



MCOT Plc (MCOT.BK/MCOT TB)

Achieving both growth and yield

Bt48.25

Outperform

Company update

Maintained

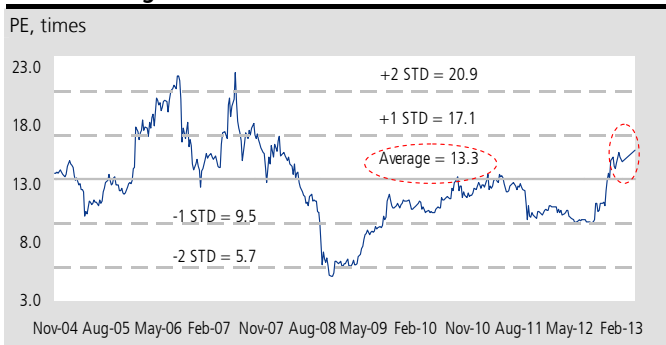
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- 1Q13 EPS should mark the bottom for the year
- 2Q13 EPS to grow strongly driven by rising revenue
- Stock is cheap, trading at a 29.5% discount to peers
- Maintain Outperform with a target price of Bt62.00

Maintain Outperform with a target price of Bt62.00

Despite MCOT's slightly disappointing 1Q13 earnings, we are maintaining our bullish view for earnings growth of 21.4% YoY this year and retain our Outperform rating with an unchanged DCF-based target price of Bt62.00. We believe 1Q13 earnings would mark the bottom of the earnings cycle for this year. The strong earnings growth momentum will kick off in 2Q13 onward. The key drivers would be the rising utilization rate, especially on the higher-ad rate and new programs and the commencement of the budget flow for promotions from government agencies to MCOT. Unlike other TV operators, we believe MCOT will not be hurt by the beginning of the terrestrial free-TV (FTV) era. This is because earnings from high yield and low regulatory infrastructure and network operations in digital FTV is likely to entirely offset the loss from the content operation. At the current share price, MCOT is cheap, trading at 15.5x (compared to 22x for BEC World (BEC.BK/BEC TB)). Its dividend yield is also high at 5.8%.

Figure 1: MCOT has more room to re-rate with an undemanding PE



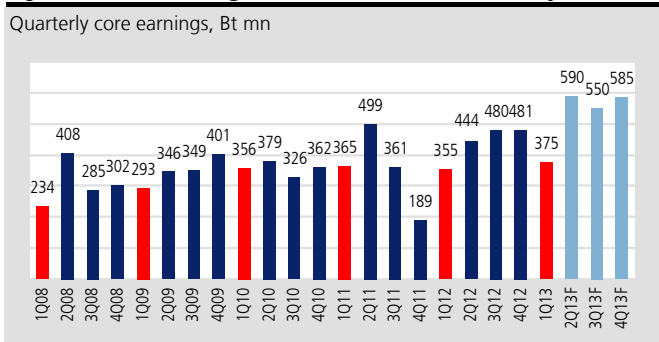
Source: Bloomberg; KGI Securities (Thailand)

Earnings momentum to start in 2Q13

MCOT's 1Q13 earnings grew just 5% YoY, which was slower than our and the market's expectation of 10-15%. The key reason was the lackluster revenue growth, particularly from TV. Low seasonality in TV, advertisers' slow acceptance of the ad rate hike, and insignificant revenue contribution from government agencies were all to blame for the poor revenue growth in 1Q13. Following our recent conversation with management, we see that the bad factors in 1Q13 have begun to reverse. Normally, 2Q is the high season for

advertising and utilization rates, which were relatively low due to the slow acceptance of a higher ad rate, have started to gain momentum. Utilization rate for primetime programs is above 100% again in 2Q13 and above 50% for non-primetime programs. Meanwhile, revenues from government agencies have started to flow into MCOT in this quarter. Therefore, we are maintaining our revenue growth assumption of 14% in 2013 (compared to 5% in 1Q13). With the benefits of economies of scale and the ad rate hike, we expect earnings growth to outpace revenue at 21.4% in 2013.

Figure 2: 1Q13 earnings to mark the bottom for the year



Source: Company; KGI Securities (Thailand)

Unlike others, MCOT won't be hurt by upcoming digital TV

Unlike other terrestrial FTV operators, MCOT will participate not only in the bidding for the commercial digital TV channels, but also will be involved in the infrastructure and network operations. In our view, commercial TV would perhaps cause loss for almost every operator. For infrastructure and the network businesses, however, we believe the winners can make profits. This is because competition for these businesses is quite low and regulations on the pricing are also looser than on commercial TV. Therefore, we believe MCOT is in a better position than its peers to weather the storm from the upcoming digital TV.

