

BUY

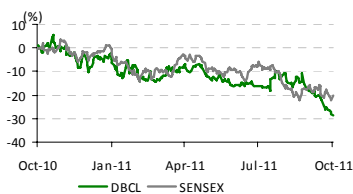
Company Update

Analyst

Haripreet Batra
haripreet@kimeng.co.in
 (022) 66232606

Price Rs200
Target Rs240
BSE Index 16,557

Historical Chart



Performance	1m	3m	6m
Absolute (%)	-12	-15	-21
Relative (%)	-9	0	-5

Stock Information

Ticker code	DBCL
Market cap (US\$m)	763
52-week high (Rs)	310
52-week low (Rs)	186
Shares issued (m)	183.3
6m avg d.vol (US\$m)	0.1
Free float (%)	14
Major shareholders (%)	86
Agarwal family	

Statutory Auditor

S.R. Baltiboi & Associates
 Gupta Navin K & Co

Key Indicators FY12F

ROE (%)	28.8
ROA (%)	19.2
BVPS (Rs)	55.6
Net cash (Rsm)	766

DB Corp (DBCL)

A play on regional growth, BUY

DBCL is increasing Hindi newspaper circulation in semi-urban cities that are experiencing rising income levels. We forecast EPS growth of 26% next year for FY12 although profit growth would be moderated by expenses on new launches. DBCL is our preferred choice among regional newspapers due to its aggressive expansion and rising free CF (FY12F free CF of Rs2.2bn). Our TP of Rs240/sh is based on discounted CF. BUY

Local advertisers, new markets support FY12F revenue growth

FY12F ad revenue growth of 15% is because of 10% Y/Y increase in ad volume and 5% increase in prices. Education and local retail sectors would drive FY12F volume growth. DBCL earns 60% ad revenue from local advertisers, which reduces risk to revenue growth.

Despite cost pressure, GM to hold on level of 50% for FY12F

In the past 5 years, DBCL's GM ranged between 40% and 52%. Increased local ads, increased ad rates and scale of operations would prevent FY12F GM from deteriorating to its worst level of 40% as in FY09. In FY09, ad volume declined, newsprint price had increased sharply and the company's new markets were in an investment phase.

Earnings consolidate in FY12 after strong FY11, FY13 EPS +26%

FY11 EPS grew 40% supported by ad rate increase and reduced interest cost. For FY12F, EPS would grow only 3% as DBCL absorbs losses from new markets (Rs500m) and rising newsprint prices.

FY12F CAPEX of Rs800m for launch in Jharkhand and Maharashtra

DBCL would fund expansion from internal CF. We expect DBCL to maintain its record of achieving break-even in new markets in 3 years.

Trading near 52 week low, PER of 14x FY12F is 10% below peers

A 25% correction in DBCL's stock Y-T-D is unjustified because DBCL is likely to report earnings similar to FY11. Strong market share and ROE of 29% justify our target PER of 17x on DBCL (DBCL currently trades at 10% discount to peers).

Year End March 31	FY09	FY10	FY11	FY12F	FY13F
Revenue (Rsm)	9,610	10,630	12,652	14,661	17,310
Recurring net profit (Rsm)	476	1,828	2,585	2,658	3,369
EPS (Rs)	2.8	10.1	14.1	14.5	18.4
EPS growth (%)	-35.8	257.0	40.1	2.8	26.8
PER (x)	70.9	19.9	14.2	13.8	10.9
P/BV (x)	13.1	5.6	4.4	3.6	2.9

Revenue – Ad volume and pricing will drive growth

Second- largest newspaper daily in India

DBCL focuses on non-metro regions and is aggressive on adding new readers. Its daily 'Dainik Bhaskar' is the second-largest Hindi newspaper in India with 14.2m readers (Refer annexure for readership and circulation data).

