

EQUITY RESEARCH

Media sector

CMP: Rs.369.35
(As on 16-01- 2010)

16-01-2010

INDIA

Market Cap
Rs. 145553.45mn

BUY

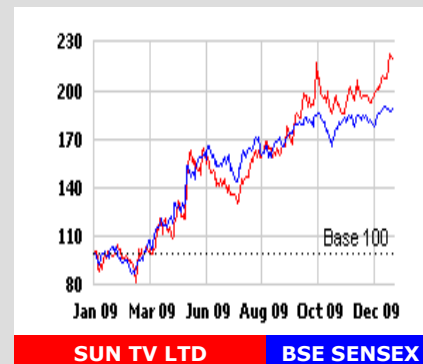
Target Price: Rs.425.00



Sun TV Network Ltd (STNL)

- We initiated the coverage of Sun TV and set a target price of Rs.425.00 for Medium to Long term gains.
- Sun TV is India's No.1 content provider and TV network and is excited in building a robust channel distribution platform.
- Sun TV Network plans to restructure its distribution business and team with creation of two separate verticals, one focused on managing the south Indian operations and the International business and other focused on expanding the Sun TV bouquet into north, west and eastern markets of India.
- Sun TV, which recently hiked its advertisement rates in its flagship channel Sun TV, has announced an increase in advertisement rates for all other channels in Telugu, Kannada and Malayalam.
- Sun Direct is planning to invest USD 300 million in the next four to five years in penetrating the DTH market.
- The top line and Bottom line of the company are expected to grow at a CAGR of 20% & 19% over 2008 to 2011E.

One-year comparative graph with BSE



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Key Financials	FY08	FY09	FY10E	FY11E	Key Data	
Net Sales (Rs.mn)	8610.6	10082.0	12854.5	14795.5	Face Value	Rs.5.00
EBIDTA (Rs.mn)	6868.1	8549.1	10414.5	11960.8	Shares Outstanding	394.08mn
Margin %	79.76%	84.80%	81.02%	80.84%	Exchange	BSE
PAT (Rs.mn)	3669.80	4371.10	5340.34	6131.64	52 wk. High/Low(Rs.)	381.00/136.00
Margin %	42.62%	43.36%	41.54%	41.44%	2 wk avg. volume	33000
					BSE Code	532733

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Peer Group comparison

Name of the Company	52week High/Low(Rs)	C.M.P(Rs)*	EPS(Rs)	P/E(x)
Sun TV Network	381.00/136.00	369.35	12.09	30.55
Deccan Chronicle	178.00/25.50	168.35	8.70	19.35
Zee Entertainment	285.00/88.00	275.80	6.70	41.16
Jagran Prakashan	142.00/43.00	128.30	4.55	28.20

