

RS: Rising for sustainable growth in 2022



Update

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We believe RS's 2022E target revenue at Bt5.1bn (+31% from our 2021E forecast) is a bit optimistic given a slower-than-expected recovery in people purchasing power during post-COVID-19. However, we still adore RS because of its growth potential from new product development and competent marketing skill supported by conventional and digital medias.

- Our expectation over earnings recovery in 2022E will be driven by 1.) an absence of heavy SG&A expense allocation after key product launch (Camu- C) in 2021, 2.) equity income recognition from Chase (full-year) and SPG (kick off 2Q22), 3.) 7% revenue growth supported by MPC segment.
- Expect earnings in 4Q21 to reach bottom at Bt10m loss due to slower-than-expected recovery in MPC sales and Ads spending.

We maintain BUY rating for RS with a target price of Bt23.0, derived from 30xPE'22E, which is +1SD of its 3-year trading average of forward PE. The target price has 20% discount to Thai consumer discretionary sector.

Valuation table

Year end Dec	19A	20A	21E	22E	23E
PE (x)	56.6	36.7	69.1	26.9	25.6
Recurring net profit growth (%)	(29.5)	45.8	(47.0)	156.5	5.3
Recurring EPS (Bt)	0.36	0.55	0.29	0.75	0.79
Recurring EPS growth (%)	(27.2)	54.1	(46.8)	156.5	5.3
PBV (x)	11.4	9.7	9.1	7.8	6.7
BVPS (Bt)	1.8	2.1	2.2	2.6	3.0
ROE (%)	21.4	28.4	13.6	31.1	28.2
DPS (Bt)	0.3	-	0.1	0.4	0.4
Dividend yield (%)	1.5	na	0.7	1.9	2.0
Enterprise value (Bt m)	19,884	20,463	20,766	20,077	19,816
EV-to-EBITDA (x)	18.7	16.6	23.5	13.9	13.3

RS Public Company Limited

Recommendation: BUY

Current price: 20.30

Target price 2022E: 23.0

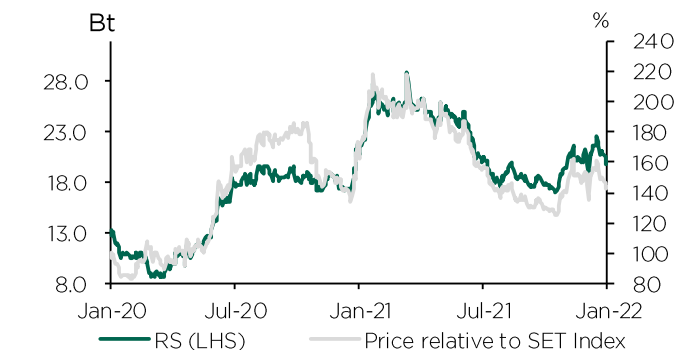
Up/(downside): 13%

IOD: 5/5

CAC: Declared

Stock data

RIC code	RS.BK
Index	.SETI
SET Index (20 January 2022)	1,656.96
Market cap (Bt m)	19,437
Shares outstanding (million)	957
Par (Bt)	1.0



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Team

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ESG

Value

Risks

Positive toward 2022 strategy and business development

On January 24th, 2022, RS held an analyst meeting to share 2022 business plan and information about synergy between all businesses in the group. There were key messages as followed;

1.) We believe RS's 2022E target revenue at Bt5.1bn (+31% from our 2021E forecast) is a bit optimistic given a slower-than-expected recovery in people purchasing power during post-COVID19 especially toward RS's product category, which considered as consumer discretionary goods, while the company naturally set ambitious goal to motivate the organization. Our revenue forecast at Bt4.2bn (+7%YoY) will be driven by multi-platform commerce (MPC) business as the company continued to launch new product lines, expanding new sales channels, and increasing revenue conversion from incentive scheme via new smart marketing tool 'Popcoin'.

2.) Media, music and other related businesses should be recovered from 2021 low base, given an improvement in Ads rate as it resumed in-house production after city reopening (roughly half of the TV slots are on re-run basis in 2021). The company will hold three main concerts and generate revenue from music contents with target revenue of Bt650m. (+80%YoY from our 2021 forecast)

3.) In 2022 management target to close 1-2 more deals, which will focus to strengthen Entertainmerce model with an approximately investment size of Bt500-1,000m. The key source of fund will be loan, which could push D/E ratio to around 2.0x if the deal is executed, but still way below covenant level at 3.0x.

