

MCOT

MCOT.TB / MCOT.BK

10 February 2015

Deteriorating fundamentals

Investment thesis

MCOT's fundamentals will deteriorate further in FY15, led by the continued loss of audience share and TV ratings to other digital players (due to its weak programming) and greater downside risk to its FY15 concession revenue (assuming True Visions' continued subscriber migration to its NBTC-licensed subsidiary). Despite its TV program revamps expected in FY15, we are skeptical as to whether its content can rival that of other digital players, such as WORK and RS. We have cut our earnings forecasts for FY14 by 13% (to Bt520m) and 10% FY15 (to Bt555m) to reflect weaker 4Q14 earnings and lower TV ad revenue. Our YE15 target price declines to Bt15. Our SELL rating stands.

Continued loss of audience share and program ratings in Jan 2015

Nielsen's audience share and TV rating for Jan indicated that MCOT continued to see drops in both, MoM. MCOT's aggregate audience share—including the HD Channel (simulcast with its Analog Channel) and the MCOT Family Channel—dropped from 4.9% in Dec 2014 to 4.2% in Jan 2015. The aggregate mean TV rating (15 years+ nationwide) for its two digital channels also dropped from 0.35 in Dec 2014 to 0.31 in Jan 2015. We believe that it has lost its ad spend share to other digital players and because WORK has withdrawn four of its TV shows—*Oh! My God*, *Ching Cha Sawan*, *Identity Thailand* and *Fan Pan Tae*—from MCOT's HD to its digital channel, effective Jan 2015.

Some positive impact of program revamps expected in 2H15

As it plans to launch TV program revamps in FY15—the HD Channel in Feb and the Family Channel in May, we then expect some positive impact on its revenue in 2H15. But we are skeptical over the revamped content's ability to match that of WORK or RS. WORK's audience share was 7.6% and its mean TV rating was 0.56 in Jan 2015, which ranks it third behind Channel 7 and BEC. MCOT came in fourth, slightly above RS's audience share of 4% and its TV rating of 0.30. We believe that it might need to give more discounts and offer more bundled packages to clients to boost ad revenue in FY15.

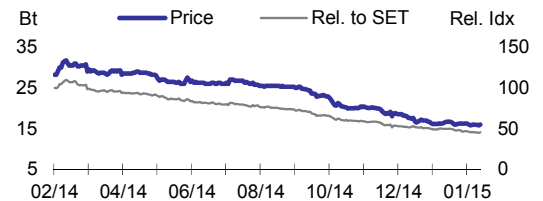
Insights into 4Q14—the earnings tumble

We assume a Bt70m net profit for 4Q14, down by 79% YoY and 22% QoQ. The profit plunge is caused by the ad revenue drop (related to weak broad consumption and declines in audience and ad spend shares) and a plunge in concession revenue (due to True Visions' continued migration of subscribers from the MCOT's concession to its NBTC-licensed subsidiary). TV ad revenue will likely drop 30% YoY and 7% QoQ. Radio ad revenue remains solid—up by 5% YoY and 12% QoQ. Concession revenue will tumble 55% YoY and 20% QoQ.

Its total audience share (including digital TV) dropped to 5.2% in 4Q14 against 6.0% in 3Q14 and 7.6% in 4Q13. Its ad spend market share (including digital TV) also declined to 10.7% in 4Q14 against 13.5% in 3Q14 and 18.1% in 4Q13.

Sector: Media Neutral
Rating: SELL
Target Price: Bt15.00
Price (9 February 2015): Bt16.00

Price chart

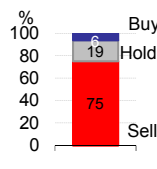


Share price perf. (%)	1M	3M	12M
Relative to SET	(8.9)	(22.6)	(67.5)
Absolute	(4.2)	(20.4)	(43.4)

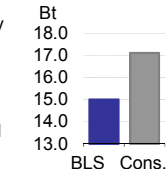
Key statistics

Market cap	Bt11.0bn	USD0.3bn
12-mth price range	Bt15.8/Bt31.8	
12-mth avg daily volume	Bt14m	USD0.4m
# of shares (m)	687	
Est. free float (%)	22.7	
Foreign limit (%)	15.0	

