

# RS: Continuously expand business ecosystem



## Update

**We maintain our HOLD rating with 2022E target price at Bt24.00, derived from 30x PER, which is +1SD of its 3-year trading average of forward PE.**

- In 2Q21, media and content businesses should still be eroded by Covid situation. Meanwhile, the new products rolling out, such as Camu C and well u, was going on.
- RS plans to launch pet food products in Sep-21.
- Its recent investment, Chase is on preparing to IPO, which was expected to finish in 4Q22.
- RS invested Bt13m in “4<sup>th</sup> Apple”, content & influencer marketing agency, to strengthen its Entertainmerce model.

**We like RS because of its growth potential from new product development ability and marketing skill. However, the stock was traded at demanding valuation, reflected the strong business has priced in.**

### Valuation table

Year end Dec	19A	20A	21E	22E	23E
PE (x)	69.7	45.2	34.8	31.0	29.5
Recurring net profit growth (%)	(29.5)	45.8	29.8	12.1	5.1
Recurring EPS (Bt)	0.4	0.6	0.7	0.8	0.8
Recurring EPS growth (%)	(27.2)	54.1	30.1	12.1	5.1
PBV (x)	14.1	12.0	10.2	8.8	7.6
BVPS (Bt)	1.8	2.1	2.4	2.8	3.3
ROE (%)	21.4	28.4	31.6	30.3	27.6
DPS (Bt)	0.3	-	0.4	0.4	0.4
Dividend yield (%)	1.2	na	1.4	1.6	1.7
Enterprise value (Bt m)	24,384.4	24,963.5	25,028.3	24,306.2	24,020.3
EV-to-EBITDA (x)	22.9	20.2	18.0	16.2	15.4

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## RS Public Company Limited

**Recommendation: HOLD**

**Current price\*: 25.00**

**Target price 2022E: 24.00**

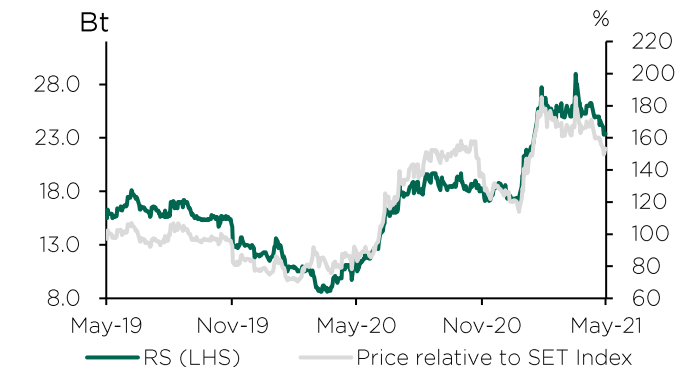
**Up/(downside): (14%)**

**IOD: 5/5**

**CAC: N/A**

## Stock data

RIC code	RS.BK
Index	.SETI
SET Index (14 May 2021)	1,549.48
Market cap (Bt m)	23,937
Shares outstanding (million)	957
Par (Bt)	1.02



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## Covid can't hinder its ambition to grow

On May 21<sup>st</sup>, 2021, RS held analyst conference to summarize 1Q21 result and provide business outlook. There were information as followed;

### 1Q21 results

- i) RS reported 1Q21 net profit at Bt140m (-25%YoY, +36%QoQ).
- ii) The YoY weakness came from lower content licensing revenue and higher selling expenses, following the growth in commerce business.
- iii) The QoQ increase came from commerce business growth and efficient cost management.

### Business outlook

- i) In 2Q21, media and content businesses should still be eroded by Covid situation. Meanwhile, the new products rolling out, such as Camu C and well u, was going on, which should incur marketing expenses in the quarter.
- ii) RS plans to launch pet food products in Sep-21, covering multiple SKUs for dog and cat.
- iii) For recent investment in Chase, an asset management company, RS helped it access to capital and planned to using group's expertise in media to build Chase brand. In addition, Chase is on preparing to IPO, which was expected to finish in 4Q22.
- iv) RS just invested Bt13m in 70% stake of "4<sup>th</sup> Apple", content & influencer marketing agency. The company is specialized in online marketing, and K-pop contents, which would strengthen RS Entertainmerce model.
- v) We expect RS earnings to expand in the rest of year, driven by new products and channels distribution. Also, social distancing measurement due to new wave of Covid outbreak should support home shopping market.
- vi) We like RS because of its growth potential from new product development ability and marketing skill. However, the stock was traded at demanding valuation, reflected the strong business has priced in.



