

RS PLC

No. 221/2023
10 November 2023

CORPORATES

Company Rating: BBB-
Outlook: Stable

Last Review Date: 04/10/22

Company Rating History:

Date	Rating	Outlook/Alert
04/10/22	BBB	Stable
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 action reflects the company’s weaker-than-expected operating result in the commerce business, and our view that the company’s financial leverage will stay elevated for longer than previously anticipated.

The rating continues to factor in RS’s strengths and experience in the entertainment industry, which continue to support the company’s market position and overall business model. Nonetheless, we expect ongoing challenges for the company’s commerce business, primarily stemming from weak consumer sentiment and intensified competition.

KEY RATING CONSIDERATIONS

Weaker-than-expected commerce business

RS’s revenue from the commerce business further declined by 12% year-on-year (y-o-y) to THB729 million in the first half of 2023, after a 24% y-o-y drop in 2022. The weakening sales were despite the company’s efforts to expand the scope of business beyond its usual television (TV) selling platform. The expansion includes developing and pushing own-brand products through modern trade and various other channels. RS also expanded to a direct sales business by acquiring “ULife” in the second quarter of 2022. Weak consumer sentiment, intensified competition across commerce platforms, and the rising popularity of competing channels like “TikTok” pose challenges.

Our baseline projection estimates RS’s commerce revenue at THB1.5 billion in 2023 and THB1.9-THB2.2 billion annually in 2024-2025. The projected growth is derived mainly from its new pet-related business. Apart from the “Lifemate”, the pet food brand launched a couple of years ago, RS is expanding its pet-related business under “RS Pet All”, including pet products and pet retail shops as well as pet wellness and hospital business. We also expect some improvement in performance of “RS Connect” (ULife) driven by its new subscription model.

RS’s flexibility in product sourcing allows the company to adapt quickly to evolving customer needs and market conditions. However, the company still needs to work on improving brand loyalty for sustained long-term growth. Improving the performance of the commerce business will be pivotal to strengthening the company’s overall business profile.

Entertainment business restructure and return to focus on music

RS’s entertainment business consists of two key segments: multimedia and music.

The multimedia business covers TV broadcasting (Channel 8), digital media, content production studio, event organizing, and related business. While one key role of RS’s media platform is to continue supporting its home shopping business, the strategic growth direction in the media sector aims at becoming a drama series content provider and a prominent event organizer.

RS is also reinvigorating its original music business, with the goal of launching around 100 to 150 new music releases each year. Leveraging a well-developed music infrastructure, including streaming platforms, allows for widespread accessibility and cost-efficiency in music distribution. Also, the music business

opens doors to revenue opportunities beyond music content, including events and brand engagement, concerts and shows, and talent management ventures.

Our base-case forecast projects revenue from the entertainment business to reach around THB1.9-THB2.2 billion per annum during 2023-2025. This is based on our view that advertising revenue, particularly on traditional TV platforms, is on a declining trajectory due to shifting audience media consumption patterns and challenging economic conditions. Nevertheless, we anticipate that revenue generated from content licensing and event organizing activities will offset this decline during the forecast period. We also project revenue growth in the music business from increasing activities especially in concerts and shows.

High level of financial leverage likely to continue

We forecast RS's revenue at around THB3.6-THB4.3 billion per annum during 2023-2025. The earnings before interest, taxes, depreciation and amortization (EBITDA) margin is expected to be in the mid- to high-teen percentage range. We view that profitability will come under pressure from rising costs while high competition in both commerce and media businesses constrains its ability to raise prices. We forecast the company's EBITDA at around THB500-THB700 million per annum during 2023-2025.

The deleveraging process will likely take longer than initially anticipated, given the earnings pressure and the current high debt levels. As of June 2023, the company's adjusted debt stood at THB4.2 billion. Our base-case projection expects that RS's leverage, measured by the adjusted debt to EBITDA ratio, will remain elevated at 5-7 times in 2023 and 2024. We also factor in the proceeds from the sale of shares in RS UMG Co., Ltd. for THB1.6 billion in the second half of 2023. We assume in our base-case forecast that RS will divest some of its assets as part of its deleveraging plan which could bring the company's leverage ratio down to below 4 times in 2025 and afterwards.

As of June 2023, RS's total interest-bearing debt was THB3.5 billion. Since its priority debt ratio was 64% above the threshold of 50%, we view RS's unsecured creditors as being 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 2023, the ratio was 1.5 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 THB142 million as of the end of June 2023, funds from operations (FFO) expected at around THB300 million, and net proceeds from selling the shares in RS UMG of THB1.3-THB1.4 billion. The primary uses of funds are scheduled financial obligations coming due of THB422 million, dividend payment of THB642 million, and planned capital spending of THB500-THB600 million. RS has short-term loans totaling THB2 billion which is expected to be revolving.

BASE-CASE ASSUMPTIONS

- Revenue to be THB3.6-THB4.3 billion per annum during 2023-2025.
- EBITDA margin to range in the mid- to high-teen percentage during 2023-2025.
- Capital expenditures and investment, including investment in contents, of THB400-THB800 million per year during 2023-2025.

