



MCOT Plc (MCOT.BK/MCOT TB)

Unexciting story

Bt33.25

Underperform

Company update

Maintained

Phatipak Navawatana
66.2658.8888 Ext. 8847
phatipakn@kgi.co.th

- **Increased earnings to reflect better-than-expected revenue**
- **Earnings growth remained unexcited at 6.0%**
- **13.5x 2013 PE is expensive compared to EPS growth**
- **Rate Underperform with a target price of Bt28.60, from Bt26.00**

Maintain rating of Underperform

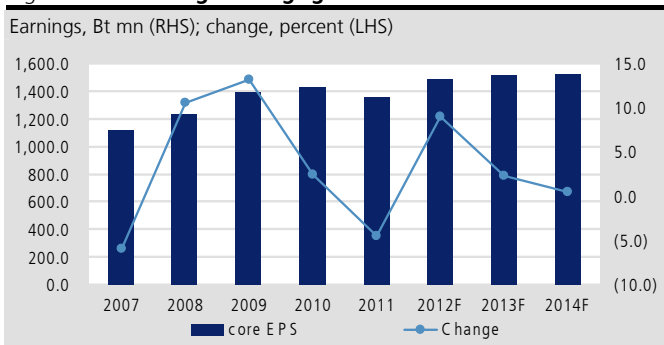
We reiterate our Underperform call on MCOT but raised our DCF-based target price to Bt28.60, from Bt26.00. We raised the target price after revising up the company's earnings by 10% to reflect better-than-expected revenue growth, especially from the primetime programs (Figure 1). The very expensive timeslots during primetime programming for dominant players like Channel 7 and Channel 3 (BEC World (BEC.BK, BEC TB)*) and healthy ad spending would cause spillover of ad spending to MCOT. However, we believe this would only have a short-term positive impact. Next year the industry will not be as strong as this year and the firm will need to bear higher costs from producing more of its own programs and higher SG&A expenses due to the implementation of the Bt15,000 pay policy for undergraduates. Based on the new assumptions, we call for 6% earnings growth in 2013-14. Although MCOT trades at an undemanding valuation of 13.5x 2013PE, it is expensive when compared to its earnings growth profile.

Figure 1: Earnings revisions

Bt mn	2012F			2013F		
	Revised	Previous	% change	Revised	Previous	% change
Net profit	1,621	1,481	9.5	1,730	1,570	10.2
Key assumptions						
Revenue growth (%)	8.0	4.3	3.7	6.4	1.2	5.2
SG &A/sale (%)	21.0	23.0	(2.0)	22.0	24.0	(2.0)

Source: KGI Securities (Thailand) compilation

Figure 2: Unexciting earnings growth ahead



Source: Company data; KGI Securities (Thailand) estimates

Exciting revenue growth in 3Q12 won't be sustained to 2013

At yesterday's analyst meeting, we discussed with management how the surprise revenue growth in 3Q12 could be sustained into 2013. Their answers and the data lead us to believe this momentum cannot be sustained in the future. The most important evidence was the unsynchronized data between dropping audience share and increasing utilization rate, especially for the primetime programs. The firm showed that the utilization in primetime was increasing from 100% in 2Q12 to 105% in 3Q12 while the audience share of the channel reported by Nielsen came down from around 8.0% in 2Q12 to about 7.7% in 3Q12. Therefore, in our view, the rise in utilization in the primetime programs should be attributable to very expensive timeslots during the primetime programs for dominant players like Channel 7 and Channel 3 and healthy ad spending, which causes spillover in the ad spending to MCOT. With utilization rate running at full capacity, slow industry momentum and decreasing audience share, we believe the maximum revenue growth for the firm should be at 6% in 2013-14.

Digital TV remains uncertain in the firm's view

Management also touched on the upcoming digital TV. Their intention is to bid for every single license issued by the National Broadcasting and Telecom Commission (NBTC). The types of licenses include infrastructure license, network license, content license and application license. However, management admitted that the business viability of digital TV remains unclear as it is still uncertain how expensive the licenses would be or who will subsidize the digital receiver (or set-top box). Therefore, the potential players might choose cheaper ways like satellite TV to penetrate into the TV business.

Valuation and Recommendation

We maintain a rating of Underperform on MCOT with a new target price of Bt28.60, from Bt26.00. Despite trading at an undemanding valuation of 13.5x 2013PE, the stock is expensive when compared to its earnings growth profile.

