

MCOT

MCOT TB / MCOT.BK

16 November 2015

Weak core earnings, as modeled, despite HD content makeover

Poor core earnings, as expected

MCOT posted Bt63m net profit for 3Q15, down 29% YoY but up 63% QoQ. The firm booked a Bt56m one-time reversal of provision for the Ransom court case. Excluding this one-time gain, core profit was only Bt7m, down 92% YoY and 58% QoQ. Net and core profits were in line with our estimates. It posted a Bt10m operating loss (excluding other income) for three straight quarters.

Result highlights

The core earnings plunge was caused by the ad revenue tumble (related to heavier ad spend competition from the greater number of digital players and sustained weak consumption), the dip in radio and new-media revenues and the sustained high service costs. We see that the drop in SG&A in 3Q15 came from its serious control on selling and administrative expenses (staff cost, agency and promotional expenses). The effects of its HD Channel program revamp in March (under the *Krob Kub Jor* concept) and its Family Channel in May have failed to translate into greater revenue in 3Q15. Also, the recent revamp in Sep (under the *Perd Loke Kwang, Sang Kwam Sook* concept) failed to yield any positive impact on revenue and ratings in the quarter.

The top line tumbled 14% YoY but rose 5% QoQ. TV ad receipts dived 29% YoY (but rose 7% QoQ led by revenue from state projects, which rose 29% QoQ). Revenue from new media dropped 19% YoY (but edged up 7% QoQ due to the sale of extra two C-band transponders in 3Q15). Radio ad income dipped 3% YoY but inched up 1% QoQ. Concession revenue dipped 4% YoY and 5% QoQ. Its digital network rental revenue skyrocketed 193% YoY and 29% QoQ, spurred by having Parliament TV channel as its new client in 3Q15.

Outlook

We estimate a Bt30m core profit for 4Q15, down 44% YoY but up 301% QoQ. The YoY core deterioration is led by the weak domestic consumption and ad spend which will lead to a drop in ad revenue. The QoQ jump is due to the fourth-quarter high season, the very low 3Q15 profit-base comparison, some positive impacts of the Sep program revamp and the co-operation with content providers such as True Visions, Nation and Now TV to produce the new shows in Aug-Sep 2015 (such as Thai Premier League live broadcasts, *Ying Tok Kanok Sak* situation show, and the Reality show, *Muay Thai the Champ*).

What's changed?

We maintain our FY15-16 net profit forecast unchanged.

Recommendation

Although its earnings look set to bottom out in 3Q15, the catalysts to its FY16 earnings recovery are unclear as present. We are adopting a "wait-and-see" strategy for the stock. Our SELL rating stands.

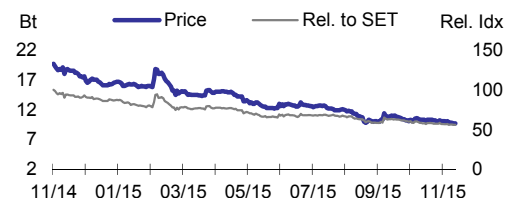
Sector: Media – NEUTRAL

Rating: SELL

Target Price: Bt8.75

Price (13 November 2015): Bt9.70

Price chart

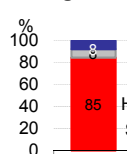


Share price perf. (%)	1M	3M	12M
Relative to SET	(5.9)	(12.7)	(38.9)
Absolute	(7.6)	(14.9)	(51.3)

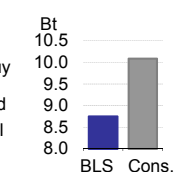
Key statistics

Market cap	Bt6.7bn	USD0.2bn
12-mth price range	Bt9.7/Bt19.9	
12-mth avg daily volume	Bt7m	USD0.2m
# of shares (m)	687	
Est. free float (%)	22.7	
Foreign limit (%)	15.0	

