

SELL (From HOLD)**TP: Bt 14.00** (From: Bt 28.00)**24 DECEMBER 2014**

Change in Recommendation

Downside : -17.6%

MCOT Public Co Ltd (MCOT TB)

Bruised by digital

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MCOT is in the weakest position among incumbent analog players in the new digital TV platform, in our view. We see MCOT lacking key success factors for the platform and losing key content providers. After a sharp 64% earnings drop in 2014F, we forecast another 4% fall next year and downgrade it to SELL from Hold.

Downgrade to SELL

The main reason for MCOT's 64% y-y earnings plunge forecast this year has not been sluggish consumption but rather its loss of competitiveness in the new digital TV (DTV) era. We believe that MCOT is in the weakest position among the six analog TV players on the DTV platform as it lacks key success factors. MCOT has also started losing key content providers, while we expect to see a further drop in its viewership next year. We downgrade MCOT to SELL from Hold with a new 12-month DCF-based TP of Bt14.0/share, down 50% from the previous TP of Bt28.0/share to reflect our 60% earnings cut across the board.

Suffering from media liberalization

Media liberalization has resulted in negative implications for MCOT in many areas. First, MCOT's analog Channel 9 has seen its viewership tumble 15% YTD, resulting in a decline in its effective ad rate. Second, MCOT has begun to lose its key content providers as they have switched their highly rated programs from MCOT to their own DTV channels. Last, MCOT has incurred additional costs for its two DTV licenses, including the Bt4bn license fee plus other operational costs. We see this causing deterioration in MCOT's earnings visibility.

New income source delayed

Half of MCOT's earnings are derived from its revenue sharing with BEC World (BEC TB, Bt53.75, Under Review) and True Corporation (TRUE TB, Bt11.90, SELL) via joint agreements to use MCOT's infrastructure for their TV broadcasts. However, the end of its joint agreement with TRUE in September has hit MCOT's bottom line hard, while MCOT's new source of income as a DTV network provider has not yet materialized. MCOT's delay in developing its own DTV network has led it to recognize lower-than-expected network rental income. Besides, it could face fines from the regulator if it is unable to develop its DTV network as planned.

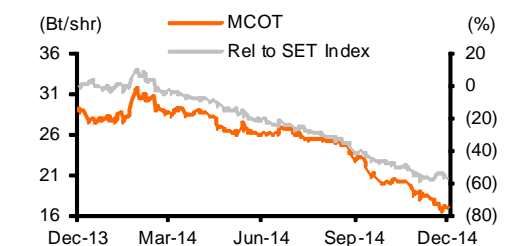
No turnaround in sight

We don't see MCOT's earnings plunge as just a hiccup, and we expect it to continue in the coming years. Looking ahead, we forecast MCOT's earnings growth to contract despite the very low earnings base in 2014F. We cut our earnings by 60% across the board from 2014F as we project lower profit contributions from its analog broadcast and joint-venture agreements. Meanwhile, we also anticipate additional costs from its DTV project.

COMPANY VALUATION

Y/E Dec (Bt m)	2013A	2014F	2015F	2016F
Sales	5,669	4,372	4,367	4,495
Net profit	1,527	552	532	519
Consensus NP	—	682	686	783
Diff frm cons (%)	—	(19.0)	(22.4)	(33.7)
Norm profit	1,527	552	532	519
Prev. Norm profit	—	1,231	1,358	1,431
Chg frm prev (%)	—	(55.1)	(60.8)	(63.7)
Norm EPS (Bt)	2.2	0.8	0.8	0.8
Norm EPS grw (%)	(13.2)	(63.8)	(3.6)	(2.4)
Norm PE (x)	7.6	21.2	21.9	22.5
EV/EBITDA (x)	4.2	7.3	7.1	7.0
P/BV (x)	1.5	1.6	1.6	1.5
Div yield (%)	12.4	4.3	4.1	4.0
ROE (%)	19.2	7.2	7.1	6.9
Net D/E (%)	(33.2)	(25.8)	(25.0)	(26.1)

