

SUN TV NETWORK LTD.

BUY
CMP Rs380
TP Rs515

27 May 2011

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SUN TV continues to deliver robust growth, Q4FY11 results were in line with our estimate. Net sales grew by 18% mainly driven by 16% Ad revenue growth, 27% subscription revenue (mainly by DTH segment - 31% YoY) and 16% overseas revenue growth. We remain positive on the future prospects of the company driven by strong business growth, business model with lowest risk and highest margins in the industry. We reiterate our BUY rating on the stock with a target price of Rs515 based on 21.7x P/E to FY13E EPS, valuing the company at 1xPEG (FY10-FY13E).

Strong revenue growth led by Ad and subscription revenues

The company reported robust 18% YoY growth for Q4FY11 sales primarily on the back of ad revenue growth of 16% YoY to Rs2.5bn and robust growth of 26% YoY in subscription revenue (where in the cable business grew 21% YoY and 6% QoQ and DTH revenue grew whopping 31% YoY and 17% sequentially mainly because of renewable of few contracts). Overseas revenue augmented 16% to Rs170mn from Rs146mn. However, sequentially the sales and earnings were down because of the movie (Endhiraan) impact in Q3FY11 (revenue of Rs1.5bn and EBIT of Rs444mn in Q3FY11).

Robust profitability and earnings growth persists

EBIT margins augmented 100bps from 63% in Q3FY10 to 64% on account of lower amortization and depreciation cost (due to lower movie cost in Q4FY11). Resultant adjusted PAT grew 26% to Rs 2.1bn (sequentially down 8% because of the movie impact in Q3FY11).

Radio business performance ahead of estimates

Radio business reported revenue of Rs900mn and OPM of 21% in FY11. Kal radio reported EBIDTA of Rs254mn and PAT of Rs88mn. South Asia FM is likely to be earnings positive by FY12.

VALUATIONS AND RECOMMENDATION

At CMP, the company is attractively trading at 16x FY13E EPS. We remain convinced of firm earnings growth prospects available with the company going forward. We reiterate our 'BUY' recommendation on the stock with a target price of Rs515 based on 21.7x P/E to FY13E EPS, valuing the company at 1xPEG (FY10-FY13E).

KEY FINANCIALS (CONSOLIDATED) Rs mn

	FY09	FY10	FY11P	FY12E	FY13E
Net Sales	10,394	14,528	20,135	20,713	24,553
YoY Gr. (%)	19.5	39.8	38.6	2.9	18.5
Op. Profit	7,368	10,909	15,779	15,828	18,785
OPM (%)	70.9	75.1	78.4	76.4	76.5
Adj. Net Profit	3,683	5,199	7,698	7,798	9,380
YoY Gr. (%)	12.7	41.2	48.1	1.3	20.3

KEY RATIOS

Dil. EPS (Rs)	9.3	13.2	19.5	19.8	23.8
ROCE (%)	34.1	41.5	51.8	45.8	46.8
ROE (%)	23.4	28.3	35.7	30.8	31.4
PER (x)	40.7	28.8	19.5	19.2	16.0
EV/Sales (x)	14.1	10.0	7.3	6.9	5.8
EV/EBDITA (x)	19.9	13.3	9.3	9.1	7.6

QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Sep-10	Dec-10	Mar-11
Net Sales	4,248	5,980	4,605
YoY Gr. (%)	32.6	51.4	17.5
Op. Profits	3,416	5,499	3,639
OPM (%)	80.4	92.0	79.0
Adj. Net Profit	1,674	2,255	2,083
YoY Gr. (%)	28.2	361.2	26.2

STOCK DATA

Market Cap	Rs152.3bn.
Book Value per share	Rs59
Eq Shares O/S (F.V. Rs5)	394 mn.
Free Float	23%
Avg Traded Value (6 mnths)	Rs218.7mn
52 week High/Low	Rs556.5/371
Bloomberg Code	SUNTV:IN
Reuters Code	SUTV.BO