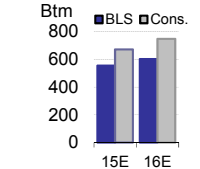
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2013	2014E	2015E	2016E
Revenues (Btm)	5,715	4,321	4,626	4,810
Net profit (Btm)	1,527	520	555	601
EPS (Bt)	2.22	0.76	0.81	0.87
EPS growth (%)	-13.2%	-66.0%	+6.8%	+8.3%
Core profit (Btm)	1,583	520	555	601
Core EPS (Bt)	2.30	0.76	0.81	0.87
Core EPS growth (%)	-10.0%	-67.2%	+6.8%	+8.3%
PER (x)	19.2	33.3	19.8	18.3
PBV (x)	3.7	2.5	1.6	1.5
Dividend (Bt)	2.1	0.7	0.7	0.8
Dividend yield (%)	5.0	2.8	4.6	5.0
ROE (%)	19.2	7.0	7.9	8.5

CG rating



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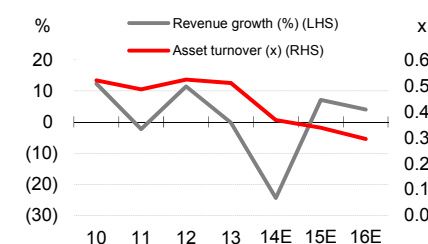
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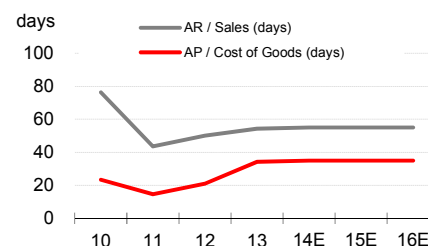
MCOT: Financial Tables – Year

PROFIT & LOSS (Btm)	2012	2013	2014E	2015E	2016E
Revenue	5,729	5,715	4,321	4,626	4,810
Cost of sales and services	(2,422)	(2,727)	(2,692)	(3,001)	(2,890)
Gross profit	3,307	2,989	1,629	1,625	1,919
SG&A	(1,186)	(1,264)	(1,127)	(999)	(1,182)
EBIT	2,121	1,725	502	626	737
Interest expense	(11)	(14)	(16)	(94)	(155)
Other income/exp.	210	269	167	173	179
EBT	2,319	1,980	653	704	762
Corporate tax	(551)	(396)	(144)	(159)	(170)
After-tax net profit (loss)	1,768	1,584	509	545	592
Minority interest	(10)	(1)	11	10	9
Equity earnings from affiliates	0	0	0	0	0
Extra items	0	(56)	0	0	0
Net profit (loss)	1,759	1,527	520	555	601
Reported EPS	2.56	2.22	0.76	0.81	0.87
Fully diluted EPS	2.56	2.22	0.76	0.81	0.87
Core net profit	1,759	1,583	520	555	601
Core EPS	2.56	2.30	0.76	0.81	0.87
EBITDA	2,663	2,264	1,280	1,443	1,595
KEY RATIOS					
Revenue growth (%)	11.4	(0.2)	(24.4)	7.1	4.0
Gross margin (%)	57.7	52.3	37.7	35.1	39.9
EBITDA margin (%)	46.5	39.6	29.6	31.2	33.2
Operating margin (%)	37.0	30.2	11.6	13.5	15.3
Net margin (%)	30.7	26.7	12.0	12.0	12.5
Core profit margin (%)	30.7	27.7	12.0	12.0	12.5
ROA (%)	16.1	13.6	4.4	4.1	3.7
ROCE (%)	22.4	19.1	6.0	5.2	4.5
Asset turnover (x)	0.5	0.5	0.4	0.3	0.3
Current ratio (x)	3.2	3.5	4.6	5.0	5.4
Gearing ratio (x)	0.0	0.0	0.3	0.7	1.0
Interest coverage (x)	189.2	121.0	32.0	6.6	4.8
BALANCE SHEET (Btm)					
Cash & Equivalent	4,610	4,337	5,218	6,285	7,053
Accounts receivable	786	850	651	697	725
Inventory	40	51	45	50	48
PP&E-net	4,091	3,988	4,208	4,736	5,335
Other assets	830	859	1,335	2,340	3,459
Total assets	11,248	11,168	12,325	15,031	17,576
Accounts payable	139	256	258	288	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	108	116	120
Total liabilities	3,209	3,208	5,306	7,945	10,409
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	2,427	2,504	2,594
Shareholders equity	7,980	7,899	6,969	7,046	7,136
Minority interests	59	61	50	40	31
Total Liab.&Shareholders' equity	11,248	11,168	12,325	15,031	17,576
CASH FLOW (Btm)					
Net income	1,759	1,527	520	555	601
Depreciation and amortization	542	539	778	817	858
Change in working capital	(148)	41	208	(21)	(37)
FX, non-cash adjustment & others	(160)	(711)	166	(56)	(37)
Cash flows from operating activities	1,994	1,396	1,671	1,294	1,385
Capex (Invest)/Divest	(278)	(172)	(940)	(1,284)	(1,393)
Others	(663)	2,185	392	(106)	(69)
Cash flows from investing activities	(940)	2,013	(548)	(1,390)	(1,462)
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)	(478)	(511)
Others	(663)	2,185	392	(106)	(69)
Cash flows from financing activities	(1,393)	(1,586)	149	1,072	789
Net change in cash	(340)	1,824	1,272	976	713
Free cash flow (Btm)	1,716	1,224	731	10	(8)
FCF per share (Bt)	2.5	1.8	1.1	0.0	(0.0)
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	2,466	2,559	2,634
Radio ad revenue (Btm)	942	956	937	938	939
Concession revenue (Btm)	927	936	586	317	328
SG&A/sales (%)	20.4%	21.6%	26.1%	21.0%	21.0%

