

RS PLC

No. 201/2021
4 November 2021

CORPORATES

Company Rating: BBB+
Outlook: Stable

Last Review Date: 04/12/20

Company Rating History:

Date	Rating	Outlook/Alert
04/12/20	BBB+	Stable

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RATIONALE

TRIS Rating affirms the company rating on RS PLC (RS) at “BBB+” with a “stable” rating outlook. The rating reflects RS’s strengths in media and entertainment and its ability to utilize such strengths to develop and grow its commerce business. The rating also takes into consideration RS’s deleveraging plan in the coming years after the spike in leverage caused by recent and upcoming merger and acquisition (M&A) transactions. The rating is weighed down by RS’s limited track record in the commerce business, pressure from the Coronavirus Disease 2019 (COVID-19) fallout and economic headwinds, plus increasing challenges in the media business amid a secular change in the media landscape.

KEY RATING CONSIDERATIONS

Commerce business affected by COVID-19

RS’s commerce business has been impacted by the COVID-19 fallout, which has affected consumer sentiment and spending in the past quarters. However, we expect the performance of the company’s commerce business to improve along with positive developments in the COVID-19 situation in addition to active marketing plans and new product launches.

Our base-case assumption projects revenue growth from the commerce business to be modest in 2021 and grow by 10%-20% per annum during 2022-2023, driven mainly by new product launches. In the first half of 2021, the company launched several new products, including food supplements and functional drinks; however, sales of new products were impacted by the gloomy consumer sentiment. We expect product performances to improve next year, in anticipation of a return to social and economic normality. Additionally, RS plans to launch new products including pet foods and hemp-related products. Overall marketing and branding strategies could help boost sales. However, revenue downside risk remains in the face of economic headwinds and on RS’s ability to build up its brands, competitive strengths, and market position against competitors.

Media platforms support “Entertainmerce” strategy

RS’s media business, like other players in the industry, will continue to face challenges from stiff competition in the media ecosystem, secular changes in audience media consumption habits, and a fragile economy, which is pressuring advertising spending. However, in the context of the company’s “Entertainmerce” strategy, the company’s media platforms are playing a critical role in supporting its commerce business and complementing RS’s overall business.

For the first half of 2021, RS reported a 7% year-on-year growth in revenue from the media business to THB638 million. The growth was driven mainly by sales of content to Over-The-Top (OTT) platform and higher advertising revenue from improved TV rating. Our base-case scenario forecasts media business revenue to range from THB1.0-THB1.1 billion per year in 2021-2023. We expect advertising revenue will continue to be pressured by competition across media platforms and vulnerable economic conditions, although some improvement may be seen after the COVID-19 situation eases. However, the choppy advertising revenue from TV and radio will likely be partially offset by revenue from sales of content to OTT platforms.

Soft profitability in 2021 but improvement likely next year

Our base-case assumption projects RS's revenue to be around THB3.7 billion in 2021, improving to THB4.2-THB4.8 billion per annum during 2022-2023. We expect RS to be able to maintain its gross profit margin of around 50%-53% during 2021-2023. However, we expect RS's earnings before interest, tax, depreciation, and amortization (EBITDA) margin to weaken this year due mainly to higher marketing and branding expenses from new product launches. The EBITDA margin is expected to be around 18% in 2021 and 21%-23% during 2022-2023, translating into EBITDA of THB680 million in 2021 and THB0.9-THB1.2 billion per year during 2022-2023.

Rising leverage

RS's leverage is rising due mainly to its investments. In the first quarter of 2021, RS invested in a 35% stake in Chase Asia Co., Ltd. (Chase) for a total cost of THB920 million. RS also plans to acquire a 33% stake in Specialty Holdings (SPG) for THB675 million in the fourth quarter of 2021. The investments are being funded by bank loans. The two sizable investments, while complementing RS's business ecosystem, will elevate RS's leverage level. However, we expect the heightened leverage to be temporary based on RS's deleveraging plan.

Our base-case forecast projects RS's adjusted debt to EBITDA ratio to be around 4.2 times in 2021, declining to 2 times or below in 2023. Our base-case scenario also assumes that the company will have an additional M&A deal worth around THB500 million in 2022 together with capital expenditure of THB170-THB300 million per year during 2021-2023.

As of June 2021, RS's debts consisted of THB1.6 billion of priority debt out of its total interest-bearing debt of THB1.9 billion. As its priority debt ratio is 82%, above the threshold of 50%, we view that RS's unsecured creditors are significantly disadvantaged 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 2021, the ratio was 1.76 times. We believe that RS should have no problems complying with the financial covenants over the forecast period.

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 THB200 million as of the end of June 2021, and funds from operations (FFO) of about THB550 million. Primary uses of fund are debts coming due of around THB100 million and planned capital spending of THB150-THB200 million. The investment in SPG of THB675 million is expected to be funded by bank loans.

BASE-CASE ASSUMPTIONS

- Revenue to be THB3.7 billion in 2021 and THB4.2-THB4.8 billion per annum during 2022-2023.
- EBITDA margin to be 18% in 2021 and 21%-23% during 2022-2023.
- Capital expenditure of THB170-THB300 million per year during 2021-2023.
- Investment in SPG of THB675 million in the fourth quarter of 2021 and an M&A deal worth THB 500 million in 2022.

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 earnings base 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 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 2021, Mr. Surachai Chetchotisak, co-founder and Chief Executive Officer (CEO), was the major shareholder with 23% 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 six months of 2021, the commerce business contributed 62% of total revenue, followed by media, 32%, and music and other business, 6%.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	Jan-Jun 2021	-----Year Ended 31 December -----			
		2020	2019	2018	2017
Total operating revenues	1,989	3,788	3,620	3,860	3,527
Earnings before interest and taxes (EBIT)	262	701	502	602	472
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	391	970	728	889	790
Funds from operations (FFO)	323	794	591	709	606
Adjusted interest expense	27	38	39	72	97
Capital expenditures	406	804	617	546	371
Total assets	6,074	4,516	3,407	4,073	4,209
Adjusted debt	2,363	1,202	636	1,262	1,689
Adjusted equity	2,199	2,004	1,727	1,672	1,402
Adjusted Ratios					
EBITDA margin (%)	19.67	25.60	20.10	23.02	22.41
Pretax return on permanent capital (%)	14.56	22.99	16.82	18.24	13.79
EBITDA interest coverage (times)	14.51	25.24	18.57	12.42	8.15
Debt to EBITDA (times)	2.78	1.24	0.87	1.42	2.14
FFO to debt (%)	29.50	66.06	92.91	56.23	35.90
Debt to capitalization (%)	51.81	37.49	26.93	43.00	54.64

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

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