

MCOT

MCOT.TB / MCOT.BK

23 June 2015

Are its digital TV ratings sustainable?

Investment thesis

Although the ratings of its two channels—HD and Family—have started to recover during May-June, we are skeptical over such results' long-term sustainability due to its weaker-than-peer content. We also believe that its 50-rai land plot project will take longer to materialize while the windfall gain from True Visions in 2Q15 is just a one-off item. Our SELL rating stands with a downside risk to our FY15 earnings numbers if its 2Q-3Q15 program revamps fail to translate into higher ad revenue.

Digital ratings rose during May-June—a short-term positive

Following revamps at its HD Channel in March and Family Channel in April-May, and the live broadcast of the SEA Games in June, ratings of both channels improved in May and June. We expect both channels to add new sports and entertainment content—soap operas, game shows and variety shows—under the revamp in 3Q15, fueled by Bt400m in content CAPEX. We doubt though that the ratings of its two digital channels can sustain continuous rises in the long term in light of the relatively weaker content they deliver compared to their peers.

Revival of a 50-rai land plot project?

MCOT has launched a master plan for a 50-rai land plot project that involves three phases to create a low-rise mini office and a convention hall for use as a media hub. The idea of adding a retail community mall in the previous plan has already been scrapped due to new zoning regulations. Phase 1 is currently being studied while Phases 2 and 3 might involve a JV with a strategic partner(s). Because total CAPEX for the three phases is likely to exceed Bt10bn, this project must be approved by the cabinet based on the 2013 Private-Public JV Act. We believe that it will take at least a few years for this project to materialize.

Windfall gain from True Visions—one-off item for 2Q15

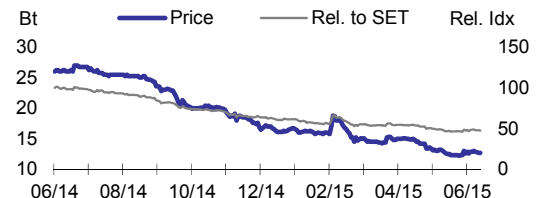
The public broadcaster is likely to book Bt160m (net-of-tax) in one-time compensation from True Visions in June from the buyback of the Build-Transfer-Operate transmission equipment from MCOT after one of its two concessions with MCOT expired in Sept 2014. Regardless of that one-time gain, we doubt if its new source of revenue will make up for the drop in the concession revenue from True Visions', which will slide to a minimum of Bt35m/annum starting in FY16. We model Bt190m for 2Q15 net profit, up 17% YoY and 596% QoQ. If we exclude the one-time gain, core profit would be only Bt30m—down 82% YoY but up 10% QoQ—led by sustained weak TV revenue (no high season impact and heavier ad competition) and the concession revenue drop.

Return of 40MHz of 2600MHz to NBTC in 2H15

It also expects a one-time compensation from the NBTC in exchange for the returned 40MHz of the 2600MHz spectrum in 2H15. We doubt the 40MHz from MCOT will be in the 4G Information Memorandum and its public hearing scheduled in July, due to a time constraint.

Sector: Media Neutral
Rating: SELL
Target Price: Bt10.50
Price (22 June 2015): Bt12.70

Price chart

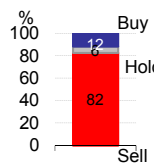


Share price perf. (%)	1M	3M	12M
Relative to SET	2.9	(11.4)	(53.6)
Absolute	1.6	(12.4)	(51.2)

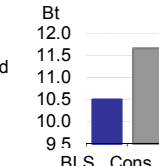
Key statistics

Market cap	Bt8.7bn	USD0.3bn
12-mth price range	Bt12.2/Bt27.3	
12-mth avg daily volume	Bt12m	USD0.4m
# of shares (m)	687	
Est. free float (%)	22.7	
Foreign limit (%)	15.0	

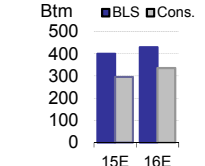
Consensus rating



BLS Target price vs. Consensus



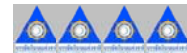
BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2014	2015E	2016E	2017E
Revenues (Btm)	4,284	3,675	3,925	4,184
Net profit (Btm)	504	400	430	466
EPS (Bt)	0.73	0.58	0.63	0.68
EPS growth (%)	-67.0%	-20.5%	+7.3%	+8.5%
Core profit (Btm)	504	400	430	466
Core EPS (Bt)	0.73	0.58	0.63	0.68
Core EPS growth (%)	-68.2%	-20.5%	+7.3%	+8.5%
PER (x)	34.3	21.8	20.3	18.7
PBV (x)	2.3	1.2	1.2	1.1
Dividend (Bt)	0.6	0.4	0.5	0.5
Dividend yield (%)	2.2	3.4	3.7	4.0
ROE (%)	6.6	5.4	5.7	6.1

