



## MCOT Plc (MCOT.BK/MCOT TB)\*

Less charming

**Bt33.50**

**Neutral**  
from Outperform

**Company update**

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- Revised down earnings 13-21% from 2013
- Softer revenue growth from TV and squeezed margin
- Not cheap at 13x 2014 PE with no EPS growth
- Downgrade to Neutral from Outperform with new target price of Bt38.00

### Downgrade to Neutral with a new target price Bt38.00

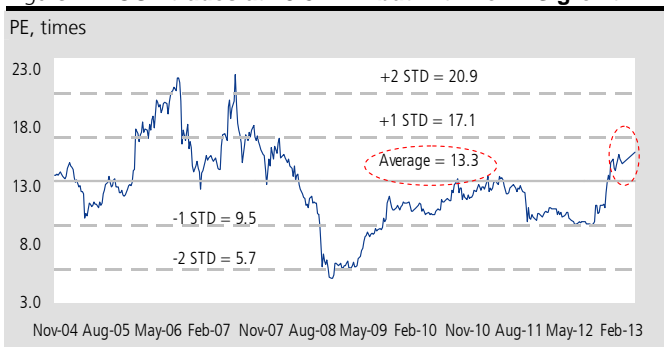
We downgrade our rating on MCOT to Neutral from Outperform with a new target price of Bt38.00, from Bt55.00. The reduced target is mainly to reflect downward revisions to earnings from 2013 onward of 13-21%. We downgraded earnings because of the mismatch between rising operating costs and declining revenue growth. Hence, we revised down advertising revenue growth and gross margin (Figure 1). Following the revisions, MCOT is no longer cheap, trading at 13.8x 2014PE with no earnings growth for at least two years. This is the major reason for the rating downgrade, but we haven't revised down to Underperform since the share price has plunged over the past couple of months and now the dividend yield looks high enough (at 6.5%) to compensate for the poor earnings outlook.

Figure 1: Earnings revisions

Bt mn	2013F			2014F		
	Revised	Previous	% change	Revised	Previous	% change
Net profit	1,667	1,922	(13.3)	1,692	2,128	(20.5)
<b>Key assumptions</b>						
Revenue growth (%)	2.0	7.0	(5.0)	0.0	5.0	(5.0)
Gross margin (%)	20.0	21.0	(1.0)	19.5	22.0	(2.5)

Source: KGI Securities (Thailand) compilation

Figure 2: MCOT trades at 13.8 x PE but with no EPS growth



Source: Bloomberg; KGI Securities (Thailand)

### Revenue to recover in 2H13 due to program reshuffle

At MCOT's analyst meeting last Friday, management revised down its revenue projection from 15% growth to 5% in 2013. While we cut our revenue growth forecast earlier, it now seems to be not enough given the current market situation and MCOT's

competitiveness. For nine months, revenue growth was only 3% with flat growth from its major source of revenue, TV. The firm has kept losing market share to dominant players, especially BEC World (BEC.BK/BEC TB)\* and management hinted there were no signs of recovery in October or November. Therefore, we revised our forecast down further to 2% growth, from 7%. We do not foresee a major turnaround in 2014 from a strong content reshuffle either. Moreover, the domestic economy has not been favorable for the second-tier players like MCOT. Hence, we cut revenue growth for next year to 0% from 5%.

### Gross margin contraction is another concern

MCOT's gross margin contracted to 53.6% during 9M13 (vs. 56.7% for 9M12). There were two reasons for this squeeze. The first was the greater contribution from lower margin business, which is advertising by government agencies. The second was the surge in production costs from MCOT's strategy to produce more of its own programs. During 9M13, revenue contribution from government agencies surged to 33% from 12% during 9M12. According to management, gross margin from the government agencies was only 20-30% compared to 55-60% from private companies. The dilution from this source will continue into next year as the company still targets higher revenue from government agencies. Meanwhile, on the increasing production costs, MCOT has shifted its business model since the beginning of this year to producing more of its own programs. At the end of 3Q13, the proportion of this segment to total airtime increased to 55%, up from 50% at the start of the year. Unfortunately, this strategy has not paid off as its programs have not gained much of an audience share. The mismatch between rising costs and declining revenue resulted in a contraction in gross margin. This issue will remain unresolved for at least six to nine months, in our view, as MCOT is still struggling to produce quality programs to compete with other operators, especially the incumbent, BEC. For these reasons, we expect to see further contraction in the gross margin next year.

