

MCOT

MCOT.TB / MCOT.BK

17 November 2014

Short of our estimate

Below our model

MCOT reported a Bt90m net profit for 3Q14, down by 76% YoY and 45% QoQ. The result was 11% 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. After-tax profit was 2% lower than we had modeled.

Result highlights

The earnings dive was led by a plunge in ad revenue—down by 33% YoY and 1% QoQ—due to the weak domestic consumption environment and the loss of ad spend market share to other TV channels. TV ad receipts (excl. new media) dived 32% YoY but rose 1% QoQ. Radio ad income increased by 1% YoY and 15% QoQ. Revenue from new media was Bt58m in 3Q14, down by 35% YoY and 19% QoQ. The firm recognized only modest digital TV revenue from its MCOT Family SD channel in 3Q14.

The top-line tumbled by 29% YoY and 3% QoQ, while the cost of sales and service declined only 6% YoY (and rose 4% QoQ). The high OPEX was led by heavier digital-related expenses—production costs, license fee and public fund fees and Bt67m/quarter license fee amortization for the two digital channels. Concession revenue slumped by 44% YoY and 34% QoQ because True Visions migrated subscribers from one of its two concessions it has/had with MCOT (one of the concessions expired in Sept 2014) to its NBTC-licensed subsidiary. The firm booked about Bt7m in net revenue for the sale of 50k units of digital set-top boxes and Bt28m in digital network rental revenue in 3Q14.

Outlook

We preliminarily estimate a Bt150m net profit for 4Q14, down 55% YoY (but up 67% QoQ), led by greater digital production OPEX (tied to the Phase 2 launch of MCOT Family SD channel in Oct 2014), a drop in ad revenue caused by a persisting weak ad spend, the ongoing loss of ad spend market share and diminishing revenue from the remaining True Visions concession—True Visions continues to migrate subs from the concession to the license, as the license fees are cheaper than the concession fee. We assume digital set-top box sales of 500-600k units in 4Q14, but that won't be sufficient to offset the effect of lower ad and concession revenues.

What's changed?

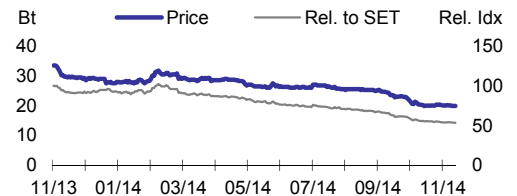
We have cut our net profit projections by 19% to Bt599m for FY14 and by 4% to Bt615m for FY15 to reflect weak 3Q14 earnings and have a diminished expectation for concession revenue for FY15. Our YE15 DCF-based target price declines 5% to Bt18.

Recommendation

Our SELL rating stands, due to MCOT's weak ongoing performance.

Sector: Media Neutral
Rating: SELL
Target Price: Bt18.00
Price (14 November 2014): Bt19.70

Price chart

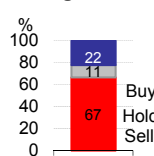


Share price perf. (%)	1M	3M	12M
Relative to SET	(8.0)	(24.6)	(52.5)
Absolute	(6.2)	(22.7)	(41.2)

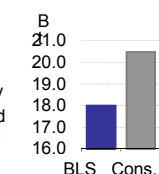
Key statistics

Market cap	Bt13.5bn	USD0.4bn
12-mth price range	Bt19.6/Bt33.8	
12-mth avg daily volume	Bt15m	USD0.5m
# of shares (m)	687	
Est. free float (%)	22.7	
Foreign limit (%)	15.0	

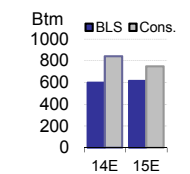
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2013	2014E	2015E	2016E
Revenues (Btm)	5,715	4,449	4,714	4,870
Net profit (Btm)	1,527	599	615	641
EPS (Bt)	2.22	0.87	0.89	0.93
EPS growth (%)	-13.2%	-60.8%	+2.7%	+4.2%
Core profit (Btm)	1,583	599	615	641
Core EPS (Bt)	2.30	0.87	0.89	0.93
Core EPS growth (%)	-10.0%	-62.2%	+2.7%	+4.2%
PER (x)	19.2	22.6	22.0	21.1
PBV (x)	3.7	1.9	1.9	1.9
Dividend (Bt)	2.1	0.8	0.8	0.9
Dividend yield (%)	5.0	4.1	4.2	4.4
ROE (%)	19.2	8.0	8.7	9.0