CG rating



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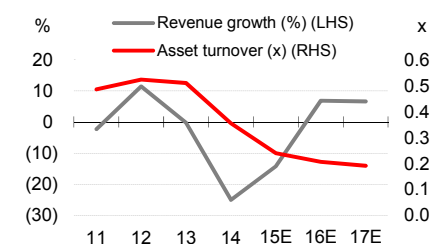
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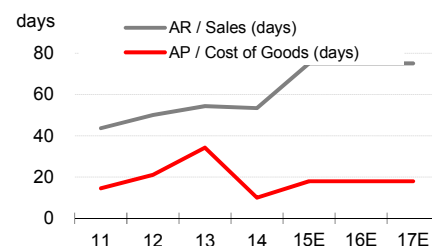
MCOT: Financial Tables – Year

PROFIT & LOSS (Btm)	2013	2014	2015E	2016E	2017E
Revenue	5,715	4,284	3,675	3,925	4,184
Cost of sales and services	(2,727)	(2,677)	(2,458)	(2,413)	(2,407)
Gross profit	2,989	1,607	1,217	1,513	1,778
SG&A	(1,264)	(1,136)	(823)	(997)	(1,151)
EBIT	1,725	471	394	515	626
Interest expense	(14)	(16)	(78)	(155)	(216)
Other income/exp.	269	170	177	183	190
EBT	1,980	625	492	544	600
Corporate tax	(396)	(144)	(114)	(135)	(154)
After-tax net profit (loss)	1,584	481	379	409	446
Minority interest	(1)	23	22	21	20
Equity earnings from affiliates	0	0	0	0	0
Extra items	(56)	0	0	0	0
Net profit (loss)	1,527	504	400	430	466
Reported EPS	2.22	0.73	0.58	0.63	0.68
Fully diluted EPS	2.22	0.73	0.58	0.63	0.68
Core net profit	1,583	504	400	430	466
Core EPS	2.30	0.73	0.58	0.63	0.68
EBITDA	2,264	1,233	1,185	1,338	1,481
KEY RATIOS					
Revenue growth (%)	(0.2)	(25.0)	(14.2)	6.8	6.6
Gross margin (%)	52.3	37.5	33.1	38.5	42.5
EBITDA margin (%)	39.6	28.8	32.3	34.1	35.4
Operating margin (%)	30.2	11.0	10.7	13.1	15.0
Net margin (%)	26.7	11.8	10.9	10.9	11.1
Core profit margin (%)	27.7	11.8	10.9	10.9	11.1
ROA (%)	13.6	4.2	2.6	2.3	2.1
ROCE (%)	19.1	6.5	4.0	3.2	2.9
Asset turnover (x)	0.5	0.4	0.2	0.2	0.2
Current ratio (x)	3.5	2.4	4.1	4.3	4.4
Gearing ratio (x)	0.0	0.0	0.7	1.0	1.3
Interest coverage (x)	121.0	29.6	5.0	3.3	2.9
BALANCE SHEET (Btm)					
Cash & Equivalent	4,337	3,334	5,997	6,667	7,288
Accounts receivable	850	627	755	807	860
Inventory	51	31	37	37	37
PP&E-net	3,988	3,872	4,598	5,406	6,255
Other assets	859	4,657	5,820	7,054	8,430
Total assets	11,168	12,989	17,629	20,413	23,335
Accounts payable	256	73	121	119	119
ST debts & current portion	0	0	0	0	0
Long-term debt	4	54	4,900	7,300	9,810
Other liabilities	115	2,319	2,205	2,355	2,511
Total liabilities	3,208	5,534	10,173	12,849	15,647
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	3,357	2,885	2,908	3,037	3,181
Shareholders' equity	7,899	7,427	7,450	7,579	7,723
Minority interests	61	28	6	(15)	(35)
Total Liab.&Shareholders' equity	11,168	12,989	17,629	20,413	23,335
CASH FLOW (Btm)					
Net income	1,527	504	400	430	466
Depreciation and amortization	539	762	792	823	855
Change in working capital	41	60	(86)	(53)	(53)
FX, non-cash adjustment & others	(711)	(345)	(48)	11	13
Cash flows from operating activities	1,396	982	1,058	1,210	1,281
Capex (Invest)/Divest	(172)	(196)	(1,284)	(1,393)	(1,463)
Others	2,185	(1,543)	(756)	(373)	(388)
Cash flows from investing activities	2,013	(1,739)	(2,040)	(1,766)	(1,851)
Debt financing (repayment)	(5)	(6)	3,149	1,300	1,280
Equity financing	0	0	0	0	0
Dividend payment	(1,580)	(986)	(378)	(300)	(322)
Others	2,185	(1,543)	(756)	(373)	(388)
Cash flows from financing activities	(1,586)	(992)	2,771	1,000	958
Net change in cash	1,824	(1,750)	1,789	444	388
Free cash flow (Btm)	1,224	786	(226)	(183)	(182)
FCF per share (Bt)	1.8	1.1	(0.3)	(0.3)	(0.3)
Key assumptions	2013	2014	2015E	2016E	2017E
Average TV loading factor (%)	80.0%	60.0%	65.0%	70.0%	75.0%
TV ad revenue (Btm)	3,824	2,486	1,608	1,749	1,896
Radio ad revenue (Btm)	956	930	938	939	940
Concession revenue (Btm)	936	593	317	328	340
SG&A/sales (%)	21.6%	26.2%	23.0%	22.5%	15.0%

