents of THB2.6 billion at the end of 2020. The uses of funds comprise financial obligations of around THB77 million and capital expenditure of THB140 million.

BASE-CASE ASSUMPTIONS

- Revenues of THB5.4-THB5.7 billion per annum during 2021-2023.
- EBITDA margin in the high-single-digit percentage range during 2021-2023.
- Capital expenditure of THB100-THB140 million per year during 2021-2023.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that BEC will be able to maintain its leading market position in the TV broadcasting industry as well as maintain its strong balance sheet.

RATING SENSITIVITIES

A rating upside may occur if BEC demonstrates an ability to capture growth opportunities in the changing media landscape and continuously improve operating performance, enlarging its earnings materially. Downward pressure on the rating could arise if BEC's operating performance persistently worsens, pressured by ongoing weak advertising spending, intensified competition across media ecosystems, and secular changes in audience viewing habits.

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. The company is also a radio broadcaster and has other entertainment-themed businesses. BEC was listed on the Stock Exchange of Thailand (SET) in July 1996. The Maleenont family is the major shareholder, holding 47% of the company's outstanding shares.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS
Unit: Mil. THB

	----- Year Ended 31 December -----				
	2020	2019	2018	2017	2016
Total operating revenues	5,900	8,387	10,220	11,140	12,383
Earnings before interest and taxes (EBIT)	25	(189)	(205)	202	1,621
Earnings before interest, taxes, depreciation, and amortization (EBITDA)*	458	414	672	1,108	2,490
Funds from operations (FFO)*	236	335	565	875	1,964
Adjusted interest expense	124	141	179	192	192
Capital expenditures	133	38	39	56	258
Total assets	9,519	11,354	14,320	14,331	14,931
Adjusted debt	769	1,169	4,003	4,768	4,333
Adjusted equity	5,409	5,718	6,236	6,546	7,110
Adjusted Ratios					
EBITDA margin (%)	7.76	4.94	6.57	9.95	20.11
Pretax return on permanent capital (%)	0.27	(1.71)	(1.64)	1.58	12.71
EBITDA interest coverage (times)	3.70	2.94	3.75	5.77	12.94
Debt to EBITDA (times)	1.68	2.82	5.96	4.30	1.74
FFO to debt (%)	30.72	28.65	14.11	18.36	45.33
Debt to capitalization (%)	12.44	16.97	39.10	42.14	37.86

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

RELATED CRITERIA

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

BEC World PLC (BEC)

Company Rating:	BBB
Rating Outlook:	Stable

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