

MCOT

MCOT.TB / MCOT.BK

30 October 2015

FY15-16 earnings take a fresh hit

Investment thesis

We are skeptical that MCOT's new September program revamps and channel rebranding, all directed by a new management team, can boost ratings and ad revenues of its two channels and bring in the leaner overall cost structure in 4Q15 through to FY16. Those positive implications have yet to be proven and we believe that MCOT would find it very difficult to regain ratings and market share amid the more intense digital TV competition. Meanwhile, we have cut our FY15-16 earnings projections further to reflect the diminished FY15-16 earnings expectations. We have rolled over our target price to YE16 and derived our new target price of Bt8.75. Our SELL rating stands.

Insights into 3Q15—core earnings dive

We assume a Bt64m net profit for 3Q15, down 29% YoY but up 64% QoQ. Excluding a Bt56m one-time reversal of provisions for the Raisom court case, core profit would be Bt8m, down 91% YoY and 57% QoQ. This new core earnings estimate is lower than our previous Bt29m. The assumed diminished 3Q15 expectations are due to greater-than-estimated service costs. The core earnings plunge is thanks to the tumble in ad revenue (weak consumption, greater competition from digital players and its further loss of market share despite greater state project revenue), the radio revenue dip and the sustained high OPEX (related to its channel rebranding and program revamps in September).

It secured a Bt40m public relations state project in 3Q15, of which Bt10m revenue is recognized in 3Q15. We expect its TV revenue to plunge 30% YoY but rise 5% QoQ and its radio revenue to dip 3% YoY but rise 1% QoQ. Concession revenue will stabilize (down 1% YoY and 2% QoQ). Digital network revenue should have jumped 159% YoY and 14% QoQ, led by one new government client in July. We assume a GM of 23% in 3Q15, against 34.9% in 3Q14 and 27.6% in 2Q15.

Further FY15-16 earnings cuts

We have cut our FY15 net profit forecast further by 19% (to Bt160m), its FY15 core earnings forecast by 31% (to Bt83m) to factor in the diminished 3Q15 earnings expectations and our FY16 net profit forecast by 18% (to Bt173m) to reflect the slower revenue recovery momentum and its greater OPEX than assumed in FY16. We are skeptical over the positive impacts from its September revamp, rebranding and new management team on 4Q15-FY16 revenue and its leaner overall cost structure in FY16.

Slight rating drop for its HD channel in Aug-Sept 2015

The average rating (4 years+ nationwide) for its HD Channel (simulcast with its analog channel) dipped from 0.220 in July to 0.211 in September, while that for its Family Channel was stable at 0.040 during July-September 2015. This proves that its program revamps at its HD Channel in March and at its Family Channel in May 2015 has failed to deliver the long-term sustainable rating rises. The September revamps have yet to prove the rating rises in 4Q15 through to FY16.

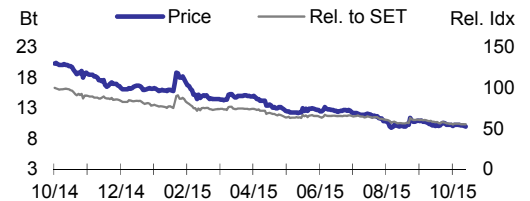
Sector: Media—NEUTRAL

Rating: SELL

Target Price: Bt8.75

Price (29 October 2015): Bt10.00

Price chart

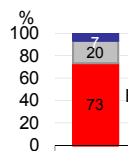


Share price perf. (%)	1M	3M	12M
Relative to SET	(6.9)	(14.0)	(39.8)
Absolute	(3.8)	(16.0)	(51.0)

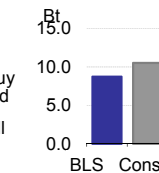
Key statistics

Market cap	Bt6.9bn	USD0.2bn
12-mth price range	Bt9.8/Bt20.4	
12-mth avg daily volume	Bt8m	USD0.2m
# of shares (m)	687	
Est. free float (%)	22.7	
Foreign limit (%)	15.0	