CG rating



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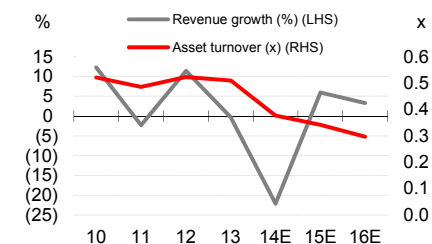
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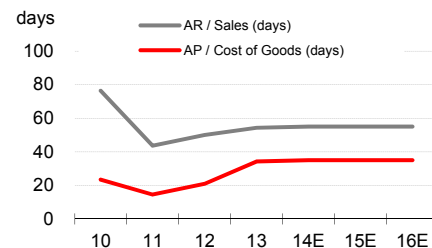
MCOT : Financial Tables – Year

PROFIT & LOSS (Btm)	2012	2013	2014E	2015E	2016E
Revenue	5,729	5,715	4,449	4,714	4,870
Cost of sales and services	(2,422)	(2,727)	(2,682)	(2,994)	(2,886)
Gross profit	3,307	2,989	1,767	1,720	1,984
SG&A	(1,186)	(1,264)	(1,155)	(1,017)	(1,195)
EBIT	2,121	1,725	612	703	789
Interest expense	(11)	(14)	(33)	(94)	(155)
Other income/exp.	210	269	180	186	193
EBT	2,319	1,980	759	795	827
Corporate tax	(551)	(396)	(158)	(178)	(183)
After-tax net profit (loss)	1,768	1,584	600	618	645
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	599	615	641
Reported EPS	2.56	2.22	0.87	0.89	0.93
Fully diluted EPS	2.56	2.22	0.87	0.89	0.93
Core net profit	1,759	1,583	599	615	641
Core EPS	2.56	2.30	0.87	0.89	0.93
EBITDA	2,663	2,264	1,169	1,278	1,382
KEY RATIOS					
Revenue growth (%)	11.4	(0.2)	(22.2)	6.0	3.3
Gross margin (%)	57.7	52.3	39.7	36.5	40.7
EBITDA margin (%)	46.5	39.6	26.3	27.1	28.4
Operating margin (%)	37.0	30.2	13.8	14.9	16.2
Net margin (%)	30.7	26.7	13.5	13.0	13.2
Core profit margin (%)	30.7	27.7	13.5	13.0	13.2
ROA (%)	16.1	13.6	5.1	4.5	3.9
ROCE (%)	22.4	19.1	6.9	5.7	4.8
Asset turnover (x)	0.5	0.5	0.4	0.3	0.3
Current ratio (x)	3.2	3.5	4.4	4.7	4.9
Gearing ratio (x)	0.0	0.0	0.3	0.7	1.0
Interest coverage (x)	189.2	121.0	18.4	7.5	5.1
BALANCE SHEET (Btm)					
Cash & Equivalent	4,610	4,337	5,033	5,858	6,356
Accounts receivable	786	850	670	710	734
Inventory	40	51	45	50	48
PP&E-net	4,091	3,988	4,429	5,200	6,064
Other assets	830	859	1,386	2,393	3,515
Total assets	11,248	11,168	12,454	15,149	17,683
Accounts payable	139	256	257	287	277
ST debts & current portion	0	0	0	0	0
Long-term debt	5	4	2,400	4,900	7,300
Other liabilities	62	115	111	118	122
Total liabilities	3,209	3,208	5,344	7,971	10,426
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	2,506	2,570	2,645
Shareholders' equity	7,980	7,899	7,048	7,112	7,187
Minority interests	59	61	63	65	69
Total Liab.&Shareholders' equity	11,248	11,168	12,454	15,149	17,683
CASH FLOW (Btm)					
Net income	1,759	1,527	599	615	641
Depreciation and amortization	542	539	557	575	593
Change in working capital	(148)	41	188	(15)	(32)
FX, non-cash adjustment & others	(160)	(711)	159	(37)	(20)
Cash flows from operating activities	1,994	1,396	1,502	1,137	1,182
Capex (Invest)/Divest	(278)	(172)	(940)	(1,284)	(1,393)
Others	(663)	2,185	337	(107)	(73)
Cash flows from investing activities	(940)	2,013	(603)	(1,391)	(1,466)
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)	(551)	(565)
Others	(663)	2,185	337	(107)	(73)
Cash flows from financing activities	(1,393)	(1,586)	149	999	735
Net change in cash	(340)	1,824	1,048	745	451
Free cash flow (Btm)	1,716	1,224	562	(147)	(211)
FCF per share (Bt)	2.5	1.8	0.8	(0.2)	(0.3)
Key assumptions	2012	2013	2014E	2015E	2016E
Average TV loading factor (%)	83.0%	80.0%	60.0%	65.0%	70.0%
TV ad revenue (Btm)	3,860	3,824	2,420	2,657	2,796
Radio ad revenue (Btm)	942	956	779	780	781
Concession revenue (Btm)	927	936	967	487	393
SG&A/sales (%)	20.4%	21.6%	26.0%	21.0%	21.0%