Our expectation over earnings recovery in 2022E will be driven by 1.) an absence of heavy SG&A expense allocation after key product launch (Camu C) in 2021, 2.) equity income recognition from Chase (full-year) and SPG (kick off 2Q22), 3.) 7% revenue growth supported by MPC segment.



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: Key Strategic area to focus

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Value

Risks



The company will still able to leverage its successful Entertainmerce model by expanding their product lines and distribution channels. It plans to launch 28-30 new products under the group four key product segment. Excluding, Lifemate – pet food segment, the new additional SKUs will be topped up the figure in 2021 by roughly five times as 2021 launch plan are being delayed from pandemic period. These new products have huge opportunity, given the size and growth of the markets. We think the more products RS adding to its portfolio provide the an upside for business position to shift from home shopping to product development company.



After the company allocated Bt920m investment fund to acquire 35% of newly issue shares of Chase Asia Co., in Ltd. and its business group (providing loan, non-performing asset management, debt collection, and etc.), the company has been utilizing CHASE’s key competencies on managing customer data and call center operations. These helps improve RS’s telemarketing and in-house IT system together with recognizing equity income. We expect to see visible synergy between the parties particularly in terms of SG&A expense saving in near terms. With Chase valuation at acquired price of Bt2.6bn, there is still room to catch up SET-AMC companies, namely CHAYO, JMT, and BAM, which is valued at Bt12.3-90.0bn.



As of 24th Jan’22, Popcoin has gathered 700,000 subscribers into the system, well beyond market expectation. We believe the Popcoin will be the Win-Win strategy between RS, Ads audience and potential clients as the token holders will be rewarded with products and services from the company and its partners while RS will be able to effectively utilize marketing expenses and improve sales conversion. The company target Bt200m from this smart marketing tool in 2022. However, we have not incorporate these benefits into our model and leave it as an upside for earnings revision in 2022-23E.

(Bt m)	4Q20	1Q21	2Q21	3Q21	4Q21E	%QoQ	%YoY
Revenue	1,018	992	992	852	810	(5.0)	(20.4)
Cost of sales	(483)	(432)	(459)	(449)	(446)	(0.7)	(7.7)
Gross Profit	535	560	534	404	365	(9.7)	(31.9)
SG&A	(402)	(387)	(469)	(431)	(390)	(9.4)	(2.9)
Other (exp)/inc	9	3	2	1	1	(32.8)	(89.4)
EBIT	143	175	67	(26)	(25)	(4.3)	(117.1)
Finance cost	(9)	(11)	(16)	(16)	(16)	0.6	80.5
Other inc/(exp)	0	(0)	0	-	-	na.	(100.0)
Earnings before taxes	134	164	51	(41)	(41)	(2.4)	(130.1)
Income tax	(30)	(34)	(8)	11	8	(27.7)	(127.4)
Earnings after taxes	105	131	44	(30)	(32)	7.0	(130.9)
Equity income	-	9	10	29	23	(21.6)	na,
Minority interest	(0)	(0)	(0)	1	(1)	(258.7)	7,318.4
Earnings from cont. operations	105	140	54	(0)	(10)	3,183.9	(109.9)
Forex gain/(loss) & unusual items	(2)	(0)	(0)	-	-	na,	na,
Net profit	103	140	54	(0)	(10)	3,183.9	(110.1)
EBITDA	300	319	228	149	121	(19.0)	(59.8)
Recurring EPS (Bt)	0.11	0.15	0.06	(0.00)	(0.01)	1,789.3	(105.7)
Profits (%)	4Q20	1Q21	2Q21	3Q21	4Q21E	chg QoQ	chg YoY
Gross margin	52.6	56.5	53.8	47.3	45.0	(2.3)	(7.6)
Operating margin	29.4	32.1	22.9	17.5	14.9	(2.6)	(14.6)
Net margin	10.1	14.1	5.4	(0.0)	(1.3)	(1.2)	(11.4)

Preview summary

- We expect RS to report 4Q21 net loss at Bt10m (compared with Bt0.9m loss in 3Q21 and Bt103m profit in 4Q20).
- Revenue is expected to report at Bt810m (-20% YoY and -5%QoQ). This pressure by slow recovery in MPC revenue (64% total revenue contribution) and poor ads rate for channel no. 8)
- Gross profit margin is assumed to fall to eight-quarter low at 45%, swung upon contribution from MPC business, which has high margin.
- SG&A to sales increased to 48.1% from 39.5% in 4Q20 due a drop in revenue.

