

1 August 2012

# MCOT

## 2Q12 preview—YoY profit slippage

Media  
Neutral

**Investment thesis:** We reiterate our HOLD rating on MCOT, premised on a cheap valuation and a high dividend yield. The key operational challenge lies in whether July's program revamp and the removal of *Nation* news slots will improve overall ratings or not. The board is to appoint a new president in October or November, which might boost the share price.

**YoY profit decline expected for 2Q12:** We estimate a Bt450m net profit for 2Q12, down 10% YoY but up 27% QoQ. The YoY profit slippage is due to lower TV ad revenue (as a result of lower ratings following the 2011 entertainment program revamp) and higher OPEX. The QoQ bounce is thanks to ads for the EURO 2012 soccer tournament and a general recovery in ad spend following the 4Q11 flooding. OPEX will post a YoY jump, due to higher leasing costs for Ku-band transponders, salary increases, effective Jan 2012, and more in-house programming.

**TV ad revenue fall:** We estimate Bt955m in 2Q12 TV ad revenue, down 7% YoY but up 17% QoQ. That would be worse than Nielson's numbers, which indicate that MCOT's 2Q12 ad spend declined by just 3% YoY. The broadcaster's average audience share dropped to 8.1% in 2Q12 from 9% in 2Q11, due to weak programming. Its ad spend share fell to 19% in 2Q12 from 20% in 2Q11. The average TV loading factor in 2Q12 stood at 90%, down from 99% in 2Q11, but up from 76% in 1Q12. Radio ad revenue dipped 3% YoY but rose 12% QoQ. The retreat in radio ad revenue was mitigated by various EURO 2012 events.

**July program revamp:** MCOT's weak programming has meant that its audience share declined from 9% in FY11 to 7.8% in July 2012. The firm launched a program revamp in July that focused on news rather than entertainment. It also implicitly increased some of its ad rates by 15-25% with the new shows. Under the July revamp, the *Nation*'s news programs were pulled. The feedback from MCOT's in-house morning news show suggested approval, but that hasn't been the case for evening news programs, at least not yet.

**New president expected in Oct-Nov:** The application deadline has been moved back to Aug 24. Qualification screening is slated for Sept, selection in Oct or Nov.

## BUALUANG RESEARCH

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# HOLD (maintained)

Target Price: Bt30.00  
Price (31/07/12): Bt28.75  
MCOT TB / MCOT.BK

### Key Ratios & Statistics

Market cap	Bt19.75bn		
12-mth price range	Bt24.20/Bt32.00		
12-mth avg daily volume	Bt18.70m		
# of shares (m)	687.1		
Est. free float (%)	22.7		
Foreign limit (%)	15.0		
<b>Share price perf. (%)</b>	<b>1M</b>	<b>3M</b>	<b>12M</b>
Relative to SET	13	0.7	(115)
Absolute	3.6	(17)	(5.7)

### Financial summary

FY Ended 31 Dec	2011	2012E	2013E	2014E
Revenues (Btm)	5,142	5,643	6,088	6,636
Net profit (Btm)	1,356	1,624	1,679	1,726
EPS (Bt)	1.97	2.36	2.44	2.51
BLS/Consensus (x)	n.a.	1.02	0.98	n.a.
EPS growth (%)	-4.7%	+19.7%	+3.4%	+2.8%
Core profit (Btm)	1,356	1,624	1,679	1,726
Core EPS (Bt)	1.97	2.36	2.44	2.51
Core EPS growth (%)	-5.3%	+19.7%	+3.4%	+2.8%
PER (x)	15.0	12.2	11.8	11.4
Core PER (x)	15.0	12.2	11.8	11.4
EV/EBITDA (x)	6.5	5.8	5.8	5.6
PBV (x)	2.7	2.5	2.5	2.5
Dividend (Bt)	2.00	2.39	2.48	2.54
Dividend yield (%)	6.8	8.3	8.6	8.9
ROE (%)	17.8	21.0	21.4	21.9
Net gearing (x)	Net cash	Net cash	Net cash	Net cash