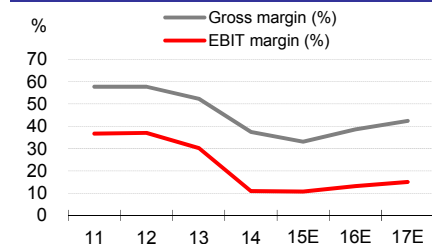
Revenue growth and asset turnover



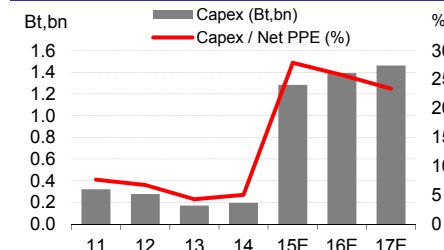
A/C receivable & A/C payable days



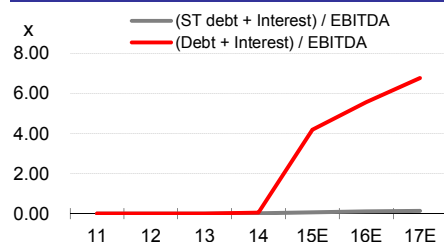
Profit margins



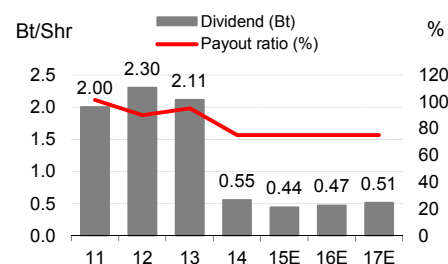
Capital expenditure



Debt serviceability



Dividend payout



MCOT: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	1Q14	2Q14	3Q14	4Q14	1Q15
Revenue	1,030	1,126	1,088	1,040	805
Cost of sales and services	(561)	(681)	(708)	(728)	(606)
Gross profit	469	445	380	312	199
SG&A	(280)	(283)	(288)	(286)	(249)
EBIT	190	162	92	26	(49)
Interest expense	(3)	(3)	(4)	(4)	(5)
Other income/exp.	51	46	30	42	83
EBT	237	205	119	64	29
Corporate tax	(48)	(49)	(28)	(19)	(6)
After-tax net profit (loss)	189	156	91	45	22
Minority interest	9	7	(1)	8	5
Equity earnings from affiliates	0	0	0	0	0
Extra items	0	0	0	0	0
Net profit (loss)	198	163	90	54	27
Reported EPS	0.29	0.24	0.13	0.08	0.04
Fully diluted EPS	0.29	0.24	0.13	0.08	0.04
Core net profit	198	163	90	54	27
Core EPS	0.29	0.24	0.13	0.08	0.04
EBITDA	330	355	308	239	152

KEY RATIOS

Gross margin (%)	45.5	39.5	34.9	30.0	24.8
EBITDA margin (%)	32.0	31.6	28.3	23.0	18.8
Operating margin (%)	18.4	14.4	8.5	2.5	(6.1)
Net margin (%)	19.2	14.5	8.2	5.2	3.4
Core profit margin (%)	19.2	14.5	8.2	5.2	3.4
BV (Bt)	11.9	11.0	10.8	10.9	10.9
ROE (%)	9.8	8.7	4.9	2.9	1.5
ROA (%)	5.6	4.9	2.7	1.7	0.9
Current ratio (x)	3.4	2.2	2.0	2.4	2.5
Gearing ratio (x)	0.0	0.0	0.0	0.0	0.0
Interest coverage (x)	55.2	46.8	25.7	6.2	n.m.

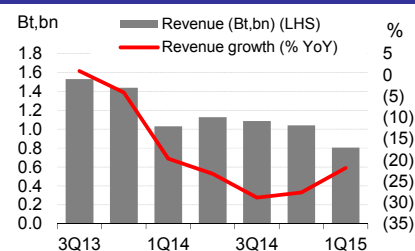
QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	3,571	3,269	3,646	3,334	3,372
Accounts receivable	676	727	668	627	530
Inventory	54	64	50	31	27
PP&E-net	4,090	4,019	3,944	2,707	2,613
Other assets	4,946	4,877	4,796	5,911	5,846
Total assets	14,199	13,344	13,487	12,989	12,804
Accounts payable	301	219	175	73	64
ST debts & current portion	6	6	16	32	33
Long-term debt	3	5	25	54	48
Other liabilities	4,524	3,746	3,693	3,637	3,565
Total liabilities	6,050	5,812	6,077	5,534	5,326
Paid-up capital	3,435	3,435	3,435	3,435	3,435
Share premium	3,555	2,955	2,831	2,885	2,912
Retained earnings	3,555	2,955	2,831	2,885	2,912
Shareholders equity	8,097	7,497	7,374	7,427	7,455
Minority interests	52	35	36	28	23
Total Liab.&Shareholders' equity	14,199	13,344	13,487	12,989	12,804
Average TV loading factor (%)	1Q14	2Q14	3Q14	4Q14	1Q15
Average TV loading factor (%)	64.0%	75.0%	84.0%	66.0%	65.0%
TV ad revenue (Btm)	586	653	660	585	387
Radio ad revenue (Btm)	182	218	250	279	204
Concession revenue (Btm)	186	183	121	103	112
New media & digital network rev (Btm)	75	72	58	73	102

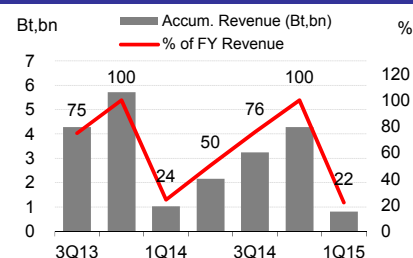
Company profile

MCOT Plc (MCOT) operates a free-to-air national terrestrial TV station, ModerNine, and 62 radio stations across the country. The broadcaster 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 TRUE Visions. Bangkok Entertainment operates the nationwide terrestrial TV station, Channel 3. In FY14, Bangkok Entertainment paid Bt191m 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 FY14, it paid Bt382m.

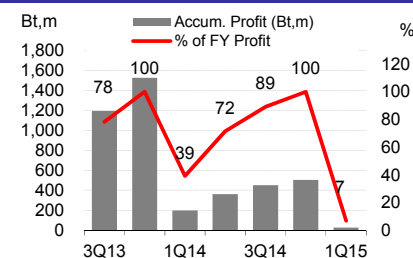
Revenue trend



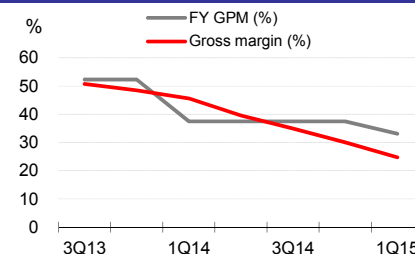
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