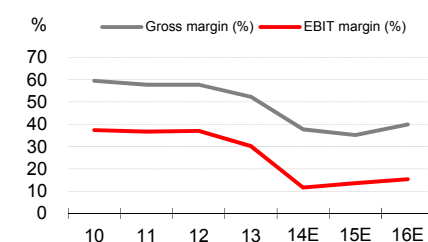
Revenue growth and asset turnover



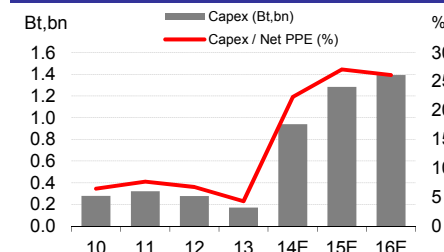
A/C receivable & A/C payable days



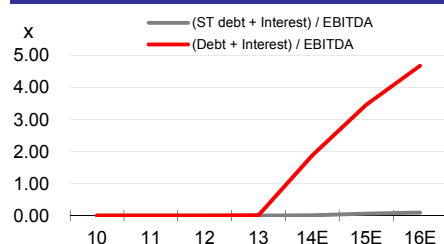
Profit margins



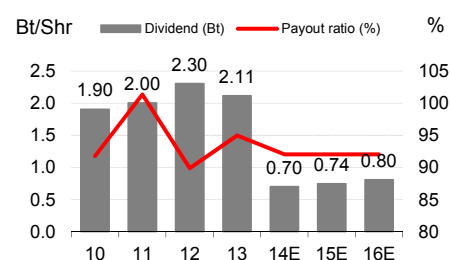
Capital expenditure



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

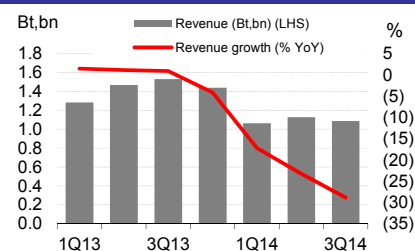
Key statistics

	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%

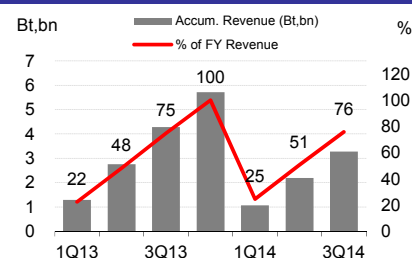
Company profile

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 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. In FY13, Bangkok Entertainment paid Bt182m in revenue share to MCOT. TRUE Visions runs a multichannel pay TV business over fiber-optic cable and satellite. It pays 6.5% of its revenue to MCOT. In FY13, it paid Bt595m.

