

COMPANY RESULTS

Thaicom (THCOM TB)

2Q19: Disappointing Core Profit On Customer Churn Issue

THCOM posted disappointing 2Q19 core operational results on the back of a high foreign customer churn. We expect further downside risk to our 2019 earnings projection. However, we think share price decline has already priced in most of the negatives and we expect share price to react positively when there is more clarity over the PPP programme. Maintain HOLD with a target price of Bt6.00. Entry price: Bt5.10.

2019 RESULTS

Year to 31 Dec (Btm)	2Q18	1Q19	2Q19	yoy % chg	qoq % chg
Revenue	1,495	1,303	1,217	(18.6)	(6.6)
Operating cost	(1,046)	(962)	(925)	11.5	3.8
SG&A expenses	(232)	(245)	(298)	(28.4)	(21.9)
Interest expenses	(86)	(83)	(82)	4.9	1.0
Income tax	(51)	(77)	(88)	(72.0)	(14.1)
EBITDA	709	550	396	(44.2)	(28.1)
Recurring income	177	21	2	(98.9)	(90.9)
Impairment loss/others	-	(38)	(82)	n.a.	(116.5)
Net income	251	(33)	(135)	(153.8)	(309.4)
EPS (Bt)	0.23	(0.03)	(0.12)	(153.8)	(309.4)
Gross margin (%)	30.04	26.15	23.94		
EBITDA margin (%)	47.41	42.25	32.53		
Net profit margin (%)	16.81	(2.53)	(11.10)		

Source: Thaicom, UOB Kay Hian

RESULTS

- **Thaicom (THCOM) posted a net loss of Bt135m in 2Q19** vs a net loss of Bt33m in 1Q19, mainly due to a Bt55m forex loss, Bt42m provision expenses relating to employee benefits (due to the new Labour Protection Act) and a Bt40m write-off on a deferred tax asset in 2Q19. Stripping out extraordinary items, THCOM's core profit stood at Bt2m in 2Q19, down 90.9% qoq and 98.9% yoy, impacted by high foreign customer churn (under Thaicom 4 broadcasting satellite) due to uncertainties relating to continued operations of satellites under concession.

KEY FINANCIALS

Year to 31 Dec (Btm)	2017	2018	2019F	2020F	2021F
Net turnover	6,689	6,026	5,241	5,289	5,681
EBITDA	2,792	2,054	2,201	2,088	1,686
Operating profit	(268)	125	388	275	326
Net profit (rep./act.)	(2,650)	230	69	255	323
Net profit (adj.)	507	57	137	323	391
EPS (Bt)	0.5	0.1	0.1	0.3	0.4
PE (x)	12.5	111.6	46.5	19.7	16.3
P/B (x)	0.4	0.5	0.5	0.5	0.5
EV/EBITDA (x)	3.4	4.7	4.3	4.6	5.7
Dividend yield (%)	0.0	23.4	0.4	1.6	2.0
Net margin (%)	(39.6)	3.8	1.3	4.8	5.7
Net debt/(cash) to equity (%)	13.6	(0.3)	24.8	13.6	2.4
Interest cover (x)	7.3	6.1	6.7	6.8	6.1
ROE (%)	n.a.	1.6	0.5	2.0	2.5
Consensus net profit	-	-	227	285	276
UOBKH/Consensus (x)	-	-	0.60	1.13	1.41

Source: Thaicom, Bloomberg, UOB Kay Hian

HOLD

(Maintained)

Share Price	Bt5.70
Target Price	Bt6.00
Upside	+5.3%

COMPANY DESCRIPTION

Sole satellite operator in Thailand with mobile phone businesses in Laos.

STOCK DATA

GICS sector	Communication Services
Bloomberg ticker:	THCOM TB
Shares issued (m):	1,096.1
Market cap (Btm):	6,357.4
Market cap (US\$m):	205.9
3-mth avg daily t'over (US\$m):	0.5

Price Performance (%)

52-week high/low Bt10.30/Bt5.15

1mth	3mth	6mth	1yr	YTD
(2.5)	(11.5)	(28.4)	(30.1)	(4.1)

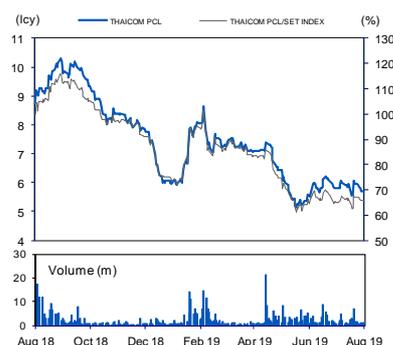
Major Shareholders

	%
Shin Corporation	41.1
NVDR	4.4
Mr. Wanchai Punvichieng	2.6

FY19 NAV/Share (Bt) 11.60

FY19 Net Debt/Share (Bt) 2.88

PRICE CHART



Source: Bloomberg

ANALYST(S)

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- Weak 2Q19 operations on lower contribution from the Thaicom 4 broadband satellite.** THCOM's core profit saw a huge drop to Bt2m in 2Q19, mainly due to lower contribution from Thaicom 4 broadband satellite which was impacted by high foreign customer churn on uncertainties over continued operations of satellites under concession; broadband satellite revenue hence declined by 15.1% qoq and 7.3% yoy in 2Q19. Broadband satellite services' gross margin declined to 22% in 2Q19 from 27.3% in 1Q19 and 27.2% in 2Q18. Share of profit/loss on JV investments also tumbled, recording a loss of Bt13m for 2Q19, from a loss of Bt5m in 1Q19 and gain of Bt52m for 2Q18, mainly due to high competition from mobile operators in Laos and also the impact of baht appreciation, which led to the drop in contribution from JV investments.

STOCK IMPACT

- Weak earnings expected to continue over the next couple of quarters...** as THCOM is still facing challenges from: a) slowdown in the broadcasting industry, b) the uncertainties relating to the continued operation of satellites under concession and high customer churn rates, and c) lower fee income due to the "Must Carry" obligation, of which's impact will be felt from 2H19 (we estimate an impact of around Bt90m/year for all seven channels). Note that the National Broadcasting and Telecommunications Commission (NBTC) enacted the "Must Carry" rule to regulate services provided by television service providers, including digital TV broadcasting licensees and satellite TV network operators; cable TV operators are required to carry all public digital terrestrial TV channels on the satellite TV platform; additional expenses are subsidised by NBTC.

- ...but THCOM is seeking more customers to minimise the impact.** THCOM has already signed new contracts with two new customers in Myanmar (Canal+) and Thailand (DTH) for broadcasting services and two new customers in the Philippines (WIT wholesales bandwidth) and Japan (KDDI) at the end of last year. For 2019, THCOM expects to sign a new contract with India's IndusInd Media & Communications Ltd (IMCL) (Grant Investrade Limited: GIL) for an additional transponder on the Thaicom5 satellite (contract signing expected within 3Q19). Also, THCOM signed an additional 806MHz bandwidth service agreement for a two-year period with India's Antrix. The total bandwidth leased in India is 2,293MHz

- Awaiting business restructuring.** THCOM still aims to engage in constructive cooperation with the Thai Government to enhance national security with its participation in the public-private partnership (PPP) programme and by opening itself up to discussions on various forms of project collaborations. Based on our latest channel check with CAT telecom, the government has already assigned an Independent Financial Advisor (IFA) to study the feasibility of satellite life extension under PPP programme (expect to complete within end-19). After the assessment, the government will select a potential candidate. We think THCOM will have more time to negotiate the set-up of a JV with CAT to stand as a candidate for the aforementioned project. This will pave the way for THCOM to extend the concessions of its satellite business for at least five years after the concessions of Thaicom 4, 5 and 6 end in late-21.

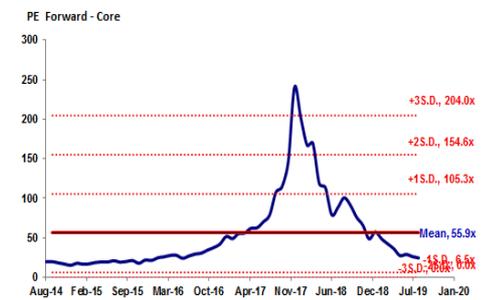
EARNINGS REVISION/RISK

- None.** 1H19 core profit accounted for 17% of our full-year forecast. We may revisit our earnings forecast after an analyst meeting on 8 Aug 19.

VALUATION/RECOMMENDATION

- Maintain HOLD with a target price of Bt6.00** based on DCF valuation. Although we still expect to see some positive developments under the Public Private Partnership (PPP) programme, under which THCOM will likely be able to continue operations of its Thaicom 4, 5, and 6 satellites after the end of concessions, the company will need more time to conclude its deal with CAT and we also expect THCOM's current operations to remain uncertain. We recommend a wait-and-see approach. Note that our target price and projections have not included the life extension under the PPP programme. We estimate an upside of Bt1.00 to our current target price if THCOM is able to secure an agreement to extend the operations of Thaicom 4, 5 and 6 satellites for another 5 years after the end of the concession on Sep 21.

PRICE CHART



Source: UOB Kay Hian

THCOM'S SATELLITES



Source: THCOM

PROFIT & LOSS

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Net turnover	6,026	5,241	5,289	5,681
EBITDA	2,054	2,201	2,088	1,686
Deprec. & amort.	1,929	1,813	1,813	1,360
EBIT	125	388	275	326
Total other non-operating income	66	188	190	192
Associate contributions	119	0	205	207
Net interest income/(expense)	(338)	(327)	(309)	(278)
Pre-tax profit	(22)	180	292	379
Tax	269	(112)	(31)	(48)
Minorities	(17)	0	(7)	(8)
Preferred dividends	0	0	0	0
Net profit	230	69	255	323
Net profit (adj.)	57	137	323	391

CASH FLOW

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Operating	2,685	2,993	2,002	1,569
Pre-tax profit	(147)	249	155	240
Tax	119	0	205	207
Deprec. & amort.	1,929	1,813	1,813	1,360
Associates	(119)	0	(205)	(207)
Working capital changes	(824)	931	34	(31)
Non-cash items	1,727	0	0	0
Other operating cashflows	n.a.	n.a.	n.a.	n.a.
Investing	1,224	1,224	1,248	1,273
Capex (growth)	1,724	1,724	1,748	1,773
Capex (maintenance)	(500)	(500)	(500)	(500)
Investments	0	0	0	0
Proceeds from sale of assets	0	0	0	0
Others	0	0	0	0
Financing	(2,219)	(4,786)	(2,462)	(1,967)
Dividend payments	(1,491)	(27)	(102)	(129)
Issue of shares	0	0	0	0
Proceeds from borrowings	0	0	0	0
Loan repayment	(733)	(97)	(677)	(609)
Others/interest paid	4	(4,662)	(1,683)	(1,229)
Net cash inflow (outflow)	1,690	(569)	789	875
Beginning cash & cash equivalent	5,368	7,057	6,488	7,277
Changes due to forex impact	0	0	n.a.	n.a.
Ending cash & cash equivalent	7,057	6,488	7,277	8,152

BALANCE SHEET

Year to 31 Dec (Btm)	2018	2019F	2020F	2021F
Fixed assets	4,815	7,721	7,876	8,033
Other LT assets	7,709	7,614	7,707	7,800
Cash/ST investment	7,057	6,488	7,277	8,152
Other current assets	2,621	1,679	1,699	1,823
Total assets	22,202	23,503	24,558	25,809
ST debt	0	150	150	150
Other current liabilities	1,372	1,361	1,415	1,509
LT debt	7,023	9,497	8,875	8,321
Other LT liabilities	670	(259)	1,213	2,729
Shareholders' equity	13,137	12,715	12,868	13,062
Minority interest	0	38	38	38
Total liabilities & equity	22,202	23,503	24,558	25,809

KEY METRICS

Year to 31 Dec (%)	2018	2019F	2020F	2021F
Profitability				
EBITDA margin	34.1	42.0	39.5	29.7
Pre-tax margin	(0.4)	3.4	5.5	6.7
Net margin	3.8	1.3	4.8	5.7
ROA	1.0	0.3	1.1	1.3
ROE	1.6	0.5	2.0	2.5
Growth				
Turnover	(9.9)	(13.0)	0.9	7.4
EBITDA	(26.4)	7.1	(5.2)	(19.2)
Pre-tax profit	n.a.	n.a.	62.0	29.6
Net profit	n.a.	(70.2)	271.3	26.8
Net profit (adj.)	(88.8)	140.0	136.1	21.1
EPS	(88.8)	140.0	136.1	21.1
Leverage				
Debt to total capital	34.8	43.1	41.2	39.3
Debt to equity	53.5	75.9	70.1	64.9
Net debt/(cash) to equity	(0.3)	24.8	13.6	2.4
Interest cover (x)	6.1	6.7	6.8	6.1

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