

BEC WORLD PLC

No. 30/2018
27 March 2018

CORPORATES

Company Rating: A
Outlook: Stable

Company Rating History:

Date	Rating	Outlook/Alert
17/02/17	A+	Stable

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RATIONALE

TRIS Rating downgrades the company rating of BEC World PLC (BEC) to “A” from “A+” with a “stable” outlook. The rating action reflects BEC's deteriorated operating performance due to intense competition in the broadcasting industry amid soft advertising spending as well as a shift in audience viewing habits to online platforms. The rating also takes into account the company's established and leading market position as a television (TV) broadcaster and its strong balance sheet.

KEY RATING CONSIDERATIONS

Challenging competitive landscape

BEC's competitive strength has faced challenges over time. Despite its established and leading market position, digital TV and Over-the-Top (OTT) platforms drive audience fragmentation and share advertising expenditures away from incumbents like BEC. Some digital TV operators such as Workpoint TV, Mono, Channel 8, and One Channel have successfully created or sourced content and attracted viewers and advertising shares. TRIS Rating is of the view that the fierce competition in the industry will continue.

In addition, audience viewing habits are changing. Viewers increasingly watch TV programs on OTT platforms rather than the traditional TV broadcasting format. Although BEC is following the trend and integrating its content on various OTT platforms, the revenue from these sources is much lower to compensate for losses of revenue on traditional TV platforms during the time of soft advertising spending. These negative factors will continue pressuring BEC's operating results.

Advertisers will remain cautious on spending

BEC's performance is highly dependent on advertising expenditures. Advertising spending for all media types generally moves in tandem with economic conditions. The gloomy domestic economic conditions over the past few years and the mourning period for the late King RAMA IX caused advertisers to cut back on spending. According to the Advertising Association of Thailand (AAT) and The Nielsen Company (Thailand) Ltd. (Nielsen), advertising spending across all media dropped by 17%, from Bt122 billion in 2015 to Bt102 billion in 2017.

Improving economic conditions and consumer confidence might support recovery of advertising spending. However, TRIS Rating views that advertisers will remain cautious and selective on their spending given the uncertainty surrounding economic conditions, slowing revenue growth for TV operators.

Weakened operating performance

BEC's operating performance has weakened during the past few years due to the intense competition in the TV industry coupled with a slowdown in advertising expenditures. BEC's revenue declined from Bt15,845 million in 2015 to Bt11,035 million in 2017. As most of its operating costs are fixed, the drop in revenue translated into lower profitability and a drop in operating cash flow. BEC's funds from operations dropped from 3,747 million in 2015 to Bt1,107 million in 2017 (in TRIS Rating's analysis, the amortization of TV program rights is treated as an operating cost).

Despite taking into account the effect of the royal cremation period, the result

reported in 2017 was much lower than TRIS Rating previously expected. This reflects the company's weakened competitive strength in attracting viewers and advertising shares. We view that BEC will face increasing challenges which will continue to pressure its operating result. TRIS Rating's base case expects the company's revenue to be flat or grow in a low-single-digit percentage during 2018-2020. FFO is estimated to range between Bt1,200-Bt1,700 million per annum during the period.

Strong balance sheet

BEC's financial profile is supported by its strong balance sheet. The capital structure and liquidity remained sound despite weaker earnings. At the end of 2017, the total debt, including digital TV license obligations, to capitalization ratio was 45.19%. With the weak earnings in 2017, the FFO to total debt ratio dropped to 8.71% in 2017, compared with 35.40% in 2016. FFO to total debt ratio is expected to stay between 25%-35% during 2018-2020.

Ample liquidity

TRIS Rating believes that BEC will continue to maintain a healthy liquidity over the next 12 months, considering the sources and uses of funds. Under TRIS Rating's base case scenario, sources of funds are expected FFO of at least Bt1,200 million per annum plus cash and cash equivalents at the end of 2017 of Bt1,121 million. The uses of funds are capital expenditures of about Bt80-Bt100 million per annum and digital TV license payments of Bt546 million in 2018. However, the National Broadcasting and Telecommunications Commission (NBTC) is proposing to the government to suspend digital TV license payments during 2018-2020 as part of supporting measures for digital TV operators.

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 financial strength.

RATING SENSITIVITIES

A rating upside may occur if BEC can regain its competitive strength and materially improve its operating performance. Downward pressure on the rating could arise if BEC's operating performance deteriorates significantly due to the ongoing slowdown in advertising spending or intensified competition from other TV broadcasters and alternate forms of media.

COMPANY OVERVIEW

BEC was incorporated in 1969 and started broadcasting Channel 3 (Ch. 3) in March 1970 under an agreement with MCOT PLC (MCOT). The broadcasting agreement of Ch. 3 will end in March 2020. BEC also operates three digital TV channels, Ch. 33, Ch. 28, and Ch. 13, under 15-year licenses, which end in April 2029. Currently, BEC simulcasts Ch. 3 and Ch. 33. 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 47.03% of the total number of BEC's outstanding shares.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS*

Unit: Bt million

	----- Year Ended 31 December -----				
	2017	2016	2015	2014	2013
Revenue	11,035	12,266	15,845	16,167	16,429
Gross interest expense	182	177	187	130	2
Net income from operations	3	1,083	2,983	4,337	5,589
Funds from operations (FFO)	470	1,817	3,747	4,798	5,806
Capital expenditures	53	245	411	6,263	404
Total assets	14,331	14,931	14,958	16,745	12,196
Total debts, including digital TV license obligations	5,397	5,134	3,882	4,707	214
Shareholders' equity including minority interest	6,546	7,110	8,188	8,856	9,115
Operating income before depreciation and amortization as % of sales**	8.83	19.09	29.41	38.14	44.27
Pretax return on permanent capital (%)	1.58	13.21	31.15	49.63	81.70
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)**	6.09	13.92	25.88	49.04	3,193.18
FFO/total debt (%)**	8.71	35.40	96.52	101.93	2,713.86
Total debt/capitalization (%)	45.19	41.93	32.16	34.71	2.29

* Consolidated financial statements

** Excluding TV program rights amortization

BEC World PLC (BEC)

Company Rating:

A

Rating Outlook:Stable

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