

Thaicom

 THCOM TB / THCOM.BK

31 May 2016

Thaicom 8 begins successful orbit

What's new?

Thaicom 8 was launched successfully into orbit by SpaceX's Falcon 9 rocket on 27 May. It will take about a month of orbital slot testing to be completed before its commercialization. Thaicom 8 is positioned at 78.5 degrees and has a total capacity of 24 Ku-band transponders, half of which are allocated to Thailand (mainly broadcasting clients) and the remainder to Africa and India. Given that there is a stronger broadcasting demand in India, the remaining 50% capacity will be allocated to India rather than Africa. Its presales were 17% at end-1Q16. Its lifespan is 18 years.

Bt2/share incremental value from Thaicom 8 factored in

We expect the satellite's commercialization to start in July. Assuming that its presales remain at 17% at end-2Q16 (assuming Forever Group's five new transponders have been filled by Thaicom 5 and 6 instead of 8), we expect its utilization rate to ramp up to 50% in 2H17, which will be filled by new clients (other than Forever). We have factored the satellite into our model and assumed the mean utilization rate of 8% in 2H16, 30% in 2017 before rising to 50-80% in 2018-21.

We estimate its revenue to reach Bt106m in 2H16, Bt396m in 2017 before rising to Bt660m in 2018 and Bt792m in 2019. We assume there will be only 5.25% license-related fees paid to the NBTC and no more owed to the ICT Ministry for the orbital slot, despite the lingering uncertainty that the ministry will collect such extra fees from Thaicom 8. The satellite has added about Bt2/share equity value to THCOM.

A 6% cut to 2016 net profit to factor out one troubled pay-TV client

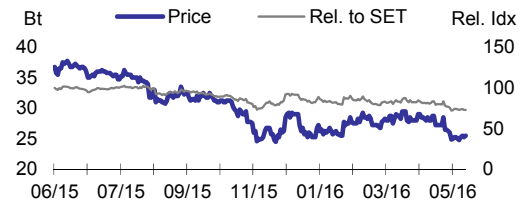
We expect the negative impact of Bt150-200m/quarter lost revenue from one financially troubled large scale pay-TV client, which will impact THCOM the most in 2Q16 and some in 3Q16 after the Forever Group has started utilizing some bandwidth on Thaicom 5 and 6 in 3Q16. We estimate a Bt500m core profit for 2Q16, down 13% YoY and 25% QoQ, due to the above reason. We have cut our 2016 revenue growth forecast from the previous 5.4% (Bt13.1bn) to 1.9% (Bt12.7bn) to reflect the absence of revenue from the above troubled pay-TV client and the global slowdown. If netting out the slight positive impact from Thaicom 8 during 2016-17, we have cut our net profit forecasts by 6% for 2016 (to Bt2.42bn) and by 4% for 2017 (to Bt2.58bn). The net impact is that our DCF-based target price rises by 2% (to Bt46).

Three orbital slots to expire in 2021

The ICT Ministry withdrew only the orbital slot of Thaicom 9's 119.5 degrees East (not 50.5 and 78.5 degrees East) with the ITU and the future resubmission would rank it third among satellite TV operators. Although the chance of launching Thaicom 9 into orbit is now slim, THCOM still has another three orbital slots to secure, which are due to expire in 2021—Thaicom 4 or IPSTAR (119.5 degrees), and Thaicom 5 and 6 (78.5 degrees). Our BUY rating stands, as we believe that THCOM remains an undervalued stock, despite the increased regulatory risk from the ICT Ministry over Thaicom 8 and the next, short-term impact from above financially troubled pay-TV client.