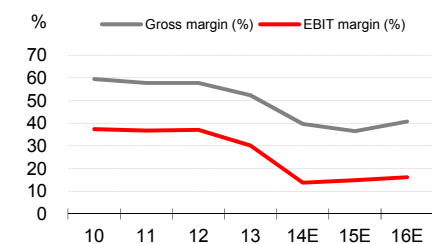
Revenue growth and asset turnover



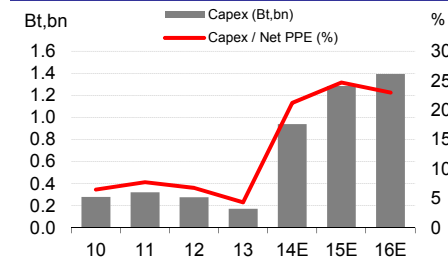
A/C receivable & A/C payable days



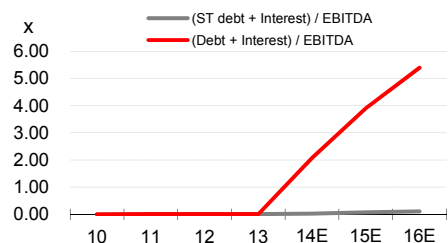
Profit margins



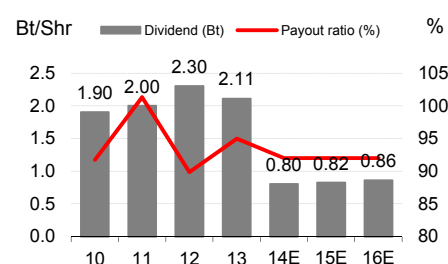
Capital expenditure



Debt serviceability



Dividend payout



MCOT : Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	3Q13	4Q13	1Q14	2Q14	3Q14
Revenue	1,529	1,437	1,062	1,126	1,088
Cost of sales and services	(754)	(740)	(593)	(681)	(708)
Gross profit	775	697	469	445	380
SG&A	(294)	(324)	(280)	(283)	(288)
EBIT	481	372	190	162	92
Interest expense	(3)	(3)	(3)	(3)	(4)
Other income/exp.	50	51	51	46	30
EBT	528	420	237	205	119
Corporate tax	(96)	(90)	(48)	(49)	(28)
After-tax net profit (loss)	432	331	189	156	91
Minority interest	(1)	1	9	7	(1)
Equity earnings from affiliates	0	0	0	0	0
Extra items	(56)	0	0	0	0
Net profit (loss)	376	332	198	163	90
Reported EPS	0.55	0.48	0.29	0.24	0.13
Fully diluted EPS	0.55	0.48	0.29	0.24	0.13
Core net profit	431	332	198	163	90
Core EPS	0.63	0.48	0.29	0.24	0.13
EBITDA	618	507	330	355	308