CG Rating - 2011



### Company profile

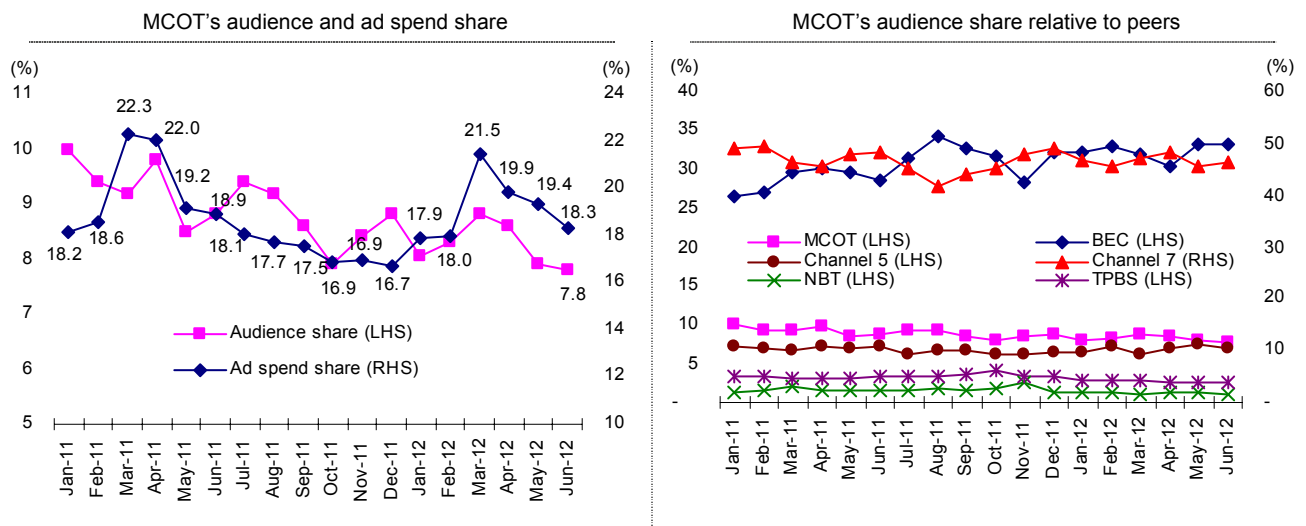
MCOT Plc (MCOT) operates a free-to-air national terrestrial TV station, ModerNine, and 62 radio stations across the country. The firm also collects a percentage of the revenues generated by two TV operators that have MCOT-granted concessions—Bangkok Entertainment Plc (a subsidiary of BEC) and UBC (or TRUE Visions). Bangkok Entertainment operates the nationwide terrestrial TV station, Channel 3. Last year Bangkok Entertainment paid Bt165m in revenue share to MCOT. TRUE Vision runs a multi-channel pay TV business over fiber-optic cable and satellite. It pays 6.5% of its revenue to MCOT. In FY11 it paid Bt530m.

