

Q2FY2012 Review
 Sector: Media
 BSE Sensex : 17,563

SUN TV NETWORK

 Maintain BUY
 CMP Rs288
 TP Rs340

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Lacklustre Q2; disappoints at multiple revenue segments

Sun TV's Q2FY12 revenue was marginally below our expectation. Net sales grew 6.2%YoY to Rs4.5bn (0.6% de-growth QoQ) because of lower than expected Ad revenue growth of 2% YoY(2%QoQ). Subscription revenue also de-grew 10%QoQ (grew 2% YoY) where in DTH revenue de-grew 6%QoQ while cable revenue contracted 16%QoQ. Overseas business registered growth of 13%YoY(10% de-growth QoQ) to Rs180mn. Movies business(2 new releases in Q2) was the major savior, with revenues of Rs310mn. EBIT margin dipped 194bps to 55% from 57% in Q2FY11 due to greater depreciation(30%YoY) of Rs1.2bn.

Dismal Subscription revenues, movies a major boost to top-line

Revenue grew by 6.2%YoY on account of subdued ad revenue and lower than expected subscription revenue growth. Ad revenue registered muted growth of 2%YoY to Rs2.3bn, with inventory utilization in the range of 50-55%. Subscription revenue growth of mere 2%YoY was due to pressure on cable revenue and unexpected de-growth in DTH. The cable business de-grew 13%YoY (16% de-growth QoQ) and DTH segment grew by 13%(6% de-growth QoQ).The analog cable revenues were hampered due to competition from revival of state run ARASU cable providing cable at discounted rates. DTH revenues were lower mainly because of renewal of contracts with few DTH operators at the new rate of 42% of amount charged to cable operators for content (from 50% earlier). Overseas revenue increased 13%YoY to Rs180mn and Broadcasting revenue declined 3%YoY to Rs390mn.

Higher Depreciation resulting in dimmer EBIT margin

EBITDA margin remained steady at 81%. EBIT margins were slightly dim at 55% from 57% in Q2FY11 on account of higher amortization and depreciation cost of Rs1.1bn led by increased depreciation at Rs250mn, amortization of TV telecast rights (Rs350mn) satellite rights (Rs550mn) and new movie releases (Rs20mn). Net profit increased 7.6% YoY to Rs1.8mn maintaining its NPM at 40%.

The company has declared interim dividend of Rs3.75 in addition to Rs2.5 declared in Aug'11. Total dividend of Rs6.25 (annualized dividend yield of 4.5%)

VALUATIONS AND RECOMMENDATION:

We have reduced our earnings growth estimate (from 7%CAGR to 4%CAGR over FY11-FY13E) derived from: 1) trim down in ad growth estimate to 8%CAGR (FY11-FY13E) from earlier 11%CAGR (FY11-FY13E), 2) decreased revenue growth from cable and DTH segments from 12% to 5%CAGR (FY11-FY13E). At CMP the stock is trading at 14xFY13E. Though the stock is trading at historical low valuations on account of adverse political environment we see substantial risk to business and the earnings of the company. Hence we are reducing our target P/E multiple from 18xFY13E EPS to 16xFY13E EPS. We maintain our Buy recommendation with a reduced target price of Rs340 (16xFY13E EPS).

KEY FINANCIALS (CONSOLIDATED)

	(Rs mn)				
	FY09	FY10	FY11	FY12E	FY13E
Net Sales	10,394	14,528	20,135	19,973	21,827
YoY Gr. (%)	19.5	39.8	38.6	(0.8)	9.3
Op. Profit	7,368	10,909	15,779	15,462	16,851
Op. Margin (%)	70.9	75.1	78.4	77.4	77.2
Adj. Net Profit	3,683	5,199	7,698	7,519	8,375
YoY Gr. (%)	12.7	41.2	48.1	(2.3)	11.4

KEY RATIOS

EPS (Rs)	9.3	13.2	19.5	19.1	21.3
ROCE (%)	34.1	41.5	51.3	44.4	44.0
ROE (%)	23.4	28.3	35.6	30.0	29.4
PER (x)	30.8	21.8	14.7	15.1	13.6
EV/Sales (x)	10.6	7.5	5.3	5.4	4.9
Ev/EBDITA (x)	15.0	10.0	6.8	7.0	6.3

QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Mar-11	Jun-11	Sep-11
Net Sales	4,605	4,540	4,513
YoY Gr. (%)	17.5	3.1	6.2
Op. Profits	3,639	3,659	3,654
OPM (%)	79.0	80.6	81.0
Adj. Net Profit	2,083	1,876	1,801
YoY Gr. (%)	26.2	9.8	7.6

STOCK DATA

Market Cap	Rs108bn.
Book Value per share	Rs57
Eq Shares O/S (F.V. Rs5)	394 mn.
Free Float	23%
Avg Traded Value (6 mnths)	Rs388.2mn
52 week High/Low	Rs556.5/214.5
Bloomberg Code	SUNTV:IN
Reuters Code	SUTV.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	28.2	(5.7)	(44.8)
Relative	17.9	(3.7)	(35.6)

RELATIVE PERFORMANCE

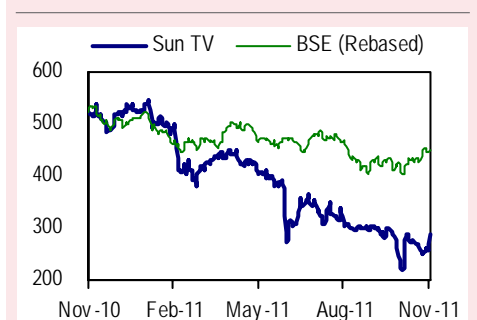


Exhibit 1: Result Table (Standalone)

In Mn	Q2FY12	Q2FY11	YoY(%)	Q1FY12	QoQ(%)
Ad	2,350	2,300	2.2	2,310	1.7
Subscription	1,260	1,240	1.6	1,400	(10.0)
Cable	470	540	(13.0)	560	(16.1)
DTH	790	700	12.9	840	(6.0)
Broadcast fee	390	400	(2.5)	390	0.0
Program licensing/ Oversees revenue	180	160	12.5	200	(10.0)
Net Sales	4,513	4,248	6.2	4,540	(0.6)
Content Cost/Cost of revenues	225	250	(10.0)	242	(7.1)
RM/Rev. (%)	5.0	5.9		5.3	
Total Expenditure	858	925	(7.2)	881	(2.5)
EBITDA	3,654	3,323	10.0	3,659	(0.1)
EBITDA Margins (%)	81.0	78.2		80.6	
Other Income	186	93	101.3	173	7.7
Depreciation	1,176	908	29.6	1,061	10.8
EBIT	2,478	2,415		2,598	
EBIT Margins (%)	54.9	56.9		57.2	
Interest	8	3	153.3	2	230.4
PBT	2,657	2,505	6.1	2,769	(4.0)
Tax	856	830	3.0	892	(4.1)
PAT	1,801	1,674	7.6	1,876	(4.0)
Adj PAT	1,801	1,674	7.6	1,876	(4.0)
EPS	4.6	4.2	7.6	4.8	(4.0)

Source: Company, PINC Research

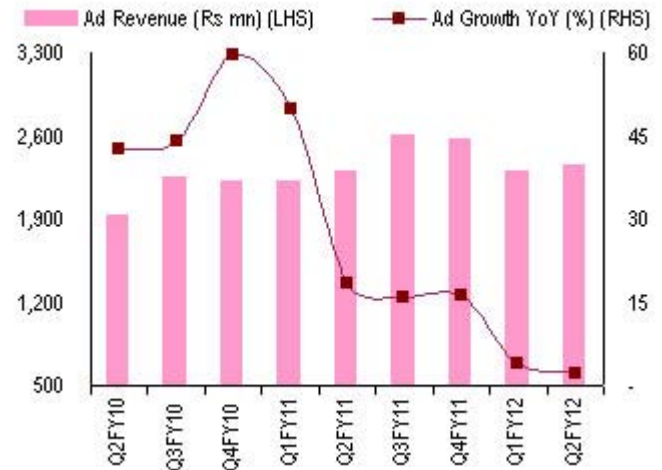
Concall highlights:

- ♦ The company expects higher single digit Ad revenue growth for FY12, with boost from festive season advertising spends.
- ♦ DTH revenue expected to grow at 12-14% for FY12.
- ♦ Sundry debtors increased from Rs4.3bn in Mar'11 to Rs5bn currently consisting of a mix of Advertisers and DTH operators. Debtor days increased to 100 days (to the levels it was in FY07-FY08).
- ♦ The company acquired a debt of Rs1.7bn, which stands at Rs450mn as of today. The entire loan is expected to be repaid by the end of the year.
- ♦ Sun TV plans to invest Rs1.5bn-Rs2bn for acquisition of satellite rights in FY12.
- ♦ Radio business with revenue of Rs 420mn for H1FY12 turned EBITDA positive at Rs51mn
- ♦ The company is in talks with ARASU cable to carry Sun TV channels on its network.
- ♦ The company reported a DTH subscriber base of 7.3mn (addition of 3%QoQ) with ARPU of Rs36

Exhibit 2: Sales growth trend



Exhibit 3: Ad Revenue growth trend



Source: Company, PINC Research

Exhibit 4: Subscription revenue growth trend

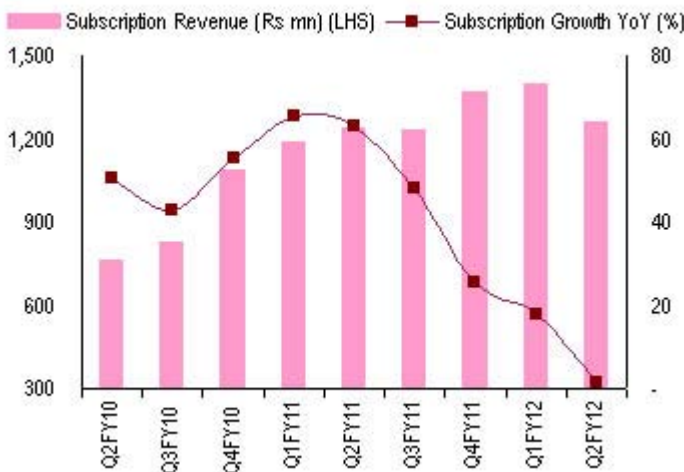
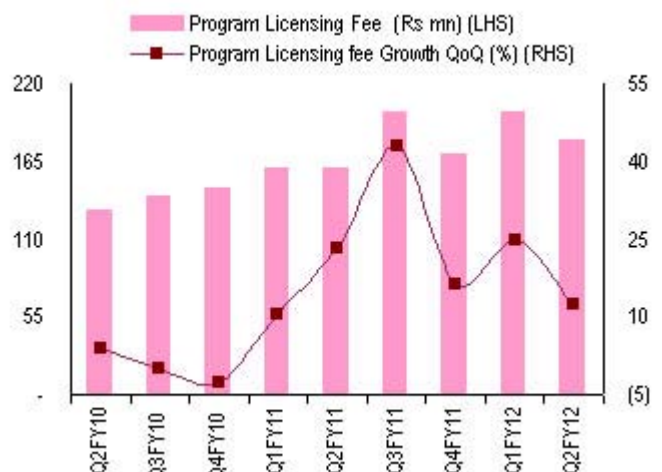


Exhibit 5: Overseas Revenue growth trend



Source: Company, PINC Research

Exhibit 6: PAT growth trend

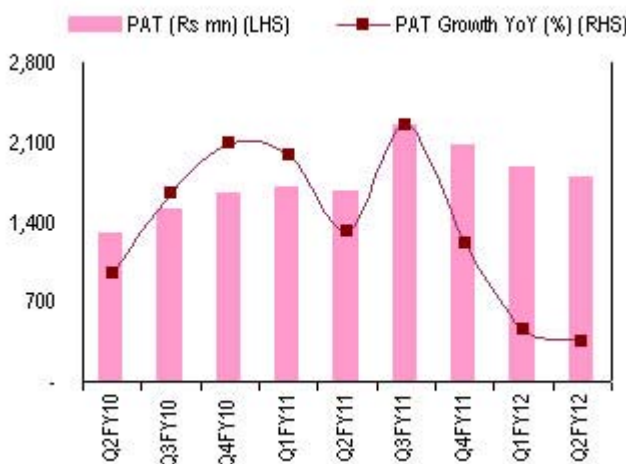
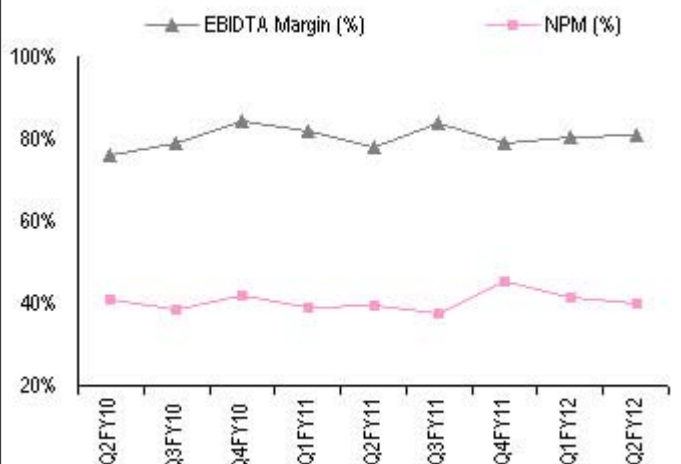
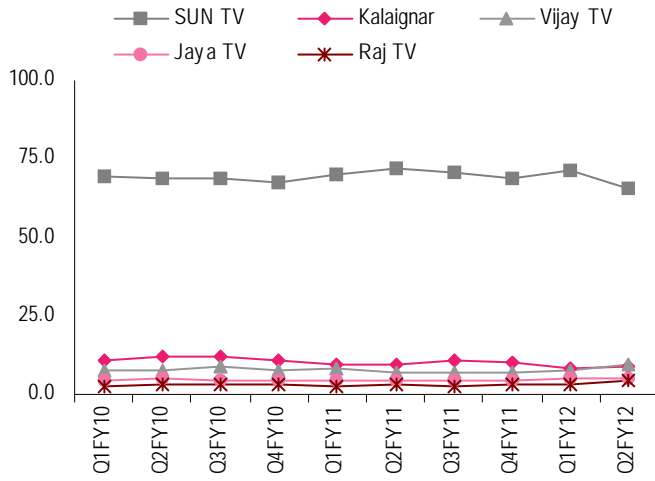


Exhibit 7: Profitability trend



Source: Company, PINC Research

Exhibit 8: Tamil Viewership Share (%)



Source: TAM

Exhibit 9: Telegu Viewership Share (%)