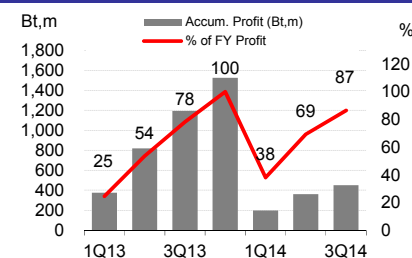
Revenue trend



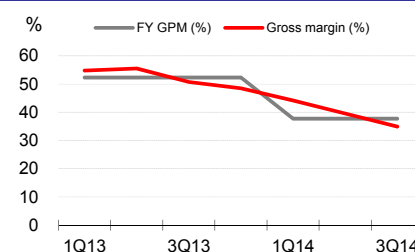
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

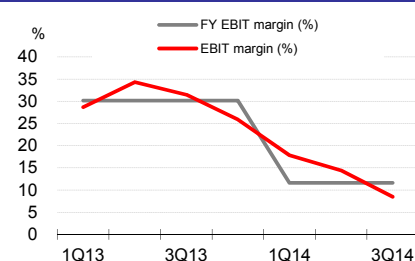
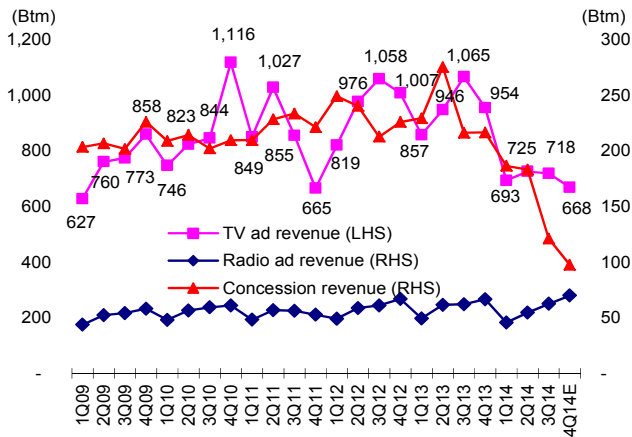
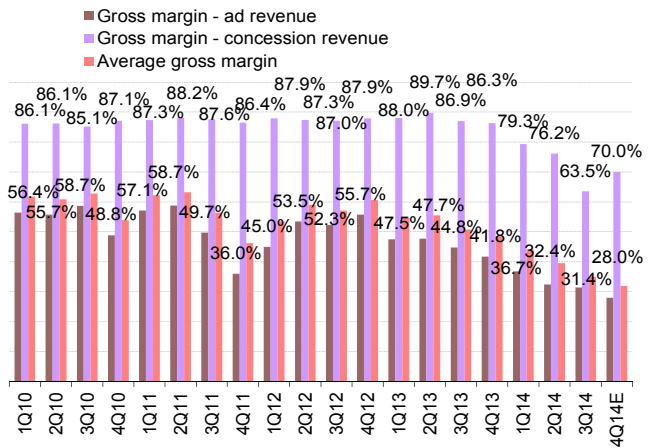


Figure 1: Revenue breakdown, by quarter



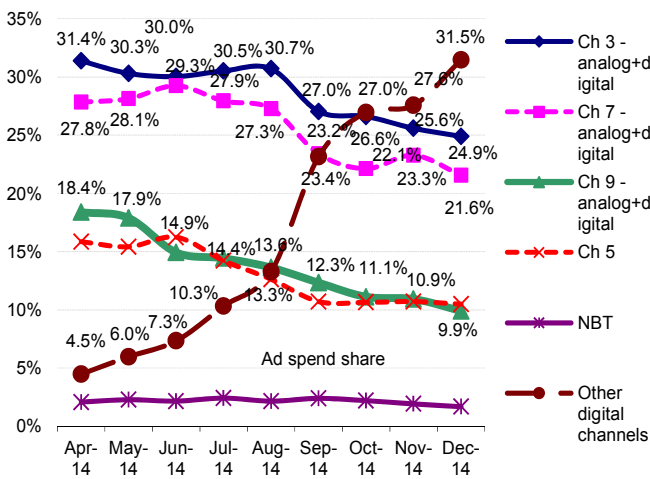
Sources: Company data, Bualuang Research