Sector: ICT – UNDERWEIGHT
Rating: BUY
Target Price: Bt46.00
Price (30 May 2016): Bt25.50

Price chart

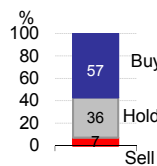


Share price perf. (%)	1M	3M	12M
Relative to SET	(12.7)	(16.1)	(25.8)
Absolute	(11.3)	(12.8)	(30.6)

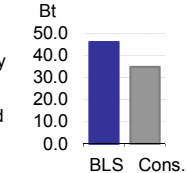
Key statistics

Market cap	Bt27.9bn	USD0.8bn
12-mth price range	Bt24.1/Bt37.8	
12-mth avg daily volume	Bt92m	USD2.6m
# of shares (m)	1,096	
Est. free float (%)	51.3	
Foreign limit (%)	40.0	

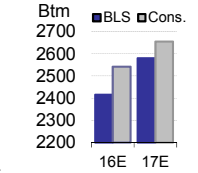
Consensus Rating



BLS Target price vs. Consensus



BLS earnings vs. Consensus



Financial summary

FY Ended 31 Dec	2015	2016E	2017E	2018E
Revenues (Btm)	12,453	12,691	13,471	14,039
Net profit (Btm)	2,122	2,416	2,580	2,797
EPS (Bt)	1.94	2.20	2.35	2.55
EPS growth (%)	+32.6%	+13.8%	+6.8%	+8.4%
Core profit (Btm)	2,449	2,400	2,580	2,797
Core EPS (Bt)	2.23	2.19	2.35	2.55
Core EPS growth (%)	+39.1%	-2.0%	+7.5%	+8.4%
PER (x)	17.3	11.6	10.8	10.0
PBV (x)	2.0	1.4	1.3	1.2
Dividend (Bt)	0.7	0.7	0.8	0.9
Dividend yield (%)	1.9	2.9	3.1	3.4
ROE (%)	12.3	13.0	12.7	12.7

CG/Anti-Corruption

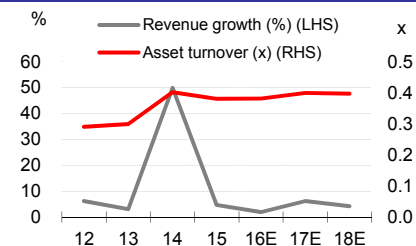


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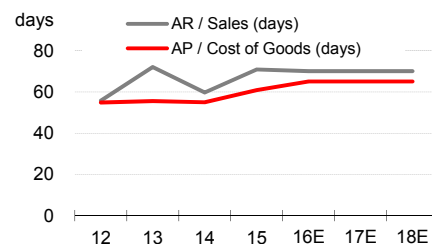
THCOM: Financial Tables – Year

PROFIT & LOSS (Btm)	2014	2015	2016E	2017E	2018E
Revenue	11,893	12,453	12,691	13,471	14,039
Cost of sales and services	(7,041)	(7,354)	(7,557)	(7,989)	(8,297)
Gross profit	4,852	5,099	5,134	5,481	5,742
SG&A	(2,304)	(2,118)	(2,221)	(2,357)	(2,457)
EBIT	2,548	2,981	2,913	3,124	3,285
Interest expense	(384)	(306)	(298)	(289)	(279)
Other income/exp.	173	162	174	184	237
EBT	2,336	2,837	2,789	3,020	3,243
Corporate tax	(498)	(399)	(410)	(466)	(474)
After-tax net profit (loss)	1,838	2,438	2,378	2,553	2,769
Minority interest	(232)	(183)	(192)	(201)	(211)
Equity earnings from affiliates	154	194	213	228	239
Extra items	(160)	(327)	16	0	0
Net profit (loss)	1,601	2,122	2,416	2,580	2,797
Reported EPS	1.46	1.94	2.20	2.35	2.55
Fully diluted EPS	1.46	1.94	2.20	2.35	2.55
Core net profit	1,760	2,449	2,400	2,580	2,797
Core EPS	1.61	2.23	2.19	2.35	2.55
EBITDA	5,120	5,783	6,376	6,677	6,929
KEY RATIOS					
Revenue growth (%)	49.8	4.7	1.9	6.1	4.2
Gross margin (%)	40.8	40.9	40.5	40.7	40.9
EBITDA margin (%)	43.1	46.4	50.2	49.6	49.4
Operating margin (%)	21.4	23.9	23.0	23.2	23.4
Net margin (%)	13.5	17.0	19.0	19.2	19.9
Core profit margin (%)	14.8	19.7	18.9	19.2	19.9
ROA (%)	5.4	6.5	7.3	7.6	7.9
ROCE (%)	6.1	7.3	8.2	8.7	9.0
Asset turnover (x)	0.4	0.4	0.4	0.4	0.4
Current ratio (x)	1.8	1.8	2.0	2.5	3.3
Gearing ratio (x)	0.6	0.6	0.5	0.4	0.4
Interest coverage (x)	6.6	9.7	9.8	10.8	11.8
BALANCE SHEET (Btm)					
Cash & Equivalent	4,505	5,046	3,740	5,555	8,639
Accounts receivable	1,946	2,417	2,434	2,583	2,692
Inventory	236	230	217	230	239
PP&E-net	8,353	9,032	11,410	12,701	12,905
Other assets	15,381	13,183	11,255	9,321	7,338
Total assets	31,888	33,592	32,977	34,560	36,238
Accounts payable	1,061	1,226	1,346	1,423	1,478
ST debts & current portion	1,511	1,720	568	568	568
Long-term debt	9,590	10,030	8,649	8,237	7,825
Other liabilities	1,027	1,071	1,142	1,212	1,263
Total liabilities	14,603	15,481	13,164	12,989	12,748
Paid-up capital	5,480	5,480	5,480	5,480	5,480
Share premium	4,302	4,302	4,302	4,302	4,302
Retained earnings	7,106	7,902	9,605	11,363	13,283
Shareholders equity	16,887	17,684	19,387	21,145	23,065
Minority interests	397	427	426	426	425
Total Liab.&Shareholders' equity	31,888	33,592	32,977	34,560	36,238
CASH FLOW (Btm)					
Net income	1,601	2,122	2,416	2,580	2,797
Depreciation and amortization	2,572	2,802	3,462	3,553	3,644
Change in working capital	(21)	(300)	116	(85)	(63)
FX, non-cash adjustment & others	679	104	(99)	54	31
Cash flows from operating activities	4,831	4,729	5,895	6,102	6,409
Capex (Invest)/Divest	(6,386)	(1,257)	(3,984)	(2,984)	(1,984)
Others	605	(2,124)	51	(163)	(119)
Cash flows from investing activities	(5,782)	(3,380)	(3,933)	(3,148)	(2,103)
Debt financing (repayment)	2,676	424	(2,433)	(412)	(412)
Equity financing	0	0	0	0	0
Dividend payment	(755)	(850)	(713)	(821)	(877)
Others	605	(2,124)	51	(163)	(119)
Cash flows from financing activities	1,567	(716)	(3,146)	(1,234)	(1,290)
Net change in cash	617	632	(1,184)	1,721	3,016
Free cash flow (Btm)	(1,555)	3,472	1,911	3,118	4,424
FCF per share (Bt)	(1.4)	3.2	1.7	2.8	4.0
Key assumptions	2014	2015	2016E	2017E	2018E
FY IPSTAR utilization rate (%)	32%	32%	35%	38%	41%
IPSTAR price/transponder (US\$m)	0.33	0.31	0.29	0.28	0.27
IPSTAR revenue (Btm)	4,312	4,227	4,502	4,674	4,826
Conventional satellite revenue (Btm)	4,474	5,029	4,867	5,421	5,780
Telephone revenue (Btm)	0	0	0	0	0
Internet revenue (Btm)	216	3,270	3,322	3,376	3,433

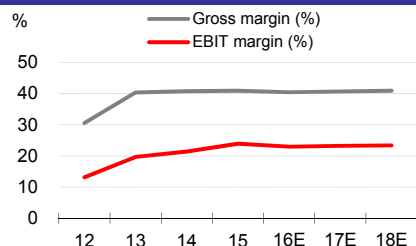
Revenue growth and asset turnover



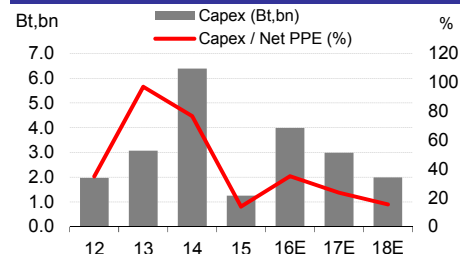
A/C receivable & A/C payable days



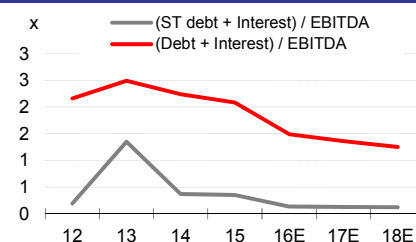
Profit margins



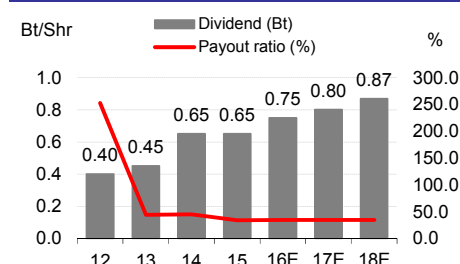
Capital expenditure



Debt serviceability



Dividend payout



THCOM: Financial Tables – Quarter

QUARTERLY PROFIT & LOSS (Btm)	1Q15	2Q15	3Q15	4Q15	1Q16
Revenue	3,074	2,939	3,147	3,294	3,210
Cost of sales and services	(1,859)	(1,757)	(1,824)	(1,914)	(1,794)
Gross profit	1,214	1,181	1,323	1,380	1,416
SG&A	(561)	(529)	(507)	(521)	(512)
EBIT	653	652	816	860	904
Interest expense	(82)	(82)	(86)	(56)	(70)
Other income/exp.	43	41	37	42	47
EBT	614	611	768	845	881
Corporate tax	(147)	(70)	(51)	(131)	(203)
After-tax net profit (loss)	467	540	716	714	678
Minority interest	(48)	(46)	(50)	(39)	(49)
Equity earnings from affiliates	46	77	(13)	83	41
Extra items	74	1	(388)	(14)	30
Net profit (loss)	540	572	265	745	700
Reported EPS	0.49	0.52	0.24	0.68	0.64
Fully diluted EPS	0.49	0.52	0.24	0.68	0.64
Core net profit	466	571	653	758	670
Core EPS	0.42	0.52	0.60	0.69	0.61
EBITDA	1,351	1,356	1,522	1,555	1,587

KEY RATIOS

Gross margin (%)	39.5	40.2	42.0	41.9	44.1
EBITDA margin (%)	44.0	46.1	48.4	47.2	49.4
Operating margin (%)	21.3	22.2	25.9	26.1	28.2
Net margin (%)	17.6	19.5	8.4	22.6	21.8
Core profit margin (%)	15.2	19.4	20.8	23.0	20.9
BV (Bt)	15.3	15.8	16.0	16.5	16.4
ROE (%)	13.2	13.6	6.2	16.8	15.9
ROA (%)	6.9	7.2	3.3	8.9	8.2
Current ratio (x)	1.7	1.9	1.6	1.8	1.7
Gearing ratio (x)	0.6	0.6	0.7	0.6	0.6
Interest coverage (x)	8.0	8.0	9.5	15.2	13.0

QUARTERLY BALANCE SHEET (Btm)

Cash & Equivalent	4,556	5,061	3,880	5,046	6,002
Accounts receivable	1,995	1,997	2,120	2,417	2,420
Inventory	230	225	215	230	226
PP&E-net	8,242	8,579	8,730	9,032	9,108
Other assets	15,918	15,620	16,956	16,555	15,905
Total assets	31,256	31,805	32,247	33,592	33,956
Accounts payable	1,619	911	1,063	1,226	1,826
ST debts & current portion	1,247	1,183	2,170	1,720	2,010
Long-term debt	9,249	9,420	9,475	10,030	9,577
Other liabilities	1,032	1,055	1,017	1,071	1,053
Total liabilities	14,452	14,488	14,686	15,481	15,929
Paid-up capital	5,480	5,480	5,480	5,480	5,480
Share premium	4,302	4,302	4,302	4,302	4,302
Retained earnings	5,842	6,414	6,679	7,265	7,253
Shareholders equity	16,414	16,880	17,154	17,684	17,620
Minority interests	389	437	407	427	406
Total Liab.&Shareholders' equity	31,256	31,805	32,247	33,592	33,956

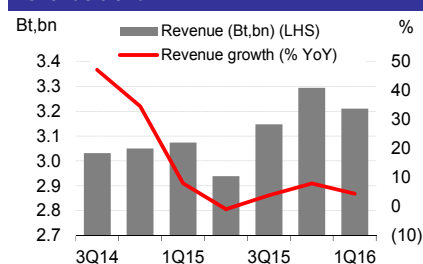
Key statistics

	1Q15	2Q15	3Q15	4Q15	1Q16
Conventional satellite rev (Btm)	1,280	1,142	1,243	1,366	1,272
IPSTAR revenue (Btm)	1,029	1,018	1,060	1,120	1,122
Telephone revenue (Btm)	0	0	0	0	0
Internet revenue (Btm)	782	795	862	833	840
Gross margin - conventional satellite (%)	44.3%	47.7%	50.0%	53.4%	54.9%
Gross margin - IPSTAR (%)	34.8%	33.8%	37.9%	34.6%	36.5%

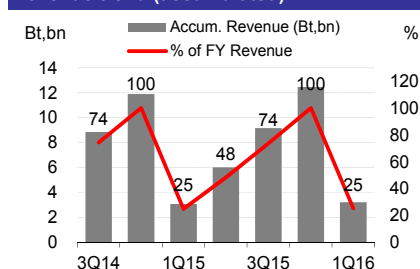
Company profile

Thaicom Public Company Limited (THCOM) is Thailand's only satellite operator. It also has business interests in Internet (CSL), yellow-page directories (TeleInfomedia) and mobile and fixed-line telecoms (51% stake in Shenington). Satellites currently in service include Thaicom 4 (IPSTAR), Thaicom 5, Thaicom 6 and Thaicom 7. Thaicom 5 was launched on May 28, 2006. THCOM's transponder leasing service covers countries such as Thailand, Australia, New Zealand, Vietnam, Myanmar, Laos, China, the Philippines and Malaysia. India, Australia, Japan and Malaysia will be the prime markets going forward. Thaicom 6 was launched on January 6, 2014. Thaicom 7 was launched on September 7, 2014 while Thaicom 8 was launched into the orbit on May 27, 2016.

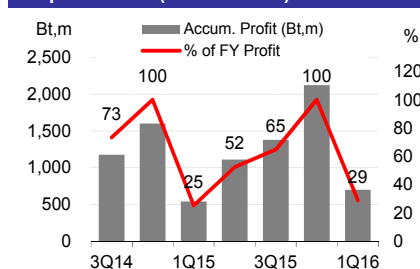
Revenue trend



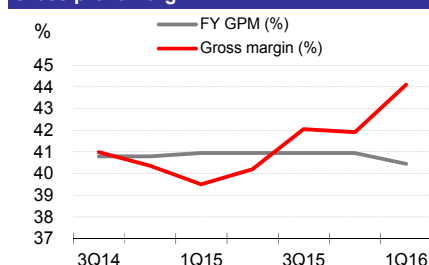
Revenue trend (accumulated)



Net profit trend (accumulated)



Gross profit margin



EBIT margin

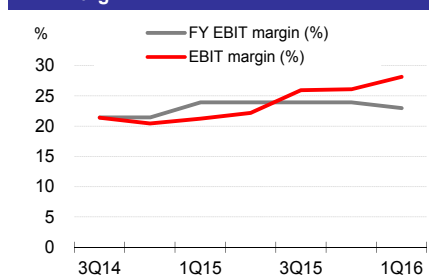
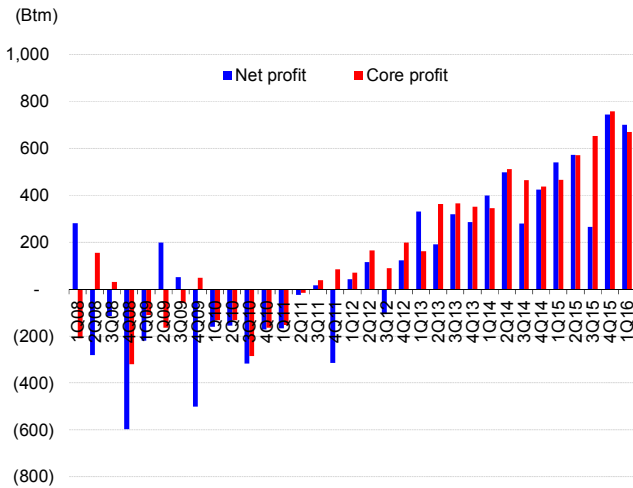
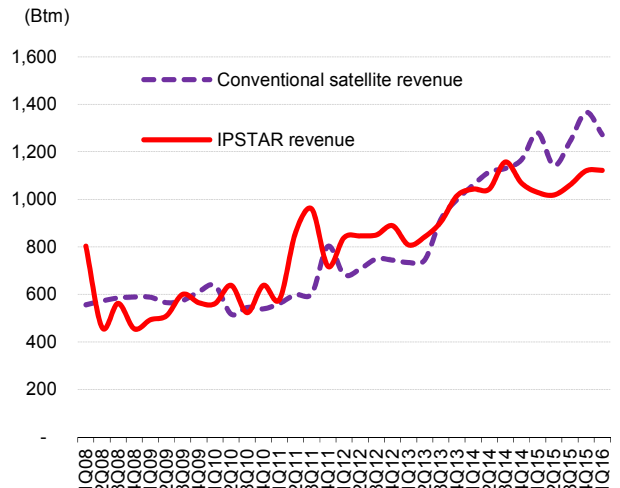