* As on 16/01/10

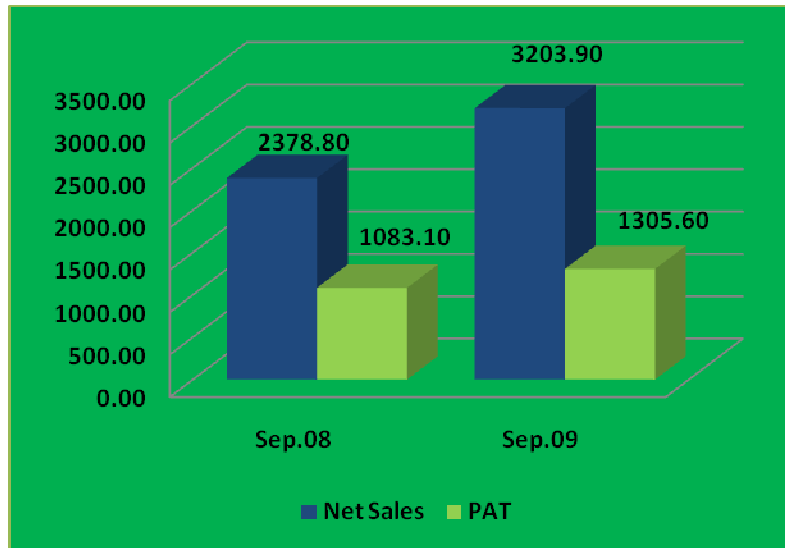
Company Updates

🚩 Q2 FY10 Results Update

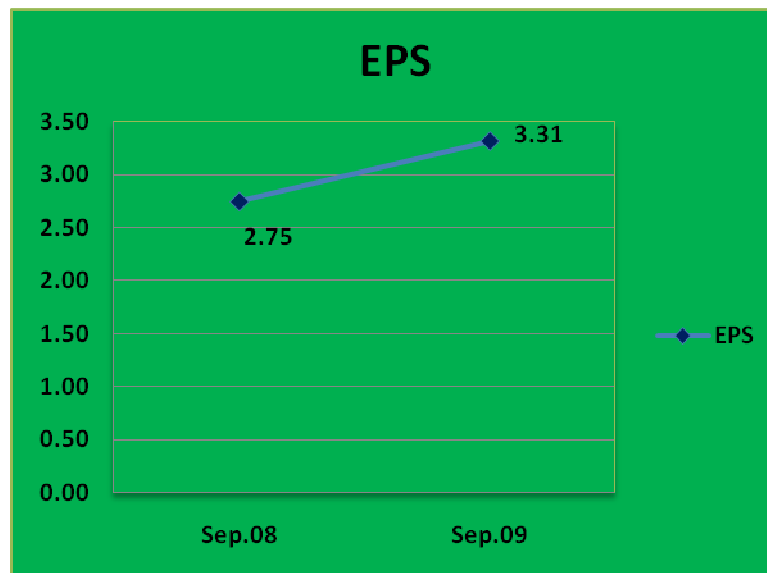
Sun TV disclosed a good increase in standalone net profit for the quarter ended September 2009. During the quarter, the profit of the company rose 20.54% to Rs 1,305.60 million from Rs 1,083.10 million in the same quarter last year. Net sales for the quarter rose 34.69% to Rs 3,203.90 million, while total income for the quarter rose 20.66% to Rs 3,318.60 million, when compared with the prior year period. It posted earnings of Rs 3.31 a share during the quarter, registering 20.54% growth over previous year period. Operating profit margin of the company witnessed a decrease to 79.60% from the corresponding previous quarter of 89.74%. Interest cost decreased 91.30% to Rs 1.80 million while depreciation cost increased 23.12% to Rs 570.90 million over previous year period.

Quarterly Results - Standalone (Rs in mn)			
As At	Sep-09	Sep-08	%change
Net sales	3,203.90	2,378.80	34.69
Net profit	1,305.60	1,083.10	20.54
Basic EPS	3.31	2.75	20.54

Net Sales & PAT Growth



EPS Growth



Plans to restructure distribution biz

Sun TV Network plans to restructure its distribution business and team with creation of two separate verticals, one focused on managing the south Indian operations and the International business and other focused on expanding the Sun TV bouquet into north, west and eastern markets of India. The key focus of this new verticals is to distribute the Sun Television channels in India and internationally via all fixed networks including cable, DTH, IPTV, HITS and MMDS. Sun TV is India's No. 1 content provider and TV network and is excited in building a robust channel distribution platform.

Declares new advertisement rates

Sun TV Network, which recently hiked its advertisement rates in its flagship channel Sun TV, has announced an increase in advertisement rates for its Telugu channel Gemini TV in the range of 6-16%, Kannada channel Udaya TV up to 10% and certain programs of Malayalam channel Surya TV up to 5%. These revised rates will be effective from January 1, 2010. The company has also increased the advertisement rates for all other channels in Telugu, Kannada and Malayalam.

