22 June 2010 | 7 pages

Dish TV (DSTV.BO)

Equity

Buy: HD Services – Preparing for the Future

- **The 'High Definition' Opportunity** — Dish TV recently announced its launch High Definition (HD) Service – *'Dish Tru HD'*, targeting a premium subs base. Mgmt has tied up with broadcasters like ZEEL and ESPN/Star Sports (FIFA World Cup) to offer their popular channels in HD resolution on its DTH platform. Management expects the large sports calendar (driven by FIFA World Cup & Common Wealth Games) in FY11E to help drive HD penetration. At the launch, it indicated that ~60,000 and 0.25m HD sub adds may be possible in FY11/12E respectively.

- **Still early days** — In the 4QFY10 results con-call, mgmt mentioned that the HD market in India is in its infancy with only 2000 subs (in the 20m DTH subs market). We believe for HD to succeed, it is first important that the entire value chain is in place, i.e. – a) broadcasters should be able to offer content using the technology, b) the consumers should also have HD-ready TV sets, and, c) ready cable/satellite distribution support. Currently, only ~5-6 channels have content in HD format and only ~2.25m HD enabled TV sets in the market.

- **Preparing for the future; No near term upsides** — We view the HD launch more as a 'preparation for the future' strategy and don't expect any meaningful upsides in the near term. We have not factored the HD launches in our estimates yet; given that it is in a nascent stage and will only form a very small proportion of the overall subscriber base. This has the potential to be a growth driver in the long term as an improving mix towards higher ARPU subs would aid profitability.

- **Competitive intensity remains high in HD too** — We expect the other DTH players to also invest behind the technology, which would drive sub growth. Pricing is expected to remain under pressure, till critical mass is achieved. Dish TV initially planned to launch HD services at ~Rs5990 (basically, no subsidies), but is now pricing it lower at ~Rs2900, in line with competition. The HD pricing would still be at ~70% premium to regular subs.

- **Reiterate Buy** — The stock has outperformed the broad market by ~7% in the last month, and we expect this trend to continue. Dish TV is well placed to benefit from the rapid DTH market growth. Despite modeling a decline in ARPUs in the near term, given the competitive intensity, we think the attractive content tie ups, mgmt focus on profitability and scale benefits will ensure quicker payback going forward. We forecast a strong ~26% and ~150% revenue and EBITDA growth respectively over FY10-12E.

Buy/Medium Risk	**1M**
Price (21 Jun 10)	Rs43.10
Target price	Rs48.00
Expected share price return	11.4%
Expected dividend yield	0.0%
Expected total return	**11.4%**
Market Cap	Rs45,833M
	US$1,003M

Price Performance (RIC: DSTV.BO, BB: DITV IN)

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Dish TV

Company description

Dish TV is the leader in the Direct to Home (DTH) satellite broadcast operations in India. It has a strong backing of the Essel Group, the parent of the Zee Network. After its launch in 2005, the company now has ~7m subscribers with a wide distribution network and strong infrastructure. With the advent of digital technology, Dish is able to offer superior services with a good range of about 250 television channels & services.

Investment strategy

We rate Dish TV Buy/Medium Risk (1M). Aggressive investments by large corporates in the DTH category translate into high market growth, driven by consumers shifting from analog cable, as well as, increase in new subs from cable dark areas. We think management focus has shifted from a pure growth-oriented strategy to one based on a mix of both calibrated subscriber growth and profitability. The recent capital issues provide management adequate capital for subscriber acquisition and profitable growth for next 18 months. Low cost base, scale benefits and attractive content tie ups will ensure quicker payback as contribution/sub is likely to rise ~1.6x over FY10-12E. Consensus estimates are high likely leading to some volatility near earnings. That said, we believe sharp stock underperformance over the past year prices in near-term pricing pressure and gives long-term investors a good opportunity to build positions. We expect ~26% revenue CAGR over FY10-12E, with EBITDA margins expanding ~1750bps to over the same period to ~25%.

Valuation

Dish TV operates in an industry at a nascent stage with high growth rates (on a small base), so we do not use equity multiples approach as our primary valuation methodology, given that current financials would not truly reflect the value of the business. We thus think a DCF would be best suited, giving a target price of Rs48 per share (WACC = 11.7% and g = 4.5%). The stock will trade at 13x FY12E EV/EBITDA at our target price, which we think is reasonable given (a) high growth in the business, (b) We expect margins to hit ~25% in FY12E, and, (c) Positive FCF FY12E onwards as the business achieves critical size. At our target price, Dish TV would trade at 3.9x/3x FY11E/FY12E EV/Sales, which is at a premium to global peers trading between 1-3x. We think this is justified given the superior revenue growth outlook (~26% CAGR over FY10-12E for Dish TV v/s. global C&S average of ~7%).

Risks

We rate Dish TV shares Medium Risk overriding the High Risk rating suggested by quantitative risk-rating system that tracks 260-day historical share price volatility. We think this is warranted given Dish TV's strong leadership position in India's DTH industry. As funding concerns are behind us, a lower risk rating is justified. Key downside risks are: 1) Irrational competition may negatively impact ARPUs and churn. 2) Dish TV imports most of its consumer premise equipments (dollar denominated), and thus, currency fluctuations could significantly impact profitability. 3) The DTH industry is highly regulated and adverse changes in government policies may impact business prospects. 4) Investments in subsidiaries and group companies could be an overhang.

Appendix A-1

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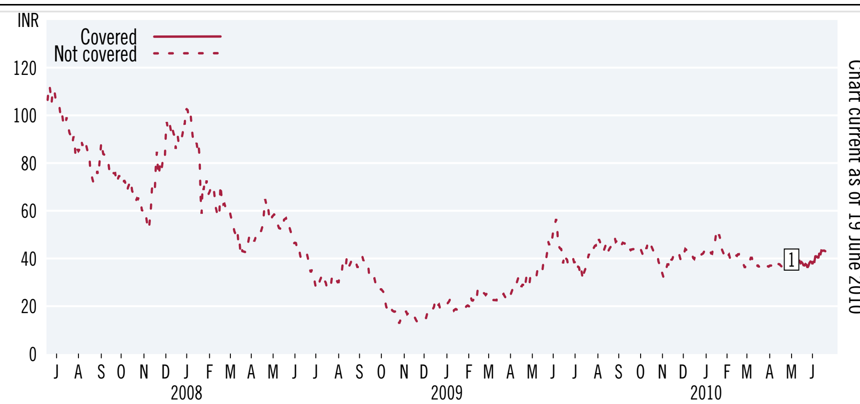
IMPORTANT DISCLOSURES

Dish TV (DSTV.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Surendra Goyal, CFA
Covered since May 1 2010



	Date	Rating	Target Price	Closing Price
1	1-May-10	*1M	*48.00	35.90

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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