Figure 1: Quarterly consolidated net profit (loss)



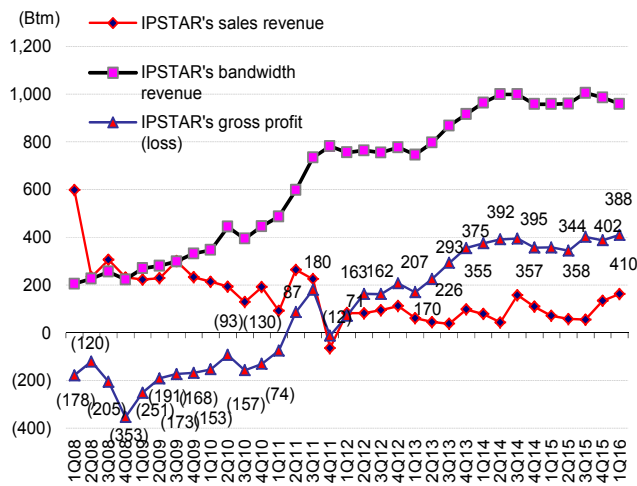
Source: Company data

Figure 2: Satellite revenue breakdown



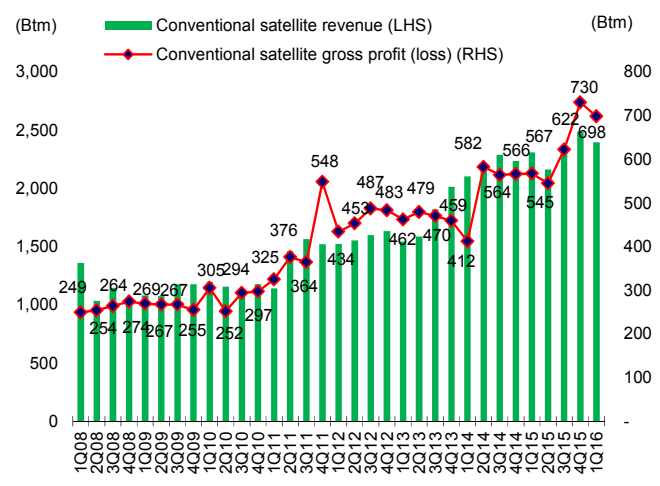
Source: Company data

Figure 3: IPSTAR revenue and gross profit (loss)



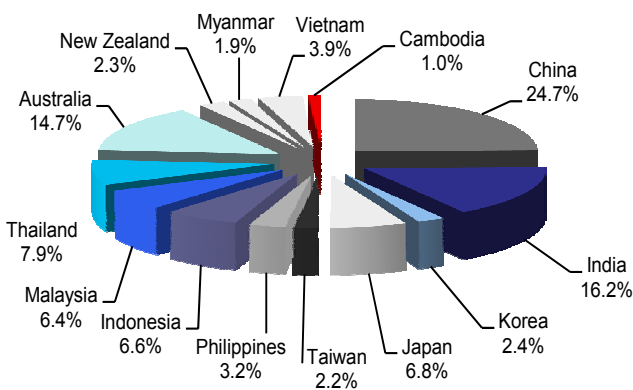
Source: Company data

Figure 4: Conventional satellite revenue and gross profit



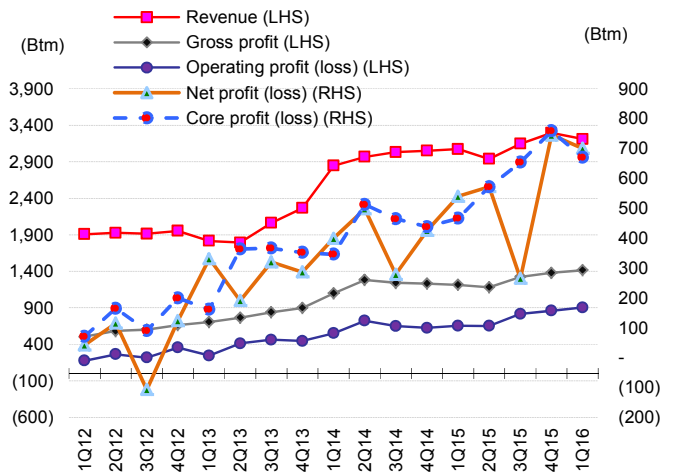
Source: Company data

Figure 5: IPSTAR capacity allocations, by country



Source: Company data

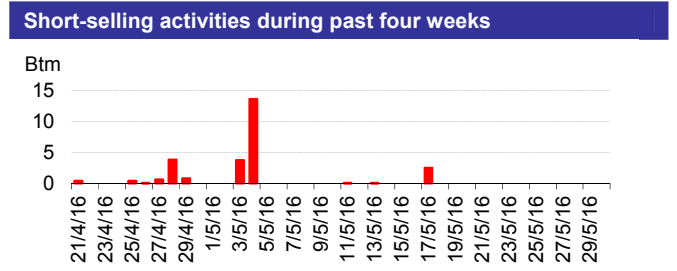
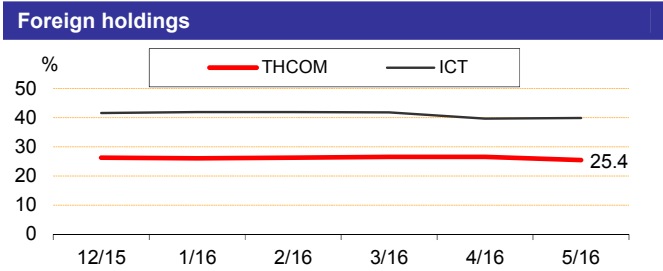
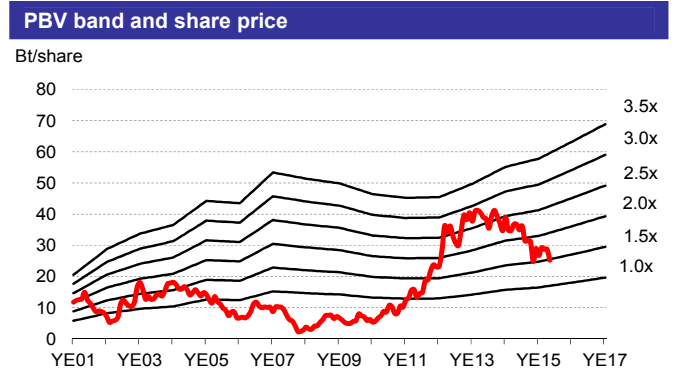
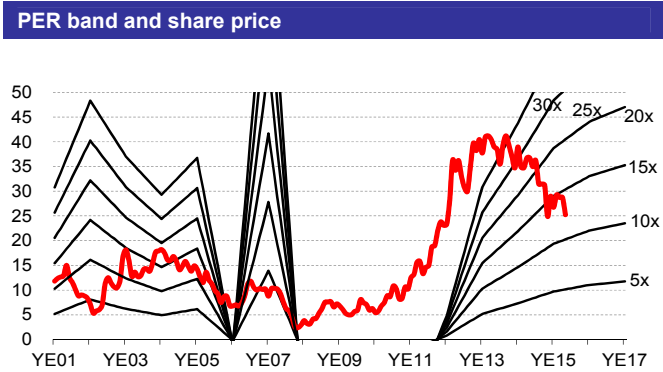
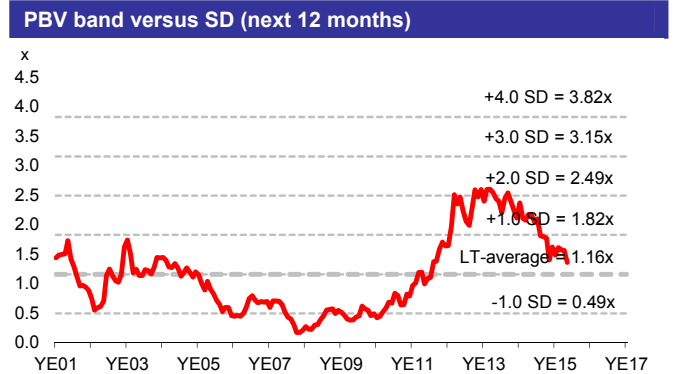
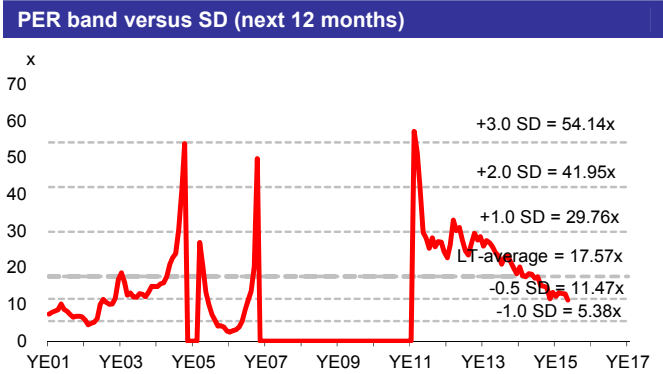
Figure 6: Operational indicators, quarterly