Local contribution reduces exposure to external environment

Typically, local advertising drives ad revenue for an Indian language daily. DBCL earns 60% ad revenue from local advertisers (vs. 30% for an English newspaper daily). Thus, it is insulated from macro-economic economic cycles to a large extent owing to less dependence on national level advertisers.

FY11 ad revenue growth of 26% was led by 15% increase in ad rate supported by strong economic growth. Ad volume demand was led by the automobile, education, and consumer durable sectors.

Print ads contributes 73% of total revenue

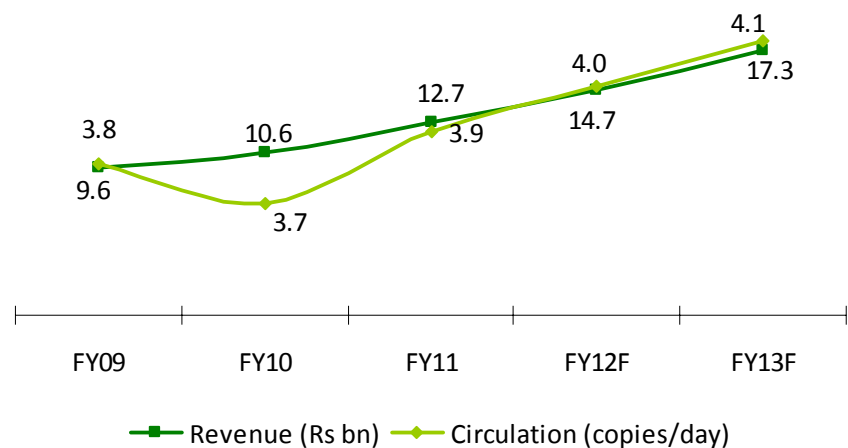
DBCL: Revenue break-up (Rsm)

(Yr to Mar)	FY09	FY10	FY11	FY12F	FY13F
Circul. (m copies/day)	3.8	3.7	3.9	4.0	4.1
Print - Ad revenue	6,979	7,776	9,831	11,355	13,591
Others	2,631	2,854	2,821	3,306	3,719

Source: Company data, KESI estimates

In FY12, we expect 15% revenue growth supported by ad rate increase in existing markets (10%) and volume growth from new markets (5%).

DBCL: Circulation (m copies/day) and Revenue (Rs bn) chart

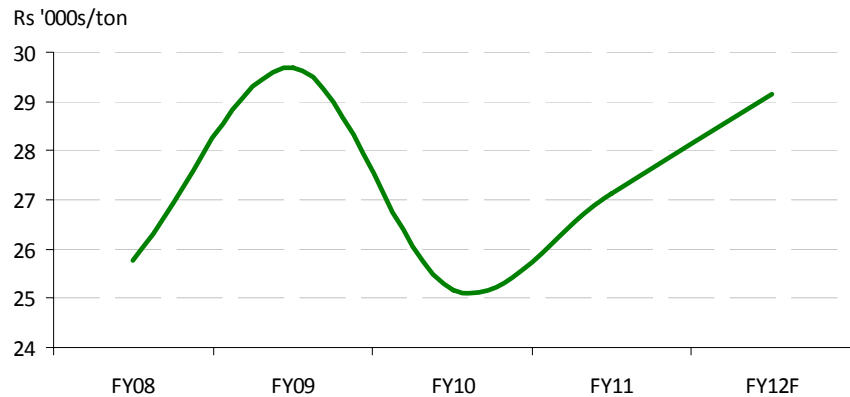


Source: Company data; KESI estimates

DBCL: GM to soften in FY12 on increased newsprint price

Between FY08 and FY11 international newsprint prices ranged between Rs25K/ton and Rs30K/ton. In FY11, newsprint prices increased by 8% to Rs27k/ton on rising prices of oil. This year, DBCL newsprint price rose further in Q1 to Rs30k/ton. Our FY12 forecast of newsprint price is Rs30K/ton as prices of oil are not rising any more.

