

RS PLC

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CORPORATES

Company Rating: BBB+
Outlook: Stable

Contacts:

Chanaporn Pinphithak
chanaporn@trisrating.com

Pramuansap Phonprasert
pramuansap@trisrating.com

Ruangwud Jarurungsipong
ruangwud@trisrating.com

Thiti Karoonyanont, Ph.D., CFA
thiti@trisrating.com



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RATIONALE

TRIS Rating assigns the company rating to RS PLC (RS) at “BBB+” with a “stable” rating outlook. The rating reflects RS’s competitive business position with a good mix of commerce, media, and music businesses. We expect RS’s “Entertainmerce” strategy, using its expertise and platforms in media and entertainment to support the commerce business, will continue to drive the company’s growth prospects over the medium term. The rating also takes into account RS’s strong financial profile with steady operating cash flow and low leverage. However, the rating is weighed down by RS’s limited track record in a very competitive commerce business and increasing challenges in the media business amid a secular change in the media landscape.

KEY RATING CONSIDERATIONS

“Entertainmerce” strategy drives business profile

The transformation from a media and entertainment company to focus more on commerce has helped the company withstand the declining trend in the traditional media industry and sustained its earnings during the past few years. We view that RS’s experience and expertise in media and entertainment with its own media channels will continue to support its market position in the commerce business in the short to medium term. However, RS’s short track record in the commerce business suggests the company needs more time to prove its ability to sustain success in this highly competitive business. Additionally, RS’s commerce revenue is derived mainly from captive television (TV) audiences. We view this as a downside risk over the longer term. RS needs to come up with a strategy to cope with the ongoing decline in media consumption hours.

Commerce business to bolster revenue growth

RS’s commerce business has grown significantly during the past few years. Revenue from the commerce business grew to THB2 billion in 2019 from THB232 million in 2015. For the first nine months of 2020, commerce revenue rose by 12% year-on-year (y-o-y) to THB1.7 billion. We expect the growth momentum to continue in the medium term.

Our base-case projects revenue from the commerce business to grow by 10%-20% per annum during 2020-2022. This growth is expected to come from expansion of sales channels, adoption of technology, and new product launches. RS has been expanding its sales channels to broaden its customer base, for example, through other digital TV channels, its COOLISM application, its own website, and via other e-commerce platforms. The adoption of technologies such as a predictive dialing system and data analytics helps increase the efficiency of its telemarketing activities. The company also plans to launch new products, including functional drinks, food supplements, and pet foods. However, the three new product segments will focus primarily on modern trade and retail channels, which are new to the company. RS may need time to build up its brands, competitive strengths, and market position against competitors.

Media platform complements commerce business

Like other players in the industry, RS’s media business, both TV and radio platforms, will continue to face operational challenges from stiff competition in the media ecosystem, secular changes in audience viewing habits, and a

weak economy, which is pressuring advertising spending. However, in the context of the company's "Entertainmerce" strategy, the importance of the company's media platforms is tied to its critical role in supporting its commerce business and complementing RS's overall business model.

In line with the industry trend, media revenue dropped to THB1.1 billion in 2019 from THB2.1 billion in 2015, declining by roughly 15% per year on average. For the first nine months of 2020, revenue from the media business rose by 4% y-o-y to THB852 million. The drop in advertising revenue was compensated by revenue from sales of content to international market and to Over-The-Top (OTT) platforms. Our base-case scenario projects revenue from the media business to range from THB750-THB930 million per year over 2020-2022. We expect advertising rates will continue to be pressured by competition across media platforms and persistent fragile economic conditions. However, the softening advertising revenue from TV and radio will likely be partially offset by revenue from sales of content to OTT platforms.

Revival of music, events, and show

RS is reviving its music business under a model that generates revenue not only from music sales but also from artist management, for instance, by monetizing artist brand value through social media platforms. Also, artists will complement the company's commerce business by, for example, co-creating new products that align with the artist's concept or image. In addition, RS will be more active in events and show business, mainly from concerts and shows starting from 2021. Our base-case assumption expects RS's revenue from the music business will be THB250-THB280 million in 2020 and will jump to THB450-THB550 million per year during 2021-2022.

Sound financial profile

RS's sound financial profile is underpinned by sound operating cash flows and a strong balance sheet. For the first nine months of 2020, RS reported THB2.8 billion in revenue. Profitability was healthy with a gross profit margin of 53.5% and earnings before interest, tax, depreciation, and amortization (EBITDA) margin of 27.5%. EBITDA was THB760 million (in TRIS Rating's analysis, the amortization of content cost is treated as an operating cost).

