

MCOT

MCOT.TB / MCOT.BK

3 March 2014

FY14 top-line target looks too optimistic

Investment thesis

Following the analyst meeting, we expect the digital TV unit to drag down MCOT's FY14 earnings. However, new businesses—digital set-top box sales and the sub-lease of digital network—will mitigate the cost burden of digital TV. In the meantime, MCOT offers a high dividend yield of 7.3% for FY14. We have not yet factored digital TV into our model. Our TRADING BUY stands.

4Q13 results recap—26% below our estimate

MCOT posted a Bt332m net profit for 4Q13, down by 31% YoY and 12% QoQ. Stripping out a Bt56m one-time provision for the *Rai Som* court case in 3Q13, core earnings tumbled 23% QoQ. Net profit undershot our estimate by 26%, due to lower revenue and higher SG&A than modeled. The top-line was 7% below our estimate because of weaker TV ad revenue than assumed.

TV ad receipts dropped by 4% YoY and 10% QoQ. Income from new media fell 15% YoY. Radio ad income was flattish YoY, underpinned by extra marketing events bundled with ad sales. Service costs jumped 25% YoY on more in-house programming.

Bt6.7bn revenue target for FY14—too optimistic, we believe

The firm targets a Bt6.7bn top-line for FY14, up 17% YoY, led by Bt6.2bn in revenue from broadcasting and Bt500m in income from nonbroadcasting businesses. With regard to broadcasting, FY14 TV ad revenue (including special government projects and digital TV) is targeted at Bt3.6bn, up 3%, with the remainder from radio ad income (Bt900m, down 6%), concessionary income (Bt970m, up 4%), new media (Bt400m, up 18%) and digital network or Mux (Bt100m). Among nonbroadcasting units, MCOT targets selling 1m digital set-top boxes in two years (600k in FY14, the remainder in FY15).

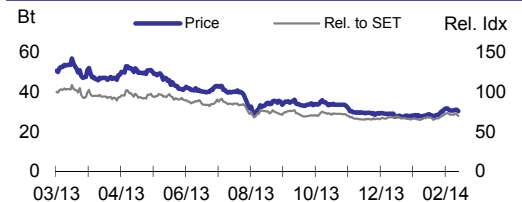
We believe the FY14 top-line target is too optimistic, given the current consumption slowdown, unfavorable political climate and the upcoming launch of 24 new terrestrial free-to-air digital TV channels (22 of which will be in competition with MCOT for audience and advertising). Our FY14 forecasts are Bt6.4bn in revenue, up 12% YoY, and a Bt1.65bn net profit, up 8% YoY.

Simulcast analog channel on digital platform during April-June

MCOT aims to simulcast its ModerNine (analog) content on its digital platform during April-June 2014, then will rebrand the digital HD platform, July-Dec 2014. By January next year, its HD channel will have completely different content from the analog channel. MCOT claims that it will charge higher ad rates for bundled sales between its analog and digital platforms and targets a 2-3 years to breaking even (we assume 4-5 years, given intensified competition for TV ad spend from new entrants to the broadcast TV industry).

Sector: Media Neutral
Rating: TRADING BUY
Target Price: Bt36.00
Price (28 February 2014): Bt30.25

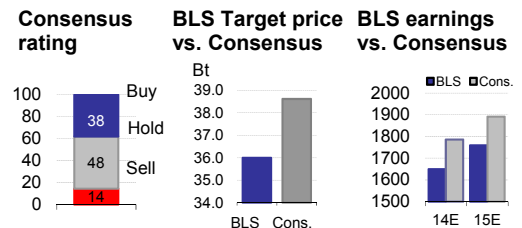
Price chart



Share price perf. (%)	1M	3M	12M
Relative to SET	4.8	3.3	(23.0)
Absolute	9.0	-	(37.0)

Key statistics

Market cap	Bt20.8bn	USD0.6bn
12-mth price range	Bt27.0/Bt56.8	
12-mth avg daily volume	Bt34m	USD1.0m
# of shares (m)	687	
Est. free float (%)	22.7	
Foreign limit (%)	15.0	