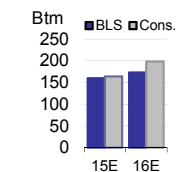
Consensus rating



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	41.7	38.5	34.5
PBV (x)	2.3	0.9	0.9	0.9
Dividend (Bt)	0.6	0.2	0.2	0.2
Dividend yield (%)	2.2	1.8	2.0	2.2
ROE (%)	6.6	2.2	2.4	2.6

CG rating



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Securities Fundamental Investment Analyst

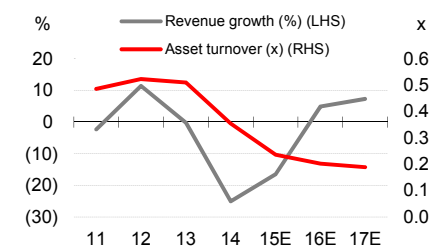
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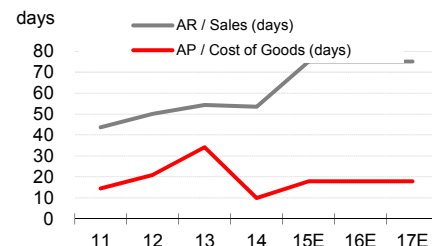
MCOT: Financial Tables – Year

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%

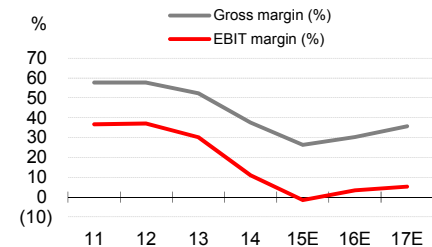
Revenue growth and asset turnover



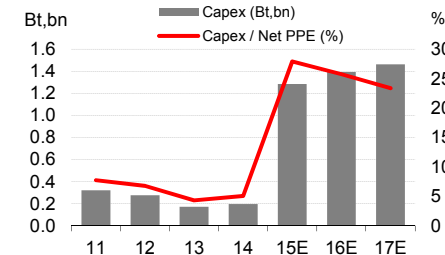
A/C receivable & A/C payable days



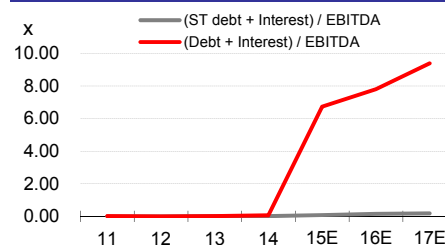
Profit margins



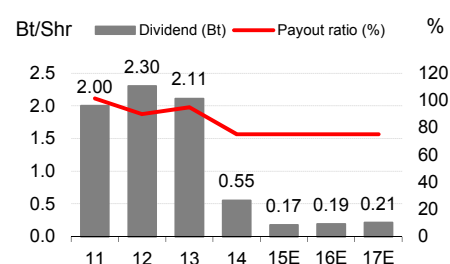
Capital expenditure



Debt serviceability



Dividend payout



MCOT: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	3Q14	4Q14	1Q15	2Q15	3Q15
Revenue	1,088	1,040	805	889	937
Cost of sales and services	(708)	(728)	(606)	(643)	(709)
Gross profit	380	312	199	246	227
SG&A	(288)	(286)	(249)	(251)	(237)
EBIT	92	26	(49)	(5)	(10)
Interest expense	(4)	(4)	(5)	(5)	(5)
Other income/exp.	30	42	83	37	36
EBT	119	64	29	28	21
Corporate tax	(28)	(19)	(6)	(12)	(17)
After-tax net profit (loss)	91	45	22	16	4
Minority interest	(1)	8	5	2	3
Equity earnings from affiliates	0	0	0	0	0
Extra items	0	0	0	21	56
Net profit (loss)	90	54	27	39	63
Reported EPS	0.13	0.08	0.04	0.06	0.09
Fully diluted EPS	0.13	0.08	0.04	0.06	0.09
Core net profit	90	54	27	18	7
Core EPS	0.13	0.08	0.04	0.03	0.01
EBITDA	308	239	152	201	198