Figure 2: Gross margin breakdown, by quarter



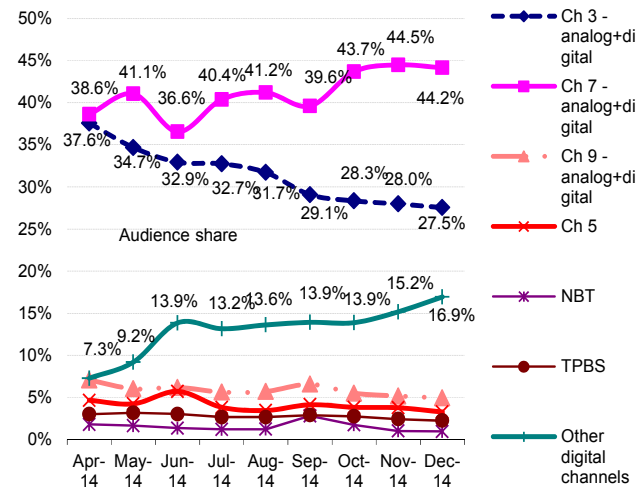
Sources: Company data, Bualuang Research

Figure 3: Ad spend share (analog and digital), by month



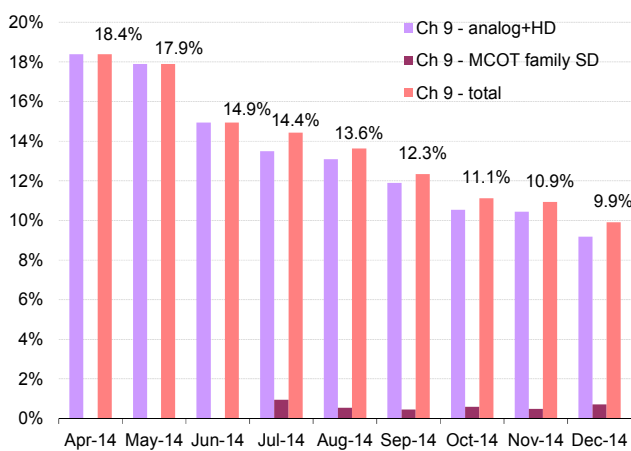
Source: The Nielsen Company

Figure 4: Audience share (analog and digital), by month



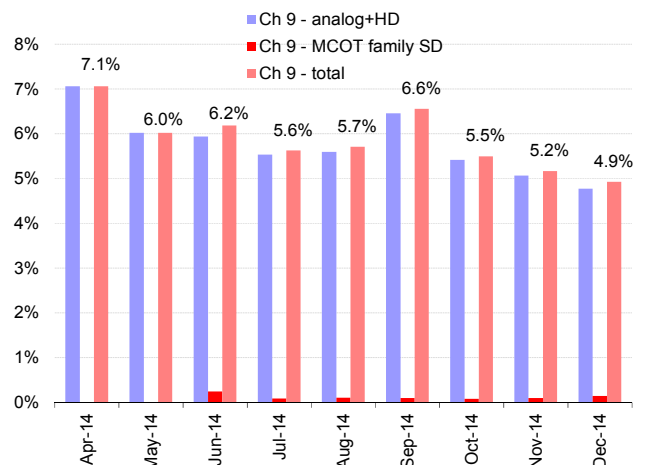
Source: The Nielsen Company

Figure 5: MCOT's ad spend share—analog and digital



Source: The Nielsen Company

Figure 6: MCOT's audience share—analog and digital



Source: The Nielsen Company

Figure 7: 4Q14 earnings preview

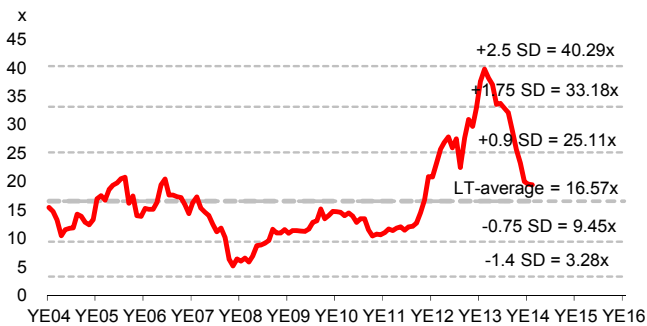
	4Q14E	4Q13	% YoY	3Q14	% QoQ	FY14E	FY13	% YoY
Total revenue	1,045	1,437	(27.3)	1,089	(4.1)	4,321	5,715	(24.4)
- TV	668	954	(30.0)	718	(7.0)	2,804	3,822	(26.6)
- Radio	279	266	5.0	250	11.8	930	957	(2.9)
- Concession	97	216	(55.0)	121	(19.6)	588	936	(37.2)
Total cost of services	(711)	(740)	(3.9)	(708)	0.4	(2,693)	(2,727)	(1.3)
- Cost of TV & radio	(682)	(711)	(4.0)	(664)	2.7	(2,537)	(2,613)	(2.9)
- Cost of concession	(29)	(30)	(1.6)	(44)	(33.7)	(155)	(114)	36.6
Gross profit	333	697	(52.1)	380	(12.3)	1,628	2,989	(45.5)
- TV & radio	265	509	(47.9)	304	(12.7)	1,197	2,166	(44.8)