RS: Revenue breakdown

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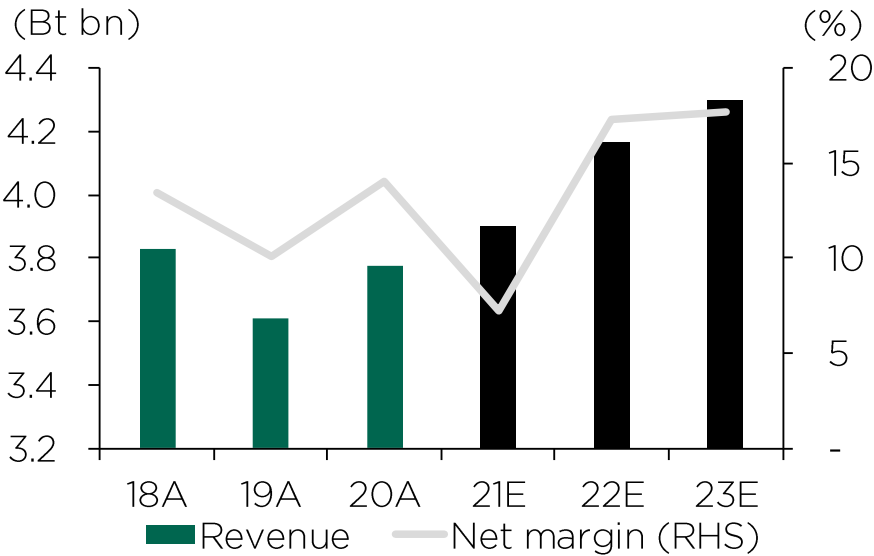
Value

Risks

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



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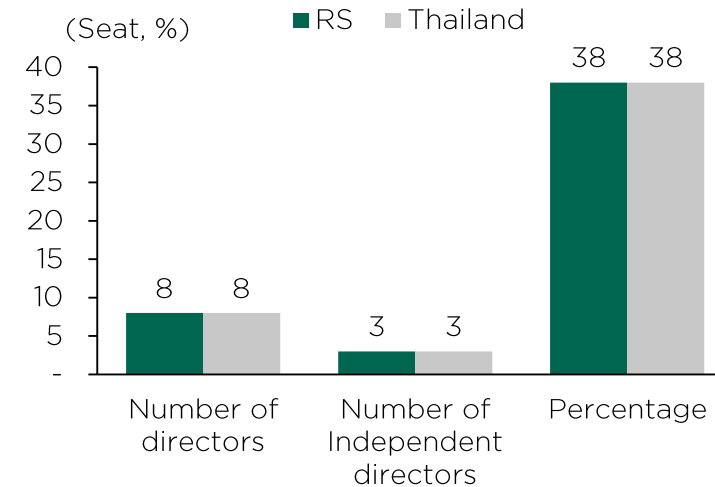
Value

Risks



Chairman, CEO
Mr. Surachai Chetchotisak

Board composition



Leadership

Board of Directors	Position*	Key management	Position*
Mr. Surachai Chetchotisak	Chairman	Mr. Surachai Chetchotisak	CEO
Mrs. Pornpan Techarungchaikul	Director	Mrs. Pornpan Techarungchaikul	Chief Commercial Officer
Mr. Wittawat Wetchabutsakorn	Director	Mr. Wittawat Wetchabutsakorn	Chief Financial Officer
Mr. Danaisidh Peslapunt	Director	Miss Kunchanya Karuhadej	Chief People Officer
Mr. Sorat Vanichvarakij	Director	Mr. Danaisidh Peslapunt	Chief Legal Officer
Mr. Phisit Dachanabhirom	Director		
Mrs. Wasuda Thanasaranart	Director, A		
Mr. Supakit Assavachai	Director, A		

