

# NATION MULTIMEDIA GROUP PLC

No. 81/2014

14 October 2014

**Company Rating:** BBB+

**Outlook:** Positive

**Company Rating History:**

Date	Rating	Outlook/Alert
02/05/14	BBB+	Positive

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**Rating Rationale**

TRIS Rating affirmed the company rating of Nation Multimedia Group PLC (NMG) at "BBB+". The rating reflects the company's established brand equity as a multimedia news content provider, the strong market positions of the company's newspapers, *'Krungthep Turakij'*, *'The Nation'*, and *'Kom Chad Luek'*, as well as the competency of its management team. The rating also takes into consideration NMG's growth prospects driven by its digital TV channels, *'NOW'* and *'Nation TV'*. However, these strengths are partially offset by the volatility of the advertising industry, which is NMG's main source of revenue, plus the slowdown in the newspaper publishing segment both in terms of advertising spending and circulation trend. The risks surrounding the commencement digital TV broadcasting also adds to the rating concerns.

NMG, widely-known and recognized as the Nation Group, is a leading multimedia company in Thailand. As of March 2014, NMG's major shareholders were Mr. Suthichai Sae-Yoon, holding a 9.20% stake, and Mr. Sermsin Samalapa (9.08%). NMG's lines of business include publishing, broadcasting, edutainment, education, printing, and logistics. The publishing segment and the broadcasting segment are the main revenue generators, contributing 55% and 31% of NMG's total sales for the first half of 2014.

Advertising has been and continues to be NMG's main source of revenue. Generally, advertising spending for all media will move in tandem with economic conditions. The current slowdown of the domestic economy, rising household debt, and political instability have pushed down consumer sentiment and spending since the last quarter of 2013. According to the Advertising Association of Thailand (AAT), advertising spending across all media dropped by 9.4% year on year (y-o-y) for the first six months of 2014. Advertising spending on free to air TV, comprising 64% of total advertising spending, decreased by 6.9% y-o-y for the first half of 2014 after having grown steadily at a compound annual growth rate (CAGR) of 6.9% over the past four years. Advertising spending in the publishing segment, accounting for 12% of total advertising spending, dropped by 15.2% y-o-y in the first half of 2014. Advertising in the publishing segment has shown no growth during the past four years. The unfavorable market conditions for advertising affected NMG's performance in the first half of 2014. NMG reported a 17% y-o-y drop in total sales to Bt1,224 million.

For the first half of 2014, revenue in the publishing segment plunged by 20% y-o-y to Bt674 million, compared with Bt839 million in the same period last year. Apart from the slowdown in advertising spending, the drop reflects the declining attractiveness of conventional print newspapers, compared with new media such as Internet. However, TRIS Rating expects that NMG will be able to maintain its competitive position in Thailand's publishing industry but growth prospects for print newspapers are considered limited.

In the broadcasting segment, NMG started broadcasting two digital TV channels: a standard definition variety channel – *NOW*, and a news channel – *Nation TV*. The broadcast coincided with the official launch of digital TV in April 2014. Revenue in NMG's broadcasting segment also suffered from the slowdown in advertising spending. For the first six months of 2014, revenue in the broadcasting segment increased slightly to Bt385 million, compared with Bt380 million in the same period last year. The revenue was mainly from its satellite TV platform.

Digital TV broadcasting has not contributed much to NMG's performance in the first half of 2014. Since starting their broadcasts, digital TV broadcasters have faced many hindrances. For example, there have been problems such as delays in distributing digital TV subsidy coupons, delays in the expansion of the network, plus confusion caused by renumbering channels on different platforms and by method for measuring TV program ratings. Nonetheless, the situation is expected to improve after the National Broadcasting and Telecommunication Commission (NBTC) starts distributing the digital TV subsidy coupons in October 2014. The distribution of subsidy coupon is believed to help accelerate the transition from analog TV to digital TV. According to The Nielsen Company (Thailand) Limited, about 13% of potential viewers were already watching digital TV in August 2014.