PRICE PERFORMANCE



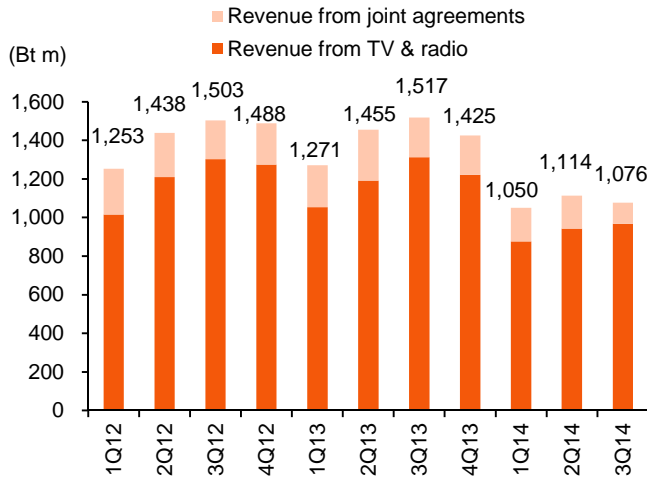
COMPANY INFORMATION

Price as of 23-Dec-14 (Bt)	17.00
Market cap (US\$ m)	355.1
Listed shares (m shares)	687.1
Free float (%)	22.7
Avg daily turnover (US\$ m)	0.4
12M price H/L (Bt)	31.75/16.50
Sector	Media
Major shareholder	Ministry of Finance 65.8%

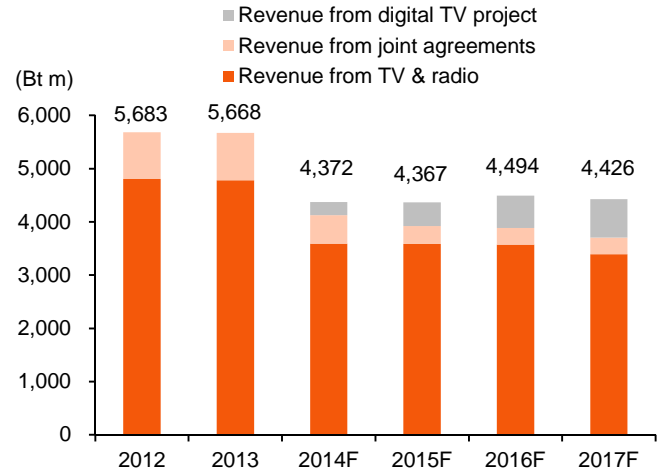
Sources: Bloomberg, Company data, Thanachart estimates



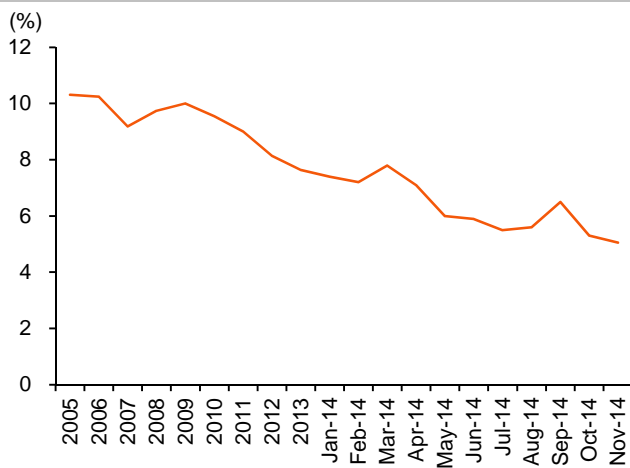
Thanachart Securities

Ex 1: Weakening Quarterly Results

Source: Company data

Ex 2: Earnings Plunge Continues

Sources: Company data, Thanachart estimates

Ex 3: MCOT's Audience Share Has Been Falling

Sources: Company data, Nielsen (Thailand)

Ex 4: Top Digital TV Channel's Viewership Per Day

('000 viewers per day)	1H13	2H13	1H14	Jul-14	Oct-14
Channel 7	2,512	2,596	1,802	2,059	2,259
Channel 3	1,664	1,836	1,754	1,640	1,440
Channel 9	410	455	329	318	280
Workpoint TV	42	48	55	147	242
Channel 8	54	57	43	112	173

Sources: Company data, Nielsen (Thailand)