**Figure 1: 2Q12 earnings preview**

	2Q12E	2Q11	% YoY	1Q12	% QoQ	1H12E	1H11	% YoY
<b>Total revenue</b>	<b>1,425</b>	<b>1,482</b>	<b>(3.8)</b>	<b>1,265</b>	<b>12.7</b>	<b>2,689</b>	<b>2,733</b>	<b>(1.6)</b>
- TV	955	1,027	(7.0)	819	16.5	1,774	1,876	(5.4)
- Radio	220	227	(3.0)	197	11.9	417	420	(0.8)
- Concession	250	228	9.6	249	0.5	499	437	14.0
<b>Total cost of services</b>	<b>(626)</b>	<b>(545)</b>	<b>14.9</b>	<b>(589)</b>	<b>6.3</b>	<b>(1,214)</b>	<b>(1,019)</b>	<b>19.2</b>
- Cost of TV & radio	(596)	(518)	15.0	(559)	6.6	(1,154)	(965)	19.6
- Cost of concession	(30)	(27)	11.9	(30)	(0.3)	(60)	(53)	12.4
<b>Gross profit</b>	<b>799</b>	<b>937</b>	<b>(14.7)</b>	<b>676</b>	<b>18.2</b>	<b>1,475</b>	<b>1,714</b>	<b>(14.0)</b>
- TV & radio	579	736	(21.3)	457	26.7	1,036	1,330	(22.1)
- Concession	220	201	9.3	219	0.6	439	384	14.2
SG&A	(264)	(268)	(1.6)	(264)	(0.0)	(527)	(534)	(1.3)
<b>EBIT</b>	<b>536</b>	<b>669</b>	<b>(19.9)</b>	<b>412</b>	<b>29.9</b>	<b>948</b>	<b>1,181</b>	<b>(19.7)</b>
Interest expense	(3)	(2)	4.2	(3)	2.8	(5)	(5)	5.0
Other income/exp.	50	38	30.5	47	6.6	97	64	51.9
<b>EBT</b>	<b>583</b>	<b>705</b>	<b>(17.3)</b>	<b>457</b>	<b>27.7</b>	<b>1,040</b>	<b>1,239</b>	<b>(16.1)</b>
Corporate tax	(131)	(200)	(34.5)	(101)	30.1	(232)	(368)	(37.0)
After-tax profit	452	504	(10.4)	356	27.0	808	872	(7.3)
Minority interest	(2)	(5)	(61.5)	(1)	79.9	(3)	(8)	(60.6)
Extra items	-	-	-	-	-	-	-	-
<b>Net profit</b>	<b>450</b>	<b>499</b>	<b>(9.9)</b>	<b>355</b>	<b>26.8</b>	<b>804</b>	<b>864</b>	<b>(6.8)</b>
Reported EPS	0.65	0.73	(9.9)	0.52	26.8	1.17	1.26	(6.8)
Fully diluted EPS	0.65	0.73	(9.9)	0.52	26.8	1.17	1.26	(6.8)
<b>Core net profit</b>	<b>450</b>	<b>499</b>	<b>(9.9)</b>	<b>355</b>	<b>26.8</b>	<b>804</b>	<b>864</b>	<b>(6.8)</b>
Core EPS	0.65	0.73	(9.9)	0.52	26.8	1.17	1.26	(6.8)
<b>EBITDA</b>	<b>671</b>	<b>804</b>	<b>(16.6)</b>	<b>547</b>	<b>22.5</b>	<b>1,218</b>	<b>1,448</b>	<b>(15.9)</b>
Gross margin (%)	56.1	63.2		53.4		54.8	62.7	
EBITDA margin (%)	47.1	54.3		43.3		45.3	53.0	
Operating margin (%)	37.6	45.2		32.6		35.2	43.2	
Net margin (%)	31.6	33.7		28.0		29.9	31.6	
Core profit margin (%)	31.6	33.7		28.0		29.9	31.6	

