

27 May 2014

MCOT - MCOT

Earnings poised for sequential y-y drop in 2QFY14



THAILAND | MEDIA | COMPANY UPDATE

BLOOMBERG MCOT TB | REUTERS MCOT.BK

- MCOT reported a 47.3% y-y drop in 1QFY14 profit in line with expectations, largely blaming flagging revenue and steady rises in costs.
- Due to strong seasonality, 2QFY14 is expected to be better than 1QFY14 but the y-y picture still looks bleak with earnings poised for a further sequential decline. Key factor to watch will be whether the slowdown in ad spending will pick up pace in the aftermath of the military coup.
- We maintain our forecast that MCOT will see a 20.4% y-y drop in FY14 profit. Due to more upside from current trading levels after the recent share price retreat, we upgrade MCOT shares to 'ACCUMULATE' with a Bt26.50/share target price.

MCOT reported a 47.3% y-y drop in 1QFY14 net profit to Bt198mn largely because of flagging revenue and mounting costs despite a drop in SG&A expenses. The quarterly profit came in line with our forecast of Bt191mn.

In 1QFY14, total revenue slipped 17.2% y-y to Bt1,062mn as revenues dropped across the board. TV, new media, radio and joint venture revenues plunged 20.2%, 9.6%, 7.6% and 19.7% y-y respectively hit by a double whammy of political and economic headwinds. Total costs edged up 2.1% y-y due to an increased proportion of in-house programs and higher joint venture operating costs after a transfer of asset ownership from Channel 3 to MCOT under joint operation agreement. SG&A expenses retreated by 16.4% y-y largely on account of a 40.3% decline in selling expenses in line with a drop in revenues. Other income tumbled 51.4% y-y, reflecting a gain from a reversal of provisions a year earlier.

How we view this

Due to strong seasonality, 2QFY14 is expected to be better than 1QFY14 but the y-y picture still looks bleak with earnings poised for a further sequential decline. Data showed total ad spending in Thailand dropped further by 8.4% y-y in Apr 2014. Spending on TV and radio ads fell sequentially by 4.9% and 14.0% y-y.

The interruption of regular programming by occasional announcements from the National Council for Peace and Order (NCPO) after staging the coup on May 22 may add more woes to the already slowing ad industry. What remains to be seen is whether the slowdown in ad spending will pick up pace in the aftermath of the military putsch. We maintain our forecast that MCOT will see a 20.4% y-y drop in FY14 profit to Bt1,216mn. Note that digital TV business has not yet been factored into the forecast.

Investment Action

In view of more upside from current trading levels after the recent share price retreat, we upgrade MCOT shares to 'ACCUMULATE' with a FY14 target price of Bt26.50/share based on a P/E multiple of 15x.

1QFY14 net profit down 47.3% y-y in line with forecast

MCOT reported a 47.3% y-y drop in 1QFY14 net profit to Bt198mn largely because of flagging revenue and mounting costs despite a drop in SG&A expenses. The quarterly profit came in line with our forecast of Bt191mn.

In 1QFY14, total revenue slipped 17.2% y-y to Bt1,062mn as revenues dropped across the board. TV, new media, radio and joint venture revenues plunged 20.2%, 9.6%, 7.6% and 19.7% y-y respectively as (i) a spate of political and economic troubles eroded purchasing power and held back ad spending, (ii) government agencies scaled back ad budgets and (iii) ratings for new programs were low. Total costs edged up 2.1% y-y due to an increased proportion of in-house programs and higher joint venture operating costs after a transfer of asset ownership from Channel 3 to MCOT under joint operation agreement. SG&A expenses retreated by 16.4% y-y largely on account of a 40.3% decline in selling expenses in line with a drop in revenues. Other income tumbled 51.4% y-y, reflecting a gain from a reversal of provisions a year earlier.

2QFY14 seen better than 1QFY14 but lower than 2QFY13

Due to strong seasonality, 2QFY14 is expected to be better than 1QFY14 but the y-y picture still looks bleak with earnings poised for a further sequential decline. Data from The Nielsen Company (Thailand) showed total ad spending in Thailand dropped further by 8.4% y-y to Bt8,744mn in Apr 2014. Spending on TV and radio ads fell sequentially by 4.9% and 14.0% y-y. The lost ad airtime as a consequence of a one-day TV blackout and the interruption of regular programming by occasional announcements from the National Council for Peace and Order (NCPO) after the military coup on May 22 may also add more woes to the already slowing ad industry. What remains to be seen is whether the slowdown in ad spending will pick up pace in the aftermath of the military putsch. Revenue uncertainty will also remain a cause of concern for MCOT's digital TV business after a commercial launch on May 25 due to the absence of viewer ratings and market share used to set ad rates. However, we stick to our view that its two digital TV channels will suffer losses in the initial stages of operations. We maintain our forecast that MCOT will see a 20.4% y-y drop in FY14 profit to Bt1,216mn. Note that digital TV business has not yet been factored into the forecast.

Upgrade to 'ACCUMULATE' with Bt26.50/share target price

In view of more upside from current trading levels after the recent share price retreat, we upgrade MCOT shares to 'ACCUMULATE' with a FY14 target price of Bt26.50/share based on a P/E multiple of 15x.

Industry Group Name	Sector Name	Sector Index
Agro & Food Industry [AGRO]	Agribusiness	AGRI
	Food & Beverage	FOOD
Consumer Products [CONSUMP]	Fashion	FASHION
	Home & Office Products	HOME
	Personal Products & Pharmaceuticals	PERSON
Financials [FINCIAL]	Banking	BANK
	Finance & Securities	FIN
	Insurance	INSUR
Industrials [INDUS]	Automotive	AUTO
	Industrial Materials & Machinery	IMM
	Packaging	PKG
	Paper & Printing Materials	PAPER
	Petrochemicals & Chemicals	PETRO
	Steel	STEEL
Property & Construction [PROPCON]	Construction Materials	CONMAT
	Construction Services	CONS
	Property Development	PROP
	Property Fund & REITs	FP&REIT
Resources [RESOURC]	Energy & Utilities	ENERG
	Mining	MINE
Services [SERVICE]	Commerce	COMM
	Media & Publishing	MEDIA
	Health Care Services	HEALTH
	Tourism & Leisure	TOURISM
	Professional Services	PROF
	Transportation & Logistics	TRANS
Technology [TECH]	Electronic Components	ETRON
	Information & Communication Technology	ICT

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Naree Apisawaittakan	Securities Investment Analyst #17971	662 635 1700#484	Agro & Food, Electronics
Siam Tiyanont	Securities Investment Analyst #17970	662 635 1700#483	Transportation, Media & Publishing, Tourism
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Score Range	Number of Logo
Less than 50	No logo given
50 - 59	
60 - 69	
70 - 79	
80 - 89	
90 - 100	

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