Financial summary

FY Ended 31 Dec	2013	2014E	2015E	2016E
Revenues (Btm)	5,715	6,388	7,182	7,809
Net profit (Btm)	1,527	1,649	1,759	1,879
EPS (Bt)	2.22	2.40	2.56	2.73
EPS growth (%)	-13.2%	+8.0%	+6.7%	+6.8%
Core profit (Btm)	1,583	1,649	1,759	1,879
Core EPS (Bt)	2.30	2.40	2.56	2.73
Core EPS growth (%)	-10.0%	+4.2%	+6.7%	+6.8%
PER (x)	19.2	12.6	11.8	11.1
PBV (x)	3.7	2.5	2.5	2.4
Dividend (Bt)	2.1	2.2	2.4	2.5
Dividend yield (%)	5.0	7.3	7.8	8.3
ROE (%)	19.2	20.6	21.4	22.2

CG rating

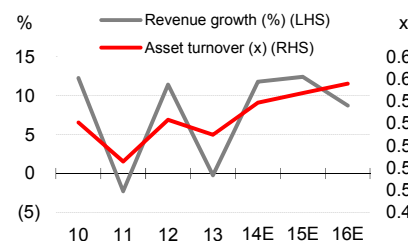


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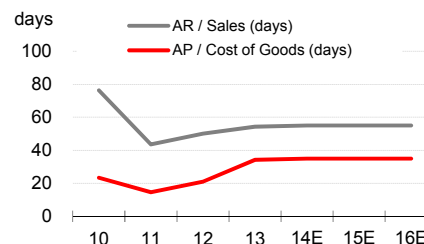
MCOT : Financial Tables – Year

PROFIT & LOSS (Btm)	2012	2013	2014E	2015E	2016E
Revenue	5,729	5,715	6,388	7,182	7,809
Cost of sales and services	(2,422)	(2,727)	(3,232)	(3,735)	(4,074)
Gross profit	3,307	2,989	3,156	3,447	3,735
SG&A	(1,186)	(1,264)	(1,346)	(1,493)	(1,625)
EBIT	2,121	1,725	1,810	1,954	2,109
Interest expense	(11)	(14)	(21)	(34)	(46)
Other income/exp.	210	269	280	291	302
EBT	2,319	1,980	2,068	2,211	2,365
Corporate tax	(551)	(396)	(418)	(449)	(482)
After-tax net profit (loss)	1,768	1,584	1,651	1,762	1,883
Minority interest	(10)	(1)	(2)	(3)	(4)
Equity earnings from affiliates	0	0	0	0	0
Extra items	0	(56)	0	0	0
Net profit (loss)	1,759	1,527	1,649	1,759	1,879
Reported EPS	2.56	2.22	2.40	2.56	2.73
Fully diluted EPS	2.56	2.22	2.40	2.56	2.73
Core net profit	1,759	1,583	1,649	1,759	1,879
Core EPS	2.56	2.30	2.40	2.56	2.73
EBITDA	2,663	2,264	2,367	2,529	2,702
KEY RATIOS					
Revenue growth (%)	11.4	(0.2)	11.8	12.4	8.7
Gross margin (%)	57.7	52.3	49.4	48.0	47.8
EBITDA margin (%)	46.5	39.6	37.0	35.2	34.6
Operating margin (%)	37.0	30.2	28.3	27.2	27.0
Net margin (%)	30.7	26.7	25.8	24.5	24.1
Core profit margin (%)	30.7	27.7	25.8	24.5	24.1
ROA (%)	16.1	13.6	13.9	13.4	13.4
ROCE (%)	22.4	19.1	19.5	18.7	18.7
Asset turnover (x)	0.5	0.5	0.5	0.5	0.6
Current ratio (x)	3.2	3.5	3.2	3.0	2.9
Gearing ratio (x)	0.0	0.0	0.1	0.2	0.2
Interest coverage (x)	189.2	121.0	84.9	56.9	45.4
BALANCE SHEET (Btm)					
Cash & Equivalent	4,610	4,337	4,432	4,612	4,869
Accounts receivable	786	850	963	1,082	1,177
Inventory	40	51	54	62	68
PP&E-net	4,091	3,988	4,689	5,176	5,247
Other assets	830	859	1,169	1,384	1,548
Total assets	11,248	11,168	12,546	13,698	14,404
Accounts payable	139	256	310	358	391
ST debts & current portion	0	0	0	0	0
Long-term debt	5	4	800	1,400	1,600
Other liabilities	62	115	160	180	195
Total liabilities	3,209	3,208	4,386	5,292	5,733
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	3,438	3,357	3,556	3,798	4,059
Shareholders equity	7,980	7,899	8,098	8,340	8,601
Minority interests	59	61	63	65	69
Total Liab.&Shareholders' equity	11,248	11,168	12,546	13,698	14,404
CASH FLOW (Btm)					
Net income	1,759	1,527	1,649	1,759	1,879
Depreciation and amortization	542	539	557	575	593
Change in working capital	(148)	41	(61)	(80)	(68)
FX, non-cash adjustment & others	(160)	(711)	(135)	(117)	(91)
Cash flows from operating activities	1,994	1,396	2,009	2,136	2,313
Capex (Invest)/Divest	(278)	(172)	(1,200)	(1,000)	(600)
Others	(663)	2,185	(293)	(278)	(226)
Cash flows from investing activities	(940)	2,013	(1,493)	(1,278)	(826)
Debt financing (repayment)	(5)	(5)	799	600	200
Equity financing	0	0	0	0	0
Dividend payment	(1,374)	(1,580)	(1,450)	(1,517)	(1,618)
Others	(663)	2,185	(293)	(278)	(226)
Cash flows from financing activities	(1,393)	(1,586)	(651)	(917)	(1,418)
Net change in cash	(340)	1,824	(134)	(59)	69
Free cash flow (Btm)	1,716	1,224	809	1,136	1,713
FCF per share (Bt)	2.5	1.8	1.2	1.7	2.5
Key assumptions	2012	2013	2014E	2015E	2016E
Average TV loading factor (%)	83.0%	80.0%	85.0%	90.0%	190.0%
TV ad revenue (Btm)	3,860	3,824	4,181	4,499	4,999
Radio ad revenue (Btm)	942	956	957	958	959
Concession revenue (Btm)	927	936	967	999	1,032
SG&A/sales (%)	20.4%	21.6%	21.5%	22.5%	22.6%