- Concession	68	187	(63.5)	77	(11.5)	432	823	(47.5)
Gross margin (%)	31.9%	48.5%		34.9%		37.7%	52.3%	
- TV & radio	28.0%	41.7%		31.4%		32.0%	45.3%	
- Concession	70.0%	86.3%		63.6%		73.6%	87.9%	
SG&A	(277)	(324)	(14.6)	(288)	(3.9)	(1,127)	(1,264)	(10.8)
EBIT	57	372	(84.8)	92	(38.6)	501	1,725	(71.0)
Interest expense	(4)	(3)	11.8	(4)	3.4	(14)	(13)	9.1
Other income/exp.	40	51	(21.9)	30	32.9	167	268	(37.7)
EBT	93	420	(77.9)	119	(21.7)	654	1,980	(67.0)
Corporate tax	(19)	(90)	(78.2)	(28)	(29.6)	(145)	(396)	(63.5)
After-tax profit	73	331	(77.8)	91	(19.3)	509	1,584	(67.9)
Minority interest	(3)	1	n.m.	(1)	131.3	11	(1)	n.m.
Extra items	-	-		-		-	(56)	n.m.
Net profit	70	332	(78.8)	90	(21.5)	520	1,527	(65.9)
Reported EPS	0.10	0.48	(78.8)	0.13	(21.5)	0.76	2.22	(65.9)
Fully diluted EPS	0.10	0.48	(78.8)	0.13	(21.5)	0.76	2.22	(65.9)
Core net profit	70	332	(78.8)	90	(21.5)	520	1,583	(67.1)
Core EPS	0.10	0.48	(78.8)	0.13	(21.5)	0.76	2.30	(67.1)
EBITDA	287	507	(43.5)	308	(7.0)	1,280	2,264	(43.5)
Gross margin (%)	31.9	48.5		34.9		37.7	52.3	
EBITDA margin (%)	27.4	35.3		28.3		29.6	39.6	
Operating margin (%)	5.4	25.9		8.5		11.6	30.2	
Net margin (%)	6.7	23.1		8.2		12.0	26.7	
Core profit margin (%)	6.7	23.1		8.2		12.0	27.7	