KEY RATIOS

Gross margin (%)	50.7	48.5	44.2	39.5	34.9
EBITDA margin (%)	40.4	35.3	31.0	31.6	28.3
Operating margin (%)	31.5	25.9	17.9	14.4	8.5
Net margin (%)	24.6	23.1	18.6	14.5	8.2
Core profit margin (%)	28.2	23.1	18.6	14.5	8.2
BV (Bt)	11.1	11.6	11.9	11.0	10.8
ROE (%)	19.8	16.8	9.8	8.7	4.9
ROA (%)	13.4	11.9	5.6	4.9	2.7
Current ratio (x)	2.8	3.5	3.4	2.2	2.0
Gearing ratio (x)	0.0	0.0	0.0	0.0	0.0
Interest coverage (x)	149.1	112.5	55.2	46.8	25.7

QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	4,897	4,337	3,571	3,269	3,646
Accounts receivable	793	850	676	727	668
Inventory	61	51	54	64	50
PP&E-net	3,810	3,988	4,090	4,019	3,944
Other assets	953	948	4,946	4,877	4,796
Total assets	11,208	11,168	14,199	13,344	13,487
Accounts payable	262	256	301	219	175
ST debts & current portion	6	6	6	6	16
Long-term debt	3	4	3	5	25
Other liabilities	1,268	1,435	4,524	3,746	3,693
Total liabilities	3,605	3,208	6,050	5,812	6,077
Paid-up capital	3,435	3,435	3,435	3,435	3,435
Share premium	3,026	3,357	3,555	2,955	2,831
Retained earnings	3,026	3,357	3,555	2,955	2,831
Shareholders equity	7,568	7,899	8,097	7,497	7,374
Minority interests	35	61	52	35	36
Total Liab.&Shareholders' equity	11,208	11,168	14,199	13,344	13,487

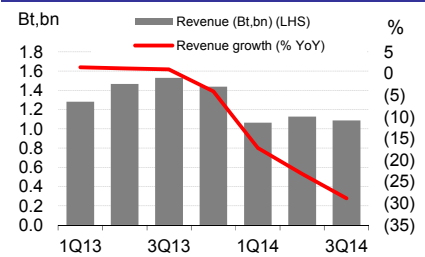
Key statistics

	3Q13	4Q13	1Q14	2Q14	3Q14
Average TV loading factor (%)	68.0%	70.0%	64.0%	75.0%	84.0%
TV ad revenue (Btm)	1,065	954	693	725	718
Radio ad revenue (Btm)	248	266	183	218	250
Concession revenue (Btm)	216	216	186	183	121
SG&A/sales (%)	19.2%	22.6%	26.3%	25.1%	26.5%

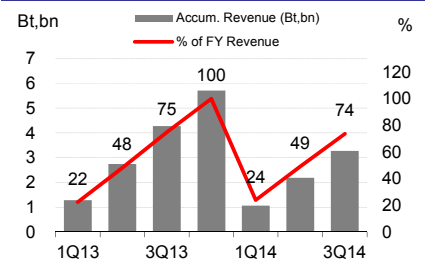
Company profile

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.

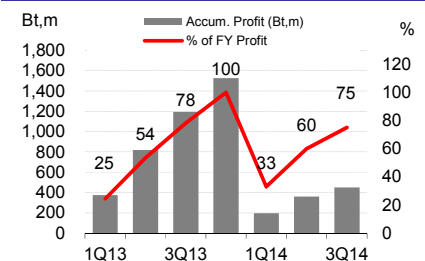
Revenue trend



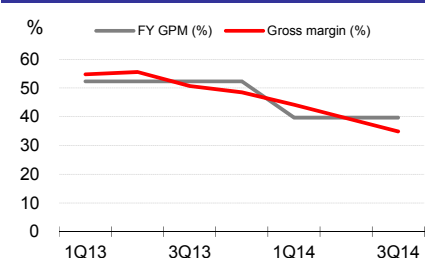
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