Ex 5: Our Key Assumptions And Earnings Revisions

	2014F	2015F	2016F	2017F
Revenue (Bt m)				
New	4,372	4,367	4,495	4,427
Old	6,135	6,782	7,256	7,802
Change (%)	(28.7)	(35.6)	(38.0)	(43.3)
Gross profit (Bt m)				
New	1,628	1,565	1,575	1,558
Old	2,648	2,926	3,109	3,421
Change (%)	(38.5)	(46.5)	(49.3)	(54.5)
Normalized profit (Bt m)				
New	552	532	519	519
Old	1,231	1,358	1,431	1,599
Change (%)	(55.1)	(60.8)	(63.7)	(67.5)

Source: Thanachart estimates

Ex 6: 12-month DCF-based TP Calculation

(Bt m)		2014F	2015F	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F	Terminal Value
EBITDA		1,326	1,372	1,385	1,467	1,568	1,656	1,670	1,705	1,726	1,794	1,866	1,940	—
Free cash flow		575	679	680	681	747	847	885	927	947	1,020	1,082	1,161	11,109
PV of free cash flow		574	677	535	476	464	467	433	402	365	349	328	313	2,991
Risk-free rate (%)	4.5													
Market risk premium (%)	7.5													
Beta	1.1													
WACC (%)	12.7													
Terminal growth (%)	2.0													
Enterprise value - add investments	7,800													
Net debt (2014F)	(1,946)													
Minority interest	61													
Equity value	9,684													
# of shares	687													
Equity value/share	14.0													

Sources: Company data, Thanachart estimates

Valuation Comparison

Ex 7: Valuation Comparison With Regional Peers

Name	BBG code	Country	EPS growth		PE		P/BV		EV/EBITDA		Div. yield	
			14F (%)	15F (%)	14F (x)	15F (x)	14F (x)	15F (x)	14F (x)	15F (x)	14F (%)	15F (%)
Beijing Gehua	600037 CH	China	38.9	27.6	26.9	21.1	2.3	2.1	9.3	7.7	1.0	1.3
Phoenix Satellite	2008 HK	Hong Kong	na	na	13.4	11.3	2.2	2.0	7.1	6.2	2.2	2.6
Television Broad	511 HK	Hong Kong	(7.2)	4.2	12.5	12.0	2.3	2.2	7.8	7.5	5.3	5.6
Entertainment Ne	ENIL IN	India	0.9	17.3	27.7	23.6	4.0	3.5	15.4	13.7	0.2	0.3
Sun TV Network	SUNTV IN	India	(0.8)	4.9	19.3	18.4	4.6	4.2	9.0	8.4	2.7	2.9
Zee Entertainment	Z IN	India	(0.3)	2.3	41.4	40.5	7.9	7.6	30.2	26.9	0.7	0.7
Surya Citra Media	SCMA IJ	Indonesia	13.8	58.7	34.3	21.6	15.3	4.9	24.3	10.7	1.9	2.2
Media Nusantara	MNCN IJ	Indonesia	12.7	16.2	18.5	15.9	4.1	3.6	12.4	10.7	2.5	3.0
Global Mediacom	BMTR IJ	Indonesia	95.8	32.4	16.0	12.1	1.8	1.6	6.5	5.4	1.6	1.8
Elang Mahkota	EMTK IJ	Indonesia	49.0	na	22.4	na	4.9	na	10.3	na	0.9	na
Media Prima Bhd	MPR MK	Malaysia	(29.2)	15.8	12.6	10.9	1.2	1.1	5.4	4.9	6.3	7.1
ABC-CBN Corp	ABS PM	Philippines	(18.4)	20.1	21.3	17.8	1.5	1.4	7.3	6.2	1.3	1.3
Gma Network Inc	GMA7 PM	Philippines	(31.5)	48.9	27.2	18.3	na	na	9.4	7.1	4.1	4.1
BEC World *	BEC TB	Thailand	(4.2)	13.0	19.9	17.6	11.9	11.1	11.4	10.5	4.8	5.4
GMM Grammy *	GRAMMY TB	Thailand	11.9	(115.1)	na	33.8	6.0	5.1	(14.9)	10.1	0.0	0.0
MCOT Pcl*	MCOT TB	Thailand	(63.8)	(3.6)	21.2	21.9	1.6	1.6	7.3	7.1	4.3	4.1
RS Pcl*	RS TB	Thailand	11.1	98.7	39.7	20.0	10.0	8.1	17.7	11.3	1.8	3.5
VGI Global Media *	VGI TB	Thailand	10.4	12.7	33.6	29.9	19.4	17.2	24.9	21.8	2.5	2.8
Average			5.2	15.9	24.0	20.4	5.9	4.8	11.2	10.4	2.5	2.9