The digital TV industry is likely to improve in 2015. Advertising spending is expected to rebound as the economy improves and political situation subsides. Moreover, digital TV will gain a larger viewership base after the distribution of the subsidy coupons and network expansion. These two factors will attract more advertisers. As a result, TRIS Rating remains positive on NMG's growth prospects driven by the digital TV platform. As an existing TV broadcaster, NMG requires a small additional amount for capital expenditures, excluding license fees, to operate its digital TV platform at the beginning stage. In addition, NMG will benefit from synergies among its various media platforms. However, competition is expected to intensify. With relatively high license prices, all digital TV broadcasters have to compete to attract viewers and their share of advertising. NMG has been a leading news broadcaster for many years. TRIS Rating believes that *Nation TV* will be able to gain audience share and attract advertising spending based on its news content. The variety channel, *NOW*, is positioned as a business and lifestyle channel providing business and lifestyle content. Its programs target certain groups of audiences which will need time to attract viewers and gain advertising share.

Due to the unfavorable operating environment, NMG's financial profile has weakened but remains sound. Thanks to the capital increase in 2013 and the payment scheme of digital TV licenses which divides the payment into six installments, NMG's capital structure and liquidity are acceptable at the current rating. For the first half of 2014, the funds from operations (FFO) to total debt ratio stayed at 61.30% (annualized, from the trailing 12 months). The debt to capitalization ratio remained strong at 18.16% at the end of June 2014.

As at the end of June 2014, NMG's had an obligation for its digital TV licenses of Bt2,944 million. By taking into account such obligation netting with its cash on hand, NMG's financial profile is weaker but remains acceptable. The FFO to adjusted net debt ratio stayed at 21.40% (annualized, from the trailing 12 months) for the first six months of 2014. The adjusted net debt to capitalization ratio was 38.85% at the end of June 2014.

The weakened advertising industry pushed NMG's operating margin down to 13.7% in the first half of 2014, from 17.4% in 2013. Going forward, TRIS Rating expects that NMG's operating performance will gradually pick up. The revenue generated from its digital TV platform is believed to grow faster than the costs and helps improve NMG's profitability. Under TRIS Rating's base case scenario, NMG is expected to generate FFO of up to Bt800-Bt900 million per annum during 2015-2017. NMG plans to spend a total of approximately Bt350 million in capital during the next three years, mainly to support its digital TV operation. Combining the annual license payments and the necessary investments, NMG will have a financial outlay of around Bt2,300 million in total between 2015 and 2017. NMG's operating cash flow plus its liquidity reserve will make the planned expenditures manageable. No substantial rise in leverage is anticipated in the short term.

#### Rating Outlook

The "positive" outlook is based on the growth prospects driven by the digital TV broadcasting segment. The rating should be upgraded if NMG can successfully move to the new digital TV platform, deliver stronger performance than projected despite intensified competition, and maintain its financial strength. The outlook would be revised to "stable" if the commercial benefits of digital TV take longer to materialize.

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#### Nation Multimedia Group PLC (NMG)

Company Rating:	BBB+
Rating Outlook:	Positive

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### Financial Statistics and Key Financial Ratios\*

Unit: Bt million

	----- Year Ended 31 December -----					
	Jan-Jun 2014	2013	2012	2011	2010	2009
Total sales	1,224	2,864	2,937	2,643	2,697	2,317
Gross interest expense	36	77	115	120	112	118
Net income from operations	17	252	169	104	314	(46)
Funds from operations (FFO)	220	615	503	383	398	136
Capital expenditures	586	45	218	116	394	50
Total assets	8,499	5,353	4,152	3,753	3,706	3,308
Total debt	829	580	1,390	1,506	1,735	1,632
Shareholders' equity including minority interest	3,735	3,785	1,637	1,301	1,251	850
Operating income before depreciation and amortization as % of sales	13.65	17.44	16.28	14.65	15.08	4.63
Pretax return on permanent capital (%)**	5.44	11.51	12.98	10.81	20.06	3.78
Earnings before interest, tax, depreciation, and amortization (EBITDA) interest coverage (times)	7.03	9.08	5.60	4.51	6.84	2.31
FFO/total debt (%)**	61.30	105.99	36.15	25.42	22.93	8.35
FFO/adjusted net debt (%)**	21.40	-	-	-	-	-
Total debt/capitalization (%)	18.16	13.29	45.92	53.66	58.11	65.74
Adjusted net debt/capitalization (%)	38.85	-	-	-	-	-

\* Consolidated financial statements

\*\* Annualized, from the trailing 12 months

### TRIS Rating Co., Ltd.

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