

7 September 2012

Sun TV Network

Key takeaways from management meet

We recently met the management of Sun TV to understand the business outlook and risks the company faces. Its prospects are improving with resumption of growth in advertisement revenues, likely pick up in subscription revenues and softening of regulatory overhang. Sun TV trades at 16.6x FY13e EPS (Bloomberg consensus), at the highest discount to the sector historically.

- Outlook for advertisement revenues improving.** Sun TV's advertisement revenues grew 5% yoy in 1QFY13, reversing the declining trend in preceding two quarters. The company is witnessing increased buoyancy in ad revenues from the FMCG segment (~60% of total revenues) post a muted trend in FY12. Advertising from regional/local advertisers such as real estate, jewellery etc. is gathering momentum.
- Arasu Cable deal marks winding down of regulatory overhang.** From Aug '12, Sun TV's channels are being carried on the network of Arasu Cable, a state-owned entity catering to analogue market in Tamil Nadu (ex-Chennai). This is poised to improve viewer ratings and analogue revenue stream from the state. The deal demonstrates the company's content pull amidst adversities.
- Subscription revenues to resume growth.** With completion of content supply deal with Arasu Cable and Sun TV becoming a pay channel in Chennai (2m subscribers) post the expected digitalisation of TV distribution, subscription revenues would surge.
- Valuations.** Sun TV's current valuations (16.6x FY13e EPS Bloomberg consensus) are significantly below its 5-year average one-year forward P/E of 26x. Also, its valuation discount compared to peers could narrow with the improved business outlook.

Key consol. financials (YE Mar)	FY08	FY09	FY10	FY11	FY12
Revenue (₹m)	8,699	10,394	14,528	20,135	18,472
Adjusted net profit (₹m)	3,267	3,683	5,199	7,697	6,929
EPS (₹)	8.3	9.4	13.2	19.5	17.6
Growth (%)	163.2	12.8	41.2	47.7	(9.8)
P/E (x)	35.8	17.8	32.5	23.0	17.8
EV/EBITDA (x)	19.0	8.5	15.1	10.8	8.5
RoE (%)	24.7	23.4	27.6	34.2	26.8
RoCE (%)	21.0	20.5	27.2	29.9	22.1
Dividend yield (%)	0.8	0.0	1.8	1.9	3.0
Net debt-to-Equity (x)	(0.3)	(0.2)	(0.2)	(0.3)	(0.1)

Source: Company

Rating: **Not rated**

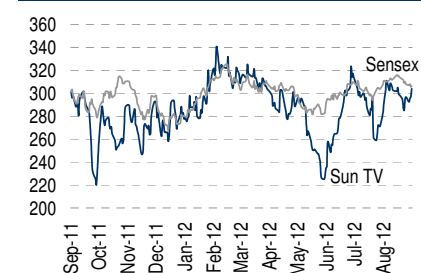
Target Price: NA

Share Price: ₹308

Key data	SUNTV IN / SUTV.BO
52-week high / low	₹343 / ₹177
Sensex / Nifty	17684 / 5342
3-m average volume	US\$7.4m
Market cap	₹120bn / US\$2,156m
Shares outstanding	394m

Shareholding pattern (%)	Jun '12	Mar '12	Dec '11
Promoters	77.0	77.0	77.0
- of which, Pledged	-	-	-
Free Float	23.0	23.0	23.0
- Foreign Institutions	13.1	14.2	15.0
- Domestic Institutions	2.9	2.8	1.2
- Public	6.9	6.0	6.8

Relative price performance



Source: Bloomberg

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	Buy	Hold	Sell
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% who are investment banking clients	5%	6%	0%

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