Source: Bloomberg

Note: * Thanachart estimates using normalized EPS growth

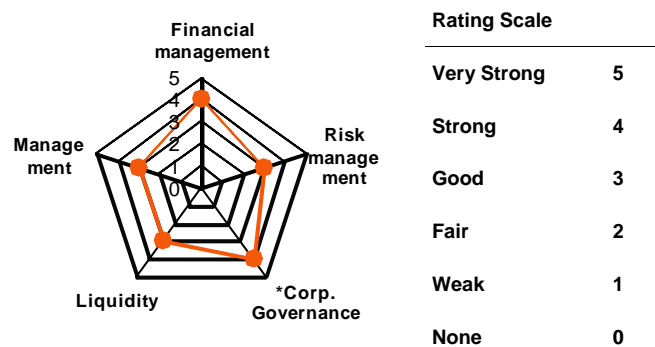
** VGI's fiscal year ends in March and we use one-year forward numbers 15F-16F.

COMPANY DESCRIPTION

MCOT Public Company Limited (MCOT) was converted from the Mass Communication Organization of Thailand (a state enterprise) and listed on the Stock Exchange of Thailand (SET) in 2004. MCOT operates various mass media businesses including free terrestrial channel broadcasting under the name “Modernine TV”, satellite and cable TV, offering C-band and KU-band rental, and radio stations across the country. MCOT also has joint operation agreements with BEC World Pcl (BEC) and TrueVision.

Source: Thanachart

COMPANY RATING



Source: Thanachart; *CG Awards

THANACHART'S SWOT ANALYSIS

S — Strength

- MCOT has a very strong balance sheet and enjoys net cash position.
- MCOT has received government support including TV project offerings.

O — Opportunity

- Fast-growing digital TV platform could support its network rentals.

W — Weakness

- As 60% of its airtime comes from airtime rental and revenue sharing, MCOT has to share revenue with independent producers. Therefore, the company would benefit less in an industry upturn.
- Content mix doesn't match with countrywide preferences, resulting in ad rate hikes.

T — Threat

- Liberalization will bring more competitors to the market and erode future profitability.
- Digital TV's increasing market share will offer more choices to advertisers and could pose a threat to MCOT's ad rate hikes going forward.

CONSENSUS COMPARISON

	Consensus	Thanachart	Diff
Target price (Bt)	17.39	14.00	-19%
Net profit 14F (Bt m)	682	552	-19%
Net profit 15F (Bt m)	686	532	-22%
Consensus REC	BUY: 2	HOLD: 3	SELL: 10

HOW ARE WE DIFFERENT FROM THE STREET?

- Our earnings forecasts and TP are lower than the Street's which we attribute to our expectation for MCOT to lose competitiveness under the new digital TV platform.

Sources: Bloomberg consensus, Thanachart estimates

RISKS TO OUR INVESTMENT CASE

- Cost of producing its own programs comes in lower than our expectations.
- MCOT manages to effectively control its costs associated with the launch of new businesses such as self-production of digital TV content or changing free-TV airtime allocation towards more self-produced programs