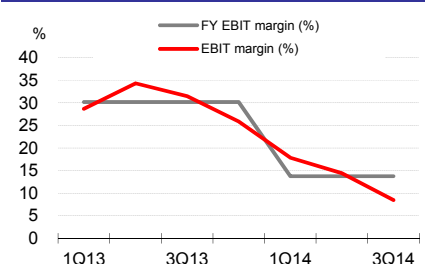


Figure 1 : 3Q14 results

FY Ended 31 Dec (Btm)	3Q14	3Q13	YoY %	2Q14	QoQ %	9M14	9M13	YoY %	9M14 vs. FY14E	
Income Statement										
Revenue	1,088	1,529	(29)	1,126	(3)	3,276	4,278	(23)	74	• Ad income was 1% above our estimate
Cost of sales and services	(708)	(754)	(6)	(681)	4	(1,981)	(1,986)	(0)	74	
EBITDA	308	618	(50)	355	(13)	993	1,756	(43)	85	• Concession revenue undershot our model by 14%
SG&A	(288)	(294)	(2)	(283)	2	(850)	(940)	(10)	74	
EBIT	92	481	(81)	162	(43)	444	1,352	(67)	73	
Interest expense	(4)	(3)	11	(3)	3	(10)	(10)	8	nm	
Other income/exp.	30	50	(40)	46	(34)	127	217	(41)	71	
Equity earnings from affiliates	0	0	nm	0	nm	0	0	nm	nm	
Extra items	0	(56)	nm	0	nm	0	(56)	nm	nm	• Gross profit was 1% above our expectation
EBT	119	528	(78)	205	(42)	561	1,560	(64)	74	
Corporate tax	(28)	(96)	(71)	(49)	(44)	(125)	(307)	(59)	79	
Minority interest	(1)	(1)	nm	7	nm	14	(2)	nm	nm	
Net profit (loss)	90	376	(76)	163	(45)	450	1,195	(62)	75	• GM was 34.9%; slightly higher than our assumption of 34.2%
Reported EPS	0.13	0.55	(76)	0.24	(45)	0.66	1.74	(62)	75	
Core net profit	90	431	(79)	163	(45)	450	1,251	(64)	75	
Key ratios										
Gross margin (%)	34.9	50.7		39.5		39.5	53.6			• EBIT was 2% above our estimate
EBITDA margin (%)	28.3	40.4		31.6		30.3	41.1			
EBIT margin (%)	8.5	31.5		14.4		13.6	31.6			
SG&A / Revenue (%)	26.5	19.2		25.1		26.0	22.0			• After-tax profit was 6% weaker than assumed, due to high tax expenses
Tax rate (%)	23.3	18.2		24.1		22.3	19.7			
Net margin (%)	8.2	24.6		14.5		13.7	27.9			
Current ratio (x)	2.0	2.8		2.2		2.0	2.8			
Gearing ratio (x)	0.0	0.0		0.0		0.0	0.0			
Interest coverage (x)	25.7	149.1		n.m.		42.4	139.5			• Net profit was 11% short of our estimate
Balance Sheet										
Cash & Equivalent	3,646	4,897	(26)	3,269	12					
Total assets	13,487	11,208	20	13,344	1					
ST debts & current portion	16	6	n.m.	6	181					
Long-term debt	25	3	n.m.	5	369					
Total liabilities	6,077	3,605	69	5,812	5					
Retained earnings	2,831	3,026	(6)	2,955	(4)					
Shareholders equity	7,374	7,568	(3)	7,497	(2)					
Minority interests	36	35	3	35	4					
BV (Bt)	10.8	11.1	(3)	11.0	(2)					