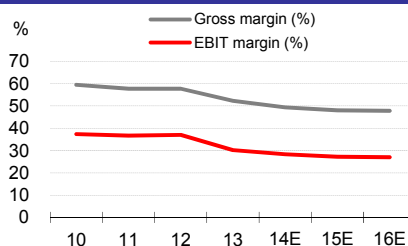
Revenue growth and asset turnover



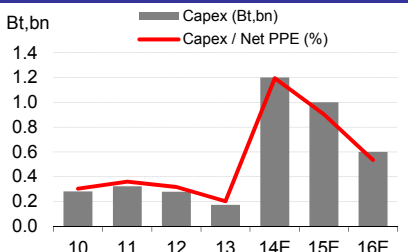
A/C receivable & A/C payable days



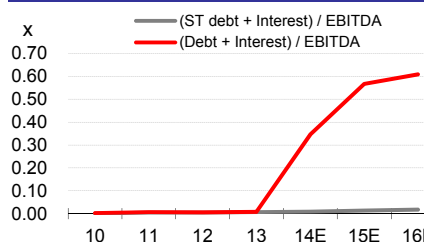
Profit margins



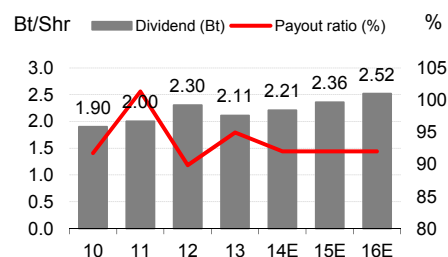
Capital expenditure



Debt serviceability



Dividend payout



MCOT : Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	4Q12	1Q13	2Q13	3Q13	4Q13
Revenue	1,499	1,283	1,466	1,529	1,437
Cost of sales and services	(591)	(581)	(652)	(754)	(740)
Gross profit	908	702	814	775	697
SG&A	(331)	(334)	(311)	(294)	(324)
EBIT	577	368	503	481	372
Interest expense	(3)	(3)	(3)	(3)	(3)
Other income/exp.	69	105	62	50	51
EBT	644	470	562	528	420
Corporate tax	(159)	(95)	(116)	(96)	(90)
After-tax net profit (loss)	485	375	446	432	331
Minority interest	(4)	(0)	(1)	(1)	1
Equity earnings from affiliates	0	0	0	0	0
Extra items	0	0	0	(56)	0
Net profit (loss)	481	375	445	376	332
Reported EPS	0.70	0.55	0.65	0.55	0.48
Fully diluted EPS	0.70	0.55	0.65	0.55	0.48
Core net profit	481	375	445	431	332
Core EPS	0.70	0.55	0.65	0.63	0.48
EBITDA	711	503	636	618	507