Source: Thanachart

INCOME STATEMENT

FY ending Dec (Bt m)	2012A	2013A	2014F	2015F	2016F
Sales	5,683	5,669	4,372	4,367	4,495
Cost of sales	2,422	2,727	2,744	2,802	2,920
Gross profit	3,260	2,942	1,628	1,565	1,575
% gross margin	57.4%	51.9%	37.2%	35.8%	35.0%
Selling & administration expenses	1,186	1,320	1,123	1,078	1,109
Operating profit	2,074	1,622	505	488	466
% operating margin	36.5%	28.6%	11.6%	11.2%	10.4%
Depreciation & amortization	542	539	820	885	919
EBITDA	2,616	2,161	1,326	1,372	1,385
% EBITDA margin	46.0%	38.1%	30.3%	31.4%	30.8%
Non-operating income	256	316	219	197	202
Non-operating expenses	(1)	(1)	(1)	(1)	(1)
Interest expense	(10)	(13)	(14)	(17)	(17)
Pre-tax profit	2,319	1,924	709	666	650
Income tax	551	396	156	133	130
After-tax profit	1,768	1,528	553	533	520
% net margin	31.1%	27.0%	12.6%	12.2%	11.6%
Shares in affiliates' Earnings	0	0	0	0	0
Minority interests	(10)	(1)	(1)	(1)	(1)
Extraordinary items	0	0	0	0	0
NET PROFIT	1,759	1,527	552	532	519
Normalized profit	1,759	1,527	552	532	519
EPS (Bt)	2.6	2.2	0.8	0.8	0.8
Normalized EPS (Bt)	2.6	2.2	0.8	0.8	0.8

MCOT's profitability is deteriorating in the new media landscape

BALANCE SHEET

FY ending Dec (Bt m)	2012A	2013A	2014F	2015F	2016F
ASSETS:					
Current assets:	6,238	6,232	5,663	5,163	5,706
Cash & cash equivalent	826	2,650	2,500	2,000	2,500
Account receivables	786	850	659	658	677
Inventories	40	51	51	52	54
Others	4,585	2,680	2,453	2,452	2,475
Investments & loans	90	90	90	90	90
Net fixed assets	4,091	3,988	4,289	4,326	4,329
Other assets	830	859	662	662	681
Total assets	11,248	11,168	10,704	10,240	10,806
LIABILITIES:					
Current liabilities:	1,958	1,770	1,837	1,510	1,832
Account payables	139	256	226	230	240
Bank overdraft & ST loans	6	6	332	60	307
Current LT debt	0	0	0	0	0
Others current liabilities	1,813	1,508	1,279	1,219	1,285
Total LT debt	5	4	222	40	205
Others LT liabilities	1,247	1,435	1,107	1,106	1,138
Total liabilities	3,209	3,208	3,165	2,656	3,175
Minority interest	59	61	61	62	63
Preferreds shares	0	0	0	0	0
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
Warrants	0	0	0	0	0
Surplus	0	0	0	0	0
Retained earnings	3,438	3,357	2,936	2,980	3,026
Shareholders' equity	7,980	7,899	7,478	7,522	7,568
Liabilities & equity	11,248	11,168	10,704	10,240	10,806

Strong cash balance position

Sources: Company data, Thanachart estimates

CASH FLOW STATEMENT

FY ending Dec (Bt m)	2012A	2013A	2014F	2015F	2016F
Earnings before tax	2,319	1,924	709	666	650
Tax paid	(551)	(396)	(156)	(133)	(130)
Depreciation & amortization	542	539	820	885	919
Chg In working capital	(148)	41	161	4	(12)
Chg In other CA & CL / minorities	377	(484)	(2)	(59)	43
Cash flow from operations	2,540	1,624	1,532	1,363	1,470
Capex	(420)	(381)	(800)	(600)	(600)
ST loans & investments	(759)	2,097	0	0	0
LT loans & investments	0	0	0	0	0
Adj for asset revaluation	0	0	0	0	0
Chg In other assets & liabilities	(324)	92	(453)	(322)	(308)
Cash flow from investments	(1,503)	1,808	(1,253)	(922)	(908)
Debt financing	(3)	(0)	544	(453)	412
Capital increase	0	0	0	0	0
Dividends paid	(1,393)	(1,580)	(973)	(488)	(473)
Warrants & other surplus	19	(27)	0	0	0
Cash flow from financing	(1,377)	(1,608)	(429)	(941)	(62)
Free cash flow	2,119	1,243	732	763	870