**Background:** RS Public Company Limited (RS) was founded in 1976. The company and its subsidiaries are involved in the media, music distribution, event, and health & beauty businesses in Thailand. Moreover, RS operates a digital television channel and 4 satellite T.V. channels, which are its main sales and advertising channels. Also, the company is engaged in the radio media business through the radio frequency system. RS also sells music in various formats including digital content, mobile music, and online streaming.

# RS: 1Q21 net profit -25%YoY, +36%QoQ

(Bt m)	1Q20	2Q20	3Q20	4Q20	1Q21	YoY (%)	3M21	21E	% of 21E
Revenue	985	833	938	1,018	992	0.8	992	4,006	24.8
Cost of sales	(437)	(394)	(454)	(483)	(432)	(1.2)	(432)	(2,029)	21.3
<b>Gross profit</b>	<b>547</b>	<b>439</b>	<b>484</b>	<b>535</b>	<b>560</b>	<b>2.4</b>	<b>560</b>	<b>1,977</b>	<b>28.3</b>
SG&A	(309)	(293)	(312)	(402)	(387)	25.2	(387)	(1,182)	32.8
Other (exp)/inc	3	0	2	7	3	(21.0)	3	37	7.3
<b>EBIT</b>	<b>241</b>	<b>146</b>	<b>173</b>	<b>141</b>	<b>175</b>	<b>(27.2)</b>	<b>175</b>	<b>831</b>	<b>21.1</b>
Finance cost	(9)	(10)	(9)	(9)	(11)	27.6	(11)	(65)	17.2
Other inc/(exp)	-	-	1	0	-	nm	-	4	-
<b>Earnings before taxes</b>	<b>232</b>	<b>137</b>	<b>166</b>	<b>132</b>	<b>164</b>	<b>(29.3)</b>	<b>164</b>	<b>770</b>	<b>21.3</b>
Income tax	(46)	(28)	(34)	(30)	(34)	(26.9)	(34)	(154)	21.8
<b>Earnings after taxes</b>	<b>186</b>	<b>109</b>	<b>132</b>	<b>103</b>	<b>131</b>	<b>(29.9)</b>	<b>131</b>	<b>617</b>	<b>21.2</b>
Equity income	-	-	-	-	9	nm	9	72	13.1
Minority interest	(0)	(0)	0	(0)	(0)	264.8	(0)	0	nm
<b>Earnings from cont. operations</b>	<b>186</b>	<b>109</b>	<b>132</b>	<b>103</b>	<b>140</b>	<b>(24.8)</b>	<b>140</b>	<b>689</b>	<b>20.4</b>
Forex gain/(loss) & unusual items	0	(0)	(1)	(0)	-	nm	-	(2)	-
<b>Net profit</b>	<b>186</b>	<b>109</b>	<b>131</b>	<b>103</b>	<b>140</b>	<b>(24.8)</b>	<b>140</b>	<b>686</b>	<b>20.4</b>
Recurring profit	186	109	131	103	140	(24.8)	140	688	20.4
EBITDA	361	270	307	298	319	(11.7)	319	1,394	22.9
Recurring EPS (Bt)	0.193	0.113	0.137	0.107	0.144	(25.3)	0.144	0.719	20.1
Reported EPS (Bt)	0.193	0.113	0.136	0.107	0.146	(24.2)	0.145	0.717	20.3
<b>Profits (%)</b>	<b>1Q20</b>	<b>2Q20</b>	<b>3Q20</b>	<b>4Q20</b>	<b>1Q21</b>	<b>Diff (%)</b>	<b>3M21</b>	<b>21E</b>	<b>Diff (%)</b>
Gross margin	55.6	52.7	51.6	52.6	56.5	0.9	56.5	49.3	(7.1)
Operating margin	24.5	17.5	18.5	13.9	17.7	(6.8)	17.7	20.8	3.1
Net margin	18.9	13.0	13.9	10.1	14.1	(4.8)	14.1	17.1	3.0

## Result summary

- RS reported 1Q21 net profit at Bt140m (-25%YoY, +36%QoQ).
- 1Q21 revenue was at Bt1.0bn (stable YoY and QoQ), divided into i) MPC revenue at Bt661m (+32%YoY, +1%QoQ), and, ii) entertainment & other revenue at Bt332m (-32%YoY, -9%QoQ).
- Gross profit margin was solid at 56.5% (+0.9ppts YoY, +3.9ppts QoQ), given the higher contribution from MPC business, which has high margin.
- SG&A to sales increased to 39.0% from 31.4% in 1Q20, but slightly down from 39.9% in 4Q20.

