

MCOT

MCOT TB / MCOT.BK

14 August 2014

Slightly lower than modeled

Slightly short of our estimate

MCOT reported a Bt163m net profit for 2Q14, down by 63% YoY and 18% QoQ. The result was 4% below our estimate, due to lower other income and higher tax expenses than modeled. Total ad receipts and gross profit were in line with our expectations. GM was 39.5%, which was slightly short of our 40% estimate. After-tax profit was 2% lower than we modeled.

Result highlights

The earnings deterioration was led by a dive in ad revenue—down 21% YoY (but up 8% QoQ)—due to the weak domestic consumption environment and declining viewership. TV ad receipts (excl. new media) dived 24% YoY but rose 6% QoQ. Radio ad income declined 11% YoY but increased 19% QoQ. Revenue from new media dropped by 18% YoY and 4% QoQ. Income from special state agency projects plunged as a result of government dysfunctionality during the quarter. MCOT didn't recognize any digital TV revenue in 2Q14.

The top-line tumbled 23% YoY (but rose 6% QoQ), while cost of sales and service rose by 4% YoY and 15% QoQ, led by heavier digital-related expenses—license fee amortization for two digital channels and higher depreciation expenses for concessionary assets. Concession revenue slumped by 34% YoY and 2% QoQ because True Visions has migrated many of its subscribers from its MCOT concession to its new NBTC-licensed subsidiary since 1Q14. SG&A expenses were better controlled—down 9% YoY but up 1% QoQ—as digital expenses were more subdued (except for license fee amortization).

Outlook

We preliminarily estimate a Bt190m net profit for 3Q14, down 49% YoY (but up 17% QoQ), led by a full quarter of recognition of digital license-related fees (such as license fee amortization, TV production and other digital OPEX), a persisting weak operation following its July program revamp and no clear business direction going forward. We expect the firm to spin its wheels till a new president is appointed. Although we expect a modest industry-wide ad revenue recovery in 2H14, due to the eased political situation, an improving economy and seasonality, there are a lot more channels chasing ad spend now. Also, MCOT's digital-related expenses will increase with its phase 2 launch in 4Q14.

What's changed?

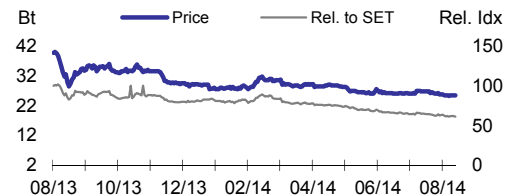
Our FY14 net profit forecast stands unchanged for the moment.

Recommendation

Our SELL rating stands, premised on net equity value erosion from a digital TV platform. We have rolled over our investment horizon to YE15 and have a new DCF-derived target price of Bt19.

Sector: Media Neutral
Rating: SELL
Target Price: Bt19.00
Price (13 August 2014): Bt25.50

Price chart

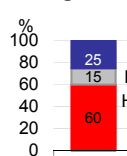


Share price perf. (%)	1M	3M	12M
Relative to SET	(6.6)	(16.2)	(42.1)
Absolute	(5.6)	(5.6)	(36.3)

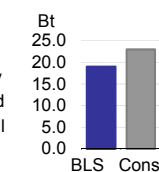
Key statistics

Market cap	Bt17.5bn	USD0.5bn
12-mth price range	Bt25.0/Bt41.0	
12-mth avg daily volume	Bt19m	USD0.6m
# of shares (m)	687	
Est. free float (%)	22.7	
Foreign limit (%)	15.0	

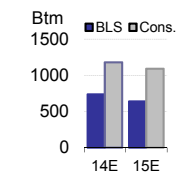
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2013	2014E	2015E	2016E
Revenues (Btm)	5,715	4,833	5,594	5,991
Net profit (Btm)	1,527	736	638	583
EPS (Bt)	2.22	1.07	0.93	0.85
EPS growth (%)	-13.2%	-51.8%	-13.4%	-8.6%
Core profit (Btm)	1,583	736	638	583
Core EPS (Bt)	2.30	1.07	0.93	0.85
Core EPS growth (%)	-10.0%	-53.5%	-13.4%	-8.6%
PER (x)	19.2	23.8	27.5	30.1
PBV (x)	3.7	2.4	2.4	2.4
Dividend (Bt)	2.1	1.0	0.9	0.8
Dividend yield (%)	5.0	3.9	3.3	3.1
ROE (%)	19.2	9.8	8.9	8.2

CG rating



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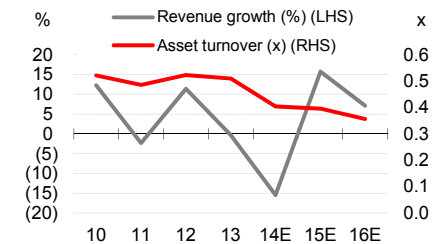
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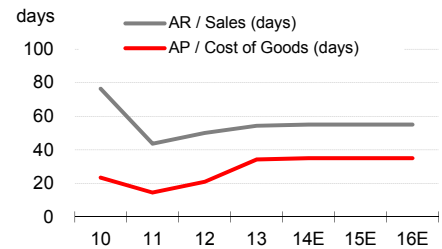
MCOT : Financial Tables – Year

	2012	2013	2014E	2015E	2016E
PROFIT & LOSS (Btm)					
Revenue	5,729	5,715	4,833	5,594	5,991
Cost of sales and services	(2,422)	(2,727)	(3,099)	(3,735)	(3,905)
Gross profit	3,307	2,989	1,734	1,859	2,086
SG&A	(1,186)	(1,264)	(1,019)	(1,202)	(1,431)
EBIT	2,121	1,725	714	657	655
Interest expense	(11)	(14)	(57)	(118)	(193)
Other income/exp.	210	269	280	291	302
EBT	2,319	1,980	937	830	765
Corporate tax	(551)	(396)	(199)	(189)	(178)
After-tax net profit (loss)	1,768	1,584	738	641	587
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	736	638	583
Reported EPS	2.56	2.22	1.07	0.93	0.85
Fully diluted EPS	2.56	2.22	1.07	0.93	0.85
Core net profit	1,759	1,583	736	638	583
Core EPS	2.56	2.30	1.07	0.93	0.85
EBITDA	2,663	2,264	1,271	1,232	1,248
KEY RATIOS					
Revenue growth (%)	11.4	(0.2)	(15.4)	15.8	7.1
Gross margin (%)	57.7	52.3	35.9	33.2	34.8
EBITDA margin (%)	46.5	39.6	26.3	22.0	20.8
Operating margin (%)	37.0	30.2	14.8	11.7	10.9
Net margin (%)	30.7	26.7	15.2	11.4	9.7
Core profit margin (%)	30.7	27.7	15.2	11.4	9.7
ROA (%)	16.1	13.6	6.2	4.5	3.5
ROCE (%)	22.4	19.1	8.4	5.9	4.4
Asset turnover (x)	0.5	0.5	0.4	0.4	0.4
Current ratio (x)	3.2	3.5	4.1	4.0	4.0
Gearing ratio (x)	0.0	0.0	0.3	0.7	1.0
Interest coverage (x)	189.2	121.0	12.5	5.6	3.4
BALANCE SHEET (Btm)					
Cash & Equivalent	4,610	4,337	5,078	5,663	6,025
Accounts receivable	786	850	728	843	903
Inventory	40	51	52	62	65
PP&E-net	4,091	3,988	4,429	5,200	6,064
Other assets	830	859	1,501	2,657	3,852
Total assets	11,248	11,168	12,748	15,521	18,076
Accounts payable	139	256	297	358	374
ST debts & current portion	0	0	0	0	0
Long-term debt	5	4	2,400	4,900	7,300
Other liabilities	62	115	121	140	150
Total liabilities	3,209	3,208	5,500	8,310	10,864
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	2,644	2,604	2,600
Shareholders equity	7,980	7,899	7,186	7,146	7,142
Minority interests	59	61	63	65	69
Total Liab.&Shareholders' equity	11,248	11,168	12,748	15,521	18,076
CASH FLOW (Btm)					
Net income	1,759	1,527	736	638	583
Depreciation and amortization	542	539	557	575	593
Change in working capital	(148)	41	163	(64)	(46)
FX, non-cash adjustment & others	(160)	(711)	101	(113)	(56)
Cash flows from operating activities	1,994	1,396	1,557	1,035	1,073
Capex (Invest)/Divest	(278)	(172)	(940)	(1,284)	(1,393)
Others	(663)	2,185	212	(268)	(151)
Cash flows from investing activities	(940)	2,013	(728)	(1,552)	(1,544)
Debt financing (repayment)	(5)	(5)	1,599	1,550	1,300
Equity financing	0	0	0	0	0
Dividend payment	(1,374)	(1,580)	(1,450)	(678)	(587)
Others	(663)	2,185	212	(268)	(151)
Cash flows from financing activities	(1,393)	(1,586)	149	872	713
Net change in cash	(340)	1,824	978	356	243
Free cash flow (Btm)	1,716	1,224	617	(249)	(320)
FCF per share (Bt)	2.5	1.8	0.9	(0.4)	(0.5)
Key assumptions					
Average TV loading factor (%)	83.0%	80.0%	60.0%	65.0%	70.0%
TV ad revenue (Btm)	3,860	3,824	2,804	3,090	3,359
Radio ad revenue (Btm)	942	956	779	780	781
Concession revenue (Btm)	927	936	967	999	1,032
SG&A/sales (%)	20.4%	21.6%	21.0%	21.0%	21.0%

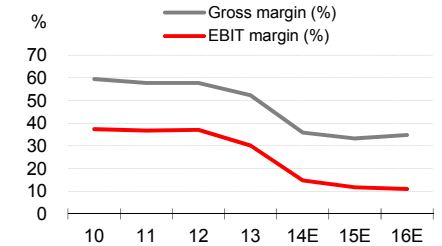
Revenue growth and asset turnover



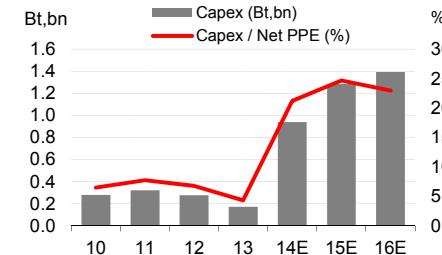
A/C receivable & A/C payable days



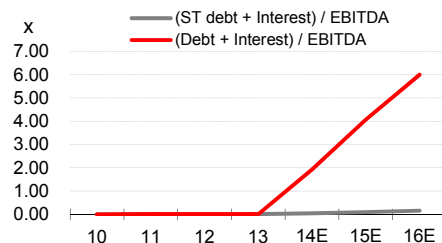
Profit margins



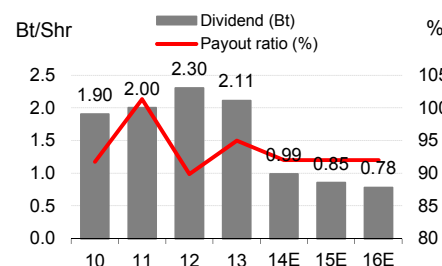
Capital expenditure



Debt serviceability



Dividend payout



MCOT : Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	2Q13	3Q13	4Q13	1Q14	2Q14
Revenue	1,466	1,529	1,437	1,062	1,126
Cost of sales and services	(652)	(754)	(740)	(593)	(681)
Gross profit	814	775	697	469	445
SG&A	(311)	(294)	(324)	(280)	(283)
EBIT	503	481	372	190	162
Interest expense	(3)	(3)	(3)	(3)	(3)
Other income/exp.	62	50	51	51	46
EBT	562	528	420	237	205
Corporate tax	(116)	(96)	(90)	(48)	(49)
After-tax net profit (loss)	446	432	331	189	156
Minority interest	(1)	(1)	1	9	7
Equity earnings from affiliates	0	0	0	0	0
Extra items	0	(56)	0	0	0
Net profit (loss)	445	376	332	198	163
Reported EPS	0.65	0.55	0.48	0.29	0.24
Fully diluted EPS	0.65	0.55	0.48	0.29	0.24
Core net profit	445	431	332	198	163
Core EPS	0.65	0.63	0.48	0.29	0.24
EBITDA	636	618	507	330	355

KEY RATIOS

Gross margin (%)	55.5	50.7	48.5	44.2	39.5
EBITDA margin (%)	43.4	40.4	35.3	31.0	31.6
Operating margin (%)	34.3	31.5	25.9	17.9	14.4
Net margin (%)	30.3	24.6	23.1	18.6	14.5
Core profit margin (%)	30.3	28.2	23.1	18.6	14.5
BV (Bt)	11.5	11.1	11.6	11.9	11.0
ROE (%)	22.6	19.8	16.8	9.8	8.7
ROA (%)	16.4	13.4	11.9	5.6	4.9
Current ratio (x)	3.6	2.8	3.5	3.4	2.2
Gearing ratio (x)	0.0	0.0	0.0	0.0	0.0
Interest coverage (x)	155.6	149.1	112.5	55.2	46.8

QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	4,616	4,897	4,337	3,571	3,269
Accounts receivable	762	793	850	676	727
Inventory	64	61	51	54	64
PP&E-net	3,918	3,810	3,988	4,090	4,019
Other assets	949	953	948	4,946	4,877
Total assets	10,864	11,208	11,168	14,199	13,344
Accounts payable	187	262	256	301	219
ST debts & current portion	7	6	6	6	6
Long-term debt	4	3	4	3	5
Other liabilities	1,259	1,268	1,435	4,524	3,746
Total liabilities	2,949	3,605	3,208	6,050	5,812
Paid-up capital	3,435	3,435	3,435	3,435	3,435
Share premium	3,336	3,026	3,357	3,555	2,955
Retained earnings	3,336	3,026	3,357	3,555	2,955
Shareholders equity	7,879	7,568	7,899	8,097	7,497
Minority interests	36	35	61	52	35
Total Liab.&Shareholders' equity	10,864	11,208	11,168	14,199	13,344

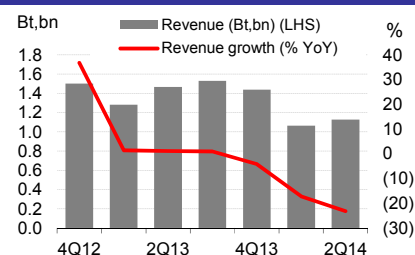
Key statistics

	2Q13	3Q13	4Q13	1Q14	2Q14
Average TV loading factor (%)	82.0%	82.0%	70.0%	55.0%	57.0%
TV ad revenue (Btm)	946	1,065	954	693	725
Radio ad revenue (Btm)	246	248	266	183	218
Concession revenue (Btm)	275	216	216	186	183
SG&A/sales (%)	21.2%	19.2%	22.6%	26.3%	25.1%

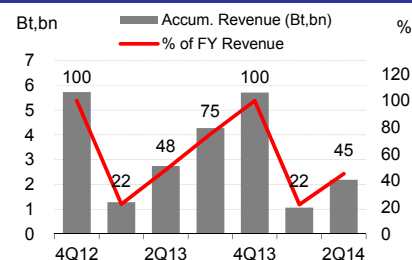
Company profile

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.

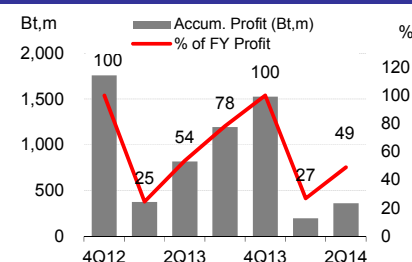
Revenue trend



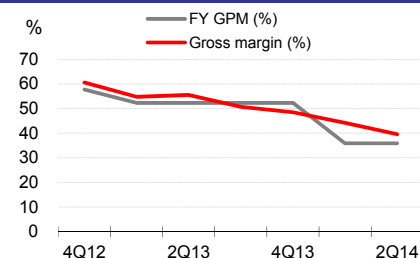
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

