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2Q13 earnings review: Below expectations

What's new

MCOT reported another disappointing quarter in 2Q13 with earnings of Bt445mn. Despite the tax reduction to 20% from 23% last year, earnings were flat from last year's level. The earnings were 10% below our estimate. The major disappointment was attributable to the poor performance of its TV business, which saw revenue drop 3% YoY. The 1H13 earnings accounted for only 39% of our full-year estimate, so we will likely revise down our forecast by about 10-15%.

Implications

Our analysis would focus on YoY comparison as 2Q is normally the high season compared to 1Q. Revenue was flat from last year. The drag was mainly from the TV business, which saw revenue decline 3% YoY. The fall was from increased competition during super primetime programs and news programs. Radio business showed revenue growth, but was still uninspiring at 5% YoY while the revenue from JV business was the only one to deliver high growth, at 15% YoY.

Gross margin was squeezed to 55.5% from 59.1% in 2Q12. This was a reflection of MCOT's policy to produce more of its own programs, which demands higher operating expenses.

SG&A expenses in the quarter increased at a faster pace than revenue growth, particularly comparing YoY. We believe more staff have been hired to service the satellite business and current operations.

The 1H13 earnings accounted for just 39% of our full-year estimate. It is very likely that we will revise down our earnings forecast by about 10-15%.

Valuation & action

In spite of the potential earnings downgrade, we maintain our Outperform rating on the stock. As the share price has pulled back substantially over the past three months, the dividend yield looks attractive at 5.7% (already incorporated 10-15% earnings downgrade).

Figure 1: 2Q13 earnings summary

Bt mn	2Q13	2Q12	YoY(%)	1Q13	QoQ(%)	Comment
Revenues	1,466	1,450	1.1	1,283	14.3	TV revenue was the major drag for MCOT in this quarter
COGS	(652)	(593)	9.9	(581)	12.3	Policy to produce its own programs caused the rise in costs
Gross profit	814	857	(4.9)	702	16.0	Surge in costs resulted in the margin squeeze
SG&A	(311)	(299)	4.1	(334)	(7.0)	
Operating profit	503	558	(9.7)	368	36.8	
Interest expense	(3)	(3)	29.0	(3)	(0.1)	
Tax	(116)	(163)	(28.7)	(95)	22.6	
Core profit	445	443	0.3	375	18.6	
Net profit	445	443	0.3	375	18.6	10% below our estimate
EPS (Bt)	0.65	0.65	0.3	0.55	18.6	
Percent	2Q13	2Q12	YoY (ppts)	4Q12	QoQ (ppts)	Comment
Gross margin	55.5	59.1	(3.5)	54.7	0.8	
SG&A to sales	21.2	20.6	0.6	26.1	(4.9)	
Operating margin	34.3	38.4	(4.1)	28.7	5.6	
Net profit margin	30.3	30.6	(0.3)	29.2	1.1	

Source: Company data; KGI Securities (Thailand)

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

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