PERFORMANCE (%)

	1M	3M	12M
Absolute	(5.0)	(2.7)	(4.0)
Relative	0.1	(2.4)	(13.2)

RELATIVE PERFORMANCE

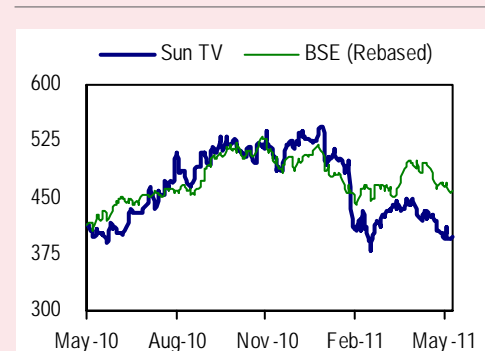


Exhibit 1: Result Table (Standalone)

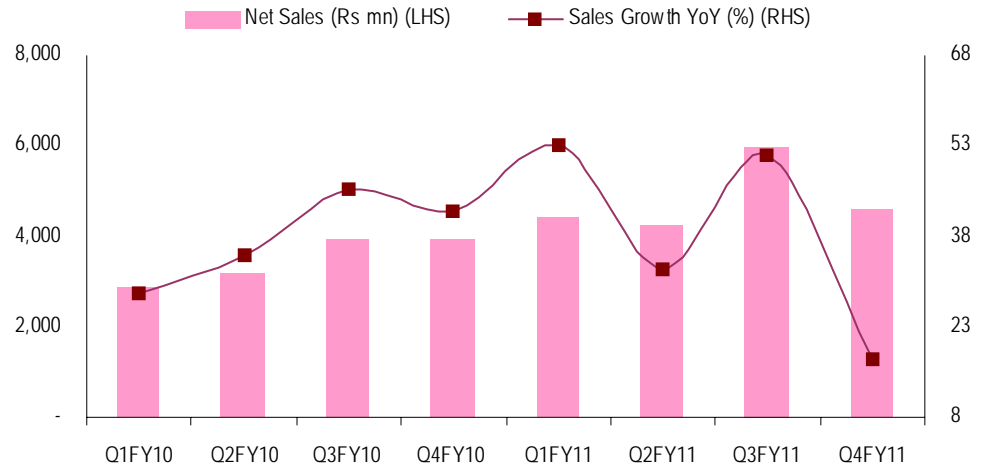
Rs Mn	Q4FY11	Q4FY10	YoY(%)	Q3FY11	QoQ(%)	FY11	FY10	YoY(%)
Ad	2580	2219	16.3	2610	(1.1)	9,710	7,889	23.1
Subscription	1380	1091	26.5	1230	12.2	5,040	3,400	48.2
Cable	560	463	20.9	530	5.7	2,140	1,570	36.3
DTH	820	628	30.7	700	17.1	2,900	1,830	58.5
Broadcast fee	370	354	4.6	357	3.6	1,540	1,344	14.6
Prg lic/ Oversees	170	146	16.3	200	(15.0)	690	561	23.0
Net Sales	4605	3919	17.5	5980	(23.0)	18927	13950	35.7
Content Cost	283	221	28.1	226	25.5	976	889	9.8
RM/Rev. (%)	6.2	5.6		3.8		5.2	6.4	
Total Expenditure	966	609	58.5	481	100.9	3475	2845	22.2
EBITDA	3639	3309	10.0	5499	(33.8)	15452	11106	39.1
EBITDA Margins (%)	79.0	84.4	-	92.0	-	81.6	79.6	-
Other Income	172	85	103.2	91	89.5	401	425	-5.7
Depreciation	678.3	848	(20.0)	1740	(61.0)	4696	2854	64.5
EBIT	2961	2461		3759		10756	8251	
EBIT Margins (%)	64	63	-	63	-	57	59	-
Interest	14.1	2	513.0	1	984.6	8	12	(37.2)
PBT	3118	2542	22.7	3367	(7.4)	11150	8664	28.7
Tax	1035	892	16.1	1112	(7.0)	3706	2990	23.9
PAT	2083	1651	26.2	2255	(7.6)	7444	5674	31.2
EPS (Rs)	5.3	4.2	26.2	5.7	(7.6)	18.9	14.4	31.2

