

MCOT - MCOT

3QCY13 results weaker than views

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Phillip Securities Research Pte Ltd
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Report type: Company Results

Company Overview

MCOT is an operator of Modernine TV and has 62 radio network stations throughout the country. It has also granted broadcasting concessions to BEC and pay-TV True Visions.

- MCOT posted weaker-than-expected 3QCY13 net profit, falling 21.5% y-y. The quarterly net profit was a 4.4% below forecast.
- The fourth quarter looks better sequentially on seasonally stronger demand and MCOT's TV programs gathering popularity. However, on y-y basis, earnings would still soften.
- We cut down our CY13-CY14 earnings projections. Assigning 15x P/E, we arrive at price target of Bt39.50/share. At current share price, we reiterate a 'BUY' call for MCOT.

What is the news?

MCOT reported 3QCY13 net profit of Bt376.79mn, falling 21.5% y-y. The quarterly net profit was a 4.4% short of our forecast. Total revenue ticked up 0.9% y-y, but operating cost increased notably 16.1% y-y on higher costs – (i) from in-house TV production (which was justified as ratio between in-house produced program and independent production house produced program widened) and (ii) an event management project for THAI BEX 2012. SG&A expense grew 19.9% y-y as MCOT booked a Bt55.78mn provision for court-ordered payment to Raisom as mentioned in previous report.

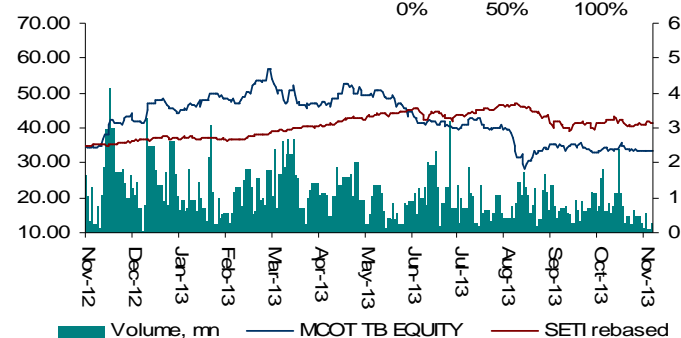
How do we view this?

In 4QCY13, earnings are expected to improve q-q as MCOT is expected to benefit from seasonally stronger demand and its new TV programs have been gaining popularity. Moreover, the company is expected to receive more event management projects to help boost the top-line growth. Nevertheless, on y-y basis, earnings would remain downbeat as production cost appears to outpace that it made a year earlier. To reflect weaker-than-expected results and higher cost, we cut our CY13-CY14 earnings projection. For digital TV, the bidding process is expected to on track.

Investment Actions?

Based on P/E of 15x, we arrive at CY14 price target of Bt39.50. At current share price, we reiterate a 'BUY' rating for MCOT.

Rating	1.00	Buy
- Previous Rating	1.00	Buy
Target Price (Bt)	39.50	
- Previous Target Price (Bt)	41.00	
Closing Price (Bt)	33.50	
Expected Capital Gains (%)	17.9%	
Expected Dividend Yield (%)	6.0%	
Expected Total Return (%)	23.9%	
Raw Beta (Past 2yrs weekly data)	0.98	
Market Cap. (USD mn)	729	
Enterprise Value (USD mn)	582	
Market Cap. (Bt mn)	23,018	
Enterprise Value (Bt mn)	18,448	
3M Average Daily T/O (mn)	0.8	
52 week range	28.5 - 56.75	
Closing Price in 52 week range		



Major Shareholders	(%)
1. Ministry of Finance	65.8
2. The Government Saving Bank	11.5
3. Thai NVDR Co.. Ltd.	3.4

Key Financial Summary

FYE	12/11	12/12	12/13F	12/14F
Revenue (Btrmn)	5,142	5,729	5,871	6,314
Net Profit (Btrmn)	1,356	1,759	1,647	1,810
EPS (Bt)	1.97	2.56	2.40	2.63
Net Profit, adj. (Btrmn)	1,356	1,759	1,703	1,810
EPS, adj. (Bt)	1.97	2.56	2.43	2.63
P/E (X),adj.	17.0	13.1	13.8	12.7
BVPS (Bt)	11.15	11.70	12.30	13.14
P/B (X)	3.0	2.9	2.7	2.5
DPS (Bt)	2.00	2.30	1.80	2.00
Div. Yield (%)	6.0	6.9	5.4	6.0

Source: Bloomberg, PSR est.

*All multiples & yields based on current market price

Valuation Method

P/E14 (15x)

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3QCY13 net profit weaker than forecast

MCOT reported 3QCY13 net profit of Bt376.79mm, falling 21.5% y-y. The quarterly net profit came in a 4.4% short of our Bt394mn forecast due to unexpectedly higher cost and SG&A expense.

Total revenue edged up 0.9% y-y to Bt1,529mn as the pace of growth in TV, radio and the JV business slowed down with revenue rising by the range of 0.7%-1.8%. In this period, MCOT's in-house produced TV programs combined with a special TV production for a program entitled 'Roi Mue Sang Mue' and an event management project for THAI BEX 2012 (Thailand Broadcasting Exhibition) and this pushed TV production cost up notably by 35.8% y-y, spurring total cost by 16.1%. SG&A expense increased 19.9% as MCOT booked a Bt55.78mn (principal plus interest) provision for court-ordered payment for Raisom. Stripping out this item, SG&A expense were to stay flat y-y. Other revenue jumped 28.7% driven by interest income. Excluding the provision for Raisom, profit loss narrowed to Bt421mn, down 12.3% y-y.

4QCY13 net profit seen upbeat q-q but still soften y-y

We are optimistic about the fourth-quarter earnings performance which is expected to improve q-q on assumptions that MCOT will benefit from seasonally stronger demand, and the organizing of Miss Thailand Pageant contest and a carnival styled amusement park at its plot Ratchadapisek area that MCOT would gain revenue from sponsorships and ticket sales. Comparing to the same period last year, earnings are expected to remain weak y-y as TV production cost is expected to outpace that MCOT booked a year earlier. Note that MCOT doesn't have a plan to raise ad rate in the final quarter.

For CY14, MCOT plans to revamp its TV program, especially the prime time programs while ad rate adjustment for the prime time period would remain uncertain as the company wants to keep tap on peers. For non-prime time program, the company has no ad rate adjustment plan in sight.

Delay for digital TV bids unlikely

The National Broadcasting & Communications Commission (BCC) and the parliament's Standing Committee on Political Development (SCPD) requested a delay for TV digital bids in a favor of a beauty parade of financially well-heeled bidders, but the NBTC insisted to stick to the schedule in mid-December to early January. MCOT submitted three bidding envelopes, comprising HD and SD variety channels, and kid channel. If the bids materialize as planned, the broadcasting would start around March to April. In regards to digital network-sharing among the four state-run network (Mux) licensee, MCOT is expected to start to generate revenue from the granted 1 Mux in the second half of 2014. When network coverage reaches 100%, the SD variety channel is expected to earn up to Bt57mn and HD variety channel is projected three-folds of estimated SD channel.

CY13-CY14 earnings downgraded

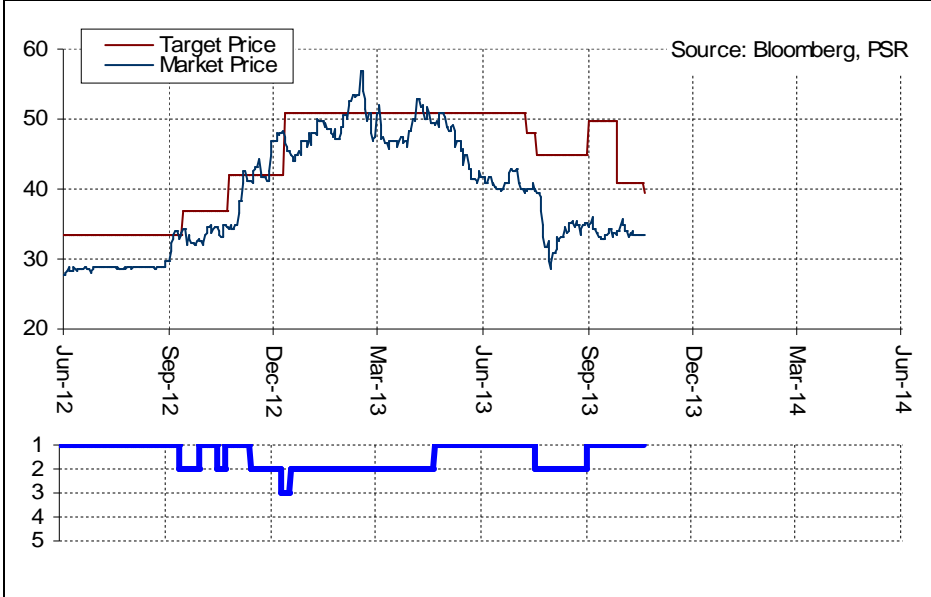
To reflect weaker-than-expected 3QCY13 results and unexpectedly higher cost, we cut our CY13 net profit forecast down by 6.4% y-y to Bt1,647mn from earlier Bt1,739mn assuming revenue of Bt5,871mn.

For CY14, net profit is projected at Bt1,810mn, lower from earlier estimate of Bt1,881mn, with revenue of Bt6,313mn.

Based on P/E of 15x, our CY14 price target arrive at Bt39.50. MCOT is expected to pay an annual dividend of Bt2/share. At current share price, we reiterate a 'BUY' rating on MCOT.

MCOT (Bt mn)	3Q13	2Q13	3Q12	y-y +/-	q-q +/-	9M13	9M12
Total revenues	1,529.02	1,466.42	1,515.13	0.92%	4.27%	4,278.30	4,229.84
From television and radio	1,312.86	1,192.06	1,302.66	0.78%	10.13%	3,558.80	3,528.59
From joint operation	204.41	262.74	200.72	1.84%	-22.20%	684.62	666.24
Additional income from the agreement of understanding	11.75	11.63	11.75	1.84%	1.09%	34.88	35.01
Total cost of revenues	753.57	652.00	649.18	16.08%	15.58%	1,986.15	1,831.40
From television and radio	725.35	623.69	621.66	16.68%	16.30%	1,902.07	1,743.42
From joint operation	28.22	28.31	27.52	2.55%	-0.31%	84.09	87.98
Gross profit	775.45	814.43	865.95	-10.45%	-4.79%	2,292.15	2,398.44
SG&A	350.06	311.14	291.91	19.92%	12.51%	995.63	854.61
Operation profit	425.39	503.29	574.05	-25.90%	-15.48%	1,296.52	1,543.84
Other income	50.20	62.23	574.05	-91.26%	-19.34%	217.81	140.09
Other expenses	0.15	0.34	0.27	-45.19%	-55.82%	0.87	0.79
EBIT	475.44	565.19	612.79	-22.41%	-15.88%	1,513.46	1,683.14
Interest expense	3.23	3.23	2.56	25.87%	-0.25%	9.70	7.60
EBT	472.21	561.95	610.23	-22.62%	-15.97%	1,503.76	1,675.54
Taxation	96.04	115.92	128.77	-25.42%	-17.15%	306.52	392.13
EAT	376.17	446.03	481.46	-21.87%	-15.66%	1,197.25	1,283.41
Minorities	-0.62	1.44	1.67	-137.03%	-142.92%	1.07	5.66
Net profit	376.79	444.59	479.78	-21.47%	-15.25%	1,196.18	1,277.74
EPS (Bt)	0.55	0.65	0.70	-21.47%	-15.25%	1.99	1.86
Cost of sales/sales	49.28%	44.46%	42.85%	15.03%	10.85%	46.42%	43.30%
Selling & admin exp/sales	22.89%	21.22%	19.27%	18.83%	7.90%	23.27%	20.20%
Gross margin	50.72%	55.54%	57.15%	-11.27%	-8.68%	53.58%	56.70%
Operating profit margin	27.82%	34.32%	37.89%	-26.57%	-18.94%	30.30%	36.50%
Net profit margin	24.64%	30.32%	31.67%	-22.18%	-18.72%	27.96%	30.21%
Balance sheet (Bt mn)							
Assets	11,208.38	10,864.09	11,417.77	-1.83%	3.17%	11,208.38	11,417.77
Liabilities	3,604.66	2,949.44	3,864.02	-6.71%	22.21%	3,604.66	3,864.02
Paid-up (m shrs) - Par Bt5	687.10	687.10	687.10	0.00%	0.00%	687.10	687.10
Equities	7,603.73	7,914.66	7,553.75	0.66%	-3.93%	7,603.73	7,553.75
Debt/equity (x)	0.47	0.37	0.51	-7.33%	27.21%	0.47	0.51
Book value/Share(Bt)	11.07	11.52	10.99	0.66%	-3.93%	11.07	10.99

Ratings History



Phillip Group Rating System

Total Returns	Recommendation	Rating
> +20%	Buy	1
+5% to +20%	Accumulate/Trading Buy	2
-5% to +5%	Neutral	3
-5% to -20%	Reduce/Trading Sell	4
> -20%	Sell	5

Remarks

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