Sources: Company data and Bualuang Research estimates

**Figure 2: Monthly audience share versus ad spend share**



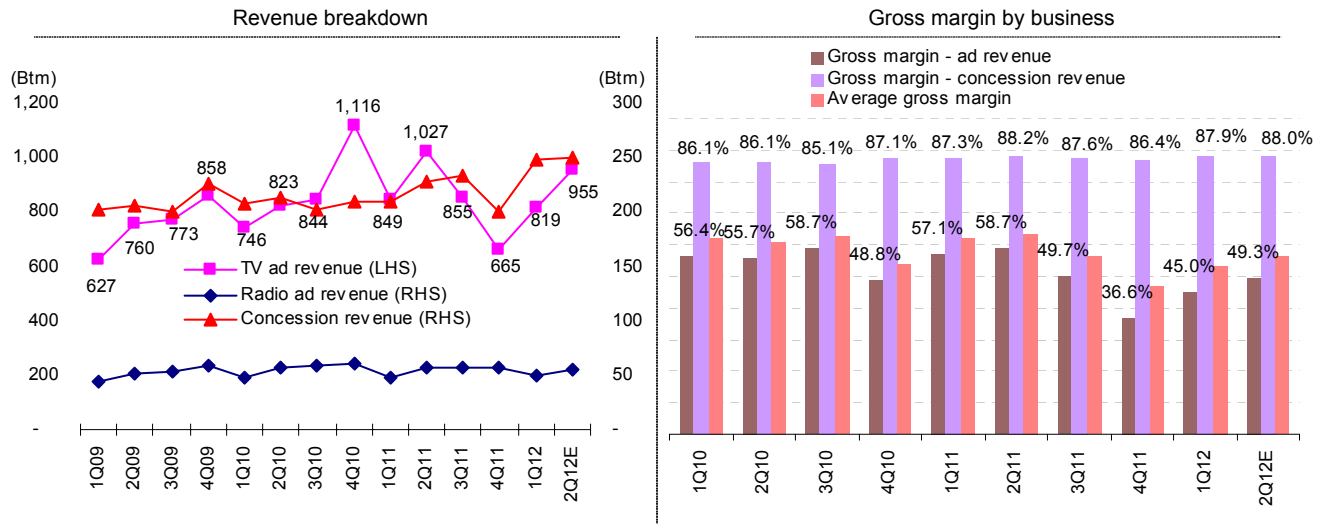
Source: The Nielsen Company

**Figure 3: 2Q12 TV advertising spend by channel (Btm)**

	2Q12	2Q11	% YoY	1Q12	% QoQ
Channel 3 (BEC)	4,859	4,516	7.6%	4,548	6.8%
Channel 5	3,005	2,925	2.7%	2,889	4.0%
Channel 7	5,427	5,391	0.7%	4,917	10.4%
Channel 9 (MCOT)	3,277	3,390	-3.3%	3,063	7.0%
NBT	528	670	-21.2%	467	13.1%
<b>Total</b>	<b>17,096</b>	<b>16,892</b>	<b>1.2%</b>	<b>15,884</b>	<b>7.6%</b>