Source: Company, PINC Research

Other key highlights:

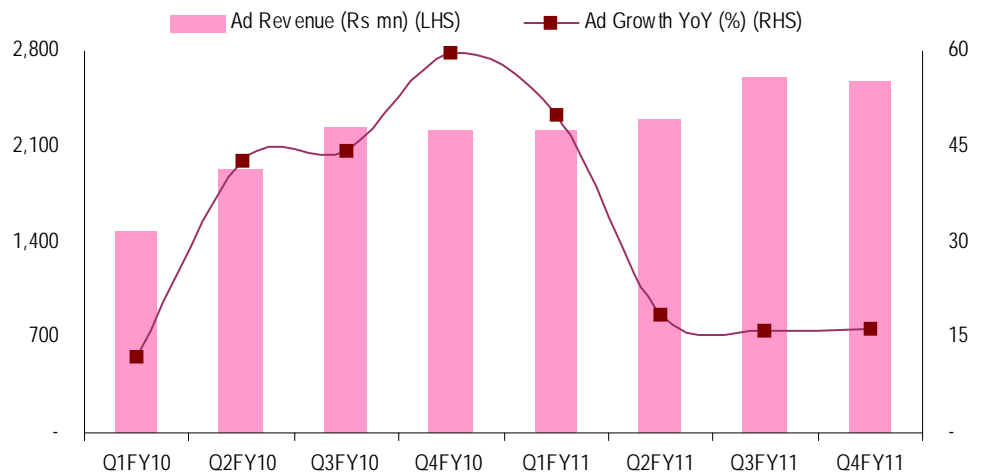
1. DTH subscriber base increased 3.2% to 6.95 mn from 6.73 mn in Q3FY11.
2. Sun Direct contributes 60% to overall DTH revenue.
3. The company declared dividend of Rs3.75, resulting total dividend of Rs8.75 for FY11 (implying dividend yield of 2.3%).
4. Sun TV is intending for a capex of Rs1.5bn for Movie business and normal ongoing business capex of ~Rs700mn in FY12.

Exhibit 2: Sales growth trend



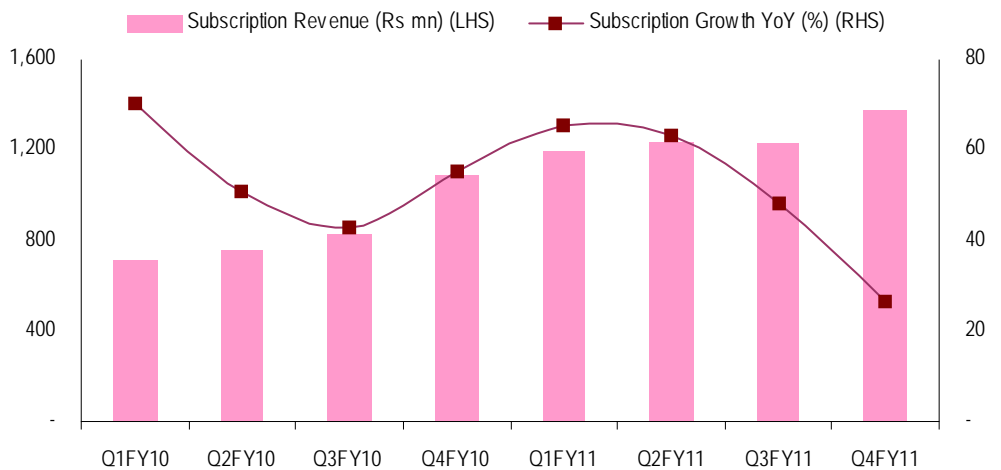
Source: Company, PINC Research

Exhibit 3: Ad Revenue growth trend



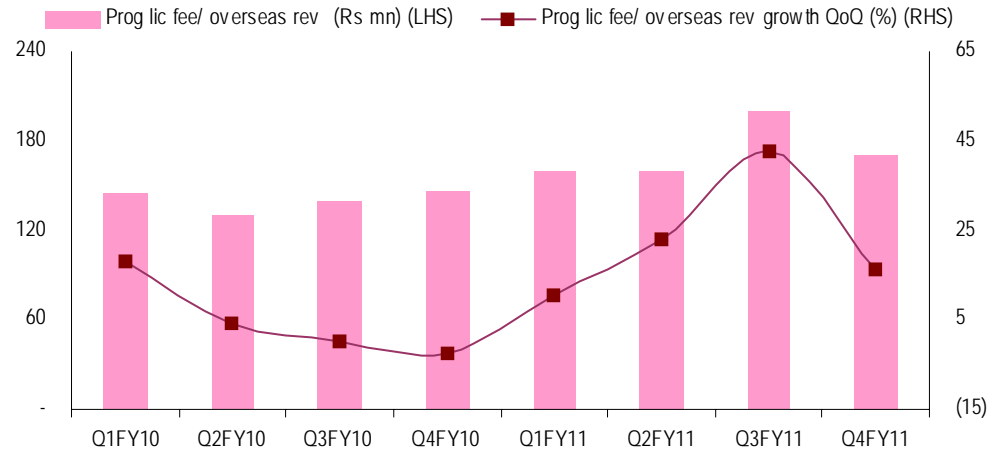
Source: Company, PINC Research

Exhibit 4: Subscription revenue growth trend



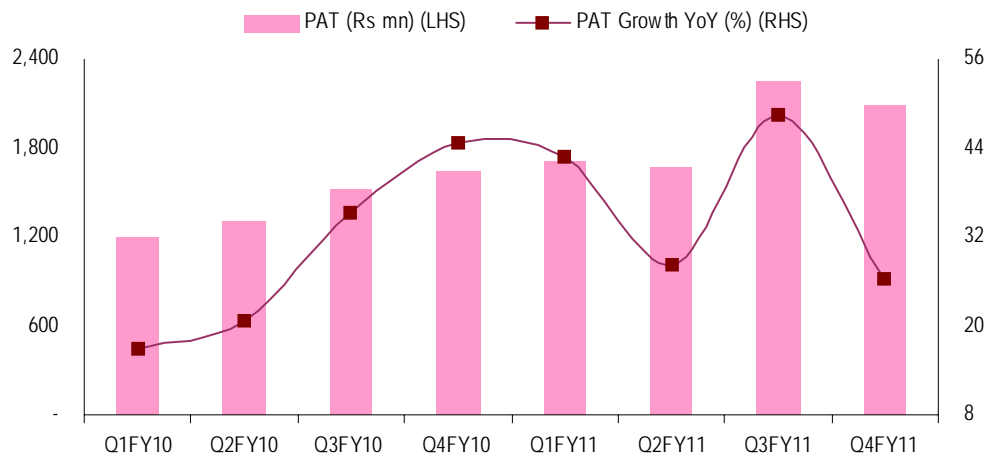
Source: Company, PINC Research

Exhibit 5: Overseas Revenue growth trend



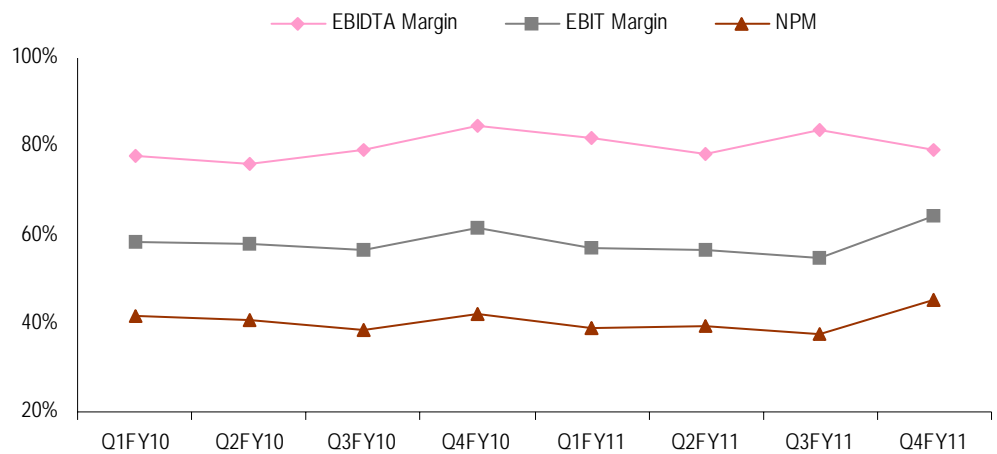
Source: Company, PINC Research

Exhibit 6: PAT growth trend



Source: Company, PINC Research

Exhibit 7: Profitability trend



Source: Company, PINC Research

Consolidated Financials

Income Statement	FY09	FY10	FY11P	FY12E	FY13E
Net sales	10,394	14,528	20,135	20,713	24,553
Growth (%)	19.5	39.8	38.6	2.9	18.5
Gross profit	8,125	11,962	16,842	17,281	20,500
Other operating charges	757	1,053	1,063	1,453	1,715
EBITDA	7,368	10,909	15,779	15,828	18,785
Growth (%)	23.3	48.7	44.6	0.3	18.7
Depreciation	2,205	3,209	4,805	4,533	5,221
Other income	668	350	487	500	625
EBIT	5,831	8,049	11,461	11,795	14,189
Interest paid	138	49	23	52	55
PBT (before E/o items)	5,693	8,000	11,439	11,743	14,134
Tax Provision	2,293	2,991	3,831	3,875	4,664
E/o loss / (Income)	-	-	-	-	-
Net profit	3,400	5,009	7,608	7,868	9,470
Adj. net profit (Including MI)	3,683	5,199	7,698	7,798	9,380
Growth (%)	12.7	41.2	48.1	1.3	20.3
Diluted EPS (Rs)	9	13	20	20	24
Diluted EPS Growth (%)	13.1	41.0	48.3	1.3	20.3

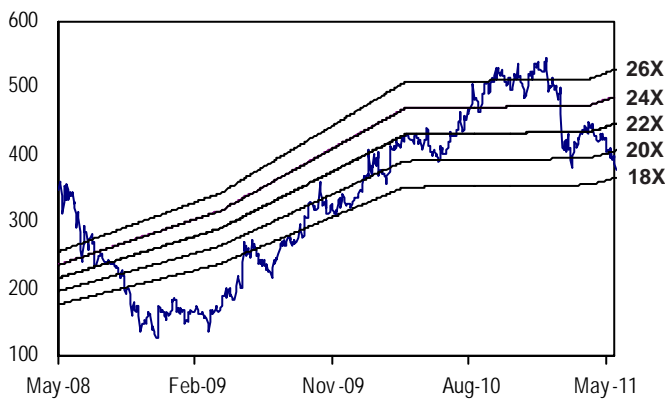
Balance Sheet	FY09	FY10	FY11P	FY12E	FY13E
Equity Share capital	1,970	1,970	1,970	1,970	1,970
Reserves & surplus	10,328	12,167	15,831	19,710	24,940
Shareholders' funds	17,016	19,734	23,397	27,276	32,507
Minorities interests	385	371	385	412	472
Total Debt	716	1	-	-	-
Capital Employed	18,117	20,106	23,782	27,688	32,979
Net fixed assets	9,718	12,126	11,324	11,491	12,270
Net Other Current Assets	2,968	1,372	3,001	3,219	4,492
Cash & Cash Eq.	3,654	4,367	3,457	5,978	6,717
Investments	2,038	2,580	6,000	7,000	9,500
Net Deferred Tax Assets	(261)	(339)	-	-	-
Total assets	18,117	20,106	23,782	27,688	32,979

Year Ended March (Figures in Rs mn)

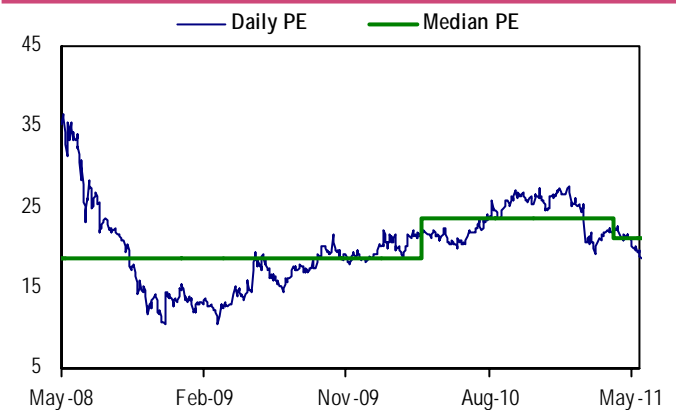
Cash Flow Statement	FY09	FY10	FY11P	FY12E	FY13E
Pre-tax profit	5,693	8,000	11,439	11,743	14,134
Depreciation/Amortisation	2,205	3,209	4,805	4,533	5,221
Total tax paid	(2,017)	(2,811)	(3,831)	(3,875)	(4,664)
Chg in working capital	413	(892)	(1,630)	(218)	(1,272)
Other operating activities	(419)	(35)	(362)	52	55
Cash flow from oper. (a)	5,875	7,471	10,420	12,235	13,473
Capital expenditure	(7,085)	(5,825)	(3,852)	(4,700)	(6,000)
Chg in investments	(5,337)	(4,619)	(3,421)	(1,000)	(2,500)
Other investing activities	8,706	3,899	(385)	(43)	(30)
Cash flow from inv. (b)	(3,715)	(6,545)	(7,657)	(5,743)	(8,530)
Free cash flow (a+b)	2,160	927	2,763	6,492	4,943
Equity raised/(repaid)	-	1,066	-	-	-
Debt raised/(repaid)	6	(709)	(1)	-	-
Change in Minorities Interest	-	-	-	-	-
Dividend (incl. tax)	(1,844)	(1,153)	(4,034)	(3,919)	(4,149)
Other financing activities	(312)	(43)	(23)	(52)	(55)
Cash flow from fin. (c)	(2,150)	(838)	(4,058)	(3,971)	(4,204)
Net chg in cash (a+b+c)	10	88	(1,295)	2,521	739

Key Ratios	FY09	FY10	FY11P	FY12E	FY13E
OPM (%)	70.9	75.1	78.4	76.4	76.5
Net margin (%)	33.3	34.9	37.3	36.8	37.3
Yield (%)	0.7	2.0	2.3	2.2	2.4
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
Net Working Capital (days)	233	144	117	162	167
Asset turnover (x)	0.7	0.8	0.9	0.7	0.7
ROCE (%)	34.1	41.5	51.8	45.8	46.8
RoE (%)	23.4	28.3	35.7	30.8	31.4
EV/Net sales (x)	14.1	10.0	7.3	6.9	5.8
EV/EBITDA (x)	19.9	13.3	9.3	9.1	7.6
PER (x)	40.7	28.8	19.5	19.2	16.0
Price/Book (x)	9	8	6	5	5

1-Year forward P/E Band



Median PE v/s Daily PE



T E A M

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