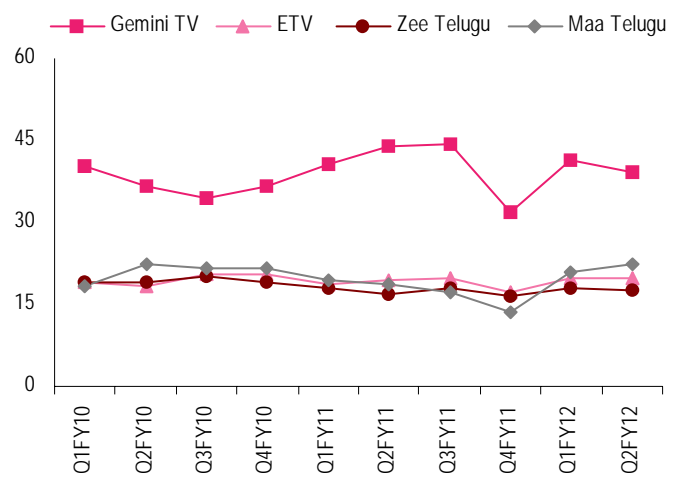
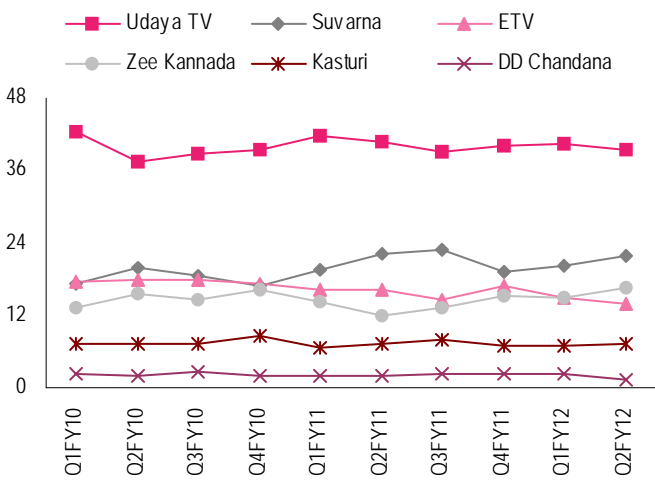
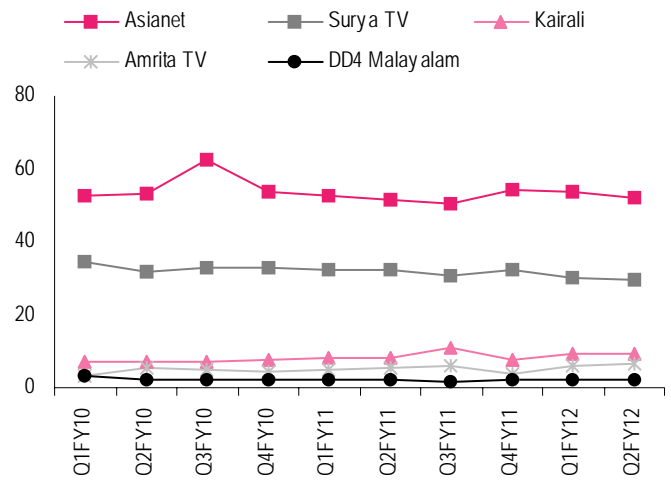


Exhibit 10: Kannada Viewership Share (%)



Source: TAM

Exhibit 11: Malayalam Viewership Share (%)



Consolidated Financials

Year Ended March (Figures in Rs mn)

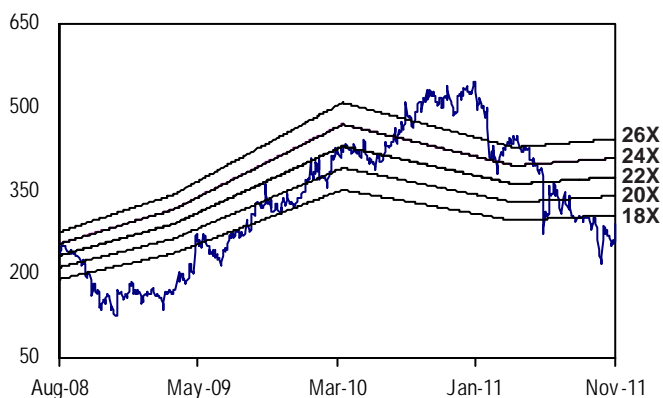
Income Statement	FY09	FY10	FY11	FY12E	FY13E
Net sales	10,394	14,528	20,135	19,973	21,827
Growth (%)	19.5	39.8	38.6	(0.8)	9.3
Gross profit	8,125	11,962	16,842	16,632	18,230
Other operating charges	757	1,053	1,063	1,170	1,378
EBITDA	7,368	10,909	15,779	15,462	16,851
Growth (%)	23.3	48.7	44.6	(2.0)	9.0
Depreciation	2,205	3,209	4,805	4,687	4,802
Other income	668	350	487	600	675
EBIT	5,831	8,049	11,461	11,375	12,724
Interest paid	138	49	23	52	55
PBT (before E/o items)	5,693	8,000	11,439	11,323	12,669
Tax Provision	2,293	2,991	3,831	3,793	4,244
E/o loss / (Income)	-	-	-	-	-
Net profit	3,400	5,009	7,608	7,530	8,425
Adj. net profit (Including MI)	3,683	5,199	7,698	7,519	8,375
Growth (%)	12.7	41.2	48.1	(2.3)	11.4
Diluted EPS (Rs)	9.3	13.2	19.5	19.1	21.3
Diluted EPS Growth (%)	13.1	41.0	48.3	(2.3)	11.4

Cash Flow Statement	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	5,693	8,000	11,439	11,323	12,669
Depreciation/Amortisation	2,205	3,209	4,805	4,687	4,802
Total tax paid	(2,017)	(2,811)	(3,625)	(3,793)	(4,244)
Chg in working capital	413	(892)	(965)	(1,925)	(726)
Other operating activities	(419)	(35)	(182)	111	75
Cash flow from oper. (a)	5,875	7,471	11,472	10,403	12,577
Capital expenditure	(7,085)	(5,825)	(4,808)	(4,171)	(5,900)
Chg in investments	3,370	(4,619)	(402)	(1,147)	(1,200)
Other investing activities	-	3,899	(707)	(692)	(30)
Cash flow from inv. (b)	(3,715)	(6,545)	(5,917)	(6,010)	(7,130)
Free cash flow (a+b)	2,160	927	5,555	4,393	5,447
Equity raised/(repaid)	-	1,066	56	-	-
Debt raised/(repaid)	6	(709)	-	(1)	-
Change in Minorities Interest	-	-	-	-	-
Dividend (incl. tax)	(1,844)	(1,153)	(5,055)	(4,380)	(4,610)
Other financing activities	(250)	(43)	(20)	(52)	(55)
Cash flow from fin. (c)	(2,088)	(838)	(5,019)	(4,433)	(4,665)
Net chg in cash (a+b+c)	72	88	536	(40)	781

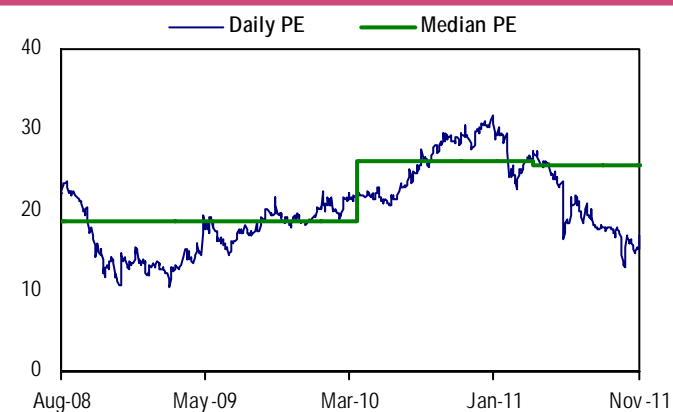
Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
Equity Share capital	1,970	1,970	1,970	1,970	1,970
Reserves & surplus	10,328	12,167	20,566	23,705	27,470
Shareholders' funds	17,016	19,734	23,471	26,610	30,374
Minorities interests	385	371	315	412	452
Total Debt	716	1	1	-	-
Capital Employed	18,117	20,106	23,788	27,022	30,826
Net fixed assets	9,718	12,126	12,132	11,924	13,022
Net Other Current Assets	2,968	1,372	3,182	5,107	5,833
Cash & Cash Eq.	3,654	4,367	6,030	5,990	6,771
Investments	2,038	2,580	2,853	4,000	5,200
Net Deferred Tax Assets	(261)	(339)	(410)	-	-
Total assets	18,117	20,106	23,788	27,022	30,826

Key Ratios	FY09	FY10	FY11	FY12E	FY13E
OPM (%)	70.9	75.1	78.4	77.4	77.2
Net margin (%)	33.3	34.9	37.3	36.5	37.2
Yield (%)	0.9	2.6	3.0	3.3	3.5
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
Net Working Capital (days)	233	144	167	203	211
Asset turnover (x)	0.7	0.8	0.8	0.7	0.6
ROCE (%)	34.1	41.5	51.3	44.4	44.0
RoE (%)	23.4	28.3	35.6	30.0	29.4
EV/Net sales (x)	10.6	7.5	5.3	5.4	4.9
EV/EBITDA (x)	15.0	10.0	6.8	7.0	6.3
PER (x)	30.8	21.8	14.7	15.1	13.6
Price/Book (x)	6.7	5.8	4.8	4.3	3.7

1-Year forward P/E Band



Median PE v/s Daily PE



T E A M

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