Valuation and Recommendation

We rate MCOT Outperform with a new DCF-based target price of Bt62.00 with an attractive dividend yield of 5.8%.

Year to Dec	Sales (Bt mn)	Sales growth (%)	EBITDA (Bt mn)	NP (Bt mn)	EPS (Bt)	EPS growth (%)
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)
2012	5,744	11.7	2,543	1,759	2.56	29.5
2013F	6,379	11.1	2,872	2,136	3.11	21.4
2014F	6,878	7.8	3,160	2,364	3.44	10.7

Year to Dec	GM (%)	EV/EBITDA (X)	Dividends Yield (%)	PBV (X)	PER (X)	ROAE (%)
2010	61.1	13.0	3.9	4.4	23.3	18.9
2011	57.7	13.4	4.1	4.4	24.4	17.9
2012	57.7	12.6	4.8	4.2	18.8	22.7
2013F	57.7	11.0	5.8	4.0	15.5	22.9
2014F	58.0	9.9	6.4	3.9	14.0	26.6

Sector	Media	52-week trading range (Bt)	27.3 - 56.8
12M target price (Bt/shr)	62.0	Mkt cap-Bt bn/US\$ bn	33.2/1.1
Upside/downside (%)	28.5	Outstanding shares (mn)	687
The percentile of excess return (%)	89.6	Free floating shares (mn)	332
Dividend yield-12/13F (%)	5.8	Foreign ownership (mn)	93
Book value/shr-12/13 (Bt)	15.4	3M avg. daily trading (mn)	1.15
P/B-12/13F (x)	4.0	Abs. performance (3,6,12M)(%)	-8.1; 17; 73.9
Net debt/equity-12/13F (%)	(4.1)	Rel. performance (3,6,12M)(%)	-5.7; 2.5; 27.7

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


Balance Sheet

As of 31 Dec (Bt mn)	2010	2011	2012	2013F	2014F
Total Assets	10,389	10,517	11,171	11,666	12,096
Current Assets	5,882	6,148	6,595	6,932	7,351
Cash & ST Investments	1,479	1,083	930	975	1,165
Inventories	4	11	5	6	6
Accounts Receivable	1,101	685	1,133	1,258	1,357
Others	906	1,344	1,501	1,667	1,798
Non-current Assets	4,507	4,369	4,576	4,734	4,745
LT Investments	90	90	90	90	90
Net fixed Assets	4,307	4,168	4,362	4,507	4,507
Others	111	111	124	138	149
Total Liabilities	2,725	2,859	3,223	3,326	3,407
Current Liabilities	1,760	1,578	1,641	1,569	1,512
Accounts Payable	137	87	153	170	182
ST Borrowings	-	-	(186)	(455)	(671)
Others	1,623	1,491	1,673	1,854	2,001
Long-term Liabilities	965	1,416	1,582	1,757	1,894
Long-term Debts	-	-	-	-	-
Others	965	1,416	1,582	1,757	1,894
Shareholders' Equity	7,664	7,658	7,948	8,340	8,689
Common Stock	3,435	3,435	3,435	3,435	3,435
Capital Surplus	1,163	1,169	1,179	1,189	1,198
Retained Earnings	3,066	3,053	3,333	3,716	4,056
Preferred Stock	-	-	-	-	-

Source: Company data; KGI Securities (Thailand) estimates

Key Ratios & Drivers

Year to 31 Dec	2010	2011	2012	2013F	2014F
Ad rate hike (%)	10	0	0	0	0
Utilization rate for prime time (%)	100	100	97	98	99
Growth (% YoY)					
Sales	15.6	(7.3)	11.7	11.1	7.8
EBIT	9.1	(4.5)	12.6	13.2	10.1
EBITDA	9.2	(1.9)	6.2	12.9	10.0
NP	2.4	(4.5)	29.5	21.4	10.7
EPS	2.4	(4.5)	29.5	21.4	10.7
Profitability (%)					
Gross Margin	61.1	57.7	57.7	57.7	58.0
Operating Margin	35.6	36.7	37.0	37.7	38.5
EBITDA Margin	44.0	46.6	44.3	45.0	45.9
Net Profit Margin	26.1	26.8	30.8	33.6	34.5
ROAA	14.2	13.0	16.2	18.7	19.9
ROAE	18.9	17.9	22.7	26.5	28.1
Stability					
Gross Debt/Equity (%)	0.0	0.0	(2.3)	(5.5)	(7.7)
Net Debt/Equity (%)	(19.3)	(14.1)	(14.0)	(17.1)	(21.1)
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)	3.3	3.9	4.0	4.4	4.9
Quick Ratio (X)	1.5	1.1	1.3	1.4	1.7
Net Debt (Bt mn)	(1,479)	(1,083)	(1,116)	(1,430)	(1,836)
Per Share Data (Bt)					
EPS	2.1	2.0	2.6	3.1	3.4
CFPS	3.0	2.4	2.7	3.7	4.1
BVPS	11.1	11.1	11.5	12.0	12.5
SPS	8.1	7.5	8.4	9.3	10.0
EBITDA/Share	0.4	0.5	0.4	0.5	0.5
DPS	1.9	2.0	2.3	2.8	3.1
Activity					
Asset Turnover (x)	0.6	0.5	0.5	0.6	0.6
Days Receivables	72.4	48.6	72.0	72.0	72.0
Days Inventory	0.7	1.8	0.8	0.8	0.8
Days Payable	23.2	14.5	23.0	23.0	23.0
Cash Cycle	50.0	36.0	49.8	49.8	49.8