DBCL: Newsprint prices



Source: Company data; KESl estimates

DBCL consumes 141K ton of newsprint/year. 85% of its newsprint is sourced locally which will save it from incurring further increase in cost unlike its peers which import costly newsprint. (Recently, depreciation in rupee vs US\$ increased cost of imported newsprint by 9%).

We factor in fall of 200bp in DBCL's GM to 50% for FY12F due to rising newsprint prices and initial expenses related to new launches in Jharkhand and Maharashtra.

DBCL – Growing circulation and readership

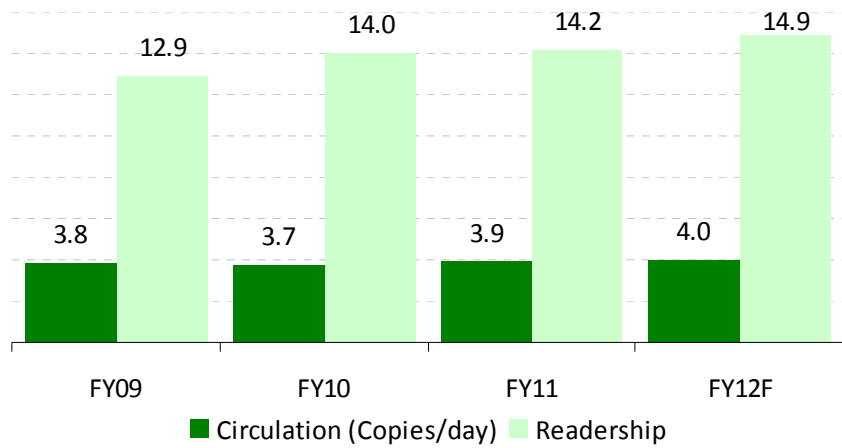
Steadily rising circulation and readership

Q1 circulation growth is strong

DBCL has grown its circulation from 3.8m copies/day in FY09 to 4m copies/day in FY12F. This is because of its expansion into 2 new markets.

For Q1FY12, readership across print media especially hindi newspapers increased between 1% and 3%. ‘Dainik Bhaskar’ added 150K readers in Q1FY12 to reach 14.4m readers, a growth of 1% Q/Q.

DBCL: India readership survey data for Q1FY12



Source: Company data, Indian readership survey (IRS)

DBCL’s expansion in new markets of Jharkhand and Maharashtra would support 7% increase in readership to 14.9m.

Annexure: DBCL regional presence map

26% of India consumption market covered by DBCL

DBCL: Regional presence map



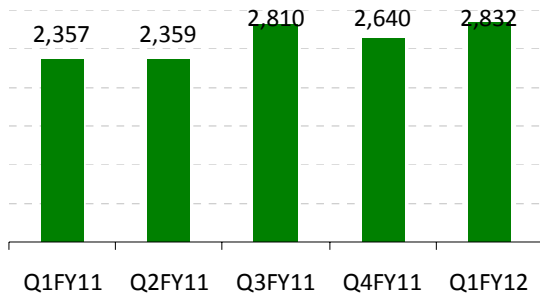
Source: Company data; KESI estimates

DBCL: Strong regional presence

State	Publication	Readership (m)	Rank	Competitor
Rajasthan	Dainik Bhaskar	6.3	2	Rajasthan Patrika
Madhya Pradesh	Dainik Bhaskar	3.7	1	na
Chattisgarh	Dainik Bhaskar	1.0	1	na
Punjab	Dainik Bhaskar	0.9	3	Ajit
Chandigarh	Dainik Bhaskar	0.2	1	na
Gujarat	Divya Bhaskar			Gujarat Samachar
Gujarat	Saurashtra Samachar	3.9	2	Samachar

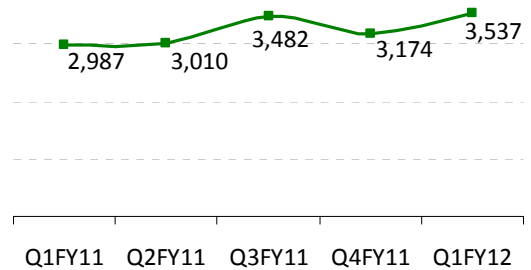
Source: Company data

Ad revenue (Rsm)



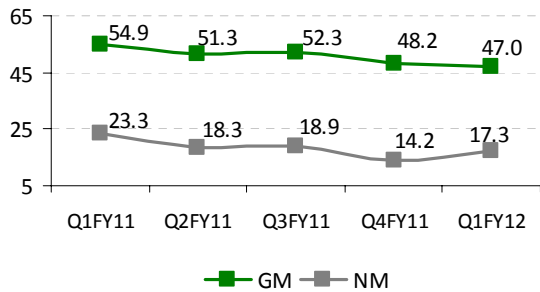
Source: Company data, KESI estimates

Total Revenue (Rsm)



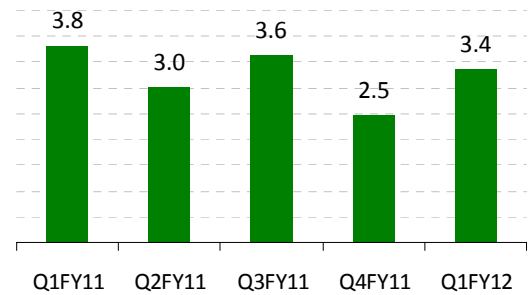
Source: Company data, KESI estimates

Gross Margin (%) and Net Margin (%)



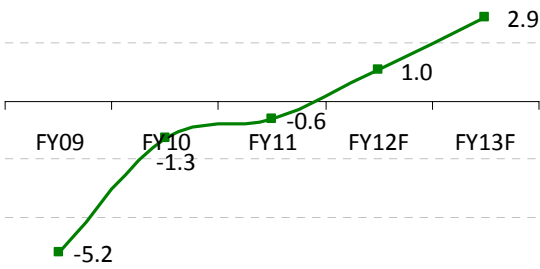
Source: Company data, KESI estimates

EPS (Rs)



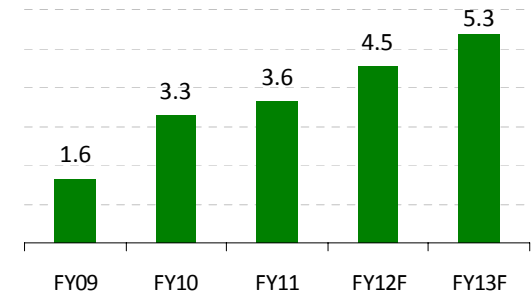
Source: Company data, KESI estimates

Net cash (Rs bn)



Source: Company data, KESI estimates

Operating CF (Rs bn)



Source: Company data, KESI estimates

Company Description:

DB Corp is a publisher of daily newspapers in 7 languages and 13 states and offers very strong regional play. It has readership of over 18m and is very strong in tier II/III cities with its Hindi and Gujarati editions. DBCL also operates 17 FM stations integrated with print markets.

Investment Thesis:

Media sector is expected to grow at 15% pa and DBCL would be key beneficiary with its strong regional presence, entry into new markets and advertiser shift from english media. DBCL gets 60% of revenue from local advertisers who are less linked to external troubles in US/Europe.

CONSOLIDATED QUARTERLY FINANCIALS (Yr To Mar)

PROFIT & LOSS (Rsm)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Net Revenue	2,987	3,010	3,482	3,174	3,537
Cost of sales, ex depr	-1,242	-1,359	-1,549	-1,533	-1,758
Depreciation	-104	-107	-110	-111	-117
Selling, Admin expenses	-609	-699	-785	-844	-775
Operating profit	1,032	844	1,038	685	887
Other income / expense	43	32	30	36	36
Interest expensed	-47	-38	-34	-34	-26
Profit before tax	1,028	839	1,034	687	897
Tax	-349	-308	-382	-235	-284
Minority	16	20	7	-1	-1
Recurring net profit	695	551	659	450	612
Exceptional items	0	0	0	0	0
Net profit	695	551	659	450	612
EPS (Rs)	3.8	3.0	3.6	2.5	3.4
Diluted no. of share (m)	181.6	181.6	181.6	181.6	181.6

Ratios (%)	Q1FY11	Q2FY11	Q3FY11	Q4FY11	Q1FY12
Gross margin	54.9	51.3	52.3	48.2	47.0
EBITDA margin	38.0	31.6	33.0	25.1	28.4
Net margin	23.3	18.3	18.9	14.2	17.3
SG&A / Sales	20.4	23.2	22.5	26.6	21.9

Source: Company data

CONSOLIDATED YEARLY FINANCIALS (Yr To Mar)

PROFIT & LOSS (Rsm)	FY08	FY09	FY10	FY11	FY12F	FY13F
Sales	8,627	9,610	10,630	12,652	14,661	17,310
Cost of sales, ex depr	-4,343	-5,476	-4,715	-5,684	-6,775	-7,643
Depreciation	-220	-290	-378	-433	-551	-598
Selling, General and Admin expenses	-2,454	-2,661	-2,485	-2,936	-3,416	-3,965
Operating Profit	1,609	1,183	3,051	3,599	3,919	5,104
Other Income / Expense	0	0	0	142	0	0
Interest Expensed	-281	-402	-245	-153	-81	-20
Profit Before Tax	1,328	782	2,806	3,588	3,838	5,084
Tax	-630	-423	-1,057	-1,000	-1,178	-1,712
Minorities	61	118	79	-3	-3	-2
Net Profit before extra.	759	476	1,828	2,585	2,658	3,369
Extraordinary gain	-8	0	0	0	0	0
Net Profit after extra	751	476	1,828	2,585	2,658	3,369
EPS (Rs)	4.4	2.8	10.1	14.1	14.5	18.4
Recurring EPS (Rs)	4.5	2.8	10.1	14.1	14.5	18.4
Fully diluted no. of share (m)	168.8	168.8	181.5	183.2	183.2	183.2

KEY ASSUMPTIONS	FY08	FY09	FY10	FY11	FY12F	FY13F
Circulations (m copies/day)	3.6	3.8	3.7	3.9	4.0	4.1
Advertising space (sq m)	17,592	17,987	19,212	20,365	22,401	25,781
Advertising rate (Rs/sqm)	363,191	388,008	404,737	482,744	506,882	527,157
Advertisement revenue (Rsm)	6,389	6,979	7,776	9,831	11,355	13,591
Circulation revenue (Rsm)	1,959	2,159	2,272	2,144	2,476	2,728
Newsprint prices (Rs/ton)	25,753	29,685	25,168	27,141	29,140	29,760

RATIOS (%)	FY08	FY09	FY10	FY11	FY12F	FY13F
Gross Margin	47.1	40.0	52.1	51.7	50.0	52.4
Net Margin	8.7	5.0	17.2	20.4	18.1	19.5
SG&A / Sales	14.5	12.5	11.0	11.5	11.5	11.2
Book value per share	13.0	15.3	35.7	45.2	55.6	69.2
ROA	10.2	5.1	15.7	19.9	19.2	22.0
ROE	38.7	19.9	40.3	35.0	28.8	29.4
Net Debt/ Equity (x)	1.2	2.0	0.2	0.1	-0.1	-0.2
Dividend payout ratio	13.2	20.7	23.2	33.1	28.2	26.0

CASHFLOW (Rsm)	FY08	FY09	FY10	FY11	FY12F	FY13F
EBITDA	1,829	1,473	3,429	4,032	4,470	5,702
Accounts receivables	-287	-19	-161	-467	-411	-508
Inventory	-37	-40	-11	-6	-31	-77
Working capital	1,371	218	18	83	236	161
Operating cash flow	2,876	1,633	3,276	3,642	4,264	5,278
Interest	-281	-402	-245	-153	-81	-20
Tax	-630	-423	-1,057	-1,000	-1,178	-1,712
Residual cash flow	1,965	807	1,974	2,489	3,005	3,546
Fixed Assets	-1,079	-3,129	-377	-1,308	-781	-707
Change in investments	-68	-170	33	42	0	0
Free Cashflow	818	-2,492	1,629	1,223	2,224	2,839
Capital increase	1,968	0	2,690	-26	0	0
Dividend payments	-99	-99	-424	-856	-749	-877
Deferred tax/ Others	-1,737	40	27	133	-69	-174
Net change in Cashflow	950	-2,551	3,922	474	1,406	1,788
Net Debt Beg	-3,578	-2,628	-5,179	-1,257	-641	766
Net (Debt)/ cash End	-2,628	-5,179	-1,257	-641	766	2,554

BALANCE SHEET (Rsm)	FY08	FY09	FY10	FY11	FY12F	FY13F
Cash & equivalent	808	452	1,951	1,731	1,816	3,354
Receivables	1,755	1,774	1,934	2,401	2,812	3,320
Inventories	671	711	722	728	759	837
Loans & advances	978	1,052	1,008	1,058	1,061	1,168
Fixed assets (net)	3,623	6,471	6,475	7,358	7,523	7,631
Investments	68	238	205	163	163	163
Other assets	33	217	126	109	0	0
Total assets	7,936	10,914	12,420	13,548	14,133	16,473
Working capital - liabilities	1,714	2,189	2,073	2,189	2,318	2,587
Debt	3,436	5,631	3,207	2,372	1,050	800
Deferred tax	346	393	609	695	560	387
Minorities	242	124	44	4	7	9
Shareholders' Funds	2,198	2,577	6,487	8,288	10,198	12,690

Source: Company Data, Kim Eng Estimates

SINGAPORE

Stephanie WONG *Head of Research*
Regional Head of Institutional Research
 +65 6432 1451 swong@kimeng.com