Our base-case assumption projects RS's revenue to reach THB3.7-THB3.8 billion in 2020 and THB4.2-THB4.8 billion per annum during 2021-2022. We expect RS to be able to maintain its high profitability with a gross profit margin of around 50% during the forecast period. The EBITDA margin is expected to be 25%-27% which will translate into EBITDA of THB0.9-THB1.3 billion per year during 2020-2022.

At the end of September 2020, RS's adjusted debt stood at THB1.2 billion. Leverage as measured by the debt to EBITDA ratio, was low at 1.4 times (annualized from the trailing 12 months). We expect the leverage to rise as RS is working on some potential merger and acquisition (M&A) transactions. Our base-case forecast assumes the company will close some M&A deals worth THB1-THB1.5 billion in total in 2021. The deals are expected to be funded by bank loans. Capital expenditure is projected at THB250-THB350 million per year during 2020-2022. Based on the above investment plans, we project RS's debt to EBITDA ratio to stay in the range of 1.5-2.5 times during 2020-2022.

Sufficient liquidity

We assess RS's liquidity to be sufficient over the next 12 months considering its sources and uses of funds. Primary sources of funds are cash on hand of THB151 million, as of the end of September 2020, and expected funds from operations (FFO) of about THB800 million. Primary uses of fund are debts coming due amounting to THB639 million and planned capital spending of THB250-THB350 million.

BASE-CASE ASSUMPTIONS

- Revenue of THB3.7-THB3.8 billion in 2020 and THB4.2-THB4.8 billion per annum during 2021-2022.
- EBITDA margin ranging from 25%-27% during 2020-2022.
- Capital expenditure of THB250-THB350 million per year during 2020-2022.
- Conclusion of M&A deals to worth THB1-THB1.5 billion in total in 2021.

RATING OUTLOOK

The "stable" outlook reflects our expectation that RS will maintain its business position and continue to deliver sound operating performance. We also expect the company to maintain financial discipline with conservative use of leverage to fund business expansion.

RATING SENSITIVITIES

A rating upgrade could materialize if the company is able to enlarge its cash flow from operations without materially weakening its balance sheet. On the contrary, the rating and/or outlook could be revised downward if RS's operating performance or financial profile deteriorate significantly from our expectation.

COMPANY OVERVIEW

RS was established in 1976, initially as a music business. The company was listed on the Stock Exchange of Thailand in 2003. As of July 2020, Mr. Surachai Chetchotisak, co-founder and Chief Executive Officer (CEO), was the major shareholder holding 22% of the total shares. At present, RS has three core businesses comprising commerce, media, and music & other businesses. The commerce business, operating under RS Mall Co., Ltd. and Lifestar Co., Ltd., offers a variety of products including health & beauty products, home & lifestyle products, and accessories. The media business operates through two major channels - TV and radio. RS operates "Channel 8" digital TV and three satellite TV channels, including Sabaidee TV, Channel 2 and SATV. In the radio media business, RS broadcasts via F.M. 93.0 MHz covering Bangkok and vicinity, online at www.COOLISM.net, and via the COOLISM mobile platform under the COOLfahrenheit brand. The music business operates under the RSiam, Kamikaze, and Rose Sound music houses. Revenue from music business operations is derived from three main sources: events & showbiz, sales of music products in various formats, mainly through digital content, and copyrights. For the first nine months of 2020, the commerce business contributed 63% of total revenue, followed by media, 31%, and music and other business, 6%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Mil. THB

	Jan-Sep 2020	-----Year Ended 31 December -----			
		2019	2018	2017	2016
Total operating revenues	2,765	3,620	3,860	3,527	3,118
Earnings before interest and taxes (EBIT)	560	502	602	472	(34)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	760	728	889	790	269
Funds from operations (FFO)	625	591	709	606	200
Adjusted interest expense	27	39	72	97	93
Capital expenditures	244	230	45	69	139
Total assets	4,286	3,407	4,073	4,209	4,139
Adjusted debt	1,198	636	1,262	1,689	2,361
Adjusted equity	1,901	1,727	1,672	1,402	1,060
Adjusted Ratios					
EBITDA margin (%)	27.49	20.10	23.02	22.41	8.62
Pretax return on permanent capital (%)	22.66	16.82	18.24	13.79	(0.99)
EBITDA interest coverage (times)	27.89	18.57	12.42	8.15	2.89
Debt to EBITDA (times)	1.42	0.87	1.42	2.14	8.78
FFO to debt (%)	56.78	92.91	56.23	35.90	8.48
Debt to capitalization (%)	38.66	26.93	43.00	54.64	69.02

* Consolidated financial statements

** Annualized with trailing 12 months

RELATED CRITERIA

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

RS PLC (RS)

Company Rating:	BBB+
Rating Outlook:	Stable

TRIS Rating Co., Ltd.

Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000

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