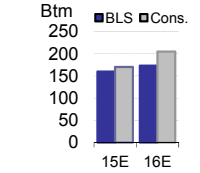
Consensus rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2014	2015E	2016E	2017E
Revenues (Btm)	4,284	3,578	3,753	4,028
Net profit (Btm)	504	160	173	193
EPS (Bt)	0.73	0.23	0.25	0.28
EPS growth (%)	-67.0%	-68.3%	+8.4%	+11.4%
Core profit (Btm)	504	83	173	193
Core EPS (Bt)	0.73	0.12	0.25	0.28
Core EPS growth (%)	-68.2%	-83.5%	+108.4%	+11.4%
PER (x)	34.3	43.0	39.6	35.6
PBV (x)	2.3	1.0	0.9	0.9
Dividend (Bt)	0.6	0.2	0.2	0.2
Dividend yield (%)	2.2	1.7	1.9	2.1
ROE (%)	6.6	2.2	2.4	2.6

CG rating



Prasit Sujiravorakul

Securities Fundamental Investment Analyst

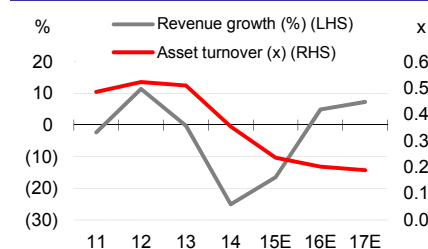
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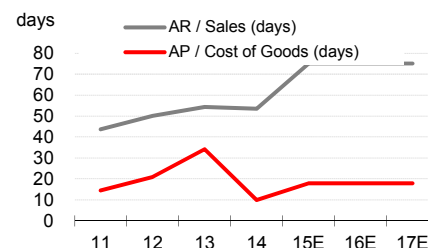
MCOT: Financial Tables – Year