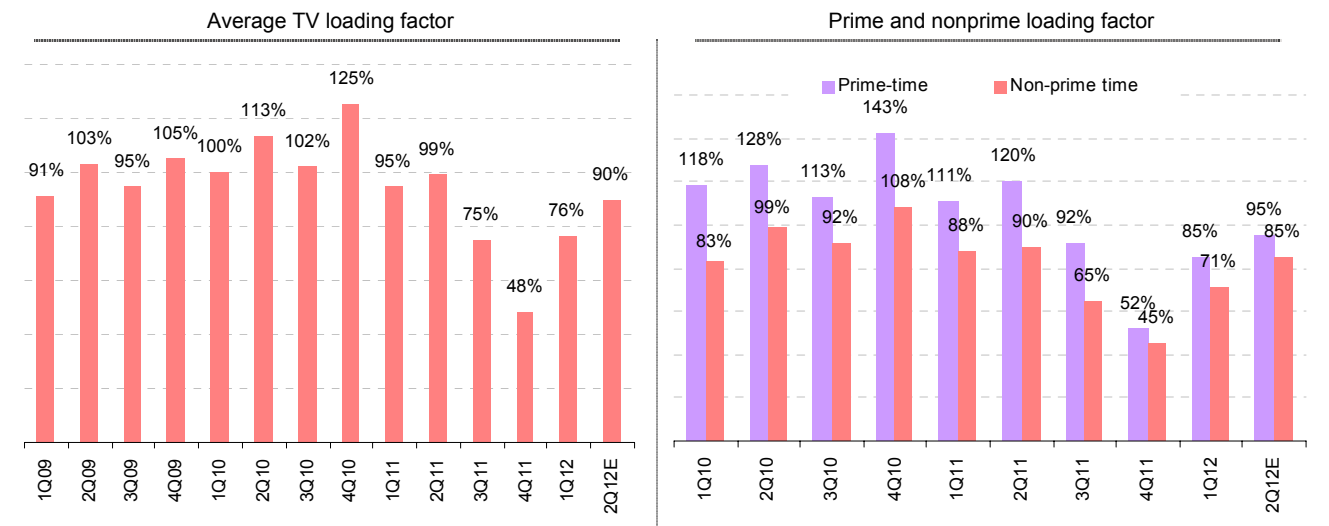
Source: The Nielsen Company

**Figure 4: Quarterly TV and radio ad revenue versus gross margin**



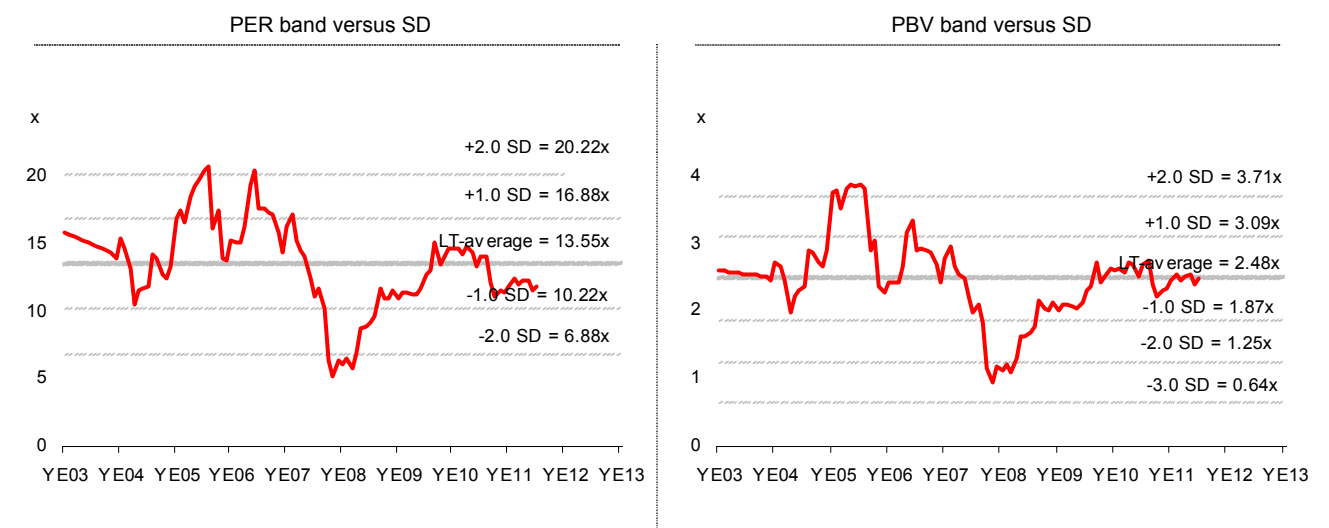
Sources: Company data and Bualuang Research estimates

**Figure 5: Quarterly TV loading factor**



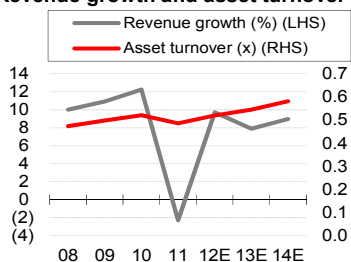
Sources: Company data and Bualuang Research estimates

**Figure 6: Band comparisons versus SD**

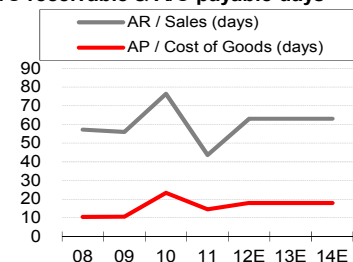


Sources: Company data, SET, and Bualuang Research estimates

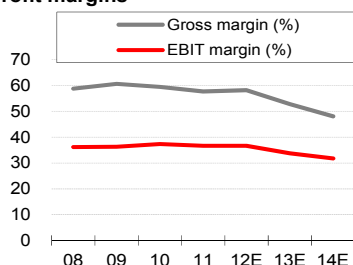
## Revenue growth and asset turnover



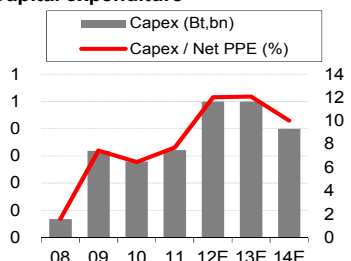
## A/C receivable &amp; A/C payable days