KEY RATIOS

Gross margin (%)	34.9	30.0	24.8	27.7	24.3
EBITDA margin (%)	28.3	23.0	18.8	22.6	21.1
Operating margin (%)	8.5	2.5	(6.1)	(0.5)	(1.1)
Net margin (%)	8.2	5.2	3.4	4.4	6.8
Core profit margin (%)	8.2	5.2	3.4	2.0	0.8
BV (Bt)	10.8	10.9	10.9	10.9	11.0
ROE (%)	4.9	2.9	1.5	2.1	3.4
ROA (%)	2.7	1.7	0.9	1.3	2.1
Current ratio (x)	2.0	2.4	2.5	2.4	2.3
Gearing ratio (x)	0.0	0.0	0.0	0.0	0.0
Interest coverage (x)	25.7	6.2	n.m.	n.m.	n.m.

QUARTERLY BALANCE SHEET (Btm)

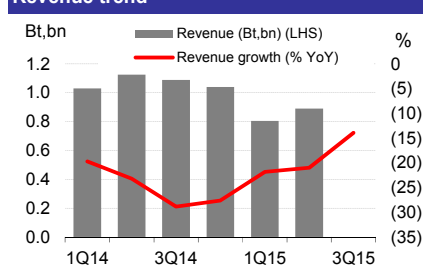
Cash & Equivalent	3,646	3,334	3,372	2,558	2,683
Accounts receivable	668	627	530	497	729
Inventory	50	31	27	38	30
PP&E-net	3,944	2,707	2,613	2,549	2,458
Other assets	4,796	5,911	5,846	5,806	5,768
Total assets	13,487	12,989	12,804	12,028	12,053
Accounts payable	175	73	64	96	125
ST debts & current portion	16	32	33	36	36
Long-term debt	25	54	48	21	36
Other liabilities	3,693	3,637	3,565	2,942	2,794
Total liabilities	6,077	5,534	5,326	4,512	4,518
Paid-up capital	3,435	3,435	3,435	3,435	3,435
Share premium	2,831	2,885	2,912	2,953	2,975
Retained earnings	2,831	2,885	2,912	2,953	2,975
Shareholders equity	7,374	7,427	7,455	7,496	7,518
Minority interests	36	28	23	21	17
Total Liab.&Shareholders' equity	13,487	12,989	12,804	12,028	12,053

Average TV loading factor (%)	3Q14	4Q14	1Q15	2Q15	3Q15
Average TV loading factor (%)	84.0%	66.0%	53.0%	70.0%	62.0%
TV ad revenue (Btm)	631	548	387	418	446
Radio ad revenue (Btm)	250	279	204	240	242
Concession revenue (Btm)	121	103	112	122	116
New media & digital network rev (Btm)	87	110	101	110	132

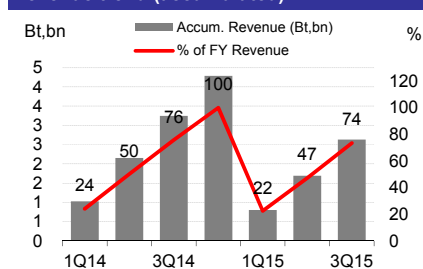
Company profile

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).

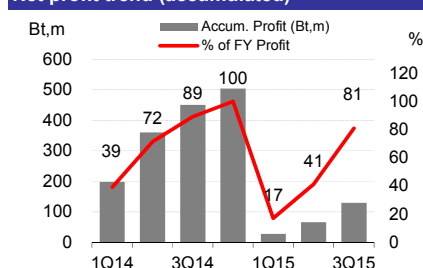
Revenue trend



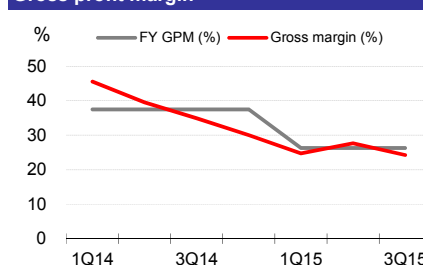
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

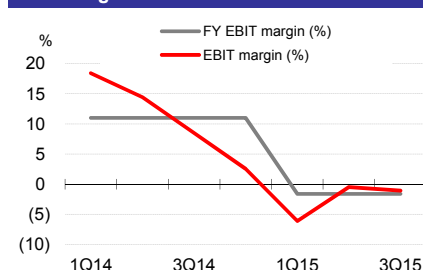


Figure 1 : 3Q15 results

FY Ended 31 Dec (Btm)	3Q15	3Q14	YoY %	2Q15	QoQ %	9M15	9M14	YoY %	9M15 vs. FY15E
Income Statement									
Revenue	937	1,088	(14)	889	5	2,631	3,244	(19)	74
Cost of sales and services	(709)	(708)	0	(643)	10	(1,958)	(1,950)	0	74
EBITDA	198	308	(36)	201	(2)	550	993	(45)	75
SG&A	(237)	(288)	(18)	(251)	(5)	(737)	(850)	(13)	74
EBIT	(10)	92	(111)	(5)	(121)	(64)	444	nm	nm
Interest expense	(5)	(4)	30	(5)	(1)	(14)	(10)	33	nm
Other income/exp.	36	30	19	37	(4)	156	127	22	79
Equity earnings from affiliates	0	0	nm	0	nm	0	0	nm	nm
Extra items	56	0	nm	21	166	77	0	nm	nm
EBT	21	119	(82)	28	(24)	78	561	(86)	88
Corporate tax	(17)	(28)	(39)	(12)	37	(35)	(125)	(72)	nm
Minority interest	3	(1)	nm	2	47	10	14	(28)	48
Net profit (loss)	63	90	(29)	39	63	129	450	(71)	81
Reported EPS	0.09	0.13	(29)	0.06	63	0.19	0.66	(71)	81
Core net profit	7	90	(92)	18	(58)	53	450	(88)	63
Key ratios									
Gross margin (%)	24.3	34.9		27.7		25.6	39.9		
EBITDA margin (%)	21.1	28.3		22.6		20.9	30.6		
EBIT margin (%)	(1.1)	8.5		(0.5)		(2.4)	13.7		
SG&A / Revenue (%)	25.3	26.5		28.2		28.0	26.2		
Tax rate (%)	80.1	23.3		44.1		45.7	22.3		
Net margin (%)	6.8	8.2		4.4		4.9	13.9		
Current ratio (x)	2.3	2.0		2.4		2.3	2.0		
Gearing ratio (x)	0.0	0.0		0.0		0.0	0.0		
Interest coverage (x)	nm	nm		nm		nm	nm		
Balance Sheet									
Cash & Equivalent	2,683	3,646	(26)	2,558	5				
Total assets	12,053	13,487	(11)	12,028	0				
ST debts & current portion	36	16	nm	36	(1)				
Long-term debt	36	25	nm	21	76				
Total liabilities	4,518	6,077	(26)	4,512	0				
Retained earnings	2,975	2,831	5	2,953	1				
Shareholders equity	7,518	7,374	2	7,496	0				
Minority interests	17	36	(52)	21	(16)				
BV (Bt)	11.0	10.8	2	10.9	0				

- Ad income was in line with our estimate
- Gross profit was 7% above our expectation
- GM was 24.3%; above our assumption of 23%
- The third quarter's operating loss was Bt10m
- Extra item—a Bt56m reversal of provisions for the Raisom court case
- Net and core profits were in consistent with our models