KEY RATIOS

Gross margin (%)	60.6	54.7	55.5	50.7	48.5
EBITDA margin (%)	47.4	39.2	43.4	40.4	35.3
Operating margin (%)	38.5	28.7	34.3	31.5	25.9
Net margin (%)	32.1	29.2	30.3	24.6	23.1
Core profit margin (%)	32.1	29.2	30.3	28.2	23.1
BV (Bt)	11.7	12.2	11.5	11.1	11.6
ROE (%)	24.1	18.0	22.6	19.8	16.8
ROA (%)	17.1	13.1	16.4	13.4	11.9
Current ratio (x)	3.2	3.7	3.6	2.8	3.5
Gearing ratio (x)	0.0	0.0	0.0	0.0	0.0
Interest coverage (x)	227.4	113.7	155.6	149.1	112.5

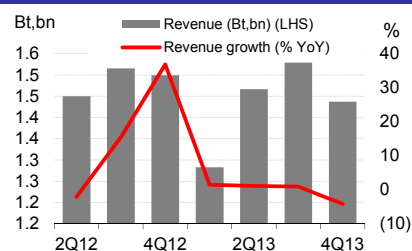
QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	4,610	4,845	4,616	4,897	4,337
Accounts receivable	786	655	762	793	850
Inventory	40	52	64	61	51
PP&E-net	4,091	4,029	3,918	3,810	3,988
Other assets	919	935	949	953	948
Total assets	11,248	11,449	10,864	11,208	11,168
Accounts payable	139	136	187	262	256
ST debts & current portion	6	6	7	6	6
Long-term debt	5	4	4	3	4
Other liabilities	1,247	1,288	1,259	1,268	1,435
Total liabilities	3,209	3,062	2,949	3,605	3,208
Paid-up capital	3,435	3,435	3,435	3,435	3,435
Share premium	3,438	3,785	3,336	3,026	3,357
Retained earnings	3,438	3,785	3,336	3,026	3,357
Shareholders equity	7,980	8,327	7,879	7,568	7,899
Minority interests	59	60	36	35	61
Total Liab.&Shareholders' equity	11,248	11,449	10,864	11,208	11,168
Key statistics	4Q12	1Q13	2Q13	3Q13	4Q13
Average TV loading factor (%)	80.0%	68.0%	82.0%	82.0%	70.0%
TV ad revenue (Btm)	1,007	857	946	1,065	954
Radio ad revenue (Btm)	267	197	246	248	266
Concession revenue (Btm)	226	229	275	216	216
SG&A/sales (%)	22.1%	26.1%	21.2%	19.2%	22.6%

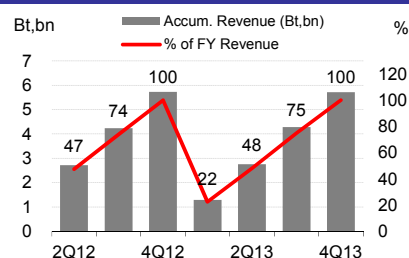
Company profile

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 Bt182m 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 FY13 it paid Bt595m.

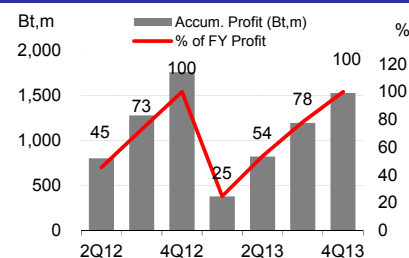
Revenue trend



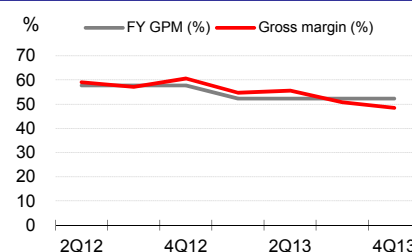
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