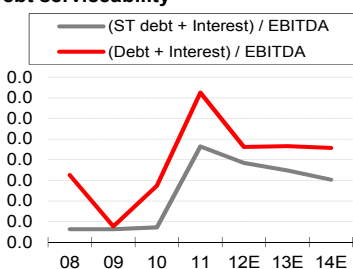
## Profit margins



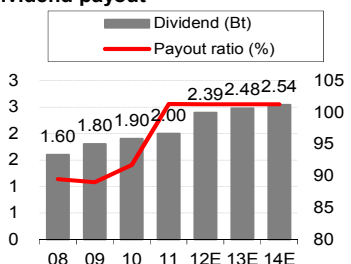
## Capital expenditure



## Debt serviceability



## Dividend payout



	2010	2011	2012E	2013E	2014E
<b>PROFIT &amp; LOSS (Btm)</b>					
Revenue	5,263	5,142	5,643	6,088	6,636
Cost of sales and services	(2,134)	(2,175)	(2,360)	(2,878)	(3,446)
<b>Gross profit</b>	<b>3,129</b>	<b>2,967</b>	<b>3,283</b>	<b>3,211</b>	<b>3,190</b>
SG&A	(1,163)	(1,080)	(1,213)	(1,157)	(1,082)
<b>EBIT</b>	<b>1,966</b>	<b>1,888</b>	<b>2,069</b>	<b>2,054</b>	<b>2,108</b>
Interest expense	(1)	(11)	(10)	(9)	(8)
Other income/exp.	93	170	80	84	88
<b>EBT</b>	<b>2,058</b>	<b>2,047</b>	<b>2,139</b>	<b>2,129</b>	<b>2,188</b>
Corporate tax	(604)	(671)	(494)	(427)	(439)
<b>After-tax profit (loss)</b>	<b>1,455</b>	<b>1,376</b>	<b>1,645</b>	<b>1,701</b>	<b>1,749</b>
Minority interest	(23)	(20)	(21)	(22)	(23)
Equity earnings from affiliates	0	0	0	0	0
Extra items	0	0	0	0	0
<b>Net profit (loss)</b>	<b>1,432</b>	<b>1,356</b>	<b>1,624</b>	<b>1,679</b>	<b>1,726</b>
Reported EPS	2.07	1.97	2.36	2.44	2.51
Fully diluted EPS	2.08	1.97	2.36	2.44	2.51
<b>Core net profit</b>	<b>1,432</b>	<b>1,356</b>	<b>1,624</b>	<b>1,679</b>	<b>1,726</b>
Core EPS	2.08	1.97	2.36	2.44	2.51
<b>EBITDA</b>	<b>2,464</b>	<b>2,429</b>	<b>2,628</b>	<b>2,631</b>	<b>2,704</b>

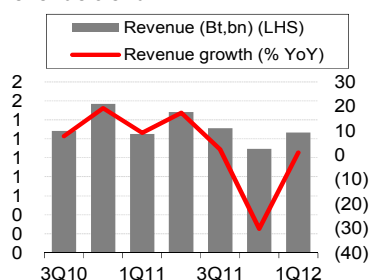
	2010	2011	2012E	2013E	2014E
<b>KEY RATIOS</b>					
Revenue growth (%)	12.3	(2.3)	9.7	7.9	9.0
Gross margin (%)	59.5	57.7	58.2	52.7	48.1
EBITDA margin (%)	46.8	47.2	46.6	43.2	40.8
Operating margin (%)	37.4	36.7	36.7	33.7	31.8
Net margin (%)	27.2	26.4	28.8	27.6	26.0
Core profit margin (%)	27.2	26.4	28.8	27.6	26.0
ROA (%)	14.2	12.8	15.0	15.0	15.1
ROCE (%)	18.8	17.6	20.8	21.1	21.5
Asset turnover (x)	0.5	0.5	0.5	0.5	0.6
Current ratio (x)	3.3	3.9	3.8	3.5	3.3
Gearing ratio (x)	0.0	0.0	0.0	0.0	0.0
Interest coverage (x)	1,386.8	172.9	205.1	224.6	257.1

	2010	2011	2012E	2013E	2014E
<b>BALANCE SHEET (Btm)</b>					
<b>Cash &amp; Equivalent</b>	<b>3,871</b>	<b>4,659</b>	<b>4,516</b>	<b>4,491</b>	<b>4,544</b>
Accounts receivable	1,101	615	974	1,051	1,145
Inventory	4	5	5	6	7
PP&E-net	4,307	4,168	4,158	4,133	3,992
Other assets	239	246	354	476	626
<b>Total assets</b>	<b>10,517</b>	<b>10,641</b>	<b>11,055</b>	<b>11,281</b>	<b>11,532</b>
Accounts payable	137	87	116	142	170
ST debts & current portion	0	0	0	0	0
Long-term debt	5	6	2	3	4
Other liabilities	21	53	58	63	69
<b>Total liabilities</b>	<b>2,781</b>	<b>2,983</b>	<b>3,126</b>	<b>3,296</b>	<b>3,499</b>
Paid-up capital	3,435	3,435	3,435	3,435	3,435
Share premium	1,107	1,107	1,107	1,107	1,107
Retained earnings	3,139	3,053	3,303	3,337	3,362
<b>Shareholders equity</b>	<b>7,682</b>	<b>7,595</b>	<b>7,845</b>	<b>7,879</b>	<b>7,904</b>
Minority interests	54	63	84	106	129
<b>Total Liab.&amp;Shareholders' equity</b>	<b>10,517</b>	<b>10,641</b>	<b>11,055</b>	<b>11,281</b>	<b>11,532</b>

