TRIS RATING
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BEC WORLD PLC

No. 38/2020
27 March 2020

CORPORATES

Company Rating:	BBB
Outlook:	Stable

Last Review Date: 11/03/19

Company Rating History:

Date	Rating	Outlook/Alert
11/03/19	A-	Stable
27/03/18	A	Stable
17/02/17	A+	Stable

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RATIONALE

TRIS Rating downgrades the company rating on BEC World PLC (BEC) to "BBB" from "A-". The rating outlook is "stable". The rating action reflects BEC's weaker-than-projected operating performance with a dim prospect of a recovery over the next 12-18 months. BEC's weak operating performance is likely to be aggravated by the vulnerable economic condition that discourages corporate spending on advertising. In addition, secular changes in audience viewing habits and stiff competition in the new media ecosystem will continue to limit the company's earnings capability. TRIS Rating is of the view that with such operational challenges which are likely to persist over the next few years, BEC's credit profile is commensurate with our "BBB" rating.

KEY RATING CONSIDERATIONS

Weaker-than-expected operating performance

BEC's operating performance has continuously deteriorated. Since 2016, its revenue has dropped by an average of 15% per year while operating cost has declined at a much slower pace. Going forward, TRIS Rating expects that BEC will continue to face stiff operational challenges given the gloomy economic outlook, secular changes in audience viewing habits, and increasing competition from digital platforms.

In 2019, BEC's operating results were much weaker than our projection. BEC reported an 18% drop in revenue year-on-year (y-o-y) to Bt8.4 billion. The election year, which generally encourages advertising spending, did not spur much of an outcome in 2019. In addition, increasing competition from online platforms such as YouTube, Line TV, Netflix, Viu, etc., which offer viewers more entertainment choices, further scattered eyeballs and prompted advertisers to optimize their advertising spending.

BEC's advertising revenue slumped by 22% y-o-y to Bt6.7 billion. Despite several cost-cutting efforts implemented over the past two years, the degree of cost reduction is still lagging behind the sharp drop in revenue. As a result, the company's earnings before interest, taxes, depreciation, and amortization (EBITDA), excluding one-time items and the amortization of television (TV) program rights which we treat as an operating cost, was Bt127 million, compared with our projection of Bt1.1 billion.

Weak performance to continue in 2020

We expect 2020 will be another difficult year for BEC. Its earnings capacity will remain under immense pressure on the back of a sharp decline in macroeconomic activities amid the coronavirus (COVID-19) outbreak. We expect advertisers to further slash advertising budgets. According to the Media Agency Association of Thailand (MAAT), advertising spending across all media is expected to decline by 4.4% y-o-y in 2020, to Bt117 billion and a drop of around 5% y-o-y for TV to around Bt66 billion. We expect a greater decline in advertising spending on TV, taking into account the prolonged COVID-19 outbreak and continued scattering of eyeballs.

TRIS Rating's base-case assumption projects BEC's revenue to decline by a mid-double-digit rate in 2020 to about Bt7 billion. The revenue assumption is based on the absence of about Bt400 million from the returned Channel 13 and Channel 28, with some revenue migration to the main Channel 33 expected. In addition, we expect the prevailing economic headwinds will lead to a further decline in the company's advertising revenue. The COVID-19 outbreak will also materially impact revenues from concerts and shows due to the cancellation of events. Our base case forecast also takes into account the anticipated improvement in global content licensing and digital revenues, after several efforts have been implemented. Partnerships with "WeTV" and "Tencent Video" in particular should help broaden the company's audience base, especially in China.

Our base-case assumption forecasts revenue of Bt7-Bt7.5 billion per year for the period 2021-2022. We expect continued growth in global content licensing and digital revenue, plus a recovery in revenue from concerts and shows. However, we are of the view that revenue from advertising is likely to further decline by a mid-single-digit percentage per year. The revenue upside will derive from the success in the company's initiatives to drive revenue from new sources, such as "D2C" and digital integration efforts. However, in the short run, we do not expect these new revenue sources to materially help BEC weather the downturn in advertising spending.

Profitability reliant on cost rationalization

TRIS Rating is of the view that cost reduction will be a key factor in helping improve BEC's profitability. During the past two years, the company has implemented several measures to reduce its operating expenses, particularly personnel costs. Our base-case assumption projects that profitability will remain under immense pressure in 2020. The benefit of lower operating expenses from the return of two digital TV channels and the analog switch-off in March 2020 is partly offset by one-time expenses related to the company's retirement program. We expect EBITDA margin to be in the low-to-mid-single-digit percentage range in 2020. After that, we expect profitability to improve, supported by lower network expenses and better operating leverage. Our base case assumes the EBITDA margin to be in a high-single-digit percentage during 2021-2022. The profit margin is expected to translate into EBITDA of Bt140-Bt200 million in 2020 and Bt400-Bt600 million per year in 2021-2022.

