TRIS RATING
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BEC WORLD PLC

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CORPORATES

Company Rating:	A-
Outlook:	Stable

Last Review Date: 27/03/18

Company Rating History:

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

Contacts:

Chanaporn Pinphithak

chanaporn@trisrating.com

Pramuansap Phonprasert

pramuansap@trisrating.com

Ruangwud Jarurungsipong

ruangwud@trisrating.com

Thiti Karoonyanont, Ph. D., CFA

thiti@trisrating.com

WWW.TRISRATING.COM

RATIONALE

TRIS Rating downgrades the company rating on BEC World PLC (BEC) to "A-" from "A". The rating outlook is "stable". The rating action reflects a further deterioration in BEC's operating performance, accelerated by digital disruption. The increased adoption of digital forms of media has caused a secular change in audience viewing habits and altered spending on advertising. BEC has a leading market position as a television (TV) broadcaster and a strong balance sheet. However, TRIS Rating believes that stiff competition in the new media ecosystem and an uncertain economic outlook will continue to pressure the company's operating results. BEC's earnings are not likely to recover to a level that is compatible with the previous "A" rating.

KEY RATING CONSIDERATIONS

Operating losses expected to reverse

BEC reported a further deterioration in operating result in 2018. However, TRIS Rating expects a moderate improvement in earnings due mainly to its cost rationalizing efforts.

In 2018, BEC's revenue fell by 6% from a year earlier to Bt10,470 million. Earnings before interest, taxes, depreciation, and amortization (EBITDA) fell by 15% to Bt947 million (in TRIS Rating's analysis, the amortization of TV program rights is treated as an operating cost). BEC reported a net loss of Bt330 million in 2018, partly due to Bt275 million of one-time employee related expenses.

TRIS Rating is of the view that BEC will continue to face increasing operational challenges because digital media will continue to supplant traditional media and advertising spending will remain soft. During 2019-2021, we assume BEC's revenue will be flat or decline at a low single-digit percentage. The revenue projection also takes into account BEC's efforts to generate higher revenue from digital channels and global content licensing. These revenue sources have upside potential and could partly compensate for the ongoing soft advertising revenue on BEC's traditional TV platform.

Profitability is expected to improve because of BEC's cost rationalizing efforts. TRIS Rating expects that BEC's adjusted operating income as percentage of total operating revenues will be 11%-12% during the forecast period, compared with 8.9% in 2018. EBITDA will range between Bt1,100-Bt1,300 million per annum. Despite expected improvements in profitability and operating cash flow, the degree of improvement is not enough for BEC to stay at the rating "A".

Challenges from digital disruption

Audience viewing habits have continuously changed. Internet-based delivering of content known as over-the-top (OTT) platforms and direct-to-consumer (DTC) service platforms, such as Netflix, give viewers much more entertainment choices. Viewers increasingly watch TV programs on OTT or DTC platforms rather than traditional TV broadcasting. This trend will further scatter eyeballs and cause advertisers to optimize their advertising spending.

Although BEC adapts with the trend and integrates its content on various OTT platforms, the revenue from these sources is much lower to compensate for losses of revenue from traditional TV platforms in the time of soft advertising spending. These negative factors will continue pressuring BEC's operating results.

Intense competition for advertising share

BEC's performance is highly dependent on revenue from advertising. An uncertain economic outlook, coupled with changing trends in media consumption, has caused advertisers to be even more cautious.

According to the Media Agency Association of Thailand, advertising spending across all media is expected to grow by 4% year-on-year (y-o-y) in 2019, to Bt121 billion. TV will remain the main advertising channel, comprising 55%-60% of total advertising spending.

In TRIS Rating's view, TV will still be the key advertising channel in the near term. However, we expect slow or no growth in advertising spending on TV. We believe that advertisers will be selective so as to maximize the value of their spending. Advertising on traditional TV will be gradually migrated to online platforms, following the changing trend in media consumption.

The launch of digital TV in Thailand since 2014 has created a level playing field for TV broadcasters. While number of TV channels has grown considerably, the amount spent on TV advertising has not changed much. Thus, competition among broadcasters on traditional TV platform will intensify in order to attract audiences and advertising spending share.