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## Lifestar's 2021 Product Launch

	Product	Scientific food supplement	Herbal extract	Traditional herbal medicine	Innovative food supplement	Functional drink	Pet care	Hair Serum
	Brand							
	1H21	  <div>                     Probio-10                     <span>PhytoBlend</span> </div>	 <div>Mulberry &amp; Moringa extract</div>	  <div>                     Andrographis paniculata extract                     <span>Laxative medicine</span> </div>	 <div>Premium collagen</div>	 <div>Functional Drink</div>		
	2H21	   <div>                     Fiber powder drink                     <span>Eye</span> <span>NCD</span> </div>  <div>Hemp products</div>	 <div>Hemp products</div>		 <div>Meal replacement</div>	 <div>Hemp products</div>	 <div>Dry Pet food</div>	  <div>                     Thickening Hair Serum                     <span>Energizing Scalp Serum</span> </div>
	Main channel				EDN (RS's network)	Modern trade	Pet care channel & Traditional trade	EDN (RS's network)

# RS: Revenue breakdown

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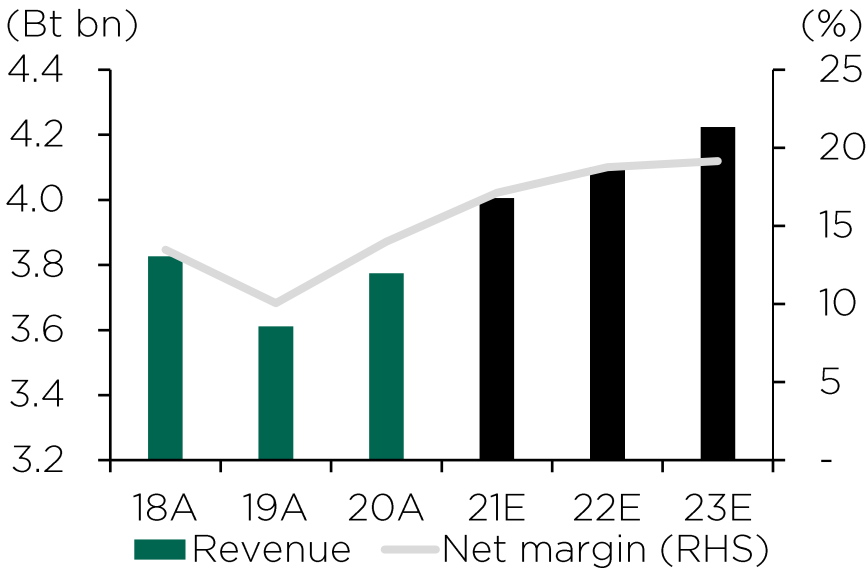
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Through its multi-platform commerce (MPC) model, the company offers a wide range of products including health, beauty, home & lifestyle goods under the Magique, Revive and S.O.M. brands. RS also generates revenue from selling its partners' products. Over 100 different product items are sold through the company's various channels, which include digital television, satellite television, radio media, and online media. Sales are also conducted through single-level direct sales agents (telesales). MPC contributed 63% of total revenue in 2020.

The company also airs entertainment content on its T.V channels. Currently, RS operates digital television Channel 8 and 4 satellite television channels, including Sabaidee TV, Channel 2, Series Channel and Ploen TV, which all have distinct formats. The media segment accounts for 30% of total revenue.

The music and "other" segments cover all music production activities such as the selection of artists, music production, promotion, marketing, artist management, copyright collection and the organizing of concerts and events. This segment accounts for 7% of total revenue.