RATING OUTLOOK

The "stable" outlook reflects our expectation that RS will remain strong in its market position and continue to leverage its media platform and brand equity to support its business ecosystem. We also expect the company to continue deleveraging as planned.

RATING SENSITIVITIES

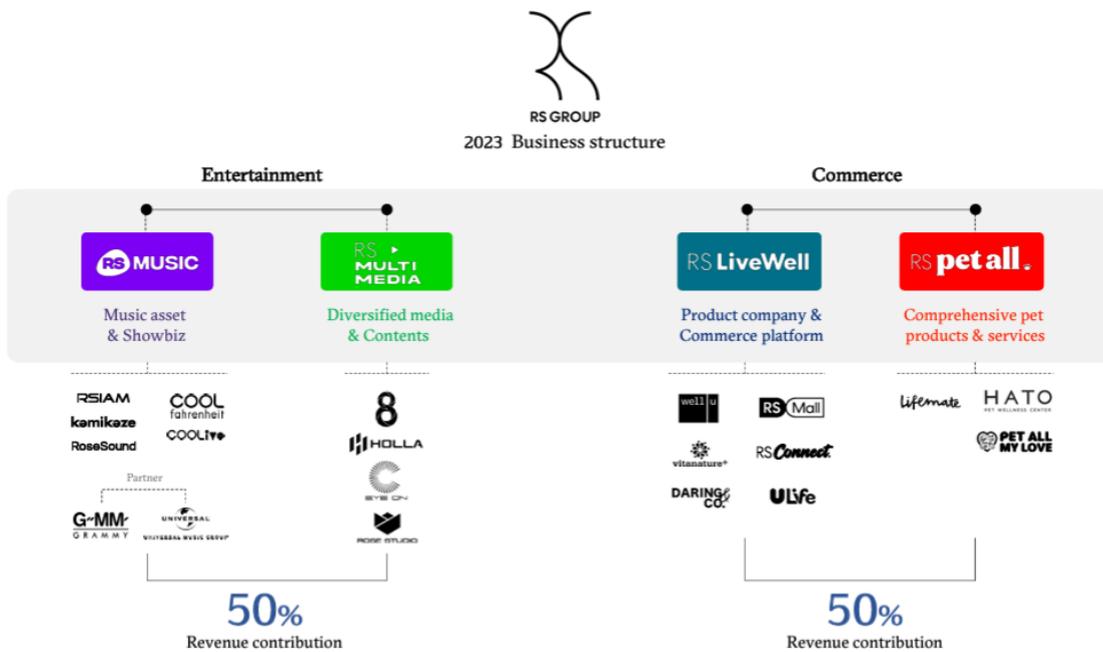
A rating upgrade could occur if RS continues to deliver stronger-than-expected operating performance, or reduces its debt level, such that its adjusted debt to EBITDA ratio can be sustained below 3 times. Conversely, the rating and/or outlook could be revised downward if RS's operating performance or financial profile deteriorates 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 April 2023, Mr. Surachai Chetchotisak, co-founder and Chief Executive Officer (CEO), was the company’s major shareholder with a 24.2% share. Recently, RS restructured its business into the commerce and entertainment businesses. The commerce business comprises “RS Livewell” and “RS Pet All”. RS Livewell offers various of products including health & beauty products, home & lifestyle products, and accessories, through its main channels including “RS Mall”, which is multi-platform commerce both offline and online, and RS Connect, engaging in the direct sales business. RS Pet All offers comprehensive pet products and services. The entertainment business comprises the multimedia business and the music as well as other businesses.

The multimedia business includes the operation of Channel 8 digital TV, digital media, content production, and other related business. The music business is operated under the “RSiam”, “Kamikaze”, and “Rose Sound” music houses. RS’s music business also covers concerts and shows, talent management, and radio businesses. 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.

Chart 1: RS New Business Structure



Source: RS

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2023	-----Year Ended 31 December -----			
		2022	2021	2020	2019
Total operating revenues	1,789	3,546	3,584	3,788	3,621
Earnings before interest and taxes (EBIT)	178	270	192	701	501
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	335	549	412	970	735
Funds from operations (FFO)	218	388	275	870	628
Adjusted interest expense	80	103	61	38	39
Capital expenditures**	303	499	751	538	258
Total assets	8,156	7,492	5,803	4,516	3,407
Adjusted debt	4,171	4,196	2,487	1,202	636
Adjusted equity	2,354	1,990	2,138	2,004	1,727
Adjusted Ratios					
EBITDA margin (%)	18.73	15.47	11.50	25.60	20.31
Pretax return on permanent capital (%)	5.11 *	4.87	4.70	22.99	16.80
EBITDA interest coverage (times)	4.17	5.33	6.73	25.24	18.76
Debt to EBITDA (times)	6.51 *	7.65	6.03	1.24	0.87
FFO to debt (%)	10.65 *	9.25	11.05	72.39	98.66
Debt to capitalization (%)	63.92	67.83	53.77	37.49	26.93

* Annualized from the trailing 12 months

** Net off the amortization cost of contents

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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