### Valuation and Recommendation

We downgrade MCOT to Neutral, from Outperform, with a new DCF-based target price of Bt38.00, from Bt55.00. The only reason we do not downgrade our rating further is the attractive dividend yield of 6.5%.

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	6,146	7.0	2,552	1,667	2.43	(5.2)	
2014F	6,453	5.0	2,622	1,692	2.46	1.5	
Year to Dec	GM (%)	EV/EBITDA (X)	Dividends Yield (%)	PBV (X)	PER (X)	ROAE (%)	
2010	61.1	8.8	5.7	3.0	16.2	18.9	
2011	57.7	9.2	6.0	3.0	16.9	17.9	
2012	57.7	8.6	6.9	2.9	13.1	22.7	
2013F	56.5	8.6	6.5	2.9	13.8	22.9	
2014F	56.0	8.3	6.6	2.8	13.6	23.4	
<b>Sector</b>	<b>Media</b>					52-week trading range (Bt)	28.5 - 56.8
12M target price (Bt/shr)	38.0					Mkt cap-Bt bn/US\$ bn	23 / 0.8
Upside/downside (%)	13.4					Outstanding shares (mn)	687
The percentile of excess return (%)	36.1					Free floating shares (mn)	332
Dividend yield-12/13F (%)	6.5					Foreign ownership (mn)	93
Book value/shr-12/13F (Bt)	13.2					3M avg. daily trading (mn)	0.76
P/B-12/13F (x)	2.9					Abs. performance (3,6,12M)(%)	-15.2; -32.3; -4.3
Net debt/equity-12/13F (%)	(4.1)					Rel. performance (3,6,12M)(%)	-13.7; -22.5; -13.8