Higher capex from its digital TV project

VALUATION

FY ending Dec	2012A	2013A	2014F	2015F	2016F
Normalized PE (x)	6.6	7.6	21.2	21.9	22.5
Normalized PE - at target price (x)	5.5	6.3	17.4	18.1	18.5
PE (x)	6.6	7.6	21.2	21.9	22.5
PE - at target price (x)	5.5	6.3	17.4	18.1	18.5
EV/EBITDA (x)	4.2	4.2	7.3	7.1	7.0
EV/EBITDA - at target price (x)	3.4	3.2	5.8	5.6	5.5
P/BV (x)	1.5	1.5	1.6	1.6	1.5
P/BV - at target price (x)	1.2	1.2	1.3	1.3	1.3
P/CFO (x)	4.6	7.2	7.6	8.6	7.9
Price/sales (x)	2.1	2.1	2.7	2.7	2.6
Dividend yield (%)	13.5	12.4	4.3	4.1	4.0
FCF Yield (%)	18.1	10.6	6.3	6.5	7.4
(Bt)					
Normalized EPS	2.6	2.2	0.8	0.8	0.8
EPS	2.6	2.2	0.8	0.8	0.8
DPS	2.3	2.1	0.7	0.7	0.7
BV/share	11.6	11.5	10.9	10.9	11.0
CFO/share	3.7	2.4	2.2	2.0	2.1
FCF/share	3.1	1.8	1.1	1.1	1.3

Lower contribution from existing business; higher cost from new business

Sources: Company data, Thanachart estimates

FINANCIAL RATIOS

FY ending Dec	2012A	2013A	2014F	2015F	2016F
Growth Rate					
Sales (%)	11.0	(0.2)	(22.9)	(0.1)	2.9
Net profit (%)	29.7	(13.2)	(63.8)	(3.6)	(2.4)
EPS (%)	29.7	(13.2)	(63.8)	(3.6)	(2.4)
Normalized profit (%)	29.7	(13.2)	(63.8)	(3.6)	(2.4)
Normalized EPS (%)	29.7	(13.2)	(63.8)	(3.6)	(2.4)
Dividend payout ratio (%)	89.8	94.9	90.0	90.0	90.0
Operating performance					
Gross margin (%)	57.4	51.9	37.2	35.8	35.0
Operating margin (%)	36.5	28.6	11.6	11.2	10.4
EBITDA margin (%)	46.0	38.1	30.3	31.4	30.8
Net margin (%)	31.1	27.0	12.6	12.2	11.6
D/E (incl. minor) (x)	0.0	0.0	0.1	0.0	0.1
Net D/E (incl. minor) (x)	(0.1)	(0.3)	(0.3)	(0.3)	(0.3)
Interest coverage - EBIT (x)	204.6	124.7	36.2	29.0	27.9
Interest coverage - EBITDA (x)	258.1	166.2	95.0	81.5	83.0
ROA - using norm profit (%)	16.1	13.6	5.0	5.1	4.9
ROE - using norm profit (%)	22.6	19.2	7.2	7.1	6.9
DuPont					
ROE - using after tax profit (%)	22.7	19.2	7.2	7.1	6.9
- asset turnover (x)	0.5	0.5	0.4	0.4	0.4
- operating margin (%)	41.0	34.2	16.5	15.6	14.8
- leverage (x)	1.4	1.4	1.4	1.4	1.4
- interest burden (%)	99.6	99.3	98.1	97.5	97.5
- tax burden (%)	76.2	79.4	78.0	80.0	80.0
WACC (%)	12.7	12.7	12.7	12.7	12.7
ROIC (%)	24.6	18.0	7.5	7.1	6.6
NOPAT (Bt m)	1,581	1,288	394	390	373

We forecast ROE to decline

Sources: Company data, Thanachart estimates

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For sectors, we look at two areas, ie, the sector outlook and the sector weighting. For the sector outlook, an arrow pointing up, or the word "Positive", is used when we see the industry trend improving. An arrow pointing down, or the word "Negative", is used when we see the industry trend deteriorating. A double-tipped horizontal arrow, or the word "Unchanged", is used when the industry trend does not look as if it will alter. The industry trend view is our top-down perspective on the industry rather than a bottom-up interpretation from the stocks we cover. An "Overweight" sector weighting is used when we have BUYs on majority of the stocks under our coverage by market cap. "Underweight" is used when we have SELLs on majority of the stocks we cover by market cap. "Neutral" is used when there are relatively equal weightings of BUYs and SELLs.

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