Press Release

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TRIS Rating Assigns Company Rating of "BEC" at "A+" with "Stable" Outlook

TRIS Rating has assigned the company rating of BEC World PLC (BEC) at "A+" with "stable" outlook. The rating reflects BEC's established and strong market position as a television (TV) broadcaster and its strong financial profile. However, these strengths are partially offset by a slowdown in advertising spending, intense competition in the broadcasting industry, plus a change in the viewing habits of audiences.

The "stable" outlook reflects TRIS Rating's expectation that BEC will be able to maintain its strong market position as a leading TV broadcaster as well as maintain its financial strength. The rating upside is limited in the near term considering the transitions underway in the industry. Downward pressure on the rating could arise if BEC's operating performance deteriorates significantly due to the ongoing slowdown in advertising spending or intensified competition from other TV broadcasters and alternate forms of media.

BEC was incorporated in 1969 and started broadcasting Channel 3 (Ch. 3) in March 1970 under an agreement with MCOT PLC (MCOT). The broadcasting agreement of Ch. 3 will end in March 2020. BEC also operates three digital TV channels, Ch. 33, Ch. 28, and Ch. 13, under 15-year licenses, which end in April 2029. Currently, BEC simulcasts Ch. 3 and Ch. 33. 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 altogether 47.03% of the total number of BEC's outstanding shares.

BEC's strong business profile is supported by its established position as a leading TV broadcaster with a large viewership base. Although the launch of digital TV in April 2014 levels the playing field among TV broadcasters, BEC still has several competitive advantages over new entrants in terms of experience, brand recognition, sizable audience base, plus financial strength.

BEC's business risk profile hinges on the fact that it is highly dependent on advertising expenditures as the main source of revenue. Generally, advertising spending for all media types moves in tandem with economic conditions. The ongoing slowdown of the domestic economy and rising household debt cut into consumer spending and led to a fall in advertising expenditures. BEC's operating performance suffered as a result. In the medium term, competition from other TV broadcasters is expected to intensify as broadcasters need to attract viewers and create a viewer base in order to attract advertising revenue. In addition, audience viewing habits are changing. For example, viewers increasingly prefer video-on-demand rather than the traditional TV broadcasting format. This change poses a threat to the company and other broadcasters in the medium term.

BEC's financial strength is underpinned by its ability to generate cash and a solid capital structure. Operating performance weakened during the past two years as earnings fell and costs rose, especially from the new digital TV platforms. In 2015, revenue declined by 2% compared with 2014. However, advertising revenue dropped by 5.9% in 2015 to Bt14,197 million, reflecting the weak economy and a drop in advertising spending. For the first nine months of 2016, the momentum continued. BEC reported a 14.9% year-on-year (y-o-y) drop in revenue. Advertising revenue plunged by 13.1% y-o-y. Revenue for all of 2016 is expected to fall even more than the drop seen in the first three quarters due mainly to the mourning period of HRH King Bhumibhol which has started in the last quarter of 2016. TRIS Rating forecasts BEC's revenue will recover in 2017, as entertainment activities resume. A better outlook for the economy will boost advertising spending. However, heightened competition among TV broadcasters will pressure the growth rate in BEC's revenue.

As most of BEC's operating costs are fixed, the drop in revenue translated into lower profitability and a drop in operating cash flow. In TRIS Rating's analysis, the amortization of TV program rights is treated as an operating cost, a standard practice for this industry. BEC's operating margin, measured by operating income before depreciation and amortization as percentage of sales, declined from over 40% prior to 2014 to 29.41% in 2015 and 21.59% for the first nine months of 2016. Funds from operations (FFO) stood at Bt1,664 million for the first nine months of 2016.

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Despite weaker earnings, BEC's capital structure and liquidity remained strong. The total debt, including the digital TV license obligations, to capitalization ratio was 39.07% at the end of September 2016. The FFO to total debt ratio stayed ample at 58.62% (annualized, from the trailing 12 months) for the first nine months of 2016 while earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage ratio was 18.13 times. These two ratios are expected to weaken for the full-year result of 2016 as an effect of the mourning period, but are expected to recover in 2017. FFO to total debt ratio is expected to stay over 50% during 2017-2019.

Over the next 12-18 months, TRIS Rating believes that BEC's will continue to maintain a healthy liquidity, considering the sources and uses of funds. Under TRIS Rating's base case scenario, sources of funds are expected FFO of at least Bt2,000 million per annum plus cash and cash equivalents at the end of September 2016 of Bt823 million. The uses of funds are mainly digital TV license payments of Bt546 million per annum in 2017-2018, plus capital expenditures of about Bt240 million per

BEC will maintain its high dividend payout ratio.

BEC World PLC (BEC)

Company Rating:	A+
Rating Outlook:	Stable

TRIS Rating Co., Ltd./www.trisrating.com

Contact: santaya@trisrating.com, Tel: 0-2231-3011 ext 500/Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand