

# MCOT

MCOT.TB / MCOT.BK

2 September 2015

## Doubts over Sept program revamp

### Investment thesis

We doubt whether program revamps and rebranding as well as the new management team under the new organizational structure will boost MCOT's revenue in 4Q15 through FY16 amid the highly competitive ad spend environment and stronger entertainment-positioned rivals. Our SELL rating stands in anticipation of the continued losses in ratings and audience share to its digital rivals in the long term.

### Channel revamp and rebranding scheduled for September

The firm will launch a big program revamp and channel rebranding on September 9 with a greater focus on "modern lifestyle" entertainment content. Moreover, more in-house content (in collaboration with True Visions and Nation Group) are expected during 4Q15-FY16. Four new highly experienced management positions with variety, game show and Thai soap opera expertise are expected to be filled during September and October. These two factors will boost its ad revenue and ratings from 4Q15. But, we are skeptical over their boosting of ratings in light of intensifying competition from other entertainment-positioned channels, and the moves' long-term success will remain to be seen.

### Leaner cost structure under new organizational chart

The new organizational chart which will take effect in September or October will result in a leaner overall cost structure, especially over staff (via the retirement program and the scrapping of unnecessary positions). The bringing in of a new management team and greater integration between the TV and radio business units will enhance productivity, create greater synergies and improve the revenue momentum from 4Q15 through to 2016. We believe that its operation bottomed out in 1Q15 but are skeptical over the scale of the QoQ recovery, which might take at least six months for revamps and restructuring to show positive results. We estimate that 3Q15 core profit will be weaker YoY (Bt29m; down 68% YoY but up 61% QoQ).

### Weaker ratings for HD Channel during July and August

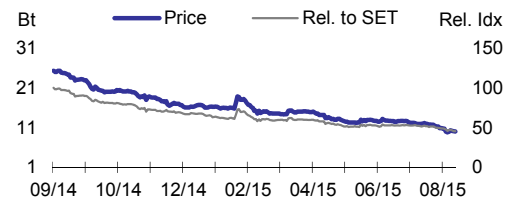
Its rating (4 years+ nationwide) for its HD Channel (simulcast with the analog channel) retreated 25% MoM in July to 0.220 (due to the high base set in June linked to the SEA Games live broadcasts) and dipped further to 0.210 during August 1-16 (against 0.236 in May). We are starting to question the positive impacts from its HD Channel revamp in March. The rating for its Family Channel inched up marginally MoM to 0.039 in July and 0.043 during August 1-16 due to its Family Channel revamp in May. We doubt such rises have long-term sustainability.

### FY15-16 net profit forecast cut a further 10%

We have revised down our net profit forecasts 10% for both FY15 (to Bt197m) and FY16 (to Bt212m) to reflect a diminished ad revenue assumption related to less positive impacts from the program revamps for both channels during March-May 2015 on its 2H15 revenue. Our target price declines 10% (to Bt9).

**Sector: Media – NEUTRAL**
**Rating: SELL**
**Target Price: Bt9.00**
**Price (1 September 2015): Bt10.00**

### Price chart

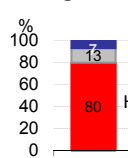


Share price perf. (%)	1M	3M	12M
Relative to SET	(12.5)	(17.6)	(47.8)
Absolute	(18.0)	(25.4)	(60.8)

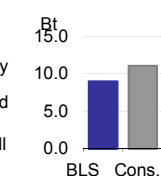
### Key statistics

Market cap	Bt6.9bn	USD0.2bn
12-mth price range	Bt9.8/Bt25.5	
12-mth avg daily volume	Bt10m	USD0.3m
# of shares (m)	687	
Est. free float (%)	22.7	
Foreign limit (%)	15.0	

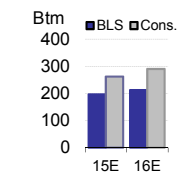
### Consensus rating



### BLS Target price vs. Consensus



### BLS earnings vs. Consensus



### Financial summary

FY Ended 31 Dec	2014	2015E	2016E	2017E
Revenues (Btm)	4,284	3,390	3,782	4,032
Net profit (Btm)	504	197	212	238
EPS (Bt)	0.73	0.29	0.31	0.35
EPS growth (%)	-67.0%	-61.0%	+8.0%	+12.0%
Core profit (Btm)	504	120	212	238
Core EPS (Bt)	0.73	0.17	0.31	0.35
Core EPS growth (%)	-68.2%	-76.2%	+77.2%	+12.0%
PER (x)	34.3	35.0	32.4	28.9
PBV (x)	2.3	0.9	0.9	0.9
Dividend (Bt)	0.6	0.2	0.2	0.3
Dividend yield (%)	2.2	2.1	2.3	2.6
ROE (%)	6.6	2.7	2.9	3.2

### CG rating

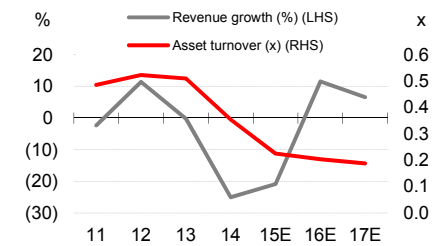


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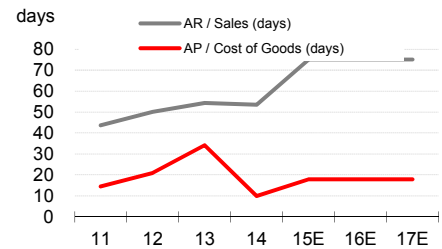
## MCOT: Financial Tables – Year

PROFIT & LOSS (Btm)	2013	2014	2015E	2016E	2017E
Revenue	5,715	4,284	3,390	3,782	4,032
Cost of sales and services	(2,727)	(2,677)	(2,590)	(2,589)	(2,563)
<b>Gross profit</b>	<b>2,989</b>	<b>1,607</b>	<b>800</b>	<b>1,193</b>	<b>1,469</b>
SG&A	(1,264)	(1,136)	(757)	(949)	(1,128)
<b>EBIT</b>	<b>1,725</b>	<b>471</b>	<b>43</b>	<b>244</b>	<b>341</b>
Interest expense	(14)	(16)	(78)	(155)	(216)
Other income/exp.	269	170	177	183	190
<b>EBT</b>	<b>1,980</b>	<b>625</b>	<b>142</b>	<b>272</b>	<b>315</b>
Corporate tax	(396)	(144)	(44)	(81)	(97)
<b>After-tax net profit (loss)</b>	<b>1,584</b>	<b>481</b>	<b>98</b>	<b>191</b>	<b>218</b>
Minority interest	(1)	23	22	21	20
Equity earnings from affiliates	0	0	0	0	0
Extra items	(56)	0	77	0	0
<b>Net profit (loss)</b>	<b>1,527</b>	<b>504</b>	<b>197</b>	<b>212</b>	<b>238</b>
Reported EPS	2.22	0.73	0.29	0.31	0.35
<b>Fully diluted EPS</b>	<b>2.22</b>	<b>0.73</b>	<b>0.29</b>	<b>0.31</b>	<b>0.35</b>
<b>Core net profit</b>	<b>1,583</b>	<b>504</b>	<b>120</b>	<b>212</b>	<b>238</b>
Core EPS	2.30	0.73	0.17	0.31	0.35
<b>EBITDA</b>	<b>2,264</b>	<b>1,233</b>	<b>835</b>	<b>1,066</b>	<b>1,195</b>
<b>KEY RATIOS</b>					
Revenue growth (%)	(0.2)	(25.0)	(20.9)	11.6	6.6
Gross margin (%)	52.3	37.5	23.6	31.5	36.4
EBITDA margin (%)	39.6	28.8	24.6	28.2	29.7
Operating margin (%)	30.2	11.0	1.3	6.4	8.5
Net margin (%)	26.7	11.8	5.8	5.6	5.9
Core profit margin (%)	27.7	11.8	3.5	5.6	5.9
ROA (%)	13.6	4.2	1.3	1.1	1.1
ROCE (%)	19.1	6.5	2.0	1.6	1.5
Asset turnover (x)	0.5	0.4	0.2	0.2	0.2
Current ratio (x)	3.5	2.4	4.4	4.3	4.4
Gearing ratio (x)	0.0	0.0	0.7	1.0	1.3
Interest coverage (x)	121.0	29.6	0.5	1.6	1.6
<b>BALANCE SHEET (Btm)</b>					
Cash & Equivalent	4,337	3,334	5,991	6,501	7,062
Accounts receivable	850	627	697	777	828
Inventory	51	31	39	39	39
PP&E-net	3,988	3,872	4,598	5,406	6,255
Other assets	859	4,657	5,416	6,851	8,214
<b>Total assets</b>	<b>11,168</b>	<b>12,989</b>	<b>17,135</b>	<b>20,005</b>	<b>22,851</b>
Accounts payable	256	73	128	128	126
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	2,034	2,269	2,419
<b>Total liabilities</b>	<b>3,208</b>	<b>5,534</b>	<b>9,884</b>	<b>12,710</b>	<b>15,497</b>
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	2,704	2,768	2,847
<b>Shareholders' equity</b>	<b>7,899</b>	<b>7,427</b>	<b>7,246</b>	<b>7,311</b>	<b>7,389</b>
Minority interests	61	28	6	(15)	(35)
<b>Total Liab.&amp;Shareholders' equity</b>	<b>11,168</b>	<b>12,989</b>	<b>17,135</b>	<b>20,005</b>	<b>22,851</b>
<b>CASH FLOW (Btm)</b>					
Net income	1,527	504	197	212	238
Depreciation and amortization	539	762	792	823	855
Change in working capital	41	60	(23)	(81)	(52)
FX, non-cash adjustment & others	(711)	(345)	(84)	29	12
<b>Cash flows from operating activities</b>	<b>1,396</b>	<b>982</b>	<b>880</b>	<b>984</b>	<b>1,052</b>
Capex (Invest)/Divest	(172)	(196)	(1,284)	(1,393)	(1,463)
Others	2,185	(1,543)	(329)	(586)	(374)
<b>Cash flows from investing activities</b>	<b>2,013</b>	<b>(1,739)</b>	<b>(1,613)</b>	<b>(1,979)</b>	<b>(1,837)</b>
Debt financing (repayment)	(5)	(6)	3,149	1,300	1,280
Equity financing	0	0	0	0	0
Dividend payment	(1,580)	(986)	(378)	(147)	(159)
Others	2,185	(1,543)	(329)	(586)	(374)
<b>Cash flows from financing activities</b>	<b>(1,586)</b>	<b>(992)</b>	<b>2,771</b>	<b>1,153</b>	<b>1,121</b>
Net change in cash	1,824	(1,750)	2,039	157	337
<b>Free cash flow (Btm)</b>	<b>1,224</b>	<b>786</b>	<b>(404)</b>	<b>(409)</b>	<b>(411)</b>
<b>FCF per share (Bt)</b>	<b>1.8</b>	<b>1.1</b>	<b>(0.6)</b>	<b>(0.6)</b>	<b>(0.6)</b>
<b>Key assumptions</b>	<b>2013</b>	<b>2014</b>	<b>2015E</b>	<b>2016E</b>	<b>2017E</b>
Average TV loading factor (%)	80.0%	60.0%	50.0%	55.0%	60.0%
TV ad revenue (Btm)	3,824	2,486	1,323	1,606	1,744
Radio ad revenue (Btm)	956	930	938	939	940
Concession revenue (Btm)	936	593	317	328	340
SG&A/sales (%)	22.1%	26.5%	22.3%	25.1%	28.0%

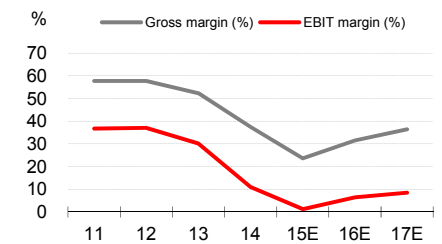
### Revenue growth and asset turnover



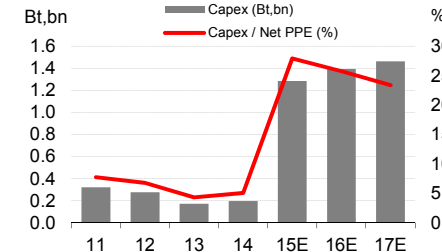
### A/C receivable & A/C payable days



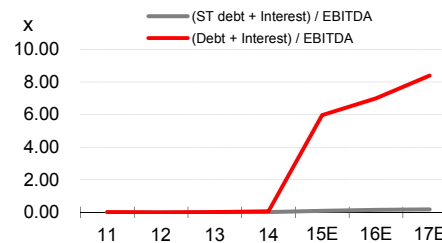
### Profit margins



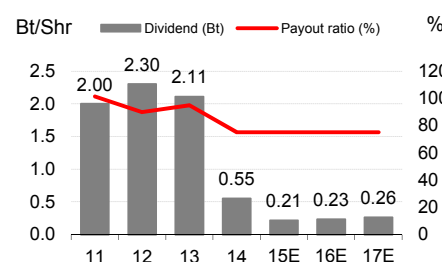
### Capital expenditure



### Debt serviceability



### Dividend payout



## MCOT: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	2Q14	3Q14	4Q14	1Q15	2Q15
Revenue	1,126	1,088	1,040	805	889
Cost of sales and services	(681)	(708)	(728)	(606)	(643)
Gross profit	445	380	312	199	246
SG&A	(283)	(288)	(286)	(249)	(251)
<b>EBIT</b>	<b>162</b>	<b>92</b>	<b>26</b>	<b>(49)</b>	<b>(5)</b>
Interest expense	(3)	(4)	(4)	(5)	(5)
Other income/exp.	46	30	42	83	37
<b>EBT</b>	<b>205</b>	<b>119</b>	<b>64</b>	<b>29</b>	<b>28</b>
Corporate tax	(49)	(28)	(19)	(6)	(12)
After-tax net profit (loss)	156	91	45	22	16
Minority interest	7	(1)	8	5	2
Equity earnings from affiliates	0	0	0	0	0
Extra items	0	0	0	0	21
<b>Net profit (loss)</b>	<b>163</b>	<b>90</b>	<b>54</b>	<b>27</b>	<b>39</b>
Reported EPS	0.24	0.13	0.08	0.04	0.06
<b>Fully diluted EPS</b>	<b>0.24</b>	<b>0.13</b>	<b>0.08</b>	<b>0.04</b>	<b>0.06</b>
<b>Core net profit</b>	<b>163</b>	<b>90</b>	<b>54</b>	<b>27</b>	<b>18</b>
Core EPS	0.24	0.13	0.08	0.04	0.03
<b>EBITDA</b>	<b>355</b>	<b>308</b>	<b>239</b>	<b>152</b>	<b>201</b>

### KEY RATIOS

Gross margin (%)	39.5	34.9	30.0	24.8	27.7
EBITDA margin (%)	31.6	28.3	23.0	18.8	22.6
Operating margin (%)	14.4	8.5	2.5	(6.1)	(0.5)
Net margin (%)	14.5	8.2	5.2	3.4	4.4
Core profit margin (%)	14.5	8.2	5.2	3.4	2.0
BV (Bt)	11.0	10.8	10.9	10.9	10.9
ROE (%)	8.7	4.9	2.9	1.5	2.1
ROA (%)	4.9	2.7	1.7	0.9	1.3
Current ratio (x)	2.2	2.0	2.4	2.5	2.4
Gearing ratio (x)	0.0	0.0	0.0	0.0	0.0
Interest coverage (x)	46.8	25.7	6.2	n.m.	n.m.

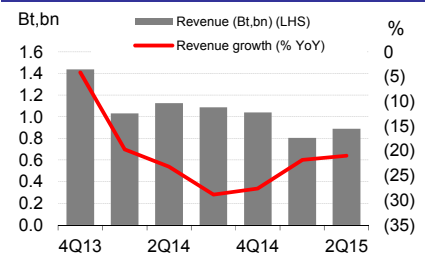
### QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	3,269	3,646	3,334	3,372	2,558
Accounts receivable	727	668	627	530	497
Inventory	64	50	31	27	38
PP&E-net	4,019	3,944	2,707	2,613	2,549
Other assets	4,877	4,796	5,911	5,846	5,806
<b>Total assets</b>	<b>13,344</b>	<b>13,487</b>	<b>12,989</b>	<b>12,804</b>	<b>12,028</b>
Accounts payable	219	175	73	64	96
ST debts & current portion	6	16	32	33	36
Long-term debt	5	25	54	48	21
Other liabilities	3,746	3,693	3,637	3,565	2,942
<b>Total liabilities</b>	<b>5,812</b>	<b>6,077</b>	<b>5,534</b>	<b>5,326</b>	<b>4,512</b>
Paid-up capital	3,435	3,435	3,435	3,435	3,435
Share premium	2,955	2,831	2,885	2,912	2,953
Retained earnings	2,955	2,831	2,885	2,912	2,953
<b>Shareholders equity</b>	<b>7,497</b>	<b>7,374</b>	<b>7,427</b>	<b>7,455</b>	<b>7,496</b>
Minority interests	35	36	28	23	21
<b>Total Liab.&amp;Shareholders' equity</b>	<b>13,344</b>	<b>13,487</b>	<b>12,989</b>	<b>12,804</b>	<b>12,028</b>
<b>Average TV loading factor (%)</b>	<b>2Q14</b>	<b>3Q14</b>	<b>4Q14</b>	<b>1Q15</b>	<b>2Q15</b>
Average TV loading factor (%)	75.0%	84.0%	66.0%	65.0%	70.0%
TV ad revenue (Btm)	653	631	548	387	418
Radio ad revenue (Btm)	218	250	279	204	240
Concession revenue (Btm)	183	121	103	112	122
New media & digital network rev (Btm)	72	87	110	101	110

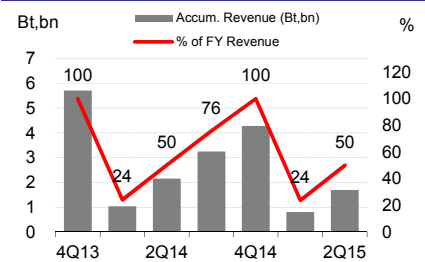
### Company profile

MCOT Public Company Limited (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 Public Company Limited (a subsidiary of BEC) and TRUE Visions. Bangkok Entertainment operates the nationwide terrestrial TV station, Channel 3. In FY14, it 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. For True Visions, its satellite-platformed concession with MCOT expired on Sept 30, 2014 while its cable-platformed concession with MCOT will expire on Dec 31, 2019. MCOT won two digital TV licenses from the NBTC in Dec 2013—HD Channel (Bt3.34bn) and Family Channel (Bt660m).

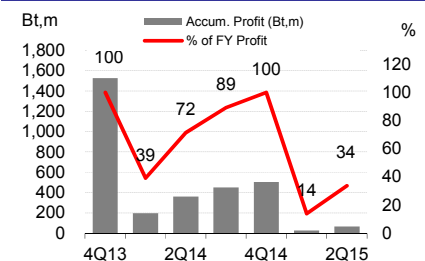
### Revenue trend



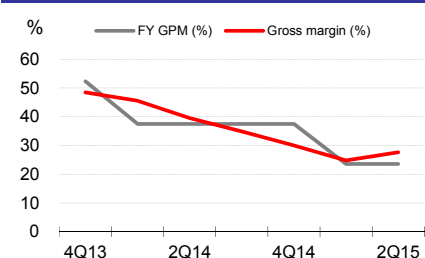
### Revenue trend (accumulated)



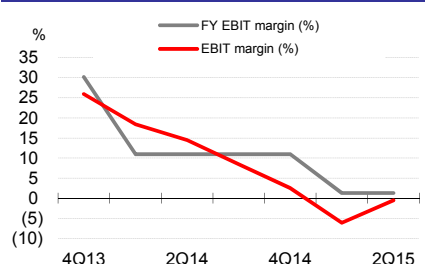
### Net profit trend (accumulated)



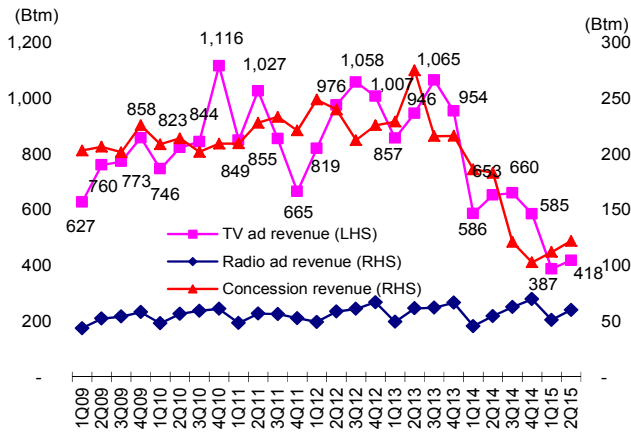
### Gross profit margin



### EBIT margin

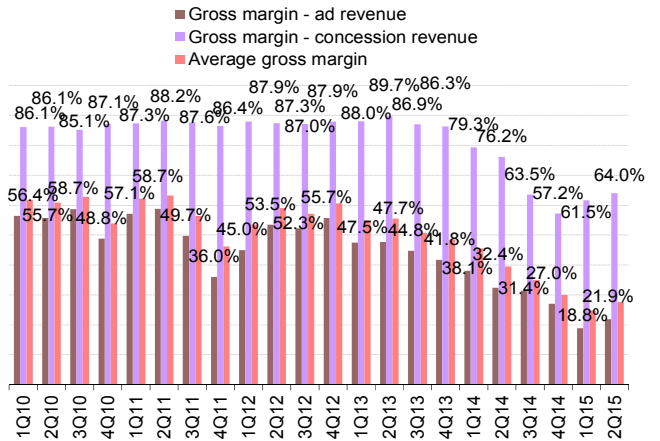


**Figure 1: Revenue breakdown, by quarter**



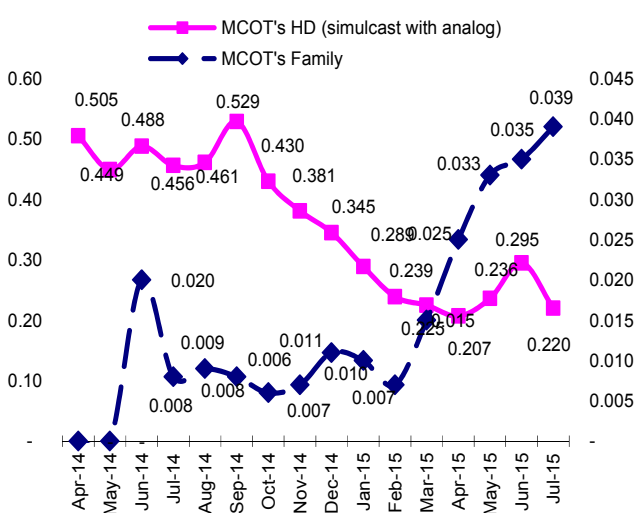
Source: Company data

**Figure 2: Gross margin breakdown, by quarter**



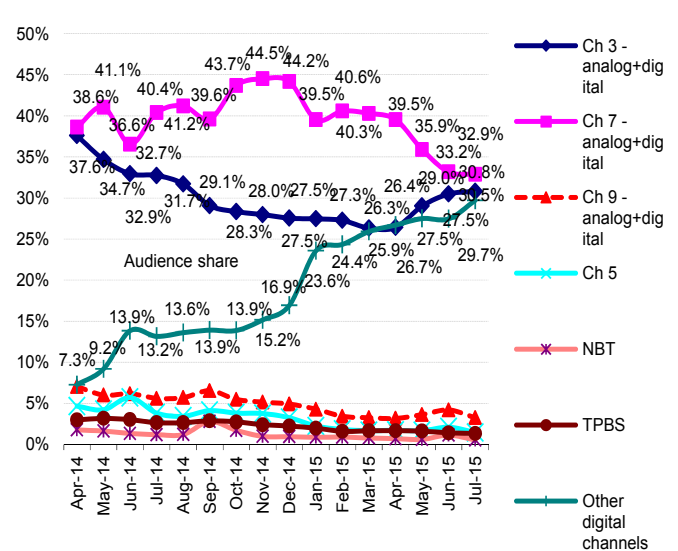
Source: Company data

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



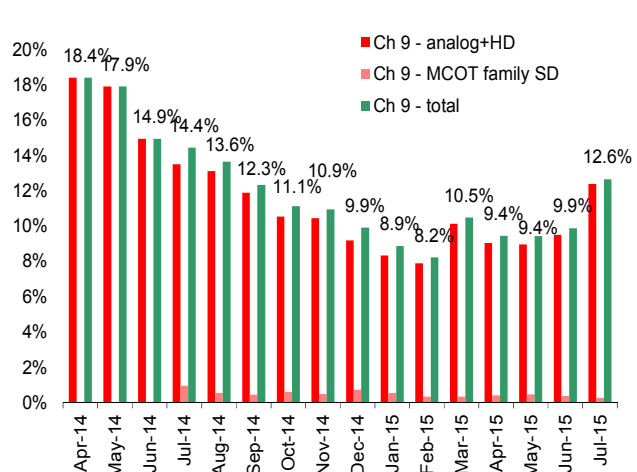