Sources: Company data, Bualuang Research estimates

Figure 2: 3Q14 revenue and gross profit breakdown

	3Q14	3Q13	% YoY	2Q14	% QoQ	9M14	9M13	% YoY
Total revenue	1,089	1,529	(28.8)	1,126	(3.3)	3,277	4,279	(23.4)
- TV	718	1,065	(32.6)	725	(1.0)	2,136	2,868	(25.5)
- Radio	250	248	0.8	218	14.7	651	691	(5.9)
- Concession	121	216	(44.0)	183	(33.9)	490	720	(31.9)
Total cost of services	(708)	(754)	(6.0)	(681)	4.0	(1,981)	(1,986)	(0.2)
- Cost of TV & radio	(664)	(725)	(8.4)	(637)	4.3	(1,855)	(1,902)	(2.5)
- Cost of concession	(44)	(28)	56.1	(44)	0.9	(126)	(84)	50.1
Gross profit	380	775	(51.0)	445	(14.6)	1,294	2,292	(43.5)
- TV & radio	304	588	(48.3)	306	(0.7)	931	1,657	(43.8)
- Concession	77	188	(59.0)	139	(44.8)	364	636	(42.7)
Gross margin (%)	34.9%	50.7%		39.5%		39.5%	53.6%	
- TV & radio	31.4%	44.8%		32.5%		33.4%	46.6%	
- Concession	63.6%	86.9%		76.2%		74.3%	88.3%	

Source: Company data

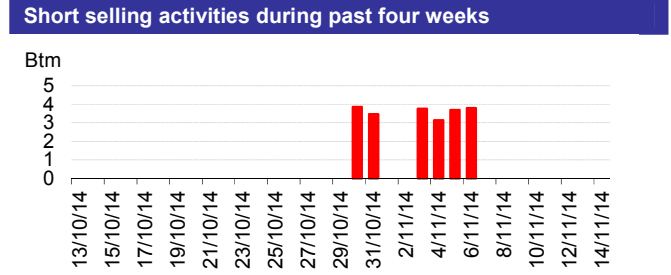
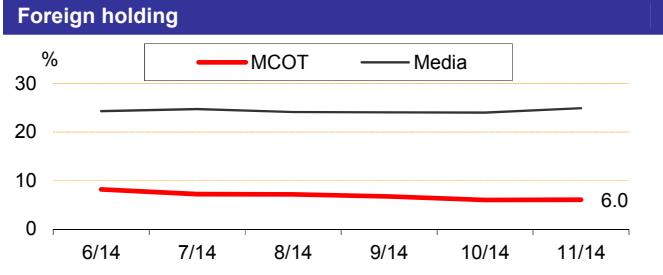
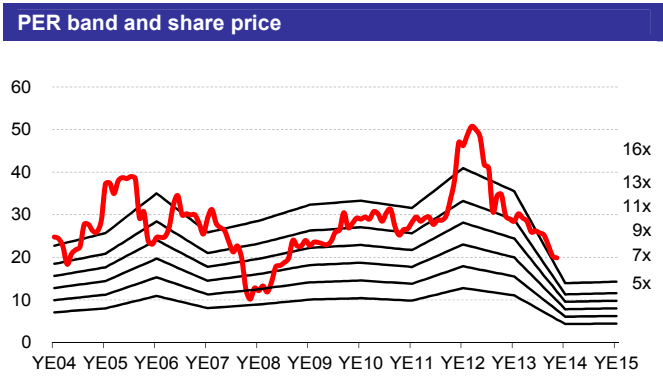
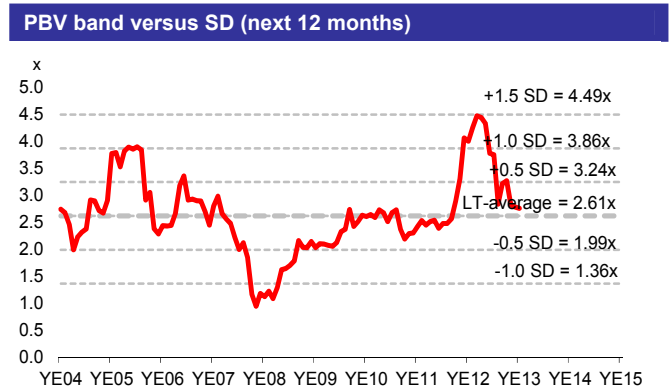
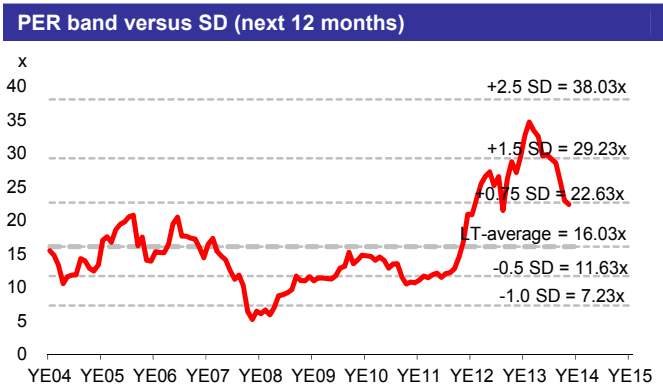
Figure 3: 3Q14 earnings before tax (EBT) and EBT margin breakdown