- Strategy
- Small & Mid Caps

Gregory YAP

+65 6432 1450 gyap@kimeng.com

- Conglomerates
- Technology & Manufacturing
- Transport & Telcos

Rohan SUPPIAH

+65 6432 1455 rohan@kimeng.com

- Airlines
- Marine & Offshore

Wilson LIEW

+65 6432 1454 wilsonliew@kimeng.com

- Hotel & Resort
- Property & Construction

Anni KUM

+65 6432 1470 annikum@kimeng.com

- Conglomerates
- REITs

James KOH

+65 6432 1431 jameskoh@kimeng.com

- Finance & Banking
- Logistics
- Resources

Eric ONG

+65 6432 1857 ericong@kimeng.com

- Marine & Offshore
- Energy

OOI Yi Tung

+65 6433 5712 ooiyitung@kimeng.com

- Property & Construction

YEAK Chee Keong, CFA

+65 6433 5730 yeakcheekeong@kimeng.com

- Retail & Consumer
- Engineering
- Infrastructure

HONG KONG / CHINA

Edward FUNG *Head of Research*

+852 2268 0632 edwardfung@kimeng.com.hk

- Power
- Construction

Ivan CHEUNG

+852 2268 0634 ivancheung@kimeng.com.hk

- Property
- Industrial

Ivan LI

+852 2268 0641 ivanli@kimeng.com.hk

- Banking & Finance

Jacqueline KO

+852 2268 0633 jacquelineko@kimeng.com.hk

- Consumer Staples

Andy POON

+852 2268 0645 andypoon@kimeng.com.hk

- Telecom & related services

Samantha KWONG

+852 2268 0640 samanthakwong@kimeng.com.hk

- Consumer Discretionaries

Alex YEUNG

+852 2268 0636 alexyeung@kimeng.com.hk

- Industrial

INDIA

Jigar SHAH *Head of Research*

+91 22 6623 2601 jigar@kimeng.co.in

- Oil & Gas
- Automobile
- Cement

Anubhav GUPTA

+91 22 6623 2605 anubhav@kimeng.co.in

- Metal & Mining
- Capital goods
- Property

Haripreet BATRA

+91226623 2606 haripreet@kimeng.co.in

- Software
- Media

Ganesh RAM

+91226623 2607 ganeshram@kimeng.co.in

- Telecom
- Contractor

INDONESIA

Katarina SETIAWAN *Head of Research*

+6221 2557 1125 ksetiawan@kimeng.co.id

- Consumer
- Infra
- Shipping
- Strategy
- Telcos
- Others

Ricardo SILAEN

+6221 2557 1126 rsilaen@kimeng.co.id

- Auto
- Energy
- Heavy Equipment
- Property
- Resources

Rahmi MARINA

+6221 2557 1128 rmarina@kimeng.co.id

- Banking

Lucky ARIESANDI, CFA

+6221 2557 1127 lariesandi@kimeng.co.id

- Cement
- Construction
- Pharmaceutical
- Retail

Adi N. WICAKSONO

+6221 2557 1130 anwicaksono@kimeng.co.id

- Generalist

Arwani PRANADJAYA

+6221 2557 1129 apranadjaya@kimeng.co.id

- Technical analyst

VIETNAM

Michael Kokalari, CFA *Head of Research*

+84 838 38 66 36 x 116 michael.kokalari@kimeng.com.vn

- Strategy

Nguyen Thi Ngan Tuyen

+84 838 38 66 36 x 163 tuyen.nguyen@kimeng.com.vn

- Conglomerates
- Confectionary and Beverage
- Oil and Gas

Ngo Bich Van

+84 838 38 66 36 x 171 van.ngo@kimeng.com.vn

- Banking
- Insurance

Nguyen Quang Duy

+84 838 38 66 36 x 162 duy.nguyenquang@kimeng.com.vn

- Industrial
- Property

Trinh Thi Ngoc Diep

+84 422 21 22 08 x 102 diep.trinh@kimeng.com.vn

- Property & Construction
- Power

Dang Thi Kim Thoa

+84 838 38 66 36 x 164 thoa.dang@kimeng.com.vn

- Consumer
- Services

Hoang Nam Phu

+84 838 38 66 36 x 171 phu.hoang@kimeng.com.vn

- Technology & Telecom
- Transport
- Resources

Truong Quang Binh

+84 838 38 66 36 x 169 quangbinh.truong@kimeng.com.vn

- Pharmaceutical
- Plantation & Fishery

THAILAND

Stephen LOWY *Head of Research*

+ 662 658 6300 x 4760 stephen@kimeng.co.th

Watchara SATITPORNUNUAY

+ 662 658 6300 x 4770 watchara.s@kimeng.co.th

- Retail
- Bank

Puttikul ACKARACHALANONTH

- Utilities

PHILIPPINES

Luz LORENZO *Head of Research*

+63 2 849 8836 luz_lorenzo@atr.com.ph

- Strategy

Laura DY-LIACCO

+63 2 849 8840 laura_dyliacco@atr.com.ph

- Utilities
- Conglomerates
- Telcos

Lovell SARREAL

+63 2 849 8841 lovell_sarreal@atr.com.ph

- Consumer
- Media
- Cement

Kenneth NERECINA

+63 2 849 8839 kenneth_nerecina@atr.com.ph

- Conglomerates
- Property
- Ports/ Logistics

Katherine TAN

+63 2 849 8843 kat_tan@atr.com.ph

- Banks
- Construction

ECONOMICS

Luz LORENZO *Economist*

+63 2 849 8836 luz_lorenzo@atr.com.ph

- Philippines
- Indonesia

REGIONAL

ONG Seng Yeow

+65 6432 1832 ongsengyeow@kimeng.com

- Regional Products & Planning

Recommendation definitions

Our recommendation is based on the following expected price performance within 12 months:

+15% and above: BUY

-15% to +15%: HOLD

-15% or worse: SELL

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Singapore

Kim Eng Securities Pte Ltd
Kim Eng Research Pte Ltd
9 Temasek Boulevard
#39-00 Suntec Tower 2
Singapore 038989

Tel: +65 6336 9090
Fax: +65 6339 6003

LAU Wai Kwok (sales)
lauwk@kimeng.com

Stephanie WONG (research)
swong@kimeng.com

Thailand

Kim Eng Securities (Thailand)
Public Company Limited
999/9 The Offices at Central World,
20th - 21st Floor,
Rama 1 Road, Pathumwan,
Bangkok 10330, Thailand

Tel: +66 2 658 6817 (sales)
Tel: +66 2 658 6801 (research)

Vikas KAWATRA (sales)
vkawatra@kimeng.co.th

Vietnam

Kim Eng Vietnam Securities Joint
Stock Company
1st Floor, 255 Tran Hung Dao St.
District 1
Ho Chi Minh City, Vietnam

Tel : +84 838 38 66 36
Fax : +84 838 38 66 39

Vo Doan Trang (sales)
Trang.vo@kimeng.com.vn

Nguyen Thi Ngan Tuyen (research)
Tuyen.nguyen@kimeng.com.vn

South Asia Sales Trading

Connie TAN
connie@kimeng.com
Tel: +65 6333 5775
US Toll Free: +1 866 406 7447

London

Kim Eng Securities (London) Ltd
6/F, 20 St. Dunstan's Hill
London EC3R 8HY, UK

Tel: +44 20 7621 9298
Dealers' Tel: +44 20 7626 2828
Fax: +44 20 7283 6674

Giles WALSH (sales)
gwalsh@kimeng.co.uk

Geoff HO (sales)
gho@kimeng.co.uk

James JOHNSTONE (sales)
jjohnstone@kimeng.co.uk

Indonesia

PT Kim Eng Securities
Plaza Bapindo
Citibank Tower 17th Floor
Jl Jend. Sudirman Kav. 54-55
Jakarta 12190, Indonesia

Tel: +62 21 2557 1188
Fax: +62 21 2557 1189

Hariantio LIONG (sales)
hliong@kimeng.co.id

Katarina SETIAWAN (research)
ksetiawan@kimeng.co.id

North Asia Sales Trading

Eddie LAU
eddielau@kimeng.com.hk
Tel: +852 2268 0800
US Toll Free: +1 866 598 2267

New York

Kim Eng Securities USA Inc
777 Third Avenue, 21st Floor
New York, NY 10017, U.S.A.

Tel: +1 212 688 8886
Fax: +1 212 688 3500

Thanh C NGUYEN (sales & trading)
tnguyen@kesusa.com

India

Kim Eng Securities India Pvt Ltd
2nd Floor, The International,
Plot No.16, Maharishi Karve Road,
Churchgate Station,
Mumbai City - 400 020, India

Tel: +91.22.6623.2600
Fax: +91.22.6623.2604

Vikas KAWATRA (sales)
vkawatra@kimeng.co.th

Jigar SHAH (research)
jigar@kimeng.co.in

Hong Kong

Kim Eng Securities (HK) Ltd
Level 30,
Three Pacific Place,
1 Queen's Road East,
Hong Kong

Tel: +852 2268 0800
Fax: +852 2877 0104

Ray LUK (sales)
rluk@kimeng.com.hk

Edward FUNG (research)
edwardfung@kimeng.com.hk

Philippines

ATR-Kim Eng Securities Inc.
17/F, Tower One & Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City, Philippines 1200

Tel: +63 2 849 8888
Fax: +63 2 848 5738

Lorenzo ROXAS (sales)
lorenzo_roxas@atr.com.ph

Luz LORENZO (research)
Luz_lorenzo@atr.com.ph