Year to Dec	Sales (Bt mn)	Sales growth (%)	EBITDA (Bt mn)	NP (Bt mn)	EPS (Bt)	EPS growth (%)
2009	4,797	13.5	2,235	1,389	2.02	13.1
2010	5,546	15.6	2,441	1,423	2.07	2.4
2011	5,142	(7.3)	2,395	1,358	1.98	(4.5)
2012F	5,553	8.0	2,361	1,621	2.36	19.3
2013F	5,910	6.4	2,447	1,730	2.52	6.7
Year to Dec	GM (%)	EV/EBITDA (X)	Dividends Yield (%)	PBV (X)	PER (X)	ROAE (%)
2009	61.5	9.3	5.4	3.1	16.4	19.0
2010	61.1	8.8	5.7	3.0	16.1	18.9
2011	57.7	9.1	6.0	3.0	16.8	17.9
2012F	56.0	9.2	6.4	2.9	14.1	21.1
2013F	55.5	8.9	6.8	2.8	13.2	21.3
Sector	Media					25 - 34.8
12M target price (Bt/shr)	28.6 Mkt cap-Bt bn/US\$ bn					22.8 /0.8
Upside/downside (%)	(13.3) Outstanding shares (mn)					687
The percentile of excess return (%)	11.0 Free floating shares (mn)					332
Dividend yield-12/12F (%)	6.4 Foreign ownership (mn)					93
Book value/shr-12/12 (Bt)	11.4 3M avg. daily trading (mn)					1.16
P/B-12/12F (x)	2.9 Abs. performance (3,6,12M)(%)					16.7; 16.7; 27.9
Net debt/equity-12/12F (%)	(4.1) Rel. performance (3,6,12M)(%)					12.1; 5.7; 0.1

*The Company may be issuer of Derivative Warrants on these securities.


Balance Sheet

As of 31 Dec (Bt mn)	2009	2010	2011	2012F	2013F
Total Assets	9,693	10,389	10,517	11,079	11,440
Current Assets	5,235	5,882	6,148	6,507	6,716
Cash & ST Investments	2,094	1,479	1,083	930	975
Inventories	4	4	11	5	6
Accounts Receivable	719	1,101	685	1,095	1,166
Others	866	906	1,344	1,451	1,545
Non-current Assets	4,458	4,507	4,369	4,572	4,724
LT Investments	90	90	90	90	90
Net fixed Assets	4,272	4,307	4,168	4,362	4,507
Others	96	111	111	120	128
Total Liabilities	2,202	2,725	2,859	3,196	3,316
Current Liabilities	1,165	1,760	1,578	1,667	1,689
Accounts Payable	54	137	87	154	166
ST Borrowings	-	-	-	(105)	(195)
Others	1,112	1,623	1,491	1,618	1,718
Long-term Liabilities	1,037	965	1,416	1,529	1,628
Long-term Debts	-	-	-	-	-
Others	1,037	965	1,416	1,529	1,628
Shareholders' Equity	7,491	7,664	7,658	7,882	8,124
Common Stock	3,435	3,435	3,435	3,435	3,435
Capital Surplus	1,141	1,163	1,169	1,189	1,209
Retained Earnings	2,914	3,066	3,053	3,257	3,479
Preferred Stock	-	-	-	-	-