PROFIT & LOSS (Btm)	2013	2014	2015E	2016E	2017E
Revenue	5,715	4,284	3,578	3,753	4,028
Cost of sales and services	(2,727)	(2,677)	(2,638)	(2,618)	(2,590)
Gross profit	2,989	1,607	940	1,135	1,438
SG&A	(1,264)	(1,136)	(998)	(1,006)	(1,228)
EBIT	1,725	471	(57)	129	210
Interest expense	(14)	(16)	(50)	(136)	(191)
Other income/exp.	269	170	196	225	234
EBT	1,980	625	89	219	252
Corporate tax	(396)	(144)	(27)	(67)	(79)
After-tax net profit (loss)	1,584	481	61	152	173
Minority interest	(1)	23	22	21	20
Equity earnings from affiliates	0	0	0	0	0
Extra items	(56)	0	77	0	0
Net profit (loss)	1,527	504	160	173	193
Reported EPS	2.22	0.73	0.23	0.25	0.28
Fully diluted EPS	2.22	0.73	0.23	0.25	0.28
Core net profit	1,583	504	83	173	193
Core EPS	2.30	0.73	0.12	0.25	0.28
EBITDA	2,264	1,233	734	952	1,064
KEY RATIOS					
Revenue growth (%)	(0.2)	(25.0)	(16.5)	4.9	7.3
Gross margin (%)	52.3	37.5	26.3	30.2	35.7
EBITDA margin (%)	39.6	28.8	20.5	25.4	26.4
Operating margin (%)	30.2	11.0	(1.6)	3.4	5.2
Net margin (%)	26.7	11.8	4.5	4.6	4.8
Core profit margin (%)	27.7	11.8	2.3	4.6	4.8
ROA (%)	13.6	4.2	1.1	0.9	0.9
ROCE (%)	19.1	6.5	1.6	1.3	1.2
Asset turnover (x)	0.5	0.4	0.2	0.2	0.2
Current ratio (x)	3.5	2.4	4.1	4.3	4.3
Gearing ratio (x)	0.0	0.0	0.7	1.0	1.3
Interest coverage (x)	121.0	29.6	n.m.	1.0	1.1
BALANCE SHEET (Btm)					
Cash & Equivalent	4,337	3,334	5,828	6,474	7,002
Accounts receivable	850	627	735	771	828
Inventory	51	31	40	40	39
PP&E-net	3,988	3,872	4,598	5,406	6,255
Other assets	859	4,657	5,683	6,809	8,208
Total assets	11,168	12,989	17,297	19,928	22,784
Accounts payable	256	73	130	129	128
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	2,147	2,252	2,417
Total liabilities	3,208	5,534	10,082	12,680	15,494
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	2,667	2,720	2,783
Shareholders' equity	7,899	7,427	7,209	7,263	7,326
Minority interests	61	28	6	(15)	(35)
Total Liab.&Shareholders' equity	11,168	12,989	17,297	19,928	22,784
CASH FLOW (Btm)					
Net income	1,527	504	160	173	193
Depreciation and amortization	539	762	792	823	855
Change in working capital	41	60	(60)	(37)	(58)
FX, non-cash adjustment & others	(711)	(345)	(60)	1	15
Cash flows from operating activities	1,396	982	831	961	1,006
Capex (Invest)/Divest	(172)	(196)	(1,284)	(1,393)	(1,463)
Others	2,185	(1,543)	(611)	(259)	(412)
Cash flows from investing activities	2,013	(1,739)	(1,895)	(1,652)	(1,875)
Debt financing (repayment)	(5)	(6)	3,149	1,300	1,280
Equity financing	0	0	0	0	0
Dividend payment	(1,580)	(986)	(378)	(120)	(130)
Others	2,185	(1,543)	(611)	(259)	(412)
Cash flows from financing activities	(1,586)	(992)	2,771	1,180	1,150
Net change in cash	1,824	(1,750)	1,707	489	281
Free cash flow (Btm)	1,224	786	(453)	(432)	(457)
FCF per share (Bt)	1.8	1.1	(0.7)	(0.6)	(0.7)
Key assumptions	2013	2014	2015E	2016E	2017E
Average TV loading factor (%)	80.0%	60.0%	50.0%	55.0%	60.0%
TV ad revenue (Btm)	3,824	2,486	1,511	1,577	1,740
Radio ad revenue (Btm)	956	930	938	939	940
Concession revenue (Btm)	936	593	317	328	340
SG&A/sales (%)	22.1%	26.5%	27.9%	26.8%	30.5%

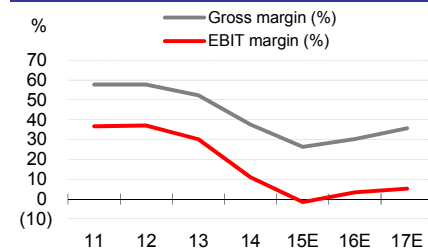
Revenue growth and asset turnover



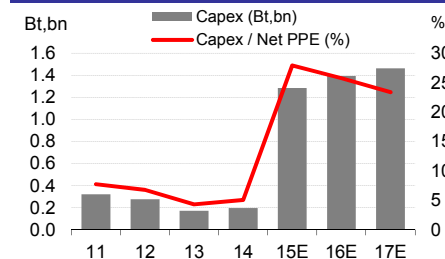
A/C receivable & A/C payable days



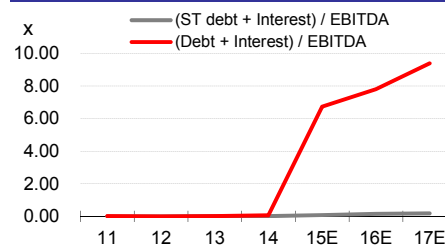
Profit margins



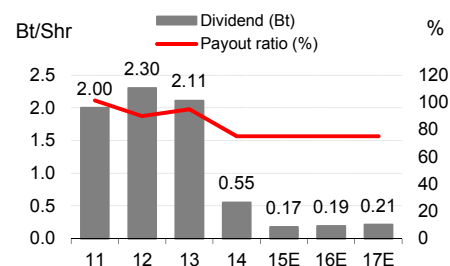
Capital expenditure



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)
EBIT	162	92	26	(49)	(5)
Interest expense	(3)	(4)	(4)	(5)	(5)
Other income/exp.	46	30	42	83	37
EBT	205	119	64	29	28
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
Net profit (loss)	163	90	54	27	39
Reported EPS	0.24	0.13	0.08	0.04	0.06
Fully diluted EPS	0.24	0.13	0.08	0.04	0.06
Core net profit	163	90	54	27	18
Core EPS	0.24	0.13	0.08	0.04	0.03
EBITDA	355	308	239	152	201

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)

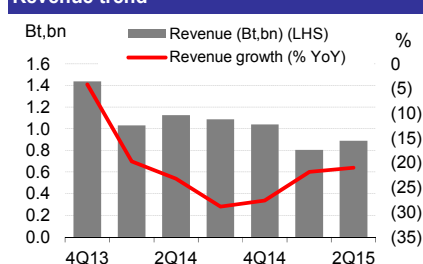
Cash & Equivalent	3,269	3,646	3,334	3,372	2,558
Accounts receivable	727	668	627	530	497
Inventory	64	50	31	27	38
PP&E-net	4,019	3,944	2,707	2,613	2,549
Other assets	4,877	4,796	5,911	5,846	5,806
Total assets	13,344	13,487	12,989	12,804	12,028
Accounts payable	219	175	73	64	96
ST debts & current portion	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
Total liabilities	5,812	6,077	5,534	5,326	4,512
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
Shareholders equity	7,497	7,374	7,427	7,455	7,496
Minority interests	35	36	28	23	21
Total Liab.&Shareholders' equity	13,344	13,487	12,989	12,804	12,028

Average TV loading factor (%)	2Q14	3Q14	4Q14	1Q15	2Q15
Average TV loading factor (%)	75.0%	84.0%	66.0%	53.0%	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

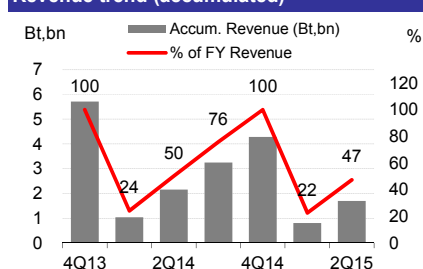
Company profile

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).

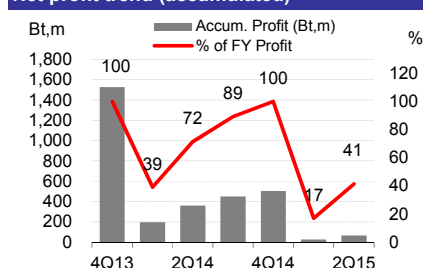
Revenue trend



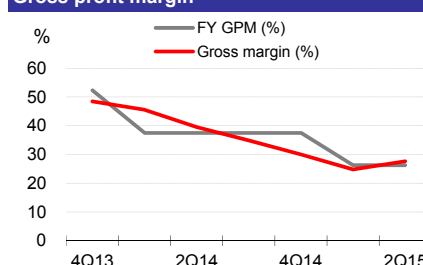
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

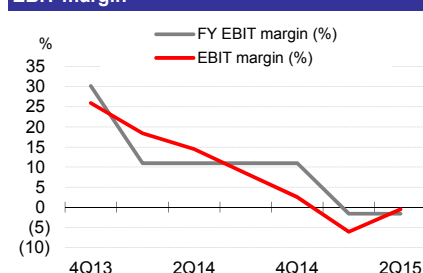
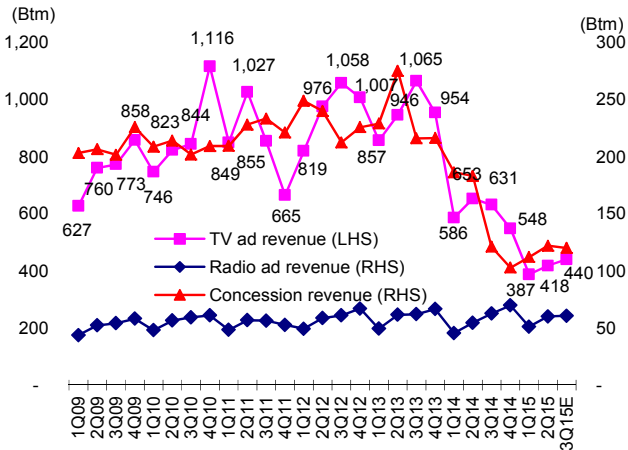
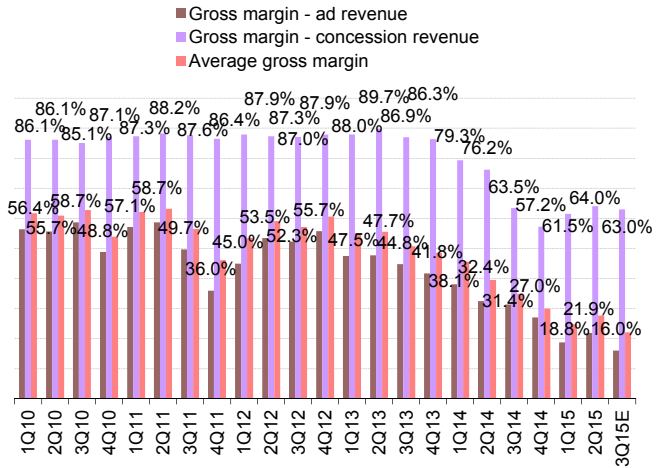


Figure 1: Revenue breakdown, by quarter



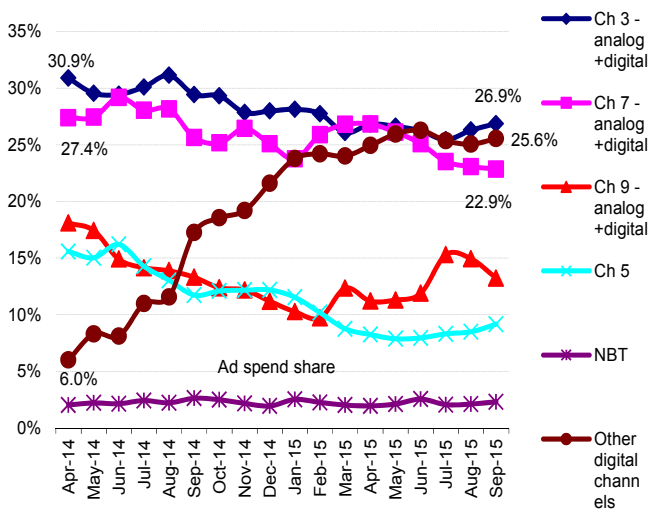
Sources: Company data, Bualuang Research

Figure 2: Gross margin breakdown, by quarter



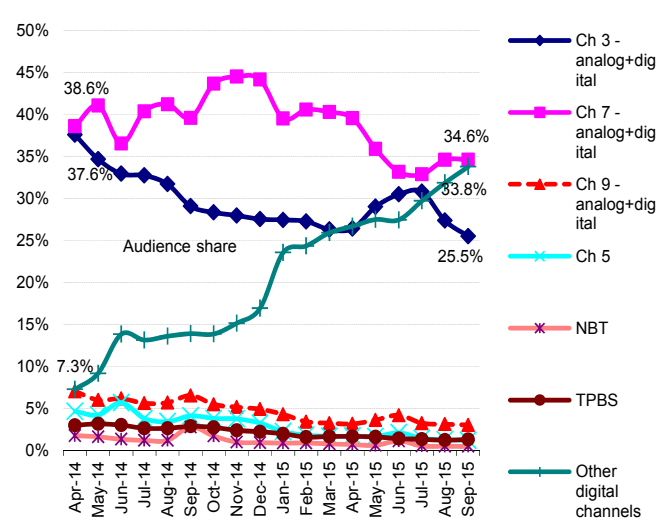
Sources: Company data, Bualuang Research

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



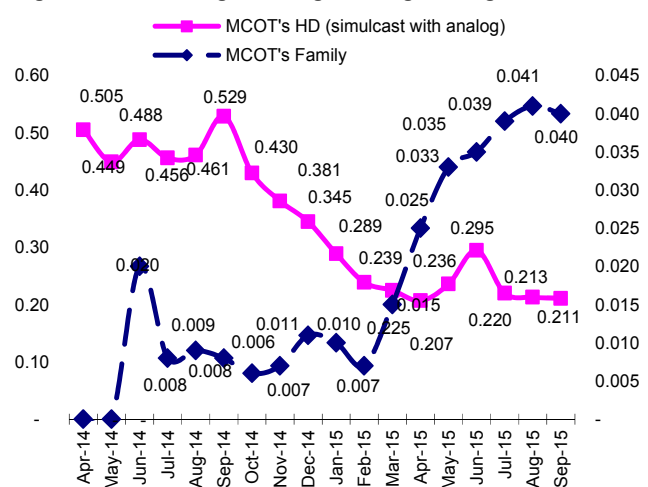
Source: The Nielsen Company

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



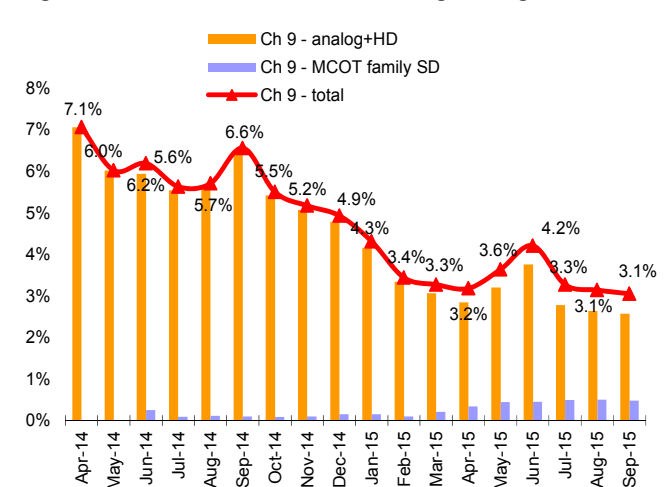
Source: The Nielsen Company

Figure 5: MCOT's digital rating—analog and digital



Source: The Nielsen Company

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



Source: The Nielsen Company

Figure 7: 3Q15 earnings preview

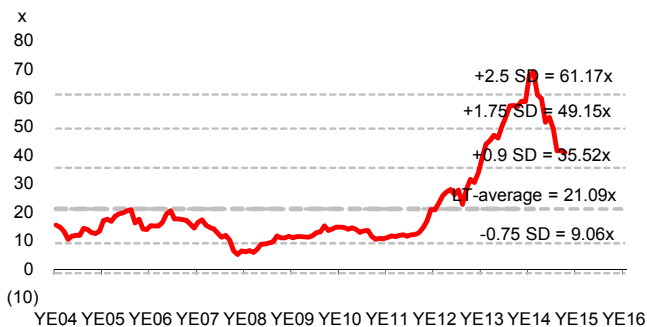
	3Q15E	3Q14	% YoY	2Q15	% QoQ	9M15E	9M14	% YoY
Total revenue	925	1,089	(15.1)	890	3.9	2,619	3,244	(19.3)
- TV	440	631	(30.3)	418	5.3	1,245	1,870	(33.4)
- New media	48	58	(17.2)	44	9.1	145	205	(29.3)
- Digital network	75	29	158.6	66	13.6	189	29	551.7
- Radio	242	250	(3.2)	240	0.8	686	650	5.5
- Concession	120	121	(0.8)	122	(1.6)	354	490	(27.8)
Total cost of services	(721)	(708)	1.8	(643)	12.0	(1,969)	(1,950)	1.0
- Cost of TV & radio & new media	(676)	(664)	1.8	(600)	12.8	(1,838)	(1,823)	0.8
- Cost of concession	(44)	(44)	0.8	(44)	1.4	(131)	(126)	4.1
Gross profit	204	380	(46.2)	246	(16.9)	650	1,294	(49.8)
- TV & radio & new media	54	275	(80.4)	102	(47.5)	238	902	(73.6)
- Concession	76	77	(1.8)	78	(3.3)	223	364	(38.8)
Gross margin (%)	22.1%	34.9%		27.6%		24.8%	39.9%	
- TV & radio & new media	7.4%	29.3%		14.6%		11.5%	33.1%	
- Concession	63.0%	63.6%		64.1%		62.9%	74.3%	
SG&A	(241)	(288)	(16.5)	(251)	(4.0)	(740)	(850)	(13.0)
EBIT	(36)	92	n.m.	(5)	(693.2)	(90)	444	n.m.
Interest expense	(5)	(4)	39.7	(5)	6.7	(14)	(10)	36.1
Other income/exp.	40	30	32.9	37	8.0	160	127	25.8
EBT	(1)	119	n.m.	28	n.m.	56	561	(90.1)
Corporate tax	0	(28)	n.m.	(12)	n.m.	(18)	(125)	(85.3)
After-tax profit	(1)	91	n.m.	16	n.m.	37	436	(91.5)
Minority interest	9	(1)	n.m.	2	300.2	16	14	11.3
Extra items	56	-	n.m.	21	166.7	77	-	n.m.
Net profit	64	90	(28.4)	39	65.4	130	450	(71.1)
Reported EPS	0.09	0.13	(28.4)	0.06	65.4	0.19	0.66	(71.1)
Fully diluted EPS	0.09	0.13	(28.4)	0.06	65.4	0.19	0.66	(71.1)
Core net profit	8	90	(90.9)	18	(54.2)	53	450	(88.2)
Core EPS	0.01	0.13	(90.9)	0.03	(54.2)	0.08	0.66	(88.2)
EBITDA	174	308	(43.6)	201	(13.5)	527	993	(47.0)
Gross margin (%)	22.1	34.9		27.6		24.8	39.9	
EBITDA margin (%)	18.8	28.3		22.6		20.1	30.6	
Operating margin (%)	(3.9)	8.5		(0.5)		(3.4)	13.7	
Net margin (%)	6.9	8.2		4.4		5.0	13.9	
Core profit margin (%)	0.9	8.2		2.0		2.0	13.9	