Revenue by group of segment, 2020

MPC 63%



Media 30%



Music & Others 7%





# RS: Summary financials

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Profit & loss (Bt m)	19A	20A	21E	22E	23E	Mar '20	Jun '20	Sep '20	Dec '20	Mar '21
Revenue	3,611	3,774	4,006	4,101	4,224	985	833	938	1,018	992
Cost of goods sold	(2,020)	(1,769)	(2,029)	(2,022)	(2,083)	(437)	(394)	(454)	(483)	(432)
Gross profit	1,591	2,006	1,977	2,079	2,142	547	439	484	535	560
SG&A	(1,100)	(1,317)	(1,182)	(1,239)	(1,276)	(309)	(293)	(312)	(402)	(387)
Other (exp)/inc	4	11	37	35	35	3	0	2	7	3
Operating profit	496	700	831	876	901	241	146	173	141	175
Finance cost	(35)	(36)	(65)	(70)	(67)	(9)	(10)	(9)	(9)	(11)
Other inc/(exp)	1	4	4	7	9	-	-	1	0	-
Earnings before taxes	462	668	770	812	843	232	137	166	132	164
Income tax	(97)	(137)	(154)	(162)	(168)	(46)	(28)	(34)	(30)	(34)
After-tax profit	365	531	617	650	675	186	109	132	103	131
Equity income	-	-	72	121	136	-	-	-	-	9
Minorities	(1)	0	0	0	0	(0)	(0)	0	(0)	(0)
Earnings from cont. operations	364	531	689	772	811	186	109	132	103	140
Forex gain/(loss) & unusual items	(0)	(2)	(2)	(2)	(2)	0	(0)	(1)	(0)	-
Net income	363	528	686	769	809	186	109	131	103	140
Recurring EPS (Bt)	0.36	0.55	0.72	0.81	0.85	0.19	0.11	0.14	0.11	0.14
Weighted average shares (m)	1,014	960	957	957	957	966	958	958	957	972
Balance sheet (Bt m)	19A	20A	21E	22E	23E	Mar '20	Jun '20	Sep '20	Dec '20	Mar '21
Assets	3,407	4,516	6,462	6,732	7,061	4,189	4,325	4,286	4,516	5,794
Liabilities	1,680	2,512	4,116	4,002	3,927	2,435	2,554	2,384	2,512	3,650
Equity	1,725	2,002	2,344	2,728	3,131	1,751	1,769	1,899	2,002	2,142
Invested capital	2,170	3,026	2,441	1,981	1,963	2,716	2,793	2,924	3,026	3,173
Growth (YoY, %)	19A	20A	21E	22E	23E	Mar '20	Jun '20	Sep '20	Dec '20	Mar '21
Revenue	(5.6)	4.5	6.1	2.4	3.0	6.0	(7.5)	5.8	13.7	0.8
Operating income	(28.4)	41.3	18.7	5.3	3.0	56.6	18.5	34.2	57.1	(27.2)
Recurring EPS	(27.2)	54.1	30.1	12.1	5.1	69.6	22.3	51.2	62.9	(25.3)
Assets	(16.4)	32.6	43.1	4.2	4.9	4.9	34.5	35.7	32.6	38.3
Liabilities	(30.0)	49.6	63.8	(2.8)	(1.9)	11.4	78.0	59.2	49.6	49.9
Equity	3.2	16.1	17.1	16.4	14.8	(3.1)	(0.6)	14.5	16.1	22.3
Profits (%)	19A	20A	21E	22E	23E	Mar '20	Jun '20	Sep '20	Dec '20	Mar '21
Gross margin	44.1	53.1	49.3	50.7	50.7	55.6	52.7	51.6	52.6	56.5
Operating margin	13.7	18.6	20.8	21.3	21.3	24.5	17.5	18.5	13.9	17.7
Net margin	10.1	14.0	17.1	18.8	19.2	18.9	13.0	13.9	10.1	14.1
ROE	21.4	28.4	31.6	30.3	27.6	42.9	24.7	28.5	21.0	27.1
ROIC	18.8	21.4	24.4	31.7	36.6	31.7	16.9	19.3	14.7	18.0

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## Investment ratings

<b>BUY:</b>	Expected return excluding dividends of more than 10% within the next 12 months.
<b>HOLD:</b>	Expected return excluding dividends between -10% and 10% within the next 12 months.
<b>SELL:</b>	Expected return excluding dividends of less than -10% within the next 12 months.
<b>NR:</b>	Not Rated- Stock is not in our research coverage.

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