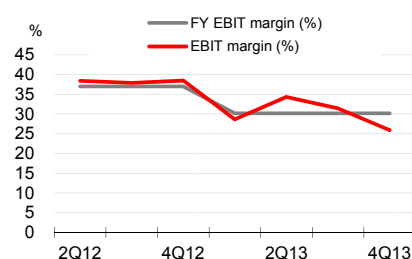


Figure 1 : 4Q13 results

FY Ended 31 Dec (Btm)	4Q13	4Q12	YoY %	3Q13	QoQ %	2013	2012	YoY %
Income Statement								
Revenue	1,437	1,499	(4)	1,529	(6)	5,715	5,729	(0)
Cost of sales and services	(740)	(591)	25	(754)	(2)	(2,727)	(2,422)	13
EBITDA	507	711	(29)	618	(18)	2,264	2,663	(15)
SG&A	(324)	(331)	(2)	(294)	10	(1,264)	(1,186)	7
EBIT	372	577	(35)	481	(23)	1,725	2,121	(19)
Interest expense	(3)	(3)	30	(3)	3	(13)	(10)	28
Other income/exp.	51	69	(26)	50	2	268	209	29
Equity earnings from affiliates	0	0	nm	0	nm	0	0	nm
Extra items	0	0	nm	(56)	nm	(56)	0	nm
EBT	420	644	(35)	528	(20)	1,980	2,319	(15)
Corporate tax	(90)	(159)	(44)	(96)	(7)	(396)	(551)	(28)
Minority interest	1	(4)	(136)	(1)	nm	(1)	(10)	(91)
Net profit (loss)	332	481	(31)	376	(12)	1,527	1,759	(13)
Reported EPS	0.48	0.70	(31)	0.55	(12)	2.22	2.56	(13)
Core net profit	332	481	(31)	431	(23)	1,583	1,759	(10)
Key ratios								
Gross margin (%)	48.5	60.6		50.7		52.3	57.7	
EBITDA margin (%)	35.3	47.4		40.4		39.6	46.5	
EBIT margin (%)	25.9	38.5		31.5		30.2	37.0	
SG&A / Revenue (%)	22.6	22.1		19.2		22.1	20.7	
Tax rate (%)	21.3	24.7		18.2		20.0	23.8	
Net margin (%)	23.1	32.1		24.6		26.7	30.7	
Current ratio (x)	3.5	3.2		2.8		3.5	3.2	
Gearing ratio (x)	0.0	0.0		0.0		0.0	0.0	
Interest coverage (x)	112.5	227.4		n.m.		132.6	209.2	
Balance Sheet								
Cash & Equivalent	4,337	4,610	(6)	4,897	(11)			
Total assets	11,168	11,248	(1)	11,208	(0)			
ST debts & current portion	6	6	n.m.	6	2			
Long-term debt	4	5	n.m.	3	34			
Total liabilities	3,208	3,209	(0)	3,605	(11)			
Retained earnings	3,357	3,438	(2)	3,026	11			
Shareholders equity	7,899	7,980	(1)	7,568	4			
Minority interests	61	59	3	35	72			
BV (Bt)	11.6	11.7	(1)	11.1	5			

- Revenues was 7% below our model
- Gross profit was 8% below our expectation, due to higher production costs
- SG&A was 27% above our model
- After-tax profit was 28% below our expectation
- Net profit was 26% below our estimate

Sources: Company data, Bualuang Research estimates

Figure 2: Revenue and gross profit breakdown

	4Q13	4Q12	% YoY	3Q13	% QoQ	FY13	FY12	% YoY
Total revenue	1,437	1,500	(4.2)	1,529	(6.0)	5,715	5,729	(0.2)
- TV	954	1,007	(5.2)	1,065	(10.4)	3,822	3,860	(1.0)
- Radio	266	267	(0.5)	248	7.3	957	942	1.6
- Concession	216	226	(4.2)	216	0.1	936	927	1.0
Total cost of services	(740)	(591)	25.3	(754)	(1.7)	(2,727)	(2,422)	12.6
- Cost of TV & radio	(711)	(564)	26.1	(725)	(2.0)	(2,613)	(2,307)	13.3
- Cost of concession	(30)	(27)	8.4	(28)	5.1	(114)	(115)	(1.4)
Gross profit	697	908	(23.3)	775	(10.2)	2,989	3,307	(9.6)
- TV & radio	509	711	(28.3)	588	(13.3)	2,166	2,495	(13.2)
- Concession	187	198	(5.9)	188	(0.6)	823	812	1.3
Gross margin (%)	48.5%	60.6%		50.7%		52.3%	57.7%	
- TV & radio	41.7%	55.8%		44.8%		45.3%	52.0%	
- Concession	86.3%	87.9%		86.9%		87.9%	87.6%	