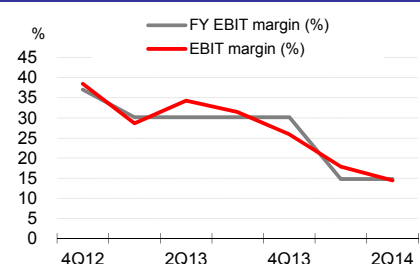


Figure 1 : 2Q14 results

FY Ended 31 Dec (Btm)	2Q14	2Q13	YoY %	1Q14	QoQ %	6M14	6M13	YoY %	6M14 vs. FY14E
Income Statement									
Revenue	1,126	1,466	(23)	1,062	6	2,188	2,749	(20)	45
Cost of sales and services	(681)	(652)	4	(593)	15	(1,273)	(1,233)	3	41
EBITDA	355	636	(44)	330	8	685	1,139	(40)	54
SG&A	(283)	(311)	(9)	(280)	1	(562)	(646)	(13)	55
EBIT	162	503	(68)	190	(14)	352	871	(60)	49
Interest expense	(3)	(3)	7	(3)	1	(7)	(6)	7	n.m.
Other income/exp.	46	62	(26)	51	(10)	97	167	(42)	35
Equity earnings from affiliates	0	0	nm	0	nm	0	0	nm	n.m.
Extra items	0	0	nm	0	nm	0	0	nm	n.m.
EBT	205	562	(64)	237	(14)	442	1,032	(57)	47
Corporate tax	(49)	(116)	(57)	(48)	2	(97)	(210)	(54)	49
Minority interest	7	(1)	nm	9	(17)	16	(2)	nm	nm
Net profit (loss)	163	445	(63)	198	(18)	360	819	(56)	49
Reported EPS	0.24	0.65	(63)	0.29	(18)	0.52	1.19	(56)	49
Core net profit	163	445	(63)	198	(18)	360	819	(56)	49
Key ratios									
Gross margin (%)	39.5	55.5		44.2		41.8	55.2		
EBITDA margin (%)	31.6	43.4		31.0		31.3	41.4		
EBIT margin (%)	14.4	34.3		17.9		16.1	31.7		
SG&A / Revenue (%)	25.1	21.2		26.3		25.7	23.5		
Tax rate (%)	24.1	20.6		20.3		22.0	20.4		
Net margin (%)	14.5	30.3		18.6		16.5	29.8		
Current ratio (x)	2.2	3.6		3.4		2.2	3.6		
Gearing ratio (x)	0.0	0.0		0.0		0.0	0.0		
Interest coverage (x)	46.8	155.6		n.m.		51.0	134.6		
Balance Sheet									
Cash & Equivalent	3,269	4,616	(29)	3,571	(8)				
Total assets	13,344	10,864	23	14,199	(6)				
ST debts & current portion	6	7	n.m.	6	4				
Long-term debt	5	4	n.m.	3	88				
Total liabilities	5,812	2,949	97	6,050	(4)				
Retained earnings	2,955	3,336	(11)	3,555	(17)				
Shareholders equity	7,497	7,879	(5)	8,097	(7)				
Minority interests	35	36	(3)	52	(33)				
BV (Bt)	11.0	11.5	(5)	11.9	(8)				

- Ad income was 1% above our estimate
- Gross profit was in line with our expectation
- GM was 39.5%; slightly lower than our assumption of 40%
- SG&A was 4% below our model
- EBIT was 8% above our estimate
- After-tax profit was 2% below our expectation
- Net profit was 4% short of our estimate

Sources: Company data, Bualuang Research estimates

Figure 2: 2Q14 revenue and gross profit breakdown

	2Q14	2Q13	% YoY	1Q14	% QoQ	1H14	1H13	% YoY
Total revenue	1,126	1,467	(23.2)	1,062	6.1	2,188	2,750	(20.4)
- TV	725	946	(23.4)	693	4.6	1,418	1,803	(21.3)
- Radio	218	246	(11.4)	183	19.4	401	443	(9.6)
- Concession	183	275	(33.5)	186	(1.8)	369	504	(26.7)
Total cost of services	(681)	(652)	4.4	(593)	14.9	(1,273)	(1,233)	3.3
- Cost of TV & radio	(637)	(624)	2.1	(554)	15.0	(1,191)	(1,177)	1.2
- Cost of concession	(44)	(28)	54.1	(39)	13.3	(82)	(56)	47.1
Gross profit	445	814	(45.3)	469	(5.1)	914	1,517	(39.7)
- TV & radio	306	568	(46.2)	321	(4.8)	627	1,069	(41.3)
- Concession	139	247	(43.5)	148	(5.7)	287	448	(35.9)
Gross margin (%)	39.5%	55.5%		44.2%		41.8%	55.2%	
- TV & radio	32.5%	47.7%		36.7%		34.5%	47.6%	
- Concession	76.2%	89.7%		79.3%		77.8%	88.9%	