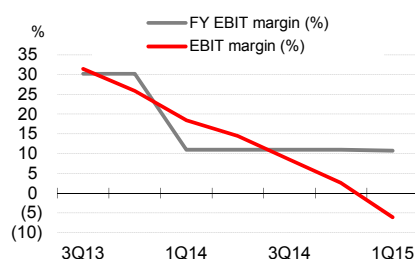
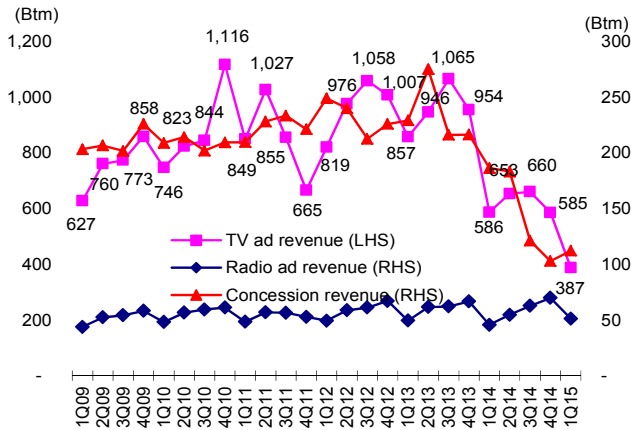
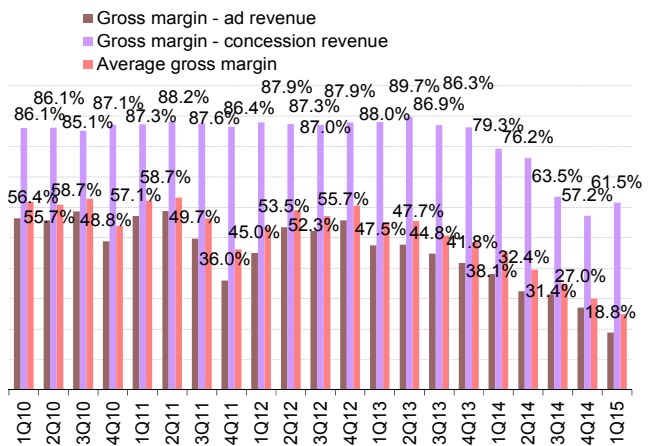