Source: Company data; KGI Securities (Thailand) estimates

Key Assumptions & Ratios

Year to 31 Dec	2009	2010	2011	2012F	2013F
Ad rate hike (%)	0	10	0	0	0
Utilization rate for prime time (%)	100	100	100	97	97
Growth (% YoY)					
Sales	13.5	15.6	(7.3)	8.0	6.4
EBIT	18.3	9.1	(4.5)	3.0	1.9
EBITDA	16.0	9.2	(1.9)	(1.4)	3.6
NP	13.1	2.4	(4.5)	19.3	6.7
EPS	13.1	2.4	(4.5)	19.3	6.7
Profitability (%)					
Gross Margin	61.5	61.1	57.7	56.0	55.5
Operating Margin	37.8	35.6	36.7	35.0	33.5
EBITDA Margin	46.6	44.0	46.6	42.5	41.4
Net Profit Margin	29.0	26.1	26.8	29.6	29.6
ROAA	14.8	14.2	13.0	15.0	15.4
ROAE	19.0	18.9	17.9	21.1	21.9
Stability					
Gross Debt/Equity (%)	0.0	0.0	0.0	(1.3)	(2.4)
Net Debt/Equity (%)	(28.0)	(19.3)	(14.1)	(13.1)	(14.4)
Interest Coverage (X)	NA	NA	NA	NA	NA
Interest & ST Debt Coverage (X)	NA	NA	NA	NA	NA
Cash Flow/Interest Coverage (X)	NA	NA	NA	NA	NA
Cash Flow/Interest & ST Debt (X)	NA	NA	NA	NA	NA
Current Ratio (X)	4.5	3.3	3.9	3.9	4.0
Quick Ratio (X)	2.4	1.5	1.1	1.2	1.3
Net Debt (Bt mn)	(2,094)	(1,479)	(1,083)	(1,035)	(1,170)
Per Share Data (Bt)					
EPS	2.0	2.1	2.0	2.4	2.5
CFPS	2.8	3.0	2.4	2.5	3.1
BVPS	10.9	11.1	11.1	11.4	11.7
SPS	7.0	8.1	7.5	8.1	8.6
EBITDA/Share	0.5	0.4	0.5	0.4	0.4
DPS	1.8	1.9	2.0	2.1	2.3
Activity					
Asset Turnover (x)	0.5	0.6	0.5	0.5	0.5
Days Receivables	54.7	72.4	48.6	72.0	72.0
Days Inventory	0.8	0.7	1.8	0.8	0.8
Days Payable	10.6	23.2	14.5	23.0	23.0
Cash Cycle	44.9	50.0	36.0	49.8	49.8

Source: Company data; KGI Securities (Thailand) estimates

Profit & Loss

Year to 31 Dec (Bt mn)	2009	2010	2011	2012F	2013F
Sales	4,797	5,546	5,142	5,553	5,910
Cost of Goods Sold	1,846	2,155	2,175	2,443	2,630
Gross Profit	2,951	3,391	2,967	3,110	3,280
Operating Expenses	1,140	1,415	1,080	1,166	1,300
Operating Profit	1,811	1,976	1,888	1,944	1,980
Net Interest	(0)	(0)	(10)	3	10
Interest Income	-	-	-	-	-
Interest Expense	0	0	10	(3)	(10)
Net Investment Income/(Loss)	-	-	-	-	-
Net other Non-op. Income/(Loss)	68	93	170	184	196
Net Extraordinaries	-	-	-	-	-
Pretax Income	1,879	2,069	2,048	2,131	2,186
Income Taxes	484	622	671	490	437
Net Profit	1,389	1,423	1,358	1,621	1,730
EBITDA	2,235	2,441	2,395	2,361	2,447
EPS (Bt)	2	2	2	2	3

Source: Company data; KGI Securities (Thailand) estimates

Cash Flow

Year to 31 Dec (Bt mn)	2009	2010	2011	2012F	2013F
Operating Cash Flow	1,892	2,061	1,653	1,721	2,144
Net Profit	1,389	1,423	1,358	1,621	1,730
Depreciation & Amortization	425	465	507	418	467
Change in Working Capital	78	173	(212)	(318)	(52)
Others	0	0	0	0	0
Investment Cash Flow	(530)	(1,427)	(550)	(508)	(521)
Net CAPEX	(459)	(492)	(356)	(600)	(600)
Change in LT Investment	(51)	(841)	(633)	0	0
Change in Other Assets	(20)	(94)	439	92	79
Free Cash Flow	1,362	634	1,103	1,214	1,623
Financing Cash Flow	(847)	(1,887)	(1,768)	(1,465)	(1,373)
Change in Share Capital	(1,112)	(1,272)	(1,371)	(1,417)	(1,508)
Net Change in Debt	265	(615)	(397)	(48)	135
Change in Other LT Liab.	0	0	0	0	0
Net Cash Flow	515	(1,253)	(665)	(251)	250

