

BEC WORLD PLC

No. 30/2023
10 March 2023

CORPORATES

Company Rating:	BBB
Issue Ratings:	
Senior unsecured	BBB
Outlook:	Stable

Last Review Date: 07/03/22

Company Rating History:

Date	Rating	Outlook/Alert
07/03/22	BBB	Positive
27/03/20	BBB	Stable
11/03/19	A-	Stable
27/03/18	A	Stable
17/02/17	A+	Stable

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RATIONALE

TRIS Rating affirms the company rating on BEC World PLC (BEC) and the ratings on its existing senior unsecured debentures at “BBB”. At the same time, we revise BEC’s rating outlook to “stable”, from “positive”.

The rating outlook revision reflects our concern that BEC might not be able to reverse the declining trend in its operating revenue as previously expected. With various cost cutting measures, the company’s operating profit in 2022 was in line with our projection but revenue fell short, falling further by 10% from 2021. With operating revenue continuing to fall, it is unclear how BEC will maintain its profitability over the longer term.

The ratings reflect BEC’s leading position in the television (TV) broadcasting industry, its capability of content production, and its strong balance sheet. The downward pressure on TV advertising revenue from the ongoing shift in audience eyeballs toward digital media, stiff competition across all media ecosystems, and economic headwinds continue to weigh on the ratings.

KEY RATING CONSIDERATIONS

Persistent pressure on advertising revenue

Economic headwinds and secular change in audience viewing habits remain key risk factors to advertising spending and lead us to believe that BEC’s advertising revenue could continue declining in the next 1-2 years.

While we expect the Thai economy to benefit from the strong rebound in the tourism industry, weak consumption sentiment propelled by high inflation and macroeconomic uncertainty could prompt advertisers to stay cautious and selective in their marketing spendings. Also, despite remaining a mass medium, TV popularity is continuously facing challenges from digital disruption and secular change in audience behavior. Increasing popularity of over-the-top (OTT) platforms and the flood of content from streaming platforms is perpetuating the decline in TV advertising spending and the weaker negotiation power of TV broadcasting operators.

BEC’s performance still greatly depends on revenue from advertising. Over the past five years, BEC’s advertising revenue declined on average by 13% yearly. In 2022, BEC reported THB4.4 billion in advertising revenue, an 8% drop year-on-year (y-o-y). We expect BEC’s advertising revenue to show no growth or continue declining by a low- to mid-single digit percentage over the next two years.

One positive development that could help support BEC’s advertising revenue is the launch of cross-platform rating measurement. The new rating system measures the ratings of live viewership and playback programs in both linear TV and digital devices. This better captures changes in the behavior of content viewership which is no longer limited to linear TV. For live programs, in particular, if the rating data shows that content could reach greater audience numbers via different platforms, advertisers could better optimize their budgets and this could result in a slower pace of migration of advertising spending on TV to other media platforms.

GCL and digital platform business to be a key growth driver

We expect the global content licensing (GCL) and digital platform business to provide the main source of growth in BEC’s revenues. The increasing popularity

of OTT platforms allows BEC to monetize its content and partly compensate the declining advertising revenue on linear TV. Additionally, revenue from GCL and digital platform business comes with small additional cost which should support BEC's profitability if the company is able to consistently grow the revenue base.

In 2022, BEC's revenue from GCL and digital platform business declined by 21% y-o-y to THB666 million. This was mainly due to many OTT players reducing their content acquiring budget in response to the weak global economy. Going forward, our base-case projection forecasts BEC's revenue from GCL and digital platform business to reach THB750-THB950 million per annum during 2023-2025. As well as the expected constant content selling to international markets, the projection reflects our view on continual demand for local contents by global OTT platforms. We believe that local content is one key factors behind global streaming platforms attracting and retaining subscribers. In addition, we see growth opportunities from the "CH3Plus" platform as we expect more events and activities to help boost platform revenue.

Attempts to expand to new businesses

BEC's key strategy going forward is expanding to new businesses aiming to maximize its resources especially its artists' value. A key new business is "BEC Studio" which encompasses post-production, virtual-production, and content production. The post-production and virtual-production units aim to more efficiently support BEC's content production with respect to both timing and budget. The virtual studio is a medium-term investment project and currently under study. Content production under BEC Studio targets international audiences with a more universal storytelling and production style. BEC Studio also plans to produce or coproduce contents for global streaming platforms aiming to generate sustainable income and expand its GCL market. BEC's other new businesses include movies, music, and artist management. All these businesses allow BEC to monetize its artists' value and complement its entertainment ecosystem. These new businesses remain in their early phases; however, if successfully executed, they should help strengthen BEC's business profile and revenue capability as the value of its linear TV business continues facing downward pressure.

Continues to focus on cost cutting

Since the completion of its organization restructure and streamlining of its cost components, the company's cost reduction has been achieved mainly through cutting content costs via reruns of drama series over the past couple of years. In 2023, one key cost saving measure BEC implemented is by reducing the airtime of its prime-time drama series from 2 hours to 1.5 hours per day in response to weak advertising spendings. This is to help rationalize the cost of expensive drama series as the company expects advertising demand to remain weak in the foreseeable future. Prime-time drama series has been one of BEC's core strengths, with advertising rate significantly higher than its other TV programs, and BEC is ready to increase the airtime when situation improves. However, if weak demand for this valuable time slot continues to persist, it will likely have a significant impact on BEC's revenue-generating potential and its long-term profitability.