Figure 1: Revenue breakdown, by quarter



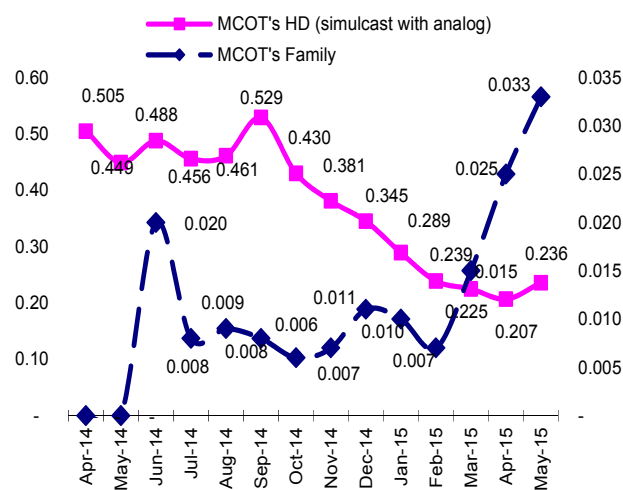
Source: Company data

Figure 2: Gross margin breakdown, by quarter



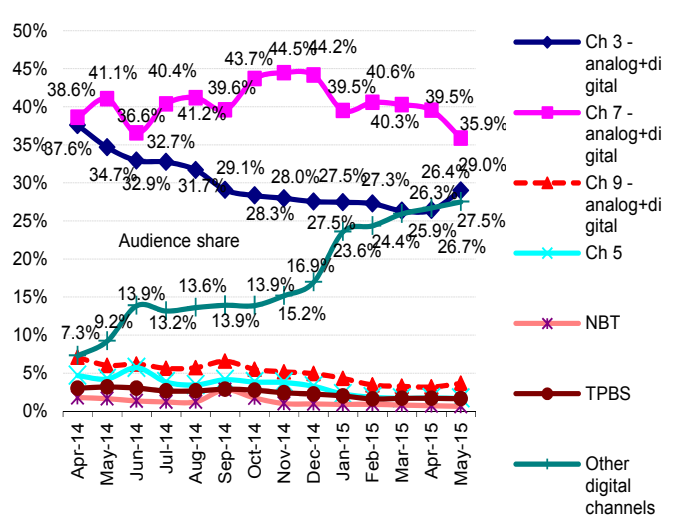
Source: Company data

Figure 3: Ratings of HD and Family channels, by month



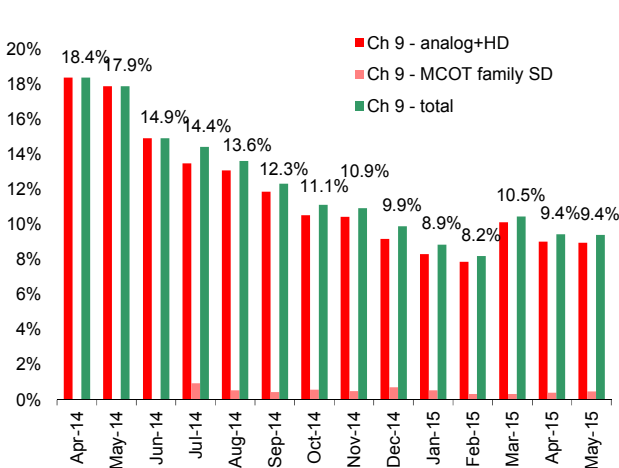
Source: The Nielsen Company

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



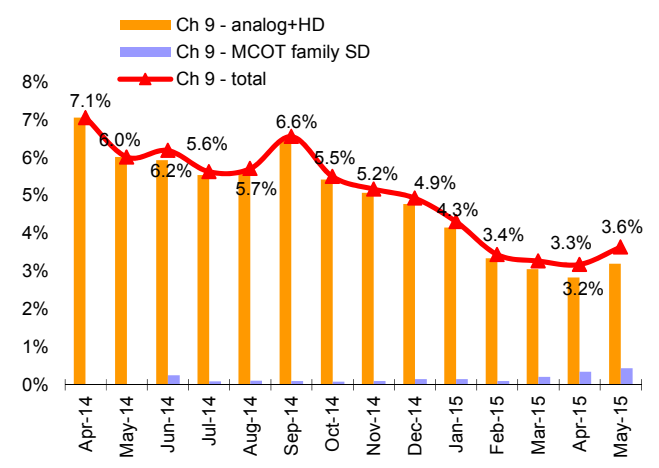
Source: The Nielsen Company

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



Source: The Nielsen Company

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

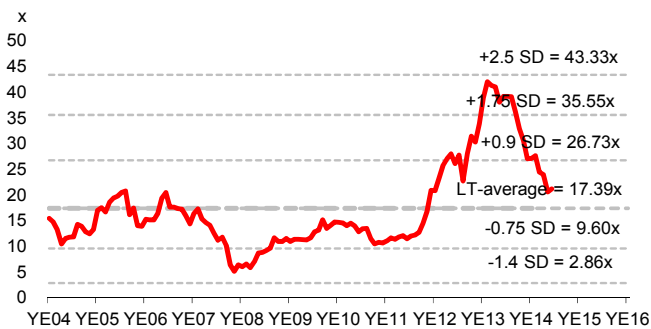


Source: The Nielsen Company

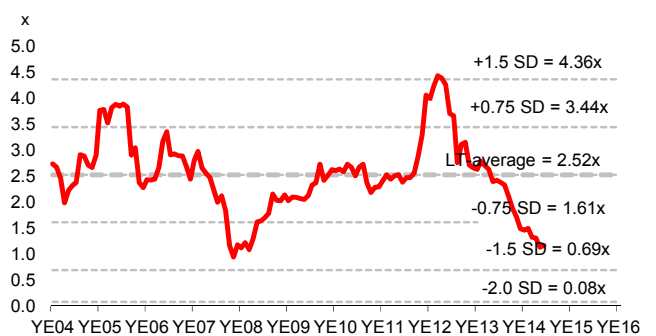
Regional Comparisons

	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	PHP61.0	1,154	20.3	13.9	4.6	47.8	1.9	1.7	9.3	12.3	1.3	1.7
Gma Network Inc	GMA7 PM	PHP6.3	473	24.8	16.2	-8.2	73.7	n.a.	n.a.	15.1	21.5	4.3	2.5
Sun Tv Network Ltd	SUNTV IN	INR333.2	2,069	14.7	12.5	14.9	17.3	3.5	3.2	25.2	26.8	3.9	4.4
Zee Entertainment Enterprise	Z IN	INR345.4	5,227	34.5	27.0	16.7	28.4	5.9	5.2	20.1	21.9	0.8	1.1
Television Broadcasts Ltd	511 HK	HKD46.6	2,630	13.0	12.4	253.5	5.2	2.3	2.2	18.3	17.7	5.5	5.8
Phoenix Satellite Television	2008 HK	HKD2.8	1,793	25.3	19.9	199.7	27.3	2.5	2.3	10.5	12.0	1.8	1.7
Nippon Television Network	9404 JP	JPY2,002.0	4,283	14.9	13.7	12.0	8.4	0.9	0.8	5.9	6.2	1.6	1.7
Tokyo Broadcasting System	9401 JP	JPY1,640.0	2,533	27.0	24.9	-23.5	9.2	0.6	0.6	2.4	2.6	1.1	1.2