Ownership

Shareholder	% of O/S	Note
Mr. Surachai Chetchotisak	23.03	Chairman
Mr. Sorat Vanichvarakij	10.08	Director
Thai NVDR Company Limited	7.85	Thai Non Voting Depository
Bangkok Bank PCL	5.18	
Ms. Aroonrung Srivaddhanaprabha	4.88	
Top 5 shareholders	51.02	
Institutional & Management		Note
Total institutional ownership	13.51	
Total management ownership	33.11	Mr. Surachai Chetchotisak & Mr. Sorat Vanichvarakij
Foreign ownership	7.85	Foreign ownership limit is 49%

Sources: CGS Research, company data

Notes: * I = Independent, E = Executive, A = Audit committee

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Value

Risks



Environmental	Yes/No?
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Does the company have a resource reduction policy?	Yes
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Yes , the company promotes efficient use of resources through different initiatives such as "Old for New Paper Exchange Project" with business partners through the "Paper Merci" activity that encourages employees to learn about and understand how to separate used paper and send as much back into the recycling process as possible. Outbound packing boxes were also changed to a "green packaging" design to help reduce the usage of production resources, prices, and global warming effects.

Has the company faced any environmental controversies?	No
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No.

Does the company have an emissions/waste policy?	No
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RS considers two approaches during operation: paper recycling and burying waste from business processes. RS also encourages employees to be environmentally conscious and participate in environmental stewardship, with a short-term objective of proper waste disposal and a long-term goal of implementing the circular economy system in the company's activities. This reintroduces wasted materials into the manufacturing process for reuse, addressing the looming resource shortage dilemma while also contributing to long-term growth.

Does the company know the amount of its total waste?	No
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None

Does the company have any environmental, eco, "green", or organic products?	Yes
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RS' products are supplementary foods and beauty products that are produced from natural extraction.

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ESG

Value

Risks

Overall ESG Score (100% is best):	80%	Environmental	80%
Social	100%	Governance	60%

Social	Yes/No?
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Does the company have any health & safety policy?	Yes
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Yes, the company considers it a priority to maintain health and safety standards and a good working environment to keep the lives and property of employees safe and secure. Training and knowledge acquisition, capacity development, opportunities for career advancement and to develop skills in other areas and adhering to the labor laws are also key policies. Moreover, the company organizes health checkups for employees as well as arranges life insurance, health insurance and regular safety inspections of the workplace.

Does the company have a human rights policy?	Yes
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The company treats its staff and employees with fairness and respect for human rights in compliance with the law and relevant standards. The company provides appropriate benefits for its employees that are no less than that which is specified by law. It also provides rewards and other benefits that are fair and aligned with each employee’s knowledge, abilities, responsibilities and individual performance.

Does the company have a fair competition policy, e.g. anti-corruption, anti-bribery, business ethics?	Yes
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RS has a policy to fight corruption in all its forms. It also builds awareness and promotes the values of integrity and honesty. Anti-corruption efforts fall under supervision, control, risk management and internal control systems that help prevent corruption more effectively.

Has the company implemented quality management systems?	Yes
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The procurement of products is based on the analysis of data by leading research and analytical firms that Lifestar works with, as well as from data collected from customers directly. The company analyzes the trends, demand and conditions of the overall market and the needs of consumers before developing each type of product.

Does the company derive any revenue from weapons, alcohol, gambling, tobacco or pornography?	No
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The company has no business interests related to alcohol, weapons, gambling, tobacco or pornography.

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ESG

Value

Risks



Governance	Yes/No?
Is the percentage of independent directors more than Thailand's average of 38%?	No
Thirty-eight percent of directors are independent, which is on par with the average for Thailand.	
Is the Chairman also CEO (or equivalent)?	Yes
Chairman Surachai Chetchotisak is also the CEO of the company.	
Does the company have any shareholder rights policy?	Yes
The company is run with efficient expertise. Current and future risks are carefully assessed and managed to ensure benefits for shareholders, and the operational results and financial situations of the company as well as other pertinent information are completely disclosed to to shareholders.	
Does the company have any insider dealings or accounting controversies?	No
None found.	
Does the company have any CSR sustainability or ESG reporting?	Yes
The company has CSR (Corporate Social Responsibility) reporting.	