Source: The Nielsen Company

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



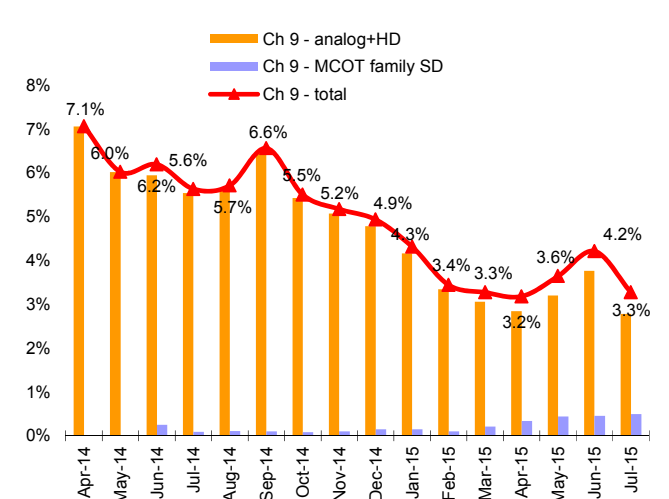
Source: The Nielsen Company

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



Source: The Nielsen Company

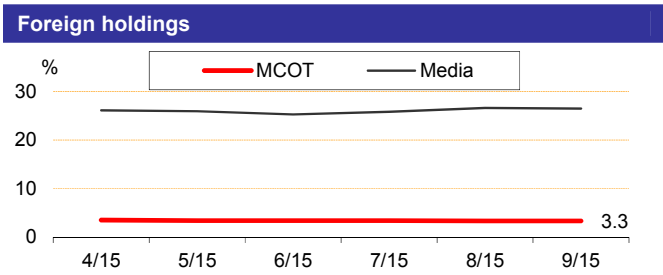
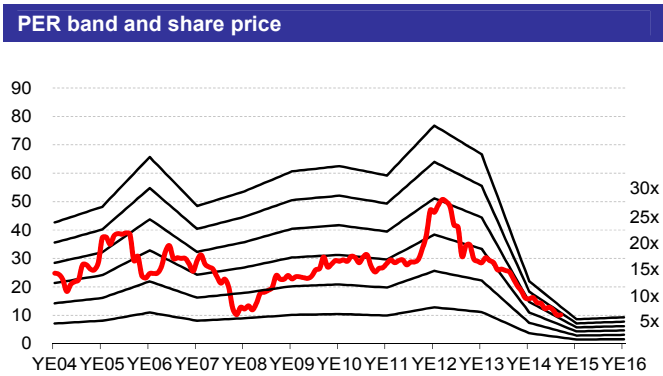
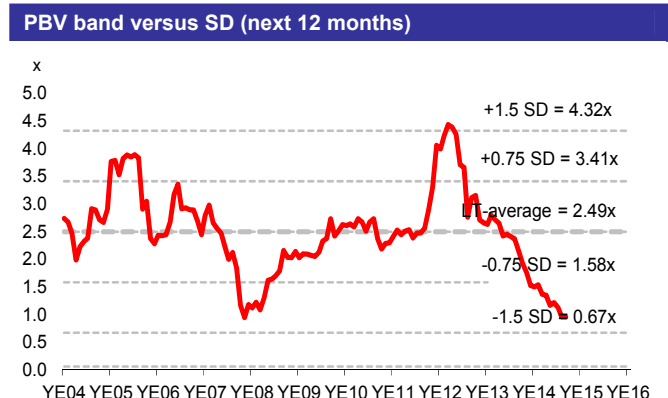
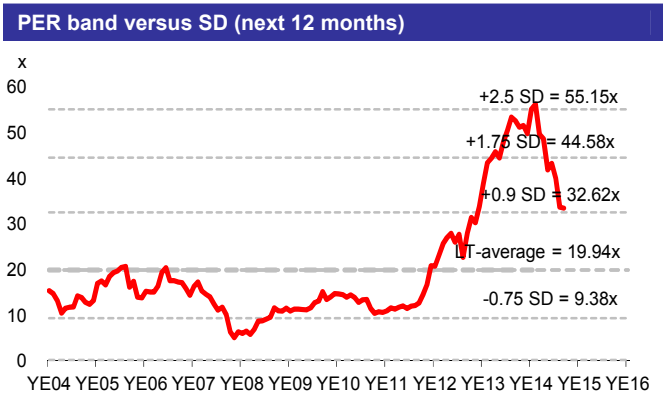
**Figure 6: MCOT's audience share— analog and digital**