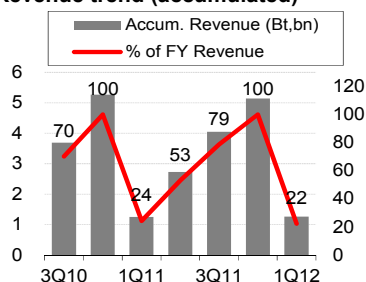
	2010	2011	2012E	2013E	2014E
<b>CASH FLOW (Btm)</b>					
Net income	1,432	1,356	1,624	1,679	1,726
Depreciation and amortization	498	541	559	577	596
Change in working capital	(299)	435	(330)	(52)	(68)
FX, non-cash adjustment & others	122	62	(83)	(43)	(57)
<b>Cash flows from operating activities</b>	<b>1,753</b>	<b>2,395</b>	<b>1,770</b>	<b>2,161</b>	<b>2,197</b>
Capex (Invest)/Divest	(280)	(322)	(500)	(500)	(400)
Others	(807)	(927)	631	(263)	(317)
<b>Cash flows from investing activities</b>	<b>(1,086)</b>	<b>(1,249)</b>	<b>131</b>	<b>(763)</b>	<b>(717)</b>
Debt financing (repayment)	(1)	(3)	0	0	0
Equity financing	0	0	0	0	0
Dividend payment	(1,272)	(1,443)	(1,374)	(1,645)	(1,701)
Others	(1)	(12)	0	0	0
<b>Cash flows from financing activities</b>	<b>(1,273)</b>	<b>(1,458)</b>	<b>(1,374)</b>	<b>(1,645)</b>	<b>(1,701)</b>
<b>Net change in cash</b>	<b>(607)</b>	<b>(313)</b>	<b>528</b>	<b>(247)</b>	<b>(221)</b>
<b>Free cash flow (Btm)</b>	<b>1,474</b>	<b>2,073</b>	<b>1,270</b>	<b>1,661</b>	<b>1,797</b>
<b>FCF per share (Bt)</b>	<b>2.14</b>	<b>3.02</b>	<b>1.85</b>	<b>2.42</b>	<b>2.62</b>

Sources: Company data, Bualuang Research estimates

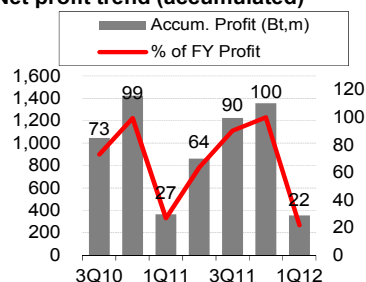
## Revenue trend



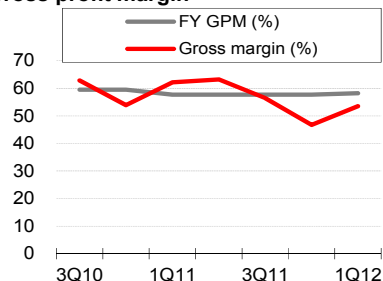
## Revenue trend (accumulated)



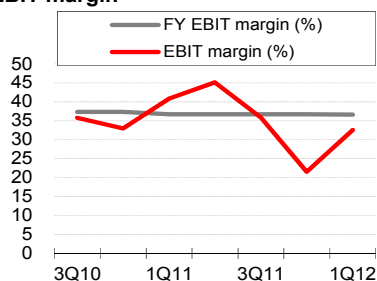
## Net profit trend (accumulated)