NBTC's measures support leverage and liquidity

The National Broadcasting and Telecommunications Commission's (NBTC) remedial measures for digital TV operators, especially those allowing operators to return digital TV channels and waiving the remaining license fee payment, support the company's leverage and liquidity.

BEC benefits from the waiver of digital TV license fee payment obligations of about Bt1.65 billion and received Bt820 million in cash from the return of Channel 13 and Channel 28. As a result, the company's adjusted debts declined to Bt1.2 billion in 2019 from Bt4 billion in 2018. BEC has no major investment plans at present. TRIS Rating, therefore, estimates that the company's planned capital expenditure will be about Bt145 million in 2020 and Bt110 million per year during 2021-2022. Under TRIS Rating's base-case scenario, we expect BEC's adjusted debt to EBITDA to be around 8-9 times in 2020 before declining to a level below 2 times in 2021-2022.

We expect BEC's liquidity to be sufficient over the next 12 months, considering the sources and uses of funds. Under TRIS Rating's base-case scenario, sources of funds are EBITDA forecast at Bt140-Bt200 million, plus cash and cash equivalents at the end of 2019 of Bt2.8 billion. The uses of funds comprise financial obligations of around Bt450 million and capital expenditure of Bt145 million.

BASE-CASE ASSUMPTIONS

- Revenues of Bt7-Bt7.5 billion per annum during 2020-2022.
- EBITDA margin in the low-to-mid-single-digit range in 2020 and high-single-digit figures during 2021-2022.
- Capital expenditure of Bt145 million in 2020 and Bt110 million per year during 2021-2022.

RATING OUTLOOK

The "stable" outlook reflects TRIS Rating's expectation that BEC will be able to maintain its leading market position in the TV broadcasting industry as well as maintain its strong balance sheet. The outlook also takes into account the potential for additional revenue from digital channels and global content licensing revenue which could partly offset some of the loss in advertising revenue from the traditional TV platform.

RATING SENSITIVITIES

A rating upside may occur if BEC can regain its competitive strength and improve operating performance materially. Downward pressure on the rating could arise in a scenario of deeper-than-expected deterioration in operating performance, due to the adverse operating environment, or intensified competition from other TV broadcasters and alternate forms of media.

COMPANY OVERVIEW

BEC was incorporated in 1969 and started broadcasting Channel 3 in March 1970 under an agreement with MCOT PLC (MCOT). The broadcasting agreement of Channel 3 ended in March 2020. Currently, BEC operates one digital TV--Channel 33 under a 15-year license, which will end in April 2029. The company is also a radio broadcaster and has other entertainment-themed businesses. BEC was listed on the Stock Exchange of Thailand (SET) in July 1996. The Maleenont family is the major shareholder, holding 47% of the company's outstanding shares.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	---------------------- Year Ended 31 December -------------------				
	2019	**2018**	**2017**	**2016**	**2015**
Total operating revenues	8,387	10,220	11,140	12,383	15,942
Earnings before interest and taxes (EBIT)	(476)	70	202	1,621	4,003
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	127	947	1,108	2,490	4,846
Funds from operations (FFO)	48	840	875	1,964	3,875
Adjusted interest expense	141	179	192	192	198
Capital expenditures	38	39	56	258	467
Total assets	11,354	14,320	14,331	14,931	14,958
Adjusted debt	1,169	4,003	4,768	4,333	3,158
Adjusted equity	5,718	6,236	6,546	7,110	8,188
Adjusted Ratios					
EBITDA margin (%)	1.51	9.27	9.95	20.11	30.40
Pretax return on permanent capital (%)	(4.31)	0.56	1.58	12.71	29.98
EBITDA interest coverage (times)	0.90	5.29	5.77	12.94	24.48
Debt to EBITDA (times)	9.21	4.23	4.30	1.74	0.65
FFO to debt (%)	4.10	20.99	18.36	45.33	122.69
Debt to capitalization (%)	16.97	39.10	42.14	37.86	27.84

RELATED CRITERIA

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

BEC World PLC (BEC)

Company Rating:	BBB
Rating Outlook:	Stable

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