Source: Company data

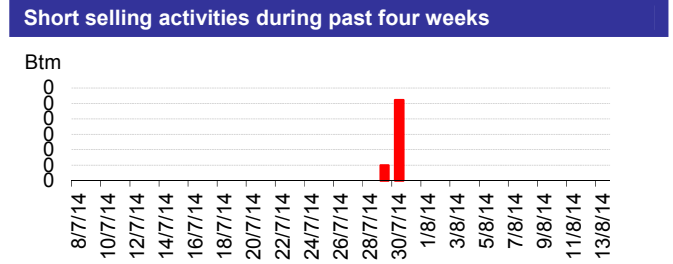
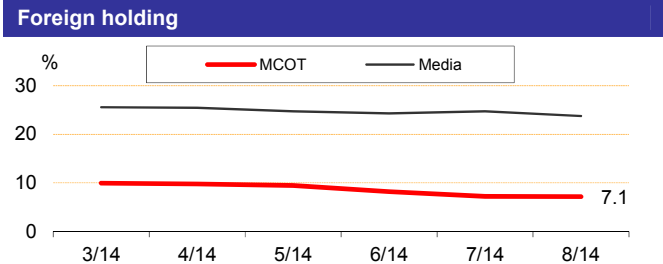
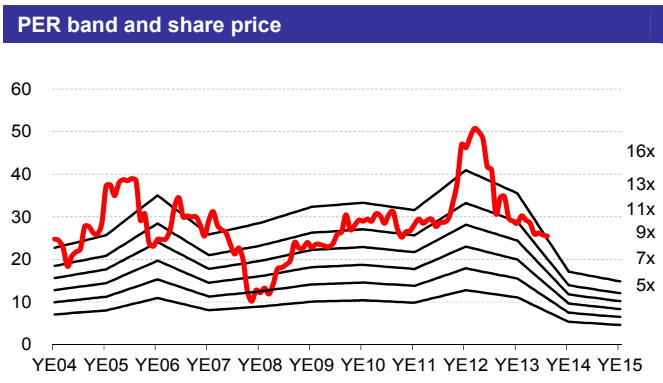
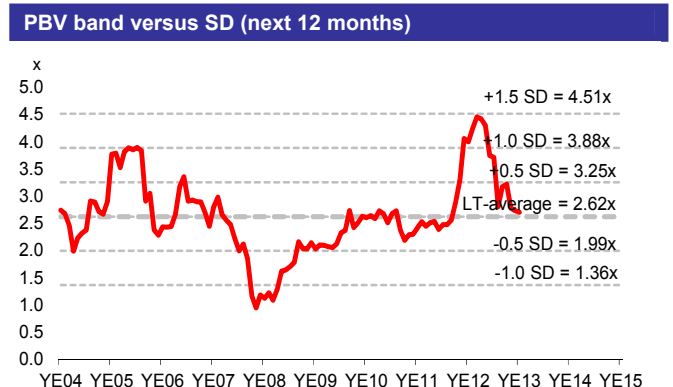
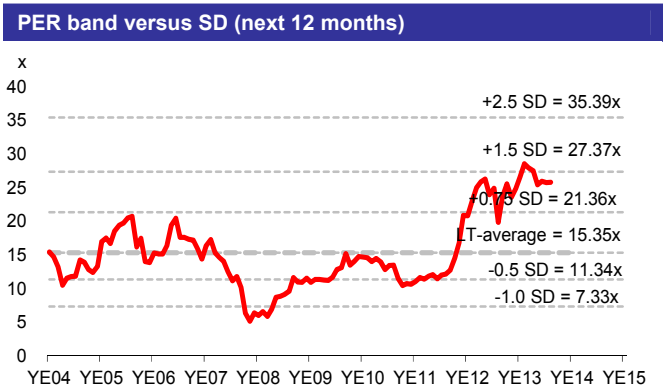
Figure 3: 2Q14 earnings before tax (EBT) and EBT margin breakdown