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


**Balance Sheet**

As of 31 Dec (Bt mn)	2010	2011	2012	2013F	2014F
<b>Total Assets</b>	10,389	10,517	11,171	11,345	11,569
<b>Current Assets</b>	5,882	6,148	6,595	6,625	6,847
Cash & ST Investments	1,479	1,083	930	975	1,165
Inventories	4	11	5	5	6
Accounts Receivable	1,101	685	1,133	1,127	1,141
Others	906	1,344	1,501	1,493	1,511
<b>Non-current Assets</b>	4,507	4,369	4,576	4,720	4,721
LT Investments	90	90	90	90	90
Net fixed Assets	4,307	4,168	4,362	4,507	4,507
Others	111	111	124	123	125
<b>Total Liabilities</b>	2,725	2,859	3,223	3,263	3,296
<b>Current Liabilities</b>	1,760	1,578	1,641	1,689	1,703
Accounts Payable	137	87	153	157	160
ST Borrowings	-	-	(186)	(127)	(139)
Others	1,623	1,491	1,673	1,660	1,682
<b>Long-term Liabilities</b>	965	1,416	1,582	1,573	1,592
Long-term Debts	-	-	-	-	-
Others	965	1,416	1,582	1,573	1,592
<b>Shareholders' Equity</b>	7,664	7,658	7,948	8,083	8,273
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	3,459	3,639
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
<b>Growth (% YoY)</b>					
Sales	15.6	(7.3)	11.7	(0.6)	1.2
EBIT	9.1	(4.5)	12.6	(1.9)	1.2
EBITDA	9.2	(1.9)	6.2	0.4	2.8
NP	2.4	(4.5)	29.5	(5.2)	1.5
EPS	2.4	(4.5)	29.5	(5.2)	1.5
<b>Profitability (%)</b>					
Gross Margin	61.1	57.7	57.7	56.5	56.0
Operating Margin	35.6	36.7	37.0	36.5	36.5
EBITDA Margin	44.0	46.6	44.3	44.7	45.4
Net Profit Margin	26.1	26.8	30.8	32.5	32.5
ROAA	14.2	13.0	16.2	14.8	14.8
ROAE	18.9	17.9	22.7	21.0	20.9
<b>Stability</b>					
Gross Debt/Equity (%)	0.0	0.0	(2.3)	(1.6)	(1.7)
Net Debt/Equity (%)	(19.3)	(14.1)	(14.0)	(13.6)	(15.8)
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	3.9	4.0
Quick Ratio (X)	1.5	1.1	1.3	1.2	1.4
Net Debt (Bt mn)	(1,479)	(1,083)	(1,116)	(1,102)	(1,304)
<b>Per Share Data (Bt)</b>					
EPS	2.1	2.0	2.6	2.4	2.5
CFPS	3.0	2.4	2.7	3.1	3.2
BVPS	11.1	11.1	11.5	11.6	11.9
SPS	8.1	7.5	8.4	8.3	8.4
EBITDA/Share	0.4	0.5	0.4	0.4	0.5
DPS	1.9	2.0	2.3	2.2	2.2
<b>Activity</b>					
Asset Turnover (x)	0.6	0.5	0.5	0.5	0.5
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
<b>Sales</b>	5,546	5,142	5,744	5,712	5,782
Cost of Goods Sold	2,155	2,175	2,430	2,485	2,544
<b>Gross Profit</b>	3,391	2,967	3,314	3,228	3,238
Operating Expenses	1,415	1,080	1,189	1,142	1,128
<b>Operating Profit</b>	1,976	1,888	2,125	2,085	2,110
Net Interest	(0)	(10)	(10)	11	11
Interest Income	-	-	-	-	-
Interest Expense	0	10	10	(11)	(11)
Net Investment Income/(Loss)	-	-	-	-	-
Net other Non-op. Income/(Loss)	93	170	206	228	231
Net Extraordinaries	-	-	-	-	-
Pretax Income	2,069	2,048	2,321	2,324	2,352
Income Taxes	622	671	551	465	470
<b>Net Profit</b>	1,423	1,358	1,759	1,667	1,692
EBITDA	2,441	2,395	2,543	2,552	2,622
<b>EPS (Bt)</b>	2	2	3	2	2

Source: Company data; KGI Securities (Thailand) estimates

**Cash Flow**

Year to 31 Dec (Bt mn)	2010	2011	2012	2013F	2014F
<b>Operating Cash Flow</b>	2,061	1,653	1,826	2,139	2,198
Net Profit	1,423	1,358	1,759	1,667	1,692
Depreciation & Amortization	465	507	418	467	512
Change in Working Capital	173	(212)	(350)	5	(6)
Others	0	0	0	0	0
<b>Investment Cash Flow</b>	(1,427)	(550)	(459)	(620)	(494)
Net CAPEX	(492)	(356)	(600)	(600)	(500)
Change in LT Investment	(841)	(633)	0	0	0
Change in Other Assets	(94)	439	141	(20)	6
<b>Free Cash Flow</b>	634	1,103	1,367	1,519	1,704
<b>Financing Cash Flow</b>	(1,887)	(1,768)	(1,430)	(1,373)	(1,131)
Change in Share Capital	(1,272)	(1,371)	(1,479)	(1,542)	(1,512)
Net Change in Debt	(615)	(397)	49	169	381
Change in Other LT Liab.	0	0	0	0	0
<b>Net Cash Flow</b>	(1,253)	(665)	(62)	146	573

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

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

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\*The Company may be issuer of Derivative Warrants on these 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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