July 29, 2010

Sun TV (SUNTV)

Rs 460

Rating matrix

Rating	:	**Reduce**
Target	:	Rs 444
Target Period	:	12 months
Potential Upside	:	-3%

Key Financials (consolidated)

(Rs Crore)	FY09	FY10	FY11E	FY12E
Net Sales	1039.4	1452.8	1809.7	2042.3
EBITDA	736.8	1090.9	1364.8	1552.7
Net Profit	368.3	519.9	674.3	795.8
EPS	9.3	13.2	17.1	20.2

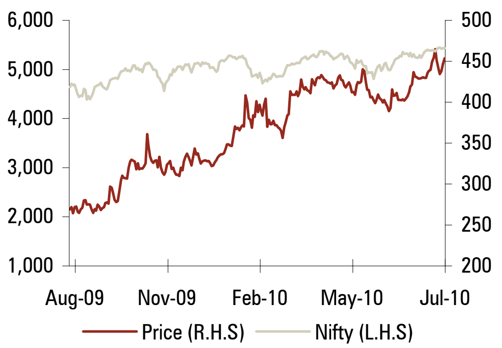
Valuation summary

	FY09	FY10E	FY11E	FY12E
PE (x)	49.2	34.9	26.9	22.8
Target PE (x)	47.5	33.7	26.0	22.0
EV/EBITDA (x)	24.2	16.5	13.0	11.2
P/BV (x)	10.4	9.4	8.0	6.7
RoNW (%)	21.2	27.0	29.8	29.3
RoCE (%)	28.1	38.1	41.3	40.4

Stock data

Market Capitalisation	Rs 18127.7 Crore
Debt-Cons. (FY09)	Rs 71.6 Crore
Cash & Invst.-Cons. (FY09)	Rs 545.6 Crore
EV	Rs 17834.2 Crore
52 week H/L	470 / 245
Equity capital	Rs 197 Crore
Face value	Rs 5
MF Holding (%)	4.3
FII Holding (%)	8.4

Price movement



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WHAT'S CHANGED...

PRICE TARGET ....Changed from 442 to Rs 444
EPS (FY11E) .... Changed from Rs 17.4 to Rs 17.1
EPS (FY12E) .... Changed from Rs 20.0 to Rs 20.2
RATING.. Changed from Add to Reduce

Richly valued...

Sun TV reported robust standalone numbers for Q1FY11 in line with our expectation. The company reported a topline of Rs 440.4 crore, recording growth of 53.1.0% YoY and 12.4% QoQ, against our expectation of Rs 413.7 crore. The growth was driven by strong ad revenue growth coupled with higher movie revenues. The company reported an EBITDA margin of 81.7%, improving 397 bps YoY. This was driven by higher revenue realisation. PAT margin for the quarter stood at 38.8% as against 42.1% in Q4FY10. PAT for the quarter stood at Rs 171.0 crore, improving from Rs 165.1 crore in Q4FY10. Though the robust performance continued, the stock is trading at very high multiples and would not provide upsides from these levels.

- **Highlights for the quarter**

  Sun TV continued to outperform the industry growth rate in advertisement revenues. The company reported 53.1% YoY growth in ad revenue in Q1FY11. Movies revenue growth was 50% QoQ to Rs 48.0 crore. This can be attributed to new releases during the quarter. Despite higher revenue realisation, the PAT for the quarter was lower due to higher amortisation of Rs 42.0 crore of the movies released during Q1FY11.

  Sun TV signed a strategic partnership deal with the Network18 Group to create a pan-India distribution company Sun18. According to the agreement, it will distribute a total of 33 channels across all platforms in India-cable, direct to home (DTH), internet protocol television (IPTV) and Headend in the Sky (HITS)

Valuation

At the CMP of Rs 460, the stock is trading at 24.7x FY11E consolidated EPS of Rs 18.7 and 22.9x FY12E EPS of Rs 20.1. Given the strong advertisement revenue growth in the regional space, the fundamentals of the company remain strong. However, we believe the stock is richly valued at current levels. We have valued the stock at 22x FY12E and arrived at a target price of Rs 444, implying a downside of 3% from the CMP. We have changed our rating o the stock from ADD to **REDUCE**.

Exhibit 1: Operational highlights (standalone)

(Rs Crore)	Q1FY11	Q1FY11E	Q1FY10	Q4FY10	QoQ (Chg %)	YoY (Chg %)
Net Sales	440.4	413.7	287.7	391.9	12.4	53.1
EBITDA	359.9	319.9	223.6	330.9	8.8	60.9
EBITDA Margin (%)	81.7	77.3	77.7	84.4	-271 bps	397 bps
Depreciation	114.7	76.0	55.0	84.8	35.2	108.7
Interest	0.1	0.5	0.6	0.2	-39.1	-77.8
Reported PAT	171.0	170.8	119.8	165.1	3.5	42.7
EPS (Rs)	4.3	4.3	3.0	4.2	3.5	42.7

Source: Company, ICICIdirect.com Research

Result Analysis

- **Subscription, DTH growth fuelling pay channel revenues**

  Pay channel revenues grew 63.0% YoY and 9.2% QoQ while DTH revenues grew 84.0% YoY and 8.1% QoQ to Rs 68 crore. This was primarily due to the inclusion of new channels and addition of new clients. The company had a subscriber base of ~6.3 million on the DTH platform at the end of Q1FY11. This implies an ARPU of Rs 36.9 per month. It remained flat QoQ. Analogue revenues for Q1FY11 stood at Rs 51 crore as compared to Rs 36.0 crore and Rs 46.0 crore in Q1FY10 and Q4FY10, respectively.