	3Q14	3Q13	% YoY	2Q14	% QoQ	9M14	9M13	% YoY
EBT breakdown								
TV	59	302	(80.5)	118	(50.4)	334	922	(63.8)
Radio	94	86	9.9	61	55.0	203	227	(10.5)
Concession	76	244	(68.6)	139	(45.1)	364	691	(47.4)
Others	(111)	(104)	7.2	(114)	(2.5)	(340)	(280)	21.2
Total EBT	119	528	(77.5)	205	(42.1)	561	1,560	(64.0)
EBT margin (%)								
TV	8.2%	28.4%		16.3%		15.6%	32.1%	
Radio	37.7%	34.6%		27.9%		31.2%	32.8%	
Concession	63.2%	112.8%		76.2%		74.2%	96.0%	
Average EBT margin	10.9%	34.5%		18.2%		17.1%	36.4%	

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	PHP45.0	852	20.5	17.1	-315	19.0	14	12	8.4	7.4	14	14
Gma Network Inc	GMA7 PM	PHP6.9	516	29.4	19.7	-27.1	60.0	n.a.	n.a.	18.7	13.3	3.8	3.8
Sun Tv Network Ltd	SUNTVIN	INR316.6	2,023	16.9	13.6	4.3	17.5	3.3	2.9	25.5	24.0	3.3	3.8
Zee Entertainment Enterprise	Z IN	INR376.2	5,859	39.8	32.6	2.5	22.6	6.5	5.3	22.3	21.2	0.7	0.8
Television Broadcasts Ltd	511HK	HKD43.6	2,460	118	113	264.9	4.2	2.1	2.0	18.4	19.4	5.6	5.9
Phoenix Satellite Television	2008 HK	HKD2.8	1,830	15.5	13.5	349.6	18.2	2.3	2.1	16.5	15.5	19	2.2
Nippon Television Network	9404 JP	JPY1728.0	3,919	15.0	13.7	5.1	10.0	0.8	0.8	5.8	5.5	18	19
Tokyo Broadcasting System	9401JP	JPY1413.0	2,313	22.2	22.4	5.6	-2.1	0.6	0.6	2.8	2.8	13	14
Tv Asahi Corp	9409JP	JPY2,000.0	1,866	17.1	15.5	-0.1	115	0.7	0.7	4.6	4.5	15	16
Beijing Gehua Catv Network-A	600037 CH	CNY14.7	2,550	29.4	23.0	36.4	27.5	2.3	2.1	10.1	8.4	0.9	1.2
BEC World	BEC TB	THB50.75	3,093	23.3	25.6	-22.0	-9.3	12.2	12.1	52.2	50.4	4.0	3.6
GMM Grammy	GRAMMY TB	THB13.80	291	n.m.	n.m.	n.m.	n.m.	3	3	-63.6	-9.4	0.0	0.0
Major Cineplex Group	MAJOR TB	THB25.75	698	20.5	17.6	6.1	16.3	3.6	3.5	18.0	20.0	4.1	4.8
MCOT	MCOT TB	THB19.70	413	22.6	22.0	-60.8	2.7	19	19	8.0	8.7	4.1	4.2
RS	RSTB	THB8.80	269	20.3	26.6	5.5	-23.7	4.6	4.3	25.2	16.6	2.7	2.1
VGI Global Media	VGITB	THB12.00	1,255	48	38	-5.6	26.9	24.6	8.8	53.4	34.4	18	2.3
Workpoint Entertainment	WORKTB	THB40.00	324	120.9	54.4	-66.9	122.2	5.9	3.9	5.5	9.2	0.4	0.9
Simple average				29.5	22.9	29.1	20.2	4.7	3.4	13.6	14.8	2.3	2.5



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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.

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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.
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