Source: Company data

Regional Comparisons

	Bloomberg Code	Price (local curr.)	Market Cap (US\$ equivalent)	PER (x)		EPS Growth (%)		PBV (x)		ROE (%)		Div Yield (%)	
				2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E	2016E	2017E
Echostar Corp-A	SATS US	USD40.2	3,772	22.0	24.8	-6.8	n.a.	0.9	0.9	4.5	4.3	0.0	0.0
Viasat Inc	VSAT US	USD70.1	3,430	54.0	51.7	56.2	-52.3	3.3	3.2	7.1	6.4	n.a.	n.a.
Gilat Satellite Networks Ltd	GILT US	USD4.8	260	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Eutelsat Communications	ETL FP	EUR17.8	4,617	11.7	12.3	-5.0	-7.0	1.6	1.5	14.0	12.5	6.0	5.8
Ses	SESG FP	EUR19.9	11,446	15.6	14.1	26.9	9.6	2.0	2.0	13.5	14.7	6.9	7.4
Indosat Tbk Pt	ISAT IJ	IDR6,600	2,638	31.7	18.1	-188.7	67.5	2.7	2.4	7.2	12.0	1.2	2.1
Inmarsat Plc	ISAT LN	GBP749	4,942	22.3	19.7	-12.9	15.8	4.0	3.8	19.7	36.5	4.9	5.2
Phoenix Satellite Television	2008 HK	HKD2	1,095	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Zhejiang Satellite Petroch-A	002648 CH	CNY8	1,007	205.8	13.7	-107.3	1400.0	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Thaicom	THCOM TB	THB25.25	776	11.6	10.8	13.8	6.8	1.4	1.3	13.0	12.7	2.9	3.1
Simple average				46.8	20.7	-28.0	205.8	2.3	2.2	11.3	14.2	3.6	3.9



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Financial Advisor	Lead underwriter/ Underwriter/ Co-underwriter

CG Rating

Score Range	Score Range	Description
90 – 100		Excellent
80 – 89		Very Good
70 – 79		Good
60 – 69		Satisfactory
50 – 00359		Pass
Below 50	No logo given	N/A

Anti-Corruption Progress Indicator

Level	Description
5	Extended
4	Certified
3B	Established by Commitment and Policy
3A	Established by Declaration of Intent
2	Declared
1	Committed
Partially progress	Partially progress
No progress	No progress

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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.