Source: Company data; KGI Securities (Thailand) estimates

Profit & Loss

Year to 31 Dec (Bt mn)	2010	2011	2012	2013F	2014F
Sales	5,546	5,142	5,744	6,379	6,878
Cost of Goods Sold	2,155	2,175	2,430	2,698	2,889
Gross Profit	3,391	2,967	3,314	3,681	3,989
Operating Expenses	1,415	1,080	1,189	1,276	1,341
Operating Profit	1,976	1,888	2,125	2,405	2,648
Net Interest	(0)	(10)	(10)	22	45
Interest Income	-	-	-	-	-
Interest Expense	0	10	10	(22)	(45)
Net Investment Income/(Loss)	-	-	-	-	-
Net other Non-op. Income/(Loss)	93	170	206	255	275
Net Extraordinary	-	-	-	-	-
Pretax Income	2,069	2,048	2,321	2,683	2,968
Income Taxes	622	671	551	536	593
Net Profit	1,423	1,358	1,759	2,136	2,364
EBITDA	2,441	2,395	2,543	2,872	3,160
EPS (Bt)	2	2	3	3	3

Source: Company data; KGI Securities (Thailand) estimates

Cash Flow

Year to 31 Dec (Bt mn)	2010	2011	2012	2013F	2014F
Operating Cash Flow	2,061	1,653	1,826	2,508	2,806
Net Profit	1,423	1,358	1,759	2,136	2,364
Depreciation & Amortization	465	507	418	467	512
Change in Working Capital	173	(212)	(350)	(94)	(70)
Others	0	0	0	0	0
Investment Cash Flow	(1,427)	(550)	(459)	(450)	(385)
Net CAPEX	(492)	(356)	(600)	(600)	(500)
Change in LT Investment	(841)	(633)	0	0	0
Change in Other Assets	(94)	439	141	150	115
Free Cash Flow	634	1,103	1,367	2,058	2,421
Financing Cash Flow	(1,887)	(1,768)	(1,430)	(1,438)	(1,619)
Change in Share Capital	(1,272)	(1,371)	(1,479)	(1,753)	(2,025)
Net Change in Debt	(615)	(397)	49	315	406
Change in Other LT Liab.	0	0	0	0	0
Net Cash Flow	(1,253)	(665)	(62)	619	802

Source: Company data; KGI Securities (Thailand) estimates

Rates of Return on Invested Capital

Year	1 -	COGS Revenue	+ Depreciation Revenue	+ Operating Exp. Revenue	=	Operating Margin		
2010		41.1%	9.4%	22.7%		26.8%		
2011		38.5%	8.9%	23.8%		28.9%		
2012		38.9%	8.4%	25.5%		27.3%		
2013F		42.3%	9.9%	21.0%		26.9%		
2014F		42.4%	7.3%	20.7%		29.7%		
Year	1/	Working Capital Revenue	+ Net PPE Revenue	+ Other Assets Revenue	=	Capital Turnover		
2010		0.4	0.2	0.2		1.2		
2011		0.5	0.2	0.2		1.2		
2012		0.4	0.1	0.1		1.5		
2013F		0.4	0.1	0.1		1.6		
2014F		0.4	0.1	0.1		1.6		
Year		Operating Margin	x	Capital Turnover	x	Cash Tax Rate	=	After-tax Return on Inv. Capital
2010		26.8%		1.2		74%		24.3%
2011		28.9%		1.2		74%		26.1%
2012		27.3%		1.5		70%		28.6%
2013F		26.9%		1.6		67%		29.3%
2014F		29.7%		1.6		70%		33.7%

Source: Company data; KGI Securities (Thailand) estimates

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	Kingpai Koosakulnirund	KK	Soft commodity, hotel, shipping	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
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	Suthep Amrit Singh	SS	Food, land and air transport	8852	suthepa@kgi.co.th
	Pongpat Siripipat	PS	Derivatives	8844	pongpats@kgi.co.th
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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).
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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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