Source: Company data

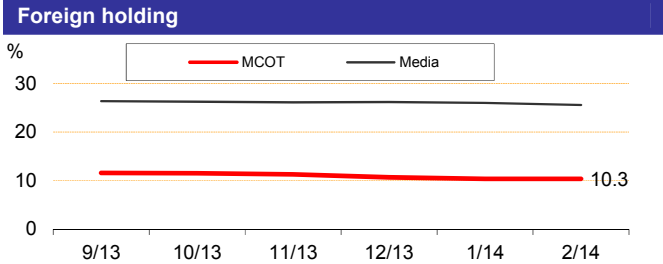
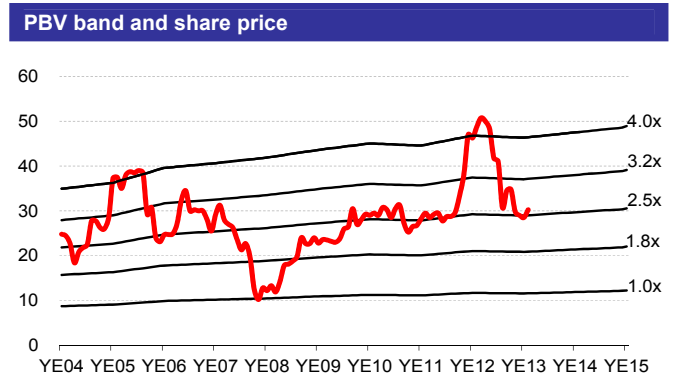
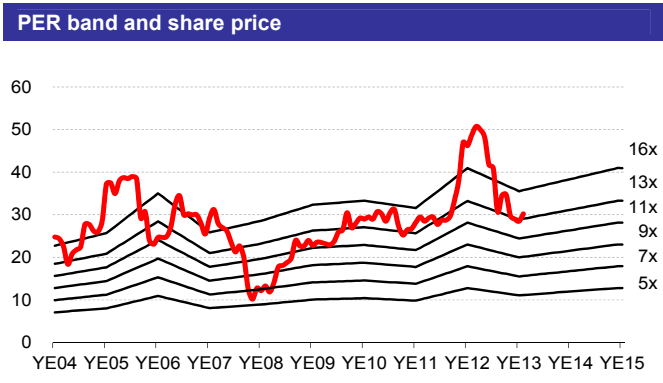
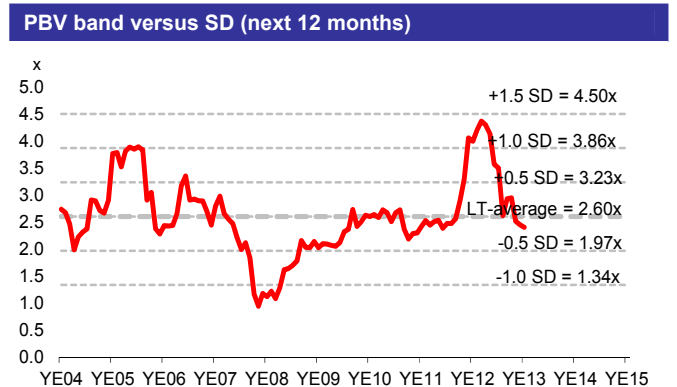
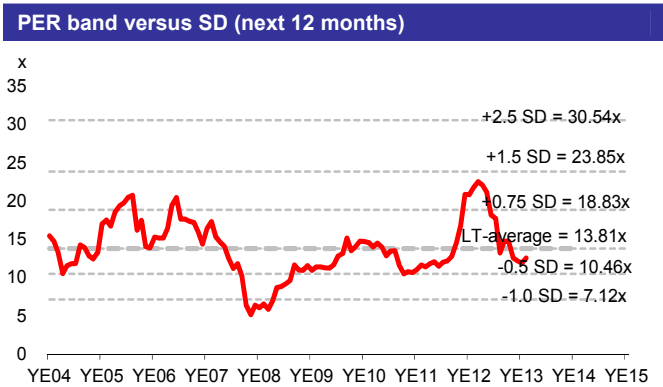
Figure 3: Earnings before tax (EBT) and EBT margin breakdown