Sources: Company data, Bualuang Research estimates

Figure 2: 1Q15 revenue and gross profit breakdown

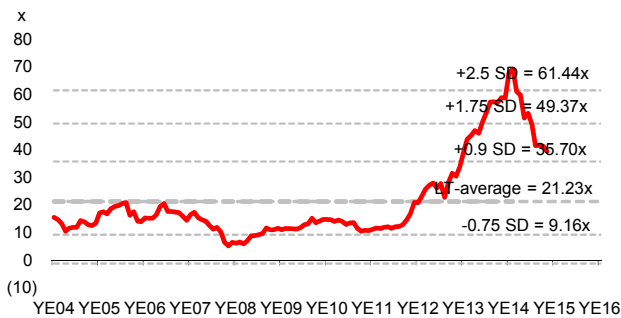
	3Q15	3Q14	% YoY	2Q15	% QoQ	9M15	9M14	% YoY
Total revenue	936	1,089	(14.0)	890	5.2	2,630	3,244	(18.9)
- TV	446	631	(29.3)	418	6.7	1,251	1,870	(33.1)
- New media	47	58	(19.0)	44	6.8	144	205	(29.8)
- Digital network	85	29	193.1	66	28.8	199	29	586.2
- Radio	242	250	(3.2)	240	0.8	686	650	5.5
- Concession	116	121	(4.1)	122	(4.9)	350	490	(28.6)
Total cost of services	(709)	(708)	0.2	(643)	10.2	(1,958)	(1,950)	0.4
- Cost of services	(663)	(664)	(0.1)	(600)	10.6	(1,825)	(1,823)	0.1
- Cost of concession	(46)	(44)	4.5	(44)	5.1	(133)	(126)	5.4
Gross profit	227	380	(40.2)	246	(7.6)	673	1,294	(48.0)
- TV & radio & new media	72	275	(73.9)	102	(29.9)	256	902	(71.6)
- Concession	70	77	(9.1)	78	(10.5)	217	364	(40.4)
Gross margin (%)	24.3%	34.9%		27.6%		25.6%	39.9%	
- TV & radio & new media	9.8%	29.3%		14.6%		12.3%	33.1%	
- Concession	60.3%	63.6%		64.1%		62.0%	74.3%	