Tv Asahi Corp	9409 JP	JPY1,991.0	1,752	20.4	19.4	-6.6	4.9	0.7	0.7	3.4	3.6	1.9	2.0
Beijing Gehua Catv Network-A	600037 CH	CNY40.5	7,625	53.8	39.1	35.7	37.6	6.2	5.4	11.7	13.8	0.7	0.9
BEC World	BEC TB	THB37.50	2,226	22.7	21.3	-25.3	6.8	9.4	8.8	40.7	45.0	4.0	4.3
GMM Grammy	GRAMMY TE	THB13.60	331	n.m.	26.2	n.m.	n.m.	3	3	-0.3	12.7	0.0	0.0
Major Cineplex Group	MAJOR TB	THB31.50	832	21.6	19.4	19.4	11.2	4.2	4.0	19.9	21.1	4.0	4.4
MCOT	MCOT TB	THB12.70	259	21.8	20.3	-20.5	7.3	1.2	1.2	5.4	5.7	3.4	3.7
Plan B Media	PLANB TB	THB5.40	560	47.1	33.0	44.3	42.7	6.8	6.1	22.8	19.6	1.1	1.5
RS	RS TB	THB14.40	430	36.6	19.2	8.4	90.6	7.6	6.4	22.2	37.5	1.6	3.1
VGI Global Media	VGI TB	THB4.96	1,011	35	25	-27.4	41.9	7.6	4.5	32.8	23.1	2.5	3.7
Workpoint Entertainment	WORK TB	THB39.75	492	75.3	64.7	574.8	16.3	5.3	5.0	9.2	8.1	0.7	0.8
Simple average				29.9	23.8	63.1	28.0	4.1	3.6	15.2	17.3	2.2	2.5

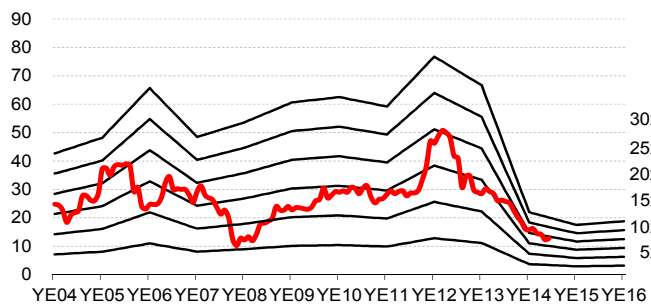
PER band versus SD (next 12 months)



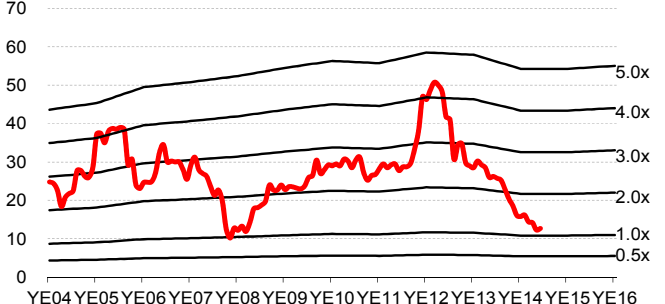
PBV band versus SD (next 12 months)



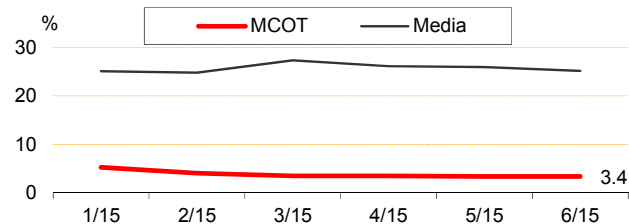
PER band and share price



PBV band and share price



Foreign holding








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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter
	BR

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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- 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.