

# Sun TV Network

Bloomberg: SUNTV IN Equity

Reuters: SUTV.BO

Recommendation: BUY

No Change



## Growth Momentum Continues

### Result above expectation

Sun TV reported its 1QFY11 revenue and profitability ahead of our estimate. The revenue during the quarter stood at Rs4,404mn (v/s our estimate of Rs4,027mn) up 53% YoY (12.4% QoQ) whereas PAT grew 43% YoY (3.6% QoQ) to reach Rs1,710mn (v/s our estimate of Rs1,517mn) during the quarter. Apart from strong growth in revenue from ad and subscription segment, revenue of Rs480mn from movies led to this significant growth.

### Strong ad and subscription revenue growth

During the quarter, the company reported strong ad as well as circulation revenue growth. Ad revenues grew 51% YoY (flat QoQ) and reached Rs2,220mn during the quarter.

During 1QFY11, subscription revenues from the analog segment stood at Rs510mn whereas that from the DTH, at Rs680mn, a growth of 84% YoY. The DTH subscriber base also moved up from 6mn in 4QFY10 to 6.3mn in 1QFY11. Revenue from movie distribution stood at Rs480mn compared with Rs230mn in 1QFY10 and Rs80mn in the previous quarter.

### Cost optimization improves margins

For the quarter, EBITDA margin was at 81.7% v/s 77.7% in the corresponding quarter last year. Strong revenue growth coupled with cost rationalisation helped to improve margins. Kal Radio has turned EBITDA positive during FY10 whereas SAFM (another radio subsidiary) is expected to turn EBITDA positive during FY11, likely providing further fillip to profitability.

### Valuation and recommendation

Sun TV, in our view, is best placed to benefit from growing ad spend in the regional market and its dominance in viewership. This will be further supplemented by strong growth in subscription revenue. On the back of improved performance during the quarter, we are upgrading our revenue and earnings estimates. We expect SUN TV's EPS to grow at 29% CAGR (25% earlier) over FY10-FY12E. We value the company at 24x of FY12 EPS and continue to maintain BUY on the stock with a revised TP of Rs530.

### Exhibit 1: Key financials

(Rs mn)	FY08	FY09	FY10	FY11E	FY12E
Operating income	8,699	10,394	14,528	18,786	22,686
EBITDA	5,975	7,368	10,909	14,565	17,433
EBITDA mgn (%)	68.7	70.9	75.1	77.5	76.8
PAT	3,267	3,683	5,199	6,986	8,647
PAT mgn (%)	37.6	35.4	35.8	37.2	38.1
EPS (Rs)	8.3	9.3	13.2	17.7	21.9
P/E (x)	35.8	17.8	32.5	25.9	21
EV/EBITDA (x)	18.7	8.3	14.9	11.8	9.6
EV/Sales (x)	12.8	5.9	11.2	9.2	7.4

Source: Company, Ambit Capital research

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### Recommendation

<b>CMP:</b>	Rs460
<b>Target Price:</b>	Rs530
<b>Previous TP:</b>	Rs475
<b>Upside (%)</b>	15
<b>EPS (FY11E):</b>	Rs17.7
<b>Change from previous (%)</b>	8

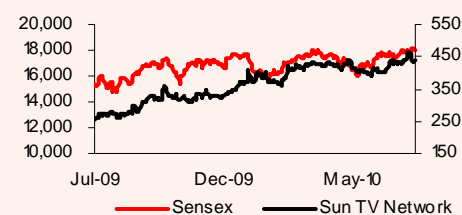
### Stock Information

<b>Mkt cap:</b>	Rs181,319mn/US\$3,885mn
<b>52-wk H/L:</b>	Rs475/244
<b>3M Avg. daily vol. (mn):</b>	0
<b>Beta (x):</b>	0.8
<b>BSE Sensex:</b>	17,957
<b>Nifty:</b>	5,398

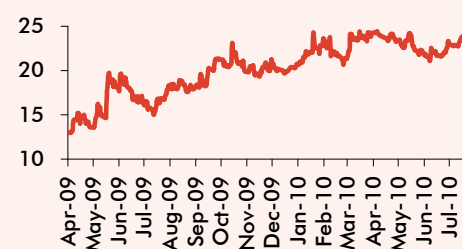
### Stock Performance (%)

	1M	3M	12M	YTD
Absolute	9.3	9.4	81.3	33.8
Rel. to Sensex	8.2	5.9	54.8	30.2

### Performance (%)



### 1-year forward P/E



Source: Bloomberg, Ambit Capital research

**Exhibit 2: Quarterly snapshot**

Rs mn	1QFY11	As a % of revenue	4QFY10	As a % of revenue	1QFY10	As a % of revenue	% Change QoQ	% Change YoY
<b>Total Income</b>	<b>4,404</b>	<b>100.0</b>	<b>3,919</b>	<b>100.0</b>	<b>2,877</b>	<b>100.0</b>	<b>12.4</b>	<b>53.1</b>
Cost of revenues	268	6.1	221	5.6	208	7.2	21.0	28.5
Salary expenses	399	9.1	167	4.3	311	10.8	139.2	28.6
Other Expenditure	139	3.1	222	5.7	122	4.2	(37.7)	14.0
<b>Total Expenditure</b>	<b>806</b>	<b>18.3</b>	<b>610</b>	<b>15.6</b>	<b>640</b>	<b>22.3</b>	<b>32.0</b>	<b>25.8</b>
<b>EBITDA</b>	<b>3,599</b>	<b>81.7</b>	<b>3,309</b>	<b>84.4</b>	<b>2,236</b>	<b>77.7</b>	<b>8.8</b>	<b>60.9</b>
Depreciation/ Amortisation	1,147	26.0	848	21.6	550	19.1	35.2	108.7
<b>EBIT</b>	<b>2,452</b>	<b>55.7</b>	<b>2,460</b>	<b>62.8</b>	<b>1,686</b>	<b>58.6</b>	<b>(0.3)</b>	<b>45.4</b>
Interest Expense	1	0.0	2	0.1	6	0.2	(39.1)	(77.8)
Other Income	113	2.6	85	2.2	142	4.9	33.3	(20.7)
Exceptional Items	-	-	-	-	-	-		
<b>PBT</b>	<b>2,563</b>	<b>58.2</b>	<b>2,542</b>	<b>64.9</b>	<b>1,822</b>	<b>63.4</b>	<b>0.8</b>	<b>40.6</b>
Tax Expense	854	19.4	892	22.8	624	21.7	(4.3)	36.7
<b>PAT</b>	<b>1,710</b>	<b>38.8</b>	<b>1,651</b>	<b>42.1</b>	<b>1,198</b>	<b>41.6</b>	<b>3.6</b>	<b>42.7</b>

Source: Company, Ambit Capital research

## Explanation of Investment Rating

Investment Rating	Expected return (over 12-month period from date of initial rating)
Buy	> 15%
Hold	5% to 15%
Sell	<5%

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