

RS Public Co Ltd (RS TB) - BUY**Earnings Preview**

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Profit warning for 3Q21F

- **We expect very weak profits in 3Q21F**
 - **Slow consumption amid Covid third wave and lockdown hit ...**
 - **... commerce and media businesses, plus high marketing expenses**
 - **With lockdown easing, profit should gradually recover in 4Q21F**
- We estimate RS to report very weak 3Q21F earnings at Bt17m, down 87% y-y and 69% q-q. We expect the earnings to be supported by contribution from its equity investment in an asset management company Chase Asia amount Bt18m.
 - RS's core business is expected to make a loss of Bt1m in 3Q21F vs. earnings of Bt100-130m/quarter last year. Hitting by hiccups from the third COVID wave and the lockdown, we expect total sales to drop by 9% y-y and 14% q-q in 3Q21, dragged by RS's existing commerce sales and media businesses. Meanwhile, SG&A expenses are expected to increase by 42% y-y and drop only 5% q-q because new products' marketing expenses were already committed in 2Q-3Q21 at an estimated Bt60-70m/quarter.
 - The marketing expenses are a result of RS launching company-owned brands in the new mass-market channel. The new products are the functional drink "Camu C", the main selling channel for which is convenience stores (CVS), and its premium collagen "Well U" product, with its traditional trade selling channel, in mid 2Q21 just before the new COVID wave.
 - For top-line, revenue of commerce via existing platforms (85% via Ch.8 and call centers, 10% via online and RS Mall and the rest from other marketplace online platforms) is expected to drop 28% y-y and 6% q-q to Bt465m (50% of 3Q21F revenue). The lockdown in 3Q21 hit consumption and purchasing power and reduced RS's call-center efficiency due to the work-from-home during lockdown. We expect gross margin to drop y-y by 90bps and relatively flat q-q at 66% due to higher portion of partners' products.
 - For two new products sold via the mass market (7% of 3Q21F revenue), as the products rely on offline channels, the lockdown curbs caused sales of them to drop m-m during 3Q21. With full-quarter impact, we estimate RS to deliver flat q-q revenue of Bt70m (7% of total sales) in 3Q21F and flat gross margin. We estimate a loss from these two products at Bt40m.
 - For the media business (43% of 3Q21F), we expect revenue to drop 25% q-q due to weak ad spending hitting TV, radio and showbiz businesses but up 9% y-y from low base. RS's media business is to support its eco-system of entertainmerce (media + commerce) business model.
 - Into 4Q21F, now that lockdown has started to ease, we expect some improvement in earnings to Bt50m driven by a recovery of its existing commerce along with a consumption recovery, higher call center efficiency and a Bt20m drop in marketing expenses. Although RS plans to launch pet food in mid-November, the marketing expense is minimal as its key selling channel is via specialty stores.

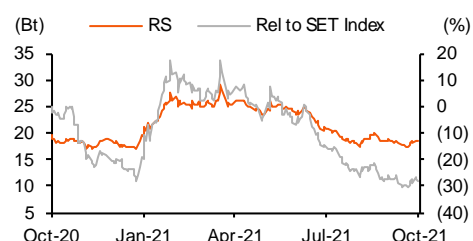
Key Valuations

Y/E Dec (Bt m)	2020	2021F	2022F	2023F
Revenue	3,774	3,643	4,651	5,308
Net profit	528	260	639	875
Norm net profit	528	260	639	875
Norm EPS (Bt)	0.5	0.3	0.7	0.9
Norm EPS gr (%)	37.4	(50.9)	146.1	37.0
Norm PE (x)	33.9	68.9	28.0	20.4
EV/EBITDA (x)	14.6	24.1	14.3	10.7
P/BV (x)	8.9	8.3	7.4	6.7
Div. yield (%)	0.0	1.2	3.0	4.2
ROE (%)	28.4	12.5	27.9	34.5
Net D/E (%)	28.7	90.3	71.3	57.3

Source: Thanachart estimates

Stock Data

Closing price (Bt)	18.40
Target price (Bt)	29.00
Market cap (US\$ m)	539
Avg daily turnover (US\$ m)	4.7
12M H/L price (Bt)	29.00/17.00

Price Performance

Source: Bloomberg

Ex 1: 3Q21F Earnings Preview

Income Statement Yr-end Dec (Bt m)	3Q20	4Q20	1Q21	2Q21	3Q21F	(consolidated)	
						q-q%	y-y%
Revenue	938.4	1,018.0	992.2	992.4	855.0	(14)	(9)
Gross profit	484.1	502.1	560.2	533.8	458.2	(14)	(5)
SG&A	312.5	368.3	387.3	469.0	444.0	(5)	42
Operating profit	171.7	133.8	172.9	64.8	14.2	(78)	(92)
EBITDA	305.1	290.3	306.6	214.9	149.0	(31)	(51)
Other income	3.1	7.8	2.7	2.3	0.0	na	na
Other expense	1.2	0.6	0.1	0.5	0.1	(89)	(96)
Interest expense	9.0	8.9	11.1	15.8	15.8	-	75
Profit before tax	164.5	132.2	164.4	50.7	(1.7)	na	na
Income tax	33.9	29.6	33.5	7.6	(0.3)	na	na
Equity & invest. income	0.0	0.0	9.4	10.5	18.0	72	na
Minority interests	0.0	(0.0)	(0.0)	(0.0)	(0.0)	na	na
Extraordinary items	0.0	0.0	0.0	0.0	0.0	na	na
Net profit	130.6	102.6	140.2	53.6	16.7	(69)	(87)
Normalized profit	130.6	102.6	140.2	53.6	16.7	(69)	(87)
EPS (Bt)	0.13	0.11	0.14	0.06	0.02	(69)	(87)
Normalized EPS (Bt)	0.13	0.11	0.14	0.06	0.02	(69)	(87)

Sources: Company data, Thanachart estimates

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