## Gross profit margin



## EBIT margin



## PROFIT &amp; LOSS (Btm)

	1Q11	2Q11	3Q11	4Q11	1Q12
Revenue	1,252	1,482	1,313	1,096	1,265
Cost of sales and services	(474)	(545)	(572)	(585)	(589)
<b>Gross profit</b>	<b>778</b>	<b>937</b>	<b>741</b>	<b>512</b>	<b>676</b>
SG&A	(266)	(268)	(271)	(275)	(264)
<b>EBIT</b>	<b>512</b>	<b>669</b>	<b>471</b>	<b>237</b>	<b>412</b>
Interest expense	(2)	(2)	(3)	(2)	(3)
Other income/exp.	25	38	63	42	47
<b>EBT</b>	<b>535</b>	<b>705</b>	<b>531</b>	<b>276</b>	<b>457</b>
Corporate tax	(168)	(200)	(162)	(141)	(101)
<b>After-tax profit (loss)</b>	<b>367</b>	<b>504</b>	<b>369</b>	<b>136</b>	<b>356</b>
Minority interest	(3)	(5)	(9)	(3)	(1)
Equity earnings from affiliates	0	0	0	0	0
Extra items	0	0	0	0	0
<b>Net profit (loss)</b>	<b>364</b>	<b>499</b>	<b>361</b>	<b>132</b>	<b>355</b>
Reported EPS	0.53	0.73	0.52	0.19	0.52
Fully diluted EPS	0.53	0.73	0.52	0.19	0.52
<b>Core net profit</b>	<b>364</b>	<b>499</b>	<b>361</b>	<b>132</b>	<b>355</b>
Core EPS	0.53	0.73	0.52	0.19	0.52
<b>EBITDA</b>	<b>643</b>	<b>804</b>	<b>608</b>	<b>373</b>	<b>547</b>

## KEY RATIOS

	1Q11	2Q11	3Q11	4Q11	1Q12
Gross margin (%)	62.1	63.2	56.5	46.7	53.4
EBITDA margin (%)	51.4	54.3	46.3	34.0	43.3
Operating margin (%)	40.9	45.2	35.8	21.6	32.6
Net margin (%)	29.1	33.7	27.5	12.1	28.0
Core profit margin (%)	29.1	33.7	27.5	12.1	28.0
BV (Bt)	11.8	11.4	12.4	11.1	11.7
ROE (%)	18.1	25.6	17.1	7.0	17.8
ROA (%)	13.6	19.0	12.9	5.0	13.1
Current ratio (x)	3.7	3.5	4.0	3.9	4.3
Gearing ratio (x)	0.0	0.0	0.0	0.0	0.0
Interest coverage (x)	213.9	268.0	187.7	95.2	162.9

## BALANCE SHEET (Btm)

	1Q11	2Q11	3Q11	4Q11	1Q12
<b>Cash &amp; Equivalent</b>	<b>3,978</b>	<b>3,835</b>	<b>4,998</b>	<b>4,659</b>	<b>4,754</b>
Accounts receivable	1,148	901	789	615	618
Inventory	5	15	4	5	5
PP&E-net	4,285	4,213	4,217	4,168	4,092
Other assets	334	365	398	346	371
<b>Total assets</b>	<b>10,740</b>	<b>10,489</b>	<b>11,143</b>	<b>10,652</b>	<b>10,833</b>
Accounts payable	134	144	101	87	93
ST debts & current portion	5	6	6	7	6
Long-term debt	6	9	8	6	5
Other liabilities	969	951	1,002	1,410	1,341
<b>Total liabilities</b>	<b>2,637</b>	<b>2,649</b>	<b>2,657</b>	<b>2,994</b>	<b>2,820</b>
Paid-up capital	3,435	3,435	3,435	3,435	3,435
Share premium	3,504	3,247	3,885	3,053	3,408
Retained earnings	3,504	3,247	3,885	3,053	3,408
<b>Shareholders' equity</b>	<b>8,046</b>	<b>7,789</b>	<b>8,427</b>	<b>7,595</b>	<b>7,950</b>
Minority interests	57	50	59	63	64
<b>Total Liab.&amp;Shareholders' equity</b>	<b>10,740</b>	<b>10,489</b>	<b>11,143</b>	<b>10,652</b>	<b>10,833</b>

Sources: Company data, Bualuang Research

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60 – 69		Satisfactory
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Below 50	No logo given	N/A

## BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK

### STOCK RECOMMENDATIONS

**BUY:** Expected positive total returns of 15% or more over the next 12 months.

**HOLD:** Expected total returns of between -15% and +15% over the next 12 months.

**SELL:** Expected negative total returns of 15% or more over the next 12 months.

**TRADING BUY:** Expected positive total returns of 15% or more over the next 3 months.

### SECTOR RECOMMENDATIONS

**OVERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to outperform the relevant primary market index over the next 12 months.

**NEUTRAL:** The industry, as defined by the analyst's coverage universe, is expected to perform in line with the relevant primary market index over the next 12 months.

**UNDERWEIGHT:** The industry, as defined by the analyst's coverage universe, is expected to underperform the relevant primary market index over the next 12 months.