Balance sheet and cash flow protection remain sound

BEC's financial profile is supported by its sound balance sheet. The capital structure and liquidity have remained solid despite weaker profitability and earnings. TRIS Rating's base case scenario assumes BEC's leverage will gradually decline during 2019-2021 as BEC has no major investment plans. TRIS Rating's base case assumption includes capital spending at Bt530-Bt550 million in 2019, and Bt170 million in total during 2020-2021. BEC will resume payment of digital TV licenses of Bt546 million in 2021. License payments were suspended for 2018-2020 as part of supporting measures for digital TV operators from the government.

The adjusted ratio of total debt to capitalization is forecast at 32%-34% in 2019. The ratio will gradually decline to around 20% in 2021. Adjusted debt to EBITDA is projected at around 2.5-3 times in 2019 before declining to 1-2 times in 2020-2021. In 2018, the adjusted ratio of total debt to capitalization was 39.1% and the adjusted debt to EBITDA ratio was 4.2 times.

Ample liquidity

BEC's liquidity will be ample 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 Bt1,100-Bt1,200 million, plus cash and cash equivalents at the end of 2018 of Bt2,681 million. The uses of funds are financial obligations of around Bt470 million and capital expenditures of about Bt530-Bt550 million.

BASE CASE ASSUMPTIONS

- We assume that BEC's revenues will be flat or grow at a low single-digit percentage per annum over the next 2-3 years.
- BEC's operating margins will stay at around 11%-12%.
- BEC's total capital spending will be around Bt530-Bt550 million in 2019 and Bt170 million during 2020-2021.
- BEC will resume payment of digital TV licenses in 2021 of Bt546 million.

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. The outlook also takes into account the potential of additional revenue from digital channels and global content licensing revenue which could partly offset some of the loss of advertising revenue on 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 if 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 in March 1970 under an agreement with MCOT PLC (MCOT). The broadcasting agreement of Channel 3 will end in March 2020. BEC also operates three digital TV channels, Channel 33, Channel 28, and Channel 13, under 15-year licenses, which will end in April 2029. Currently, BEC simulcasts Channel 3 and Channel 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% of outstanding shares.

FINANCIAL STATISTICS AND KEY FINANCIAL RATIOS

Unit: Bt million

	-----------------------Year Ended 31 December -------------------				
	2018	**2017**	**2016**	**2015**	**2014**
Total operating revenues	10,470	11,140	12,383	15,942	16,234
Operating income	931	1,089	2,475	4,767	6,244
Earnings before interest and taxes (EBIT)	70	202	1,621	4,003	5,691
Earnings before interest, taxes, depreciation, and amortization (EBITDA)	947	1,108	2,490	4,846	6,330
Funds from operations (FFO)	840	875	1,964	3,875	5,076
Adjusted interest expense	179	192	192	198	141
Capital expenditures	39	56	258	467	6,333
Total assets	14,320	14,331	14,931	14,958	16,745
Adjusted debt	4,003	4,768	4,333	3,158	1,906
Adjusted equity	6,236	6,546	7,110	8,188	8,856
Adjusted Ratios					
Operating income as % of total operating revenues (%)	8.89	9.78	19.99	29.90	38.46
Pretax return on permanent capital (%)	0.56	1.58	12.71	29.98	47.69
EBITDA interest coverage (times)	5.29	5.77	12.94	24.48	45.05
Debt to EBITDA (times)	4.23	4.30	1.74	0.65	0.30
FFO to debt (%)	20.99	18.36	45.33	122.69	266.35
Debt to capitalization (%)	39.10	42.14	37.86	27.84	17.71

RELATED CRITERIA

- Key Financial Ratios and Adjustments, 5 September 2018
- Rating Methodology – Corporate, 31 October 2007

BEC World PLC (BEC)

Company Rating:	A-
Rating Outlook:	Stable

TRIS Rating Co., Ltd.
Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand Tel: 0-2098-3000