	4Q13	4Q12	% YoY	3Q13	% QoQ	FY13	FY12	% YoY
EBT breakdown								
TV	289	437	(33.9)	302	(4.4)	1,210	1,638	(26.1)
Radio	89	105	(15.5)	86	3.7	316	310	1.9
Concession	131	198	(33.8)	244	(46.1)	823	812	1.3
Others	(89)	(97)	8.6	(104)	14.3	(369)	(441)	16.3
Total EBT	420	644	(34.7)	528	(20.4)	1,980	2,319	(14.6)
EBT margin (%)								
TV	30.3%	43.4%		28.4%		31.7%	42.4%	
Radio	33.5%	39.4%		34.6%		33.0%	32.9%	
Concession	60.7%	87.9%		112.8%		87.9%	87.6%	
Average EBT margin	29.3%	42.9%		34.5%		34.6%	40.5%	

Source: Company data

Regional Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US\$ equivalent)	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
				2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E	2014E	2015E
Abs-Cbn Corp	ABSPM	PHP29.0	556	15.6	12.8	-8.1	25.4	10	10	6.5	7.5	15	15
Gma Network Inc	GMA7 PM	PHP8.4	629	23.2	18.2	5.9	27.8	n.a.	n.a.	19.7	23.2	n.a.	n.a.
Sun Tv Network Ltd	SUNTV IN	INR370.6	2,365	16.4	14.0	13.3	17.1	4.3	3.9	26.9	27.9	3.2	3.7
Zee Entertainment Enterprise	Z IN	INR268.7	4,179	24.9	20.6	17.7	20.0	4.9	4.1	21.9	22.7	11	13
Television Broadcasts Ltd	511HK	HKD48.0	2,706	12.3	11.9	12	3.4	2.4	2.3	20.1	19.5	5.3	5.5
Phoenix Satellite Television	2008 HK	HKD2.8	1,829	12.3	10.9	15.0	13.0	2.4	2.1	13.3	13.0	2.5	2.8
Nippon Television Network	9404 JP	JPY1,693.0	4,376	13.8	13.2	7.6	3.2	0.8	0.8	5.9	6.2	2.0	2.0
Tokyo Broadcasting System	9401JP	JPY1,130.0	2,108	20.6	18.7	7.2	10.8	0.5	0.5	2.8	3.0	15	17
Tv Asahi Corp	9409 JP	JPY1,947.0	1,919	15.0	13.5	10.2	12.8	0.7	0.7	4.9	5.3	15	17
Beijing Gehua Catv Network-A	600037 CH	CNY8.5	1,461	24.9	23.3	12.2	8.7	15	n.a.	6.9	n.a.	11	17
BEC World	BEC TB	THB50.50	3,106	17.2	15.8	5.2	8.6	10.2	9.2	64.5	64.7	5.4	5.9
GMM Grammy	GRAMMY TB	THB 17.10	335	n.m.	n.m.	n.m.	n.m.	4	4	-39.0	-34.5	0.0	0.0
Major Cineplex Group	MAJOR TB	THB 13.40	502	15.2	13.4	2.1	13.5	2.6	2.5	17.4	19.0	5.6	6.3
MCOT	MCOT TB	THB30.25	639	12.6	11.8	8.0	6.7	2.5	2.5	20.6	21.4	7.3	7.8
VGI Global Media	VGI TB	THB 11.00	1,161	25.8	22.4	16.5	15.3	17.4	15.8	70.6	74.1	3.4	3.9
Workpoint Entertainment	WORK TB	THB27.25	215	16.9	14.0	38.2	21.1	4.6	4.0	29.9	32.0	4.6	5.5
Simple average				17.8	15.6	10.5	13.8	4.0	3.8	18.6	20.7	3.1	3.4








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PCSGH	PCSGH

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 59		Pass
Below 50	No logo given	N/A

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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.