Source: Company data

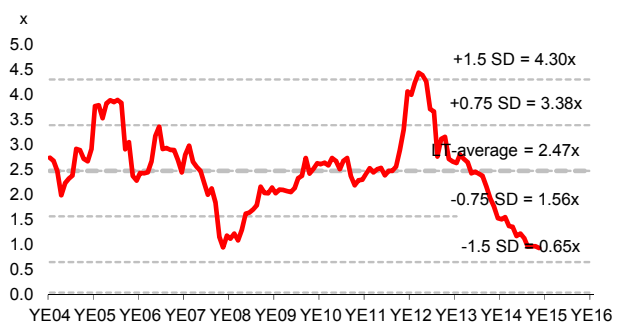
Regional Comparisons

	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	PHP63.6	1,145	18.8	13.8	23.1	36.5	2.0	1.8	10.6	13.1	1.2	1.4
Gma Network Inc	GMA7 PM	PHP7.1	507	16.8	13.0	102.9	31.0	n.a.	n.a.	22.7	26.8	3.5	4.5
Sun Tv Network Ltd	SUNTV IN	INR375.8	2,241	16.2	14.1	16.2	15.9	4.0	3.5	25.6	26.6	3.4	3.9
Zee Entertainment Enterprise	Z IN	INR377.4	5,484	35.2	28.0	23.3	26.8	6.3	5.4	20.9	22.4	0.7	0.8
Television Broadcasts Ltd	511 HK	HKD29.4	1,661	9.5	10.9	207.1	-13.3	1.5	1.5	15.5	14.6	8.6	9.0
Phoenix Satellite Television	2008 HK	HKD1.9	1,206	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	JPY2,144.0	4,602	16.0	14.6	11.6	9.3	0.9	0.9	5.6	5.8	1.4	1.5
Tokyo Broadcasting System	9401 JP	JPY1,793.0	2,778	30.9	28.4	-26.7	8.8	0.7	0.7	2.3	2.3	1.0	1.0
Tv Asahi Corp	9409 JP	JPY2,011.0	1,776	21.1	20.2	-5.9	4.6	0.7	0.7	3.4	3.2	1.9	2.0
Beijing Gehua Catv Network-A	600037 CH	CNY24.4	4,474	35.0	26.7	30.6	31.9	4.1	3.6	11.2	12.3	1.1	1.3
BEC World	BEC TB	THB30.25	1,683	19.5	18.7	-29.6	3.8	7.8	7.3	38.8	42.6	4.7	4.9
GMM Grammy	GRAMMY TE	THB11.10	253	n.m.	n.m.	n.m.	n.m.	2.2	2.3	-0.5	-5.5	0.0	0.0
Major Cineplex Group	MAJOR TB	THB32.00	794	22.0	19.8	19.1	11.1	4.3	4.1	19.9	21.0	3.9	4.3
MCOT	MCOT TB	THB9.70	185	41.7	38.5	-68.3	8.4	0.9	0.9	2.2	2.4	1.8	2.0
Plan B Media	PLANB TB	THB7.00	681	61.0	42.8	44.3	42.7	8.8	7.9	22.8	19.6	0.8	1.2
RS	RS TB	THB11.40	320	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	THB3.68	703	33.7	27.0	-44.0	24.8	5.7	3.4	25.4	15.8	2.6	3.3
Workpoint Entertainment	WORK TB	THB43.50	505	88.9	60.5	524.9	47.1	5.7	5.0	8.5	9.1	0.6	0.8
Simple average				35.7	25.6	47.4	32.0	3.9	3.4	14.2	14.8	2.2	2.6

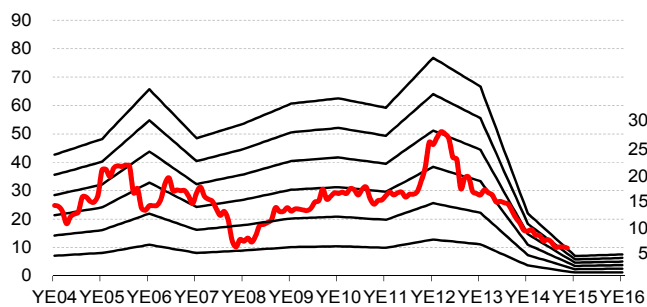
PER band versus SD (next 12 months)



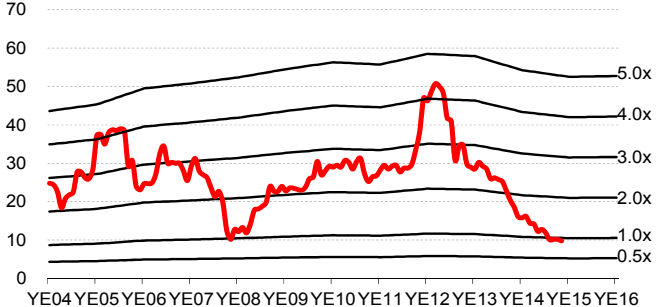
PBV band versus SD (next 12 months)



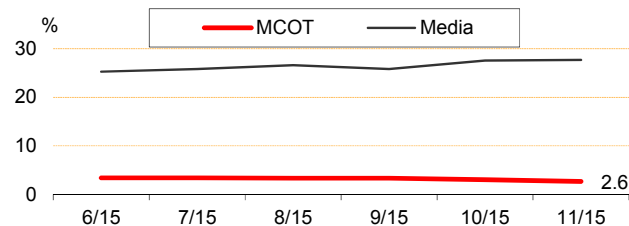
PER band and share price



PBV band and share price



Foreign holdings








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SPRC	SPRC

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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BUALUANG RESEARCH – RECOMMENDATION FRAMEWORK**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.