  Subscription revenues contributed ~27.1% to the total topline during Q1FY11 as compared to ~27.8% in Q4FY10. We believe that as DTH gains acceptance there will be cannibalisation of analogue subscribers. However, it will be beneficial for the company on an overall basis as revenue leakages would reduce.

- **Movie business catching up**

  The company reported revenues of Rs 48.0 crore during Q1FY11 from the movies segment. The growth was driven by new releases in the quarter. The company's high budget movie *Endhiran* is expected to be released in Q2FY11. However the major revenue would flow in from Q3FY11.

Outlook & Valuation

Outlook

The company reported strong YoY revenue growth of 53.1%, surpassing its national counterparts. Growth was driven on the back of higher ad revenue growth and subscription revenues. The improvement in ad volumes and higher spend by corporates coupled with the rate hike during the last quarter has led to an improvement in revenues. We believe the coming quarters will remain growth driven due to the impending festive season.

In our estimates, we have not considered the value of the company's newly formed agreement with Network 18 group for the distribution business.

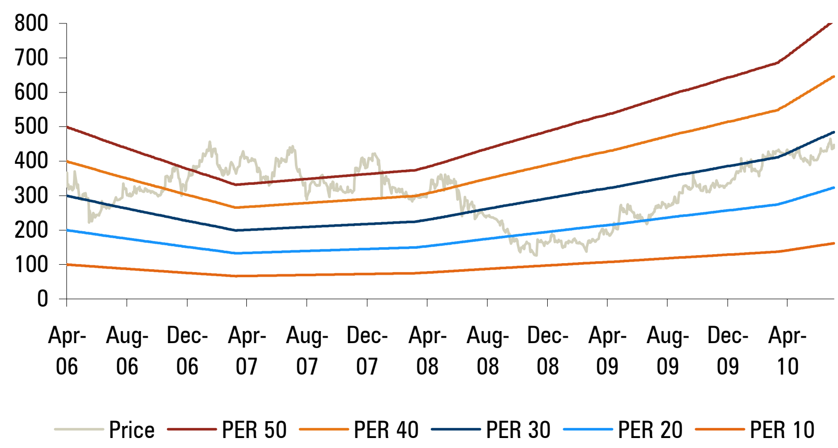
Trai has issued new guidelines for DTH players to come into existence from September, 2010. It has put a minimum cap of Rs 150 on ARPU and ordered DTH operators to allow customers to choose and pay for only those channels, which they want to watch. Secondly, it has said that no operator can increase the charges of a subscription package for a minimum of six months from the date of enrolment of the subscriber.

The a la carte option for all channels is likely a dampener for broadcasters and could impact the subscription revenues for the Sun TV. Trai has also reduced the maximum amount a broadcaster can charge from DTH or cable operators. This would further put pressure on subscription revenues for the company. Both DTH and broadcasters are in discussion with Trai regarding the guidelines and the final order may be somewhat different from these guidelines.

Valuation

At the CMP of Rs 460, the stock is trading at 24.7x FY11E consolidated EPS of Rs 18.7 and 22.9x FY12E EPS of Rs 20.1. Given the strong advertisement revenue growth in the regional space the fundamentals of the company remain strong. However, we believe the stock is richly valued at current levels. We have valued the stock at 22x FY12E and arrived at a target price of Rs 444, implying a downside of 3% from the CMP. We have changed our rating on the stock from ADD to **REDUCE**.

Exhibit 2: One Year Forward PE Band



Source: Company, ICICIdirect.com Research

Exhibit 3: Valuation table

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(Rs cr)	(%)	(Rs)	(%)	(x)	(x)	(%)	(%)
FY09	1039.4	19.5	9.3	12.7	49.2	24.2	21.2	28.1
FY10E	1452.8	39.8	13.2	41.2	34.9	16.5	27.0	38.1
FY11E	1809.7	24.6	17.1	29.7	26.9	13.0	29.8	41.3
FY12E	2042.3	12.9	20.2	18.0	22.8	11.2	29.3	40.4

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe

Sun TV					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	SUNTV			**FY09**	1039.4	9.3	49.2	24.2	21.2	28.1
		CMP	460.0	**FY10E**	1452.8	13.2	34.9	16.5	27.0	38.1
		Target	444.3	**FY11E**	1809.7	17.1	26.9	13.0	29.8	41.3
MCap (Rs Cr)	18,127.7	**% Upside**	-3.4%	**FY12E**	2042.3	20.2	22.8	11.2	29.3	40.4

UTV Software					Sales (Rs Cr)	EPS (Rs)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
Idirect Code	UTVSOF			**FY09**	606.6	10.7	42.9	-23.1	2.7	-4.6
		CMP	458.3	**FY10E**	681.2	13.1	34.9	31.7	3.8	2.3
		Target	519.9	**FY11E**	986.6	23.4	19.6	14.8	6.3	5.8
MCap (Rs Cr)	1,862.2	**% Upside**	13.4%	**FY12E**	1142.5	29.5	15.5	12.3	7.4	7.2

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: 20% or more;
Buy: Between 10% and 20%;
Add: Up to 10%;
Reduce: Up to -10%
Sell: -10% or more;

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