	2Q14	2Q13	% YoY	1Q14	% QoQ	1H14	1H13	% YoY
EBT breakdown								
TV	118	335	(64.7)	156	(24.2)	275	620	(55.6)
Radio	61	89	(31.5)	48	26.8	109	141	(22.9)
Concession	139	246	(43.4)	148	(5.7)	287	447	(35.8)
Others	(114)	(108)	5.0	(115)	(0.9)	(229)	(177)	29.5
Total EBT	205	562	(63.5)	237	(13.6)	442	1,032	(57.1)
EBT margin (%)								
TV	16.3%	35.5%		22.6%		19.4%	34.4%	
Radio	27.9%	36.1%		26.3%		27.2%	31.8%	
Concession	76.2%	89.5%		79.3%		77.8%	88.8%	
Average EBT margin	18.2%	38.3%		22.3%		20.2%	37.5%	

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	PHP37.6	729	17.3	14.4	-34.2	18.6	1.1	10	8.3	7.4	16	17
Gma Network Inc	GMA7 PM	PHP7.3	558	25.5	17.7	-12.5	40.0	n.a.	n.a.	20.8	15.7	3.6	3.6
Sun Tv Network Ltd	SUNTVIN	INR373.8	2,411	17.8	14.9	10.3	18.9	3.8	3.3	26.9	25.2	2.9	3.4
Zee Entertainment Enterprise	Z IN	INR269.4	4,235	27.5	22.0	6.7	24.3	4.4	3.8	23.7	22.4	0.9	11
Television Broadcasts Ltd	511HK	HKD50.6	2,857	12.7	12.5	0.3	18	2.4	2.2	19.5	20.4	5.1	5.2
Phoenix Satellite Television	2008 HK	HKD2.8	1,786	13.0	12.0	9.9	29.3	2.1	19	19.8	20.0	2.5	2.8
Nippon Television Network	9404 JP	JPY1,717.0	4,423	14.9	13.6	5.5	9.7	0.8	0.8	5.8	5.5	18	19
Tokyo Broadcasting System	9401JP	JPY1,207.0	2,244	20.6	19.5	-2.9	5.2	0.5	0.5	3.0	2.7	15	16
Tv Asahi Corp	9409JP	JPY1,817.0	1,925	15.5	13.8	0.3	13.5	0.6	0.6	4.8	4.5	17	18
Beijing Gehua Catv Network-A	600037 CH	CNY10.9	1,885	25.2	21.5	18.3	17.6	18	16	8.6	7.7	12	14
BEC World	BEC TB	THB47.25	2,958	22.2	23.9	-23.9	-7.0	11.5	11.3	51.2	50.8	4.2	3.9
GMM Grammy	GRAMMY TB	THB15.50	309	n.m.	n.m.	n.m.	n.m.	4	4	-81.1	-30.5	0.0	0.0
Major Cineplex Group	MAJOR TB	THB20.60	573	17.3	16.2	0.4	6.8	2.9	2.9	17.1	17.7	4.9	5.2
MCOT	MCOT TB	THB25.50	548	23.8	27.5	-51.8	-13.4	2.4	2.4	9.8	8.9	3.9	3.3
RS	RSTB	THB8.20	258	28.4	26.3	-29.8	8.0	4.4	4.1	17.0	16.2	19	2.1
VGI Global Media	VGITB	THB13.10	1,407	48	35	2.8	35.0	26.7	9.5	58.0	39.6	18	2.5
Workpoint Entertainment	WORKTB	THB29.00	242	87.5	48.6	-66.8	80.1	4.3	4.0	5.5	8.8	0.6	10
Simple average				26.1	21.2	-10.5	18.0	4.6	3.4	12.9	14.3	2.4	2.5



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Score Range

90 – 100
80 – 89
70 – 79
60 – 69
50 – 59
Below 50

Score Range

Description

Excellent
Very Good
Good
Satisfactory
Pass
N/A

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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.