Source: Company data; KGI Securities (Thailand) estimates

Rates of Return on Invested Capital

Year	1- $\frac{\text{COGS}}{\text{Revenue}}$	+ $\frac{\text{Depreciation}}{\text{Revenue}}$	+ $\frac{\text{Operating Exp.}}{\text{Revenue}}$	= Operating Margin
2009	41.1%	9.4%	22.7%	26.8%
2010	38.5%	8.9%	23.8%	28.9%
2011	38.9%	8.4%	25.5%	27.3%
2012F	42.3%	9.9%	21.0%	26.9%
2013F	42.4%	7.5%	21.0%	29.1%
Year	1/ $\frac{\text{Working Capital}}{\text{Revenue}}$	+ $\frac{\text{Net PPE}}{\text{Revenue}}$	+ $\frac{\text{Other Assets}}{\text{Revenue}}$	= Capital Turnover
2009	0.4	0.2	0.2	1.2
2010	0.5	0.2	0.2	1.2
2011	0.4	0.1	0.1	1.5
2012F	0.4	0.1	0.1	1.6
2013F	0.4	0.1	0.1	1.6
Year	Operating Margin	x Capital Turnover	x Cash Tax Rate	= After-tax Return on Inv. Capital
2009	26.8%	1.2	74%	24.3%
2010	28.9%	1.2	74%	26.1%
2011	27.3%	1.5	70%	28.6%
2012F	26.9%	1.6	67%	29.3%
2013F	29.1%	1.6	70%	33.0%

Source: Company data; KGI Securities (Thailand) estimates

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Thailand Research	Name	Abbr.	Sector Coverage	Ext.	Email
	Itphong Saengtubtim	IS	Head of Research	8840	itphongs@kgi.co.th
General line: 66.2658.8888	Rakpong Chaisuparakul	RC	Strategist	8845	rakpongc@kgi.co.th
	Adisak Kammool	AK	Retail strategist	8843	adisakk@kgi.co.th
	Kingpai Koosakulnirund	KK	Agriculture, hotel	8857	kingpaik@kgi.co.th
	Phatipak Navawatana	PN	Telecom, media, healthcare	8847	phatipakn@kgi.co.th
	Nat Panassutrakorn	NP	Construction material, contractor, consumer	8849	natp@kgi.co.th
	Pragrom Pathomboorn	PP	Economist	8846	pragromp@kgi.co.th
	Thaninee Satirareungchai, CFA	TS	Banking	8851	thaninees@kgi.co.th
	Pongpat Siripipat	PS	Derivatives	8844	pongpats@kgi.co.th
	Kaweewit Thawilwithayanon	KT	Energy	8856	kaweewitt@kgi.co.th
	Suchot Tirawannarat	STi	Automobile, soft commodity, small caps	8850	suchott@kgi.co.th
	Tareetip Wongsangpaiboon	TW	Residential property, industrial estates	8855	tareetipw@kgi.co.th

ASEAN Sales	Name	Abbr.	Sector Coverage	Ext.	Email
General line: 66.2658.8888	Danny Komolrit	DK	Thailand sales	8090	dannyk@kgi.co.th
	Kannikar Pradiskesorn	KP	Thailand sales	8081	kannikarp@kgi.co.th
	Datenusorn Rungruang	DR	Thailand sales	8082	datenusornr@kgi.co.th

The toll-free line for clients in HK and Singapore: 800.0800.5008

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Locations	China	Taiwan
	Shanghai Room 1907-1909, Tower A, No. 100 Zynyi Road, Shanghai, PRC 200051	KGI Securities 700 Mingshui Road, Taipei, Taiwan Telephone 886.2.2181.8888 Facsimile 886.2.8501.1691
	Shenzhen Room 24D1, 24/F, A Unit, Zhen Ye Building, 2014 Bao'annan Road, Shenzhen PRC 518008	
	Hong Kong	Thailand
	41/F Central Plaza, 18 Harbour Road, Wanchai, Hong Kong Telephone 852.2878.6888 Facsimile 852.2878.6800	KGI Securities (Thailand) Plc. 8th - 11th floors, Asia Centre Building 173 South Sathorn Road, Bangkok 10120, Thailand Telephone 66.2658.8888 Facsimile 66.2658.8014

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	Outperform (OP)	The stock's excess return* over the next twelve months is ranked in the top 40% of KGI's coverage universe in the related market (e.g. Thailand).
	Neutral (N)	The stock's excess return* over the next twelve months is ranked in the range between the top 40% and the bottom 40% of KGI's coverage universe in the related market (e.g. Thailand).
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	Not Rated (NR)	The stock is not rated by KGI Securities.
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		<i>* Excess return = 12M target price/current price-1</i>
	Note	When an analyst publishes a new report on a covered stock, we rank the stock's excess return with those of other stocks in KGI's coverage universe in the related market. We will assign a rating based on its ranking. If an analyst does not publish a new report on a covered stock, its rating will not be changed automatically.
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