In 2022, BEC reported a 10% y-o-y drop in revenue to THB5.1 billion. Adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) margin weakened to 21.1%, from 26.2% a year earlier due mainly to a drop in revenue outpacing its cost reduction. We expect the trend to continue during 2023-2025. Our base-case assumption projects BEC's revenue to be THB5-THB5.3 billion per annum. We expect BEC's profitability to be pressured by the ongoing decline in advertising revenue while its operating expenses decline at a slower rate.

During 2023-2025, we forecast BEC's EBITDA margin to range between 14%-16% which will translate into an EBITDA of THB700-THB800 million per annum. In our analysis, the amortization of content rights is treated as an operating cost and has not been added back in our EBITDA calculation.

Strong balance sheet

We view that BEC's strong balance sheet and prudent dividend policy should alleviate the impact from declining advertising revenue and support BEC's credit metrics in the foreseeable future. At the end of 2022, BEC reported cash and cash equivalent balance of THB4 billion against adjusted debt of THB2.2 billion. Our base-case scenario projects BEC's leverage to remain low with adjusted debt to EBITDA ratio below 0.5 times during 2023-2025. The projection incorporates BEC's dividend payment policy of at least 50% of net profit and capital expenditures of around THB1.5 billion in total during 2023-2025. The capital spending is mainly to support the BEC Studio business.

We assess BEC to have adequate liquidity over the next 12 months. Sources of funds comprise cash and cash equivalents of THB4 billion recorded at the end of 2022 and funds from operations (FFO) estimated at around THB615 million. The uses of funds comprise capital expenditure of THB0.9-THB1 billion and dividend payment at THB320 million.

BASE-CASE ASSUMPTIONS

- Revenues of THB5-THB5.3 billion per annum during 2023-2025.
- EBITDA margin in the 14%-16% range during 2023-2025.
- Capital expenditure of THB1.5 billion in total during 2023-2025.

RATING OUTLOOK

The “stable” outlook reflects our expectation that BEC will sustain its leading market position in the TV broadcasting industry and maintain its strong balance sheet. The outlook also reflects the continual stream of revenue from GCL and digital platform business which could partially offset the loss in advertising revenue from the linear TV platform.

RATING SENSITIVITIES

A rating upgrade could occur if BEC continues to deliver stronger-than-expected performance, both in terms of revenue and profit, with an annual EBITDA sustained at a level above THB1 billion. A rating downgrade could occur if BEC’s operating performance continues to deteriorate mainly from eroding advertising revenue while other revenue sources do not grow fast enough to offset the decline.

COMPANY OVERVIEW

BEC was incorporated in 1969 and started broadcasting Channel 3 TV in March 1970 under an agreement with MCOT PLC (MCOT). The broadcasting agreement for Channel 3 ended in March 2020. Currently, BEC operates one digital TV channel, Channel 33, under a 15-year license, which will end in April 2029. BEC’s current strategy is “Single Content, Multiple Platforms” with the aim to leverage its content through various platforms including digital platforms and global content licensing. BEC was listed on the Stock Exchange of Thailand (SET) in July 1996. The Maleenont family is the major shareholder, holding 40% of the company’s outstanding shares.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Mil. THB

	-----Year Ended 31 December -----				
	2022	2021	2020	2019	2018
Total operating revenues	5,136	5,717	5,900	8,387	10,220
Earnings before interest and taxes (EBIT)	802	1,168	25	(189)	(205)
Earnings before interest, taxes, depreciation, and amortization (EBITDA)*	1,082	1,500	433	414	672
Funds from operations (FFO)*	870	1,327	240	172	565
Adjusted interest expense	116	99	124	141	179
Capital expenditures	192	66	133	38	39
Total assets	9,617	10,323	9,519	11,354	14,320
Adjusted debt	0	0	769	1,169	4,003
Adjusted equity	6,241	6,193	5,409	5,718	6,236
Adjusted Ratios					
EBITDA margin (%)	21.06	26.23	7.33	4.94	6.57
Pretax return on permanent capital (%)	8.72	12.77	0.27	(1.71)	(1.64)
EBITDA interest coverage (times)	9.32	15.12	3.50	2.94	3.75
Debt to EBITDA (times)	0.00	0.00	1.78	2.82	5.96
FFO to debt (%)	n.m.	n.m.	31.20	14.68	14.11
Debt to capitalization (%)	0.00	0.00	12.44	16.97	39.10

* Amortization of content rights is treated as an operating cost.

n.m.= Not meaningful

RELATED CRITERIA

- Corporate Rating Methodology, 15 July 2022
- Key Financial Ratios and Adjustments for Corporate Issuers, 11 January 2022
- Issue Rating Criteria, 15 June 2021

BEC World PLC (BEC)

Company Rating:	BBB
Issue Ratings:	
BEC255A: THB1,245.30 million senior unsecured debentures due 2025	BBB
BEC275A: THB754.70 million senior unsecured debentures due 2027	BBB
Rating Outlook:	Stable

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