Sources: Company data, Bualuang Research estimates

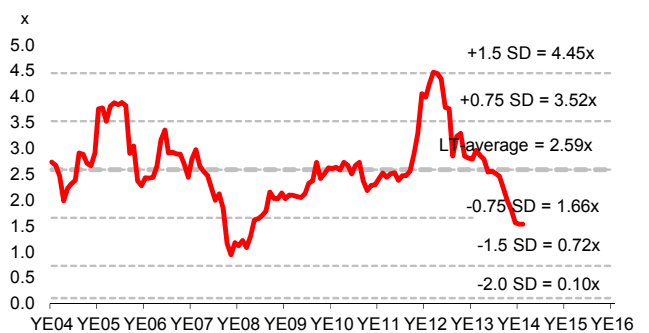
Regional Comparisons

	Bloomberg	Price	Market Cap	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
	Code	(local curr.)	(US\$ equivalent)	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
Abs-Cbn Corp	ABS PM	PHP53.2	1,020	24.3	20.2	-31.5	19.0	1.7	1.6	7.4	8.4	1.2	1.2
Gma Network Inc	GMA7 PM	PHP6.3	476	26.8	18.0	-27.1	60.0	n.a.	n.a.	13.3	18.7	4.1	4.1
Sun Tv Network Ltd	SUNTV IN	INR416.9	2,646	21.3	18.1	3.4	17.3	4.8	4.3	23.9	25.5	2.6	2.9
Zee Entertainment Enterprise	Z IN	INR351.8	5,443	37.5	31.9	1.6	19.0	7.0	6.1	21.7	22.0	0.7	0.9
Television Broadcasts Ltd	511 HK	HKD48.2	2,720	13.1	12.5	262.7	5.2	2.5	2.3	19.0	18.5	5.2	5.6
Phoenix Satellite Television	2008 HK	HKD2.4	1,515	23.5	16.8	172.5	40.0	2.3	2.1	10.1	12.4	1.4	1.9
Nippon Television Network	9404 JP	JPY1,789.0	3,977	15.8	13.5	3.1	17.5	0.8	0.8	5.5	6.2	1.7	1.8
Tokyo Broadcasting System	9401 JP	JPY1,246.0	1,999	17.4	19.3	19.7	-11.1	0.5	0.5	3.2	2.8	1.6	1.6
Tv Asahi Corp	9409 JP	JPY1,656.0	1,514	14.6	13.1	-3.2	11.7	0.6	0.6	4.5	4.6	1.8	2.0
Beijing Gehua Catv Network-A	600037 CH	CNY18.3	3,121	36.7	28.5	35.6	29.5	3.2	2.9	8.4	10.1	0.8	0.9
BEC World	BEC TB	THB55.75	3,422	28.2	25.6	-9.3	10.1	13.3	12.0	50.4	53.6	3.3	3.6
GMM Grammy	GRAMMY TE	THB16.80	423	n.m.	32.7	n.m.	n.m.	4	3	-12.9	13.0	0.0	0.0
Major Cineplex Group	MAJOR TB	THB27.25	744	18.7	16.8	16.3	11.2	3.7	3.5	20.0	21.1	4.6	5.1
MCOT	MCOT TB	THB16.00	337	19.8	18.3	6.8	8.3	1.6	1.5	7.9	8.5	4.6	5.0
RS	RS TB	THB20.40	629	40.0	29.0	17.1	37.9	9.5	8.4	25.1	30.8	1.4	2.1
VGI Global Media	VGI TB	THB12.30	1,295	41	29	26.8	39.2	9.0	5.5	32.8	23.4	2.1	3.1
Workpoint Entertainment	WORK TB	THB62.25	569	72.2	50.8	328.8	42.2	6.0	5.6	10.8	11.6	0.7	1.0
Simple average				28.1	23.2	51.4	22.3	4.4	3.8	14.8	17.1	2.2	2.5

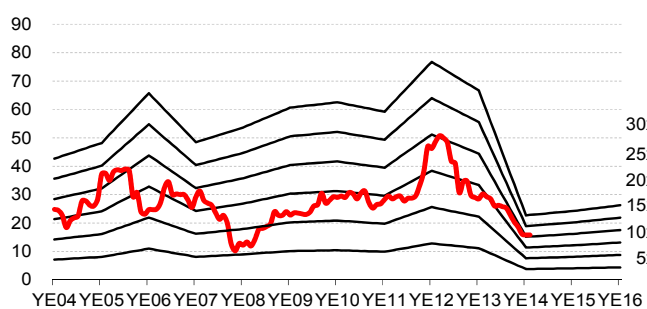
PER band versus SD (next 12 months)



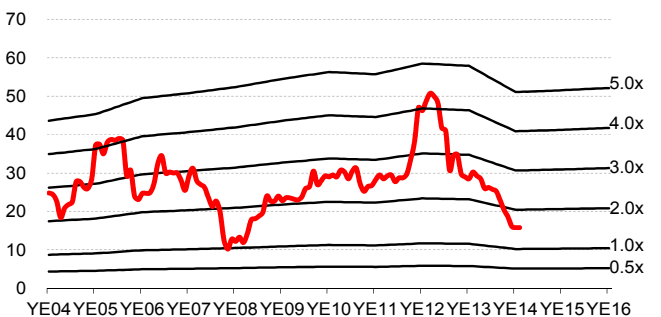
PBV band versus SD (next 12 months)



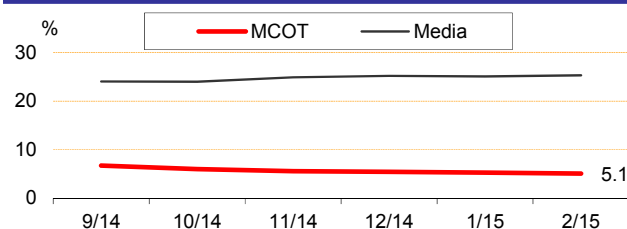
PER band and share price



PBV band and share price



Foreign holding








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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
PLANB, JASIF	PLANB, JASIF

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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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.