Sources: Company data, Bualuang Research estimates

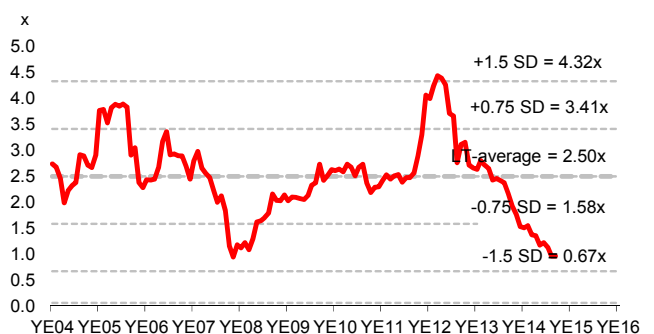
Regional Comparisons

	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	PHP65.2	1,180	20.1	14.4	13.8	41.5	2.0	1.8	10.1	12.8	1.2	1.4
Gma Network Inc	GMA7 PM	PHP7.4	527	20.8	15.8	69.1	37.1	n.a.	n.a.	20.5	24.4	3.4	3.4
Sun Tv Network Ltd	SUNTV IN	INR377.0	2,273	16.5	14.2	14.4	16.5	4.0	3.6	25.2	26.5	3.4	3.9
Zee Entertainment Enterprise	Z IN	INR415.7	6,109	38.8	30.8	23.3	26.8	7.0	6.0	20.9	22.4	0.6	0.8
Television Broadcasts Ltd	511 HK	HKD28.7	1,619	9.2	10.7	207.1	-13.3	1.5	1.4	15.5	14.6	8.8	9.2
Phoenix Satellite Television	2008 HK	HKD1.9	1,220	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Nippon Television Network	9404 JP	JPY2,097.0	4,574	15.6	14.3	11.6	9.3	0.9	0.9	5.8	6.1	1.5	1.6
Tokyo Broadcasting System	9401 JP	JPY1,778.0	2,799	31.1	28.6	-27.9	8.8	0.7	0.7	2.3	2.5	1.0	1.0
Tv Asahi Corp	9409 JP	JPY2,033.0	1,824	21.3	20.4	-5.9	4.6	0.7	0.7	3.4	3.5	2.0	1.9
Beijing Gehua Catv Network-A	600037 CH	CNY23.3	4,283	33.2	25.3	30.6	31.9	3.9	3.4	11.2	12.3	1.2	1.4
BEC World	BEC TB	THB31.00	1,738	21.8	20.9	-35.6	4.4	8.2	7.8	36.1	40.6	4.2	4.4
GMM Grammy	GRAMMY TE	THB11.50	264	632.0	44.5	n.m.	1319.0	2.3	2.3	0.5	6.5	0.0	1.3
Major Cineplex Group	MAJOR TB	THB30.75	769	21.2	19.0	19.1	11.1	4.1	3.9	19.9	21.0	4.1	4.5
MCOT	MCOT TB	THB10.00	193	43.0	39.6	-68.3	8.4	1.0	0.9	2.2	2.4	1.7	1.9
Plan B Media	PLANB TB	THB6.30	617	54.9	38.5	44.3	42.7	8.0	7.1	22.8	19.6	0.9	1.3
RS	RS TB	THB11.40	322	104.1	32.3	-70.9	222.2	6.3	5.7	6.3	19.0	0.6	1.9
VGI Global Media	VGI TB	THB3.56	685	32.6	26.1	-44.0	24.8	5.5	3.3	25.4	15.8	2.7	3.5
Workpoint Entertainment	WORK TB	THB43.00	503	71.4	59.8	669.4	19.5	5.6	4.9	10.4	9.0	0.8	0.8
Simple average				69.9	26.8	53.1	106.8	3.8	3.4	14.0	15.2	2.2	2.6

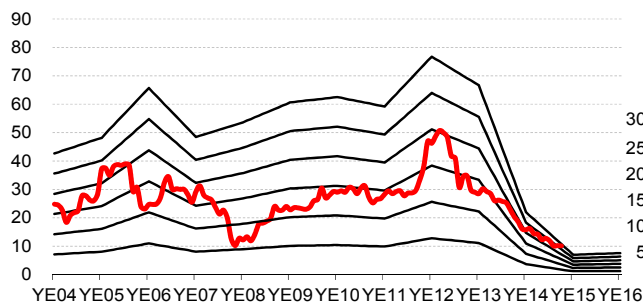
PER band versus SD (next 12 months)



PBV band versus SD (next 12 months)



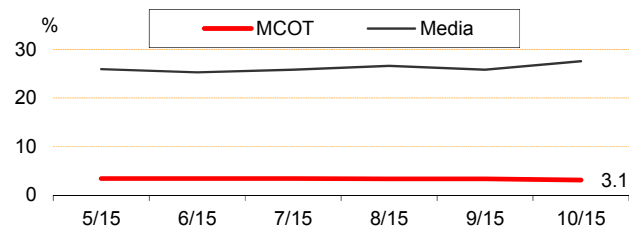
PER band and share price



PBV band and share price



Foreign holdings








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SPRC	SPRC, 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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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.