Source: The Nielsen Company

## Regional Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US\$ equivalent)	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
				2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E	2015E	2016E
Abs-Cbn Corp	ABS PM	PHP60.9	1,108	19.1	13.4	13.8	41.5	1.8	1.7	9.7	12.6	1.3	1.7
Gma Network Inc	GMA7 PM	PHP6.3	452	24.6	16.1	-8.2	73.7	n.a.	n.a.	15.1	21.5	4.3	2.5
Sun Tv Network Ltd	SUNTV IN	INR346.3	2,054	15.3	13.1	13.4	17.8	3.7	3.3	25.0	26.5	3.7	4.2
Zee Entertainment Enterprise	Z IN	INR371.7	5,372	35.5	27.9	20.8	27.2	6.2	5.4	20.3	22.0	0.7	0.9
Television Broadcasts Ltd	511 HK	HKD28.7	1,619	9.2	10.1	209.4	-9.2	1.4	1.4	15.6	15.2	7.7	8.6
Phoenix Satellite Television	2008 HK	HKD1.6	1,032	14.5	11.4	199.7	27.3	1.4	1.3	10.5	12.0	3.2	2.9
Nippon Television Network	9404 JP	JPY1,978.0	4,360	14.7	13.4	12.5	9.5	0.9	0.8	5.8	6.1	1.6	1.7
Tokyo Broadcasting System	9401 JP	JPY1,560.0	2,482	27.0	24.9	-27.8	9.0	0.6	0.6	2.3	2.5	1.2	1.2
Tv Asahi Corp	9409 JP	JPY1,727.0	1,566	17.9	17.0	-8.0	4.8	0.6	0.6	3.3	3.5	2.3	2.3
Beijing Gehua Catv Network-A	600037 CH	CNY16.6	3,050	24.6	19.5	24.7	25.0	2.8	2.5	11.2	12.3	1.6	1.9
BEC World	BEC TB	THB36.00	2,014	24.2	22.3	-32.5	8.4	9.4	8.7	37.5	43.0	3.8	4.1
GMM Grammy	GRAMMY TE	THB11.10	255	610.0	43.0	n.m.	1319.0	2.3	2.2	0.5	6.5	0.0	1.4
Major Cineplex Group	MAJOR TB	THB32.50	811	22.4	20.1	19.1	11.1	4.3	4.2	19.9	21.0	3.8	4.3
MCOT	MCOT TB	THB10.00	192	35.0	32.4	-61.0	8.0	0.9	0.9	2.7	2.9	2.1	2.3
Plan B Media	PLANB TB	THB6.00	587	52.3	36.6	44.3	42.7	7.6	6.8	22.8	19.6	1.0	1.4
RS	RS TB	THB10.20	287	61.4	29.0	-55.9	112.1	5.6	5.2	9.5	18.9	1.0	2.1
VGI Global Media	VGI TB	THB4.14	795	37.9	30.3	-44.0	24.8	6.4	3.8	25.4	15.8	2.3	3.0
Workpoint Entertainment	WORK TB	THB39.75	464	66.0	55.3	669.4	19.5	5.2	4.5	10.4	9.0	0.8	0.9
<b>Simple average</b>				<b>61.8</b>	<b>24.2</b>	<b>58.2</b>	<b>98.5</b>	<b>3.6</b>	<b>3.2</b>	<b>13.7</b>	<b>15.0</b>	<b>2.4</b>	<b>2.6</b>








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	COM7, TFG

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.