

RS PLC

No. 170/2022
4 October 2022

CORPORATES

Company Rating: BBB
Outlook: Stable

Last Review Date: 04/11/21

Company Rating History:		
Date	Rating	Outlook/Alert
04/12/20	BBB+	Stable

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RATIONALE

TRIS Rating downgrades the company rating on RS PLC (RS) to “BBB” from “BBB+”. The rating outlook remains “stable”. The rating downgrade reflects RS’s weaker-than-expected operating performance, especially in the commerce business, and its high financial leverage from merger and acquisition (M&A) transactions. Despite RS’s deleveraging plan in place, we view the company’s financial leverage ratio as likely to remain at levels above the threshold commensurate with the ‘BBB+’ rating, considering the sluggish macroeconomic conditions that add challenges to the recovery of its operating performance. The rating continues to reflect RS’s strengths in media and entertainment, which support its “Entertainmerce” business model and market position in the commerce business.

KEY RATING CONSIDERATIONS

Weakened commerce business performance

RS reported weaker-than-expected commerce business results, with declining sales over the past two years. Commerce revenue declined by 5% year-on-year (y-o-y) in 2021 and 33% y-o-y for the first six months of 2022 to THB2.26 billion and THB826 million, respectively. The weak performance was due mainly to weak consumer sentiment and spending caused by the COVID-19 fallout, while competition in the home shopping sales channel kept intensifying. Additionally, RS’s new products launched under its in-house brands including “well u” and “Vitanature+” (health and beauty products), “CAMU C” (functional drink), and “Lifemate” (pet food) are still in their early phases.

Looking ahead, we expect ongoing challenges to RS’s commerce business performance and growth prospects given the gloomy economic outlook and rising inflation taking a toll on consumer confidence and purchasing power, dampening demand for discretionary products. RS is launching new products under its key owned brands to better respond to consumer demand during the economic downturn, including pack size optimization and new formula for well u and Vitanature+ products, hemp-related formula for CAMU C, and wet pet food for Lifemate. However, in our view, RS needs time to build brand awareness and establish firm market positions to gain competitive strength and sustain the long-term growth prospects of its brands and products.

Our base-case assumption projects RS’s commerce revenue to be THB2.1 billion in 2022 and THB2.4-2.7 billion per annum in 2023-2024. The revenue projection incorporates revenue from ULife, a direct selling business acquired in May 2022. RS plans to transform ULife business into a modern direct selling business under its Entertainmerce ecosystem, which would drive its commerce revenue growth if executed successfully.

Concerts and events to boost entertainment revenue

We expect RS’s revenue from its entertainment business to grow from THB1.3 billion in 2021 to THB1.8-THB2 billion per annum during 2022-2024. A main revenue driver will be from organizing concerts and events which generate both ticketing and sponsorship revenue following the easing of COVID-19 restrictions. Meanwhile, we predict modest growth in media revenue. While we expect more new content production and releases compared with the previous two years, economic headwinds and secular changes in audience media consumption habits will weigh down advertising revenue growth,

especially on traditional platforms like TV and radio. However, new content production will support the revenue stream from content licensing.

If executed successfully, RS's efforts to capture opportunities in fast-changing media landscapes with new initiatives such as online media, digital marketing, and Popcoin, a marketing platform using blockchain technology, would create an upside to RS's media and entertainment revenue and complement its "Entertainmerce" ecosystem.

Weakened financial metrics

RS's financial metrics were weaker than we expected with both weak operating results and elevated leverage from acquisitions. RS's adjusted debt rose from THB2.5 billion in 2021 to THB4 billion at the end of June 2022, while adjusted debt to earnings before interest, tax, depreciation, and amortization (EBITDA) during the first half of 2022 fell to THB243 million, from THB 391 million during the first half of 2021. The company's adjusted debt to EBITDA rose from 1.2 times in 2020 to 6 times in 2021 and 15.3 times in the first six months of 2022 (annualized based on the trailing 12 months).