RS: Summary financials

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Value

Risks

Profit & loss (Bt m)	19A	20A	21E	22E	23E	Sep '20	Dec '20	Mar '21	Jun '21	Sep '21
Revenue	3,611	3,774	3,901	4,170	4,295	938	1,018	992	992	852
Cost of goods sold	(2,020)	(1,769)	(1,867)	(1,883)	(1,940)	(454)	(483)	(432)	(459)	(449)
Gross profit	1,591	2,006	2,035	2,287	2,355	484	535	560	534	404
SG&A	(1,100)	(1,317)	(1,748)	(1,508)	(1,553)	(312)	(402)	(387)	(469)	(431)
Other (exp)/inc	4	11	37	35	35	(1)	9	3	2	1
Operating profit	496	700	323	814	838	170	143	175	67	(26)
Finance cost	(35)	(36)	(65)	(70)	(67)	(9)	(9)	(11)	(16)	(16)
Other inc/(exp)	1	4	4	7	8	(0)	0	(0)	0	-
Earnings before taxes	462	668	262	750	779	161	134	164	51	(41)
Income tax	(97)	(137)	(52)	(150)	(156)	(34)	(30)	(34)	(8)	11
After-tax profit	365	531	209	600	623	127	105	131	44	(30)
Equity income	-	-	72	121	136	-	-	9	10	29
Minorities	(1)	0	0	0	0	0	(0)	(0)	(0)	1
Earnings from cont. operations	364	531	281	721	759	127	105	140	54	(0)
Forex gain/(loss) & unusual items	(0)	(2)	-	-	-	3	(2)	(0)	(0)	-
Net income	363	528	281	721	759	131	103	140	54	(0)
EBITDA	1,064	1,234	885	1,443	1,492	304	300	319	228	149
Recurring EPS (Bt)	0.36	0.55	0.29	0.75	0.79	0.13	0.11	0.15	0.06	(0.00)
Weighted average shares (m)	1,014	960	957	957	957	958	957	958	957	957
Balance sheet (Bt m)	19A	20A	21E	22E	23E	Sep '20	Dec '20	Mar '21	Jun '21	Sep '21
Assets	3,407	4,516	6,182	6,457	6,760	4,286	4,516	5,794	6,074	6,146
Liabilities	1,680	2,512	4,038	3,951	3,875	2,384	2,512	3,650	3,875	3,948
Equity	1,725	2,002	2,143	2,503	2,883	1,899	2,002	2,142	2,196	2,198
Invested capital	2,170	3,026	2,477	2,028	2,010	2,924	3,026	3,173	3,399	2,198
Growth (YoY, %)	19A	20A	21E	22E	23E	Sep '20	Dec '20	Mar '21	Jun '21	Sep '21
Revenue	(5.6)	4.5	3.4	6.9	3.0	5.8	13.7	0.8	19.1	(9.2)
Recurring EPS	(27.2)	54.1	(46.8)	156.5	5.3	47.2	65.5	(24.2)	(50.3)	(100.2)
Assets	(16.4)	32.6	36.9	4.4	4.7	35.7	32.6	38.3	40.4	43.4
Liabilities	(30.0)	49.6	60.7	(2.1)	(1.9)	59.2	49.6	49.9	51.7	65.6
Equity	3.2	16.1	7.0	16.8	15.2	14.5	16.1	22.3	24.1	15.7
Profits (%)	19A	20A	21E	22E	23E	Sep '20	Dec '20	Mar '21	Jun '21	Sep '21
Gross margin	44.1	53.1	52.1	54.8	54.8	51.6	52.6	56.5	53.8	47.3
EBITDA margin	29.5	32.7	22.7	34.6	34.7	32.4	29.4	32.1	22.9	17.5
Net margin	10.1	14.0	7.2	17.3	17.7	13.9	10.1	14.1	5.4	(0.0)
ROE	21.4	28.4	13.6	31.1	28.2	28.5	21.0	27.1	9.9	(0.1)
ROIC	18.8	21.4	9.4	28.9	33.2	18.8	15.0	18.0	6.9	(2.7)

Disclaimer

Investment ratings

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

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