Our base-case projection forecasts RS's revenue to be THB3.9 billion in 2022, improving to THB4.3-THB4.7 billion per annum during 2023-2024. EBITDA margin is expected to be in the mid-teen percentage range in 2022 before improving to around 19%-21% during 2023-2024. The improved profitability takes into account RS's strategy to shift from partners' products sales to owned brands in commerce business and cost control efforts. We forecast RS's EBITDA at around THB650 million in 2022 and THB0.8-THB1 billion per annum during 2023-2024. We also project a company capital expenditure of THB100-THB200 million per year during 2022-2024 and potential M&A deals worth THB500-THB700 million in total in 2023.

We continue to incorporate RS's deleveraging plan and the divestment of some shares of Chase Asia Co., Ltd. (CHASE) through an initial public offering planned for December 2022 in our base-case projection. However, with an extended period of soft performance and escalated debt levels, it will likely take longer than previously expected to deleverage. We now project RS's adjusted debt to EBITDA ratio to decline over the next few years, falling to below 3 times in 2025.

As of June 2022, RS's debts consisted of THB2.1 billion of priority debt out of its total interest-bearing debt of THB3.6 billion. As its priority debt ratio is 59%, above the threshold of 50%, we view RS's unsecured creditors are significantly disadvantaged to priority debtholders with respect to the priority of claims against the company's operating assets.

The main financial covenants on RS's bank loans require the company's debt to equity ratio to remain below 2.5 times. As of June 2022, the ratio was 1.93 times. We believe that RS should have no problems complying with the financial covenants over the forecast period.

Manageable liquidity

We assess RS's liquidity to be manageable over the next 12 months. Primary sources of funds are cash on hand of THB174 million as of the end of June 2022, and funds from operations (FFO) of about THB400-THB450 million. The primary uses of funds are scheduled financial obligations coming due of THB223 million and planned capital spending of THB100-THB200 million. RS has short-term loans totaling THB1.7 billion that is expected to be revolving.

BASE-CASE ASSUMPTIONS

- Revenue to be THB3.9 billion in 2022 and THB4.3-THB4.7 billion per annum during 2023-2024.
- EBITDA margin to be in the mid-teen percentage range in 2022 and 19%-21% during 2023-2024.
- Capital expenditure of THB100-THB200 million per year during 2022-2024.
- M&A deals worth THB500-THB700 million in 2023.

RATING OUTLOOK

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

RATING SENSITIVITIES

A rating upgrade could occur if RS's operating performance improves stronger than expected, with the deleveraging plan proceeding as planned, such that its adjusted debt to EBITDA ratio can be sustained well below 2 times. Conversely, the rating and/or outlook could be revised downward if RS's operating performance or financial profile deteriorate significantly from our expectations.

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 March 2022, Mr. Surachai Chetchotisak, co-founder and Chief Executive Officer (CEO), was the major shareholder with 23.7% of 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., Lifestar Co., Ltd., and ULife, 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. 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 half of 2022, the commerce business contributed 49% of total revenue, followed by media, 42%, and music and other business, 9%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2022	-----Year Ended 31 December -----			
		2021	2020	2019	2018
Total operating revenues	1,680	3,584	3,788	3,620	3,860
Earnings before interest and taxes (EBIT)	122	192	701	502	602
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	243	413	970	728	889
Funds from operations (FFO)	162	271	870	620	751
Adjusted interest expense	40	62	38	39	72
Capital expenditures	297	1,019	804	617	546
Total assets	7,294	5,803	4,516	3,407	4,073
Adjusted debt	4,052	2,487	1,202	636	1,262
Adjusted equity	1,871	2,138	2,004	1,727	1,672
Adjusted Ratios					
EBITDA margin (%)	14.45	11.51	25.60	20.10	23.02
Pretax return on permanent capital (%)	0.97	4.71	22.99	16.82	18.24
EBITDA interest coverage (times)	6.14	6.70	25.24	18.57	12.42
Debt to EBITDA (times)	15.35	6.03	1.24	0.87	1.42
FFO to debt (%)	2.70	10.89	72.39	97.48	59.53
Debt to capitalization (%)	68.41	53.77	37.49	26.93	43.00

RELATED CRITERIA

- Corporate Rating Methodology , 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022

RS PLC (RS)

Company Rating:	BBB
Rating Outlook:	Stable

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