Apart from this, the broadcast fees received from the content producers has also been increased accordingly. Last month, the company had increased its advertisement rates in Sun TV channel in the range of 9-33% with effect from January 1, 2010. Sun TV Network is India's second largest television network. It has 22 TV channels, 43 FM radio stations, two daily newspapers and four magazines in several Indian languages.

Utilises Rs 356 crore towards capitalization of subsidiaries

Against the total projected utilization of Rs 572 crore, which is net of issue expenses, from the initial public offering (IPO) funds, Sun TV Network has utilized an amount of Rs. 355.77 crore towards capitalization of subsidiaries.

Similarly, Rs 86.32 crore has been used towards launch of new channels and purchase of new equipment and upgradation of existing equipment, while Rs 62.34 crore has been employed towards construction of owned corporate office. The balance proceeds from the IPO after meeting the IPO expenses, pending utilization have been invested in fixed deposits with banks.

Sun Direct plans to invest USD 300 mn over next 5 yrs

Sun Direct, an 80:20 joint venture between the Maran family and the Astro Group of Malaysia, is planning to invest USD 300 million in the next four to five years in penetrating the DTH market. The company is currently fully funded by its shareholders. However, it is open to raise money from the stock market when things improve. The company had toyed with the idea of raising debt a few months ago, but has ruled it out now.

Sun Direct expects a turnover of Rs 10 billion this year and Rs 15 billion next fiscal. With over 4.3 million subscribers at present, Sun Direct is tied at second spot with Tata Sky, next only to first-mover Dish TV that has a subscriber base of around 5.5 million.

✚ SAMT raises its stake in Sun TV subsidiary

In order to make the most out of the increased FDI limit in the Indian multimedia industry and to meet the future growth needs, Sun TV Network has given consent to South Asia Multimedia Technologies, an investment arm of Malaysia-based Astro group, to increase its stake in its FM subsidiary South Asia FM to 20% from the current 6.98%. Sun TV Network promoters have decided to dilute 5% of their stake to bring down to 60% on the expanded capital of the FM arm South Asia Multimedia Technologies.

South Asia Multimedia Technologies is believed to be investing close to Rs 1 billion more for its stake in the South Asia FM. SAMT now holds total 20% stake in the SAFL while Sun TV Network has 59.15% holding in the subsidiary.

✚ Sun Direct signs deal with IBM

Chennai-based Sun Direct TV, part of the Sun TV Group, has inked agreement with IBM to employ and manage Customer Relationship Management (CRM) related applications for Sun Direct TV. Being the multi-year deal, it comprises end-to-end services ranging from strategy through implementation, and displaces Sun Microsystems, the incumbent provider. The company expects to expand its customer base to 10 million by 2010 with implementation of this CRM platform.

The CRM platform will help Sun Direct TV to tackle key issues surrounding billing, customer relationship management and develop ways to get better insights on customer behaviour. IBM will develop and maintain a dynamic infrastructure for Sun Direct TV.

✚ Dividend declaration

The board of directors of Sun TV Network has recommended a dividend of Re 1 or 20% on a face value of Rs 5 each for the financial year 2008-09. The final dividend together with the interim dividend of Rs 1.50 per equity share or 30% of face value of Rs 5 each would result in a total dividend of Rs 2.50 per equity share or 50% of face value of Rs 5 each for the FY 2008-09.

✚ Introduces Kid's channels in Telugu & Kannada

Sun TV Network has introduced two channels- Kushi TV and Chintu TV as a Kid's channel in Telugu and Kannada languages respectively with effect from Apr 12, 2009. Kushi TV will be in Telugu, while Chintu TV will be in Kannada language. Kushi TV and Chintu TV will be the first 24 hours kid`s channel in their respective languages targeting children with regional and international flavor.

Company Profile

Sun TV started its journey in April 1993 with a four and a half hours a day time sharing with ATN Network. Sun Network, India's largest media conglomerate has power packed Twenty two TV Channels with the reach of more than 95 million households in India.

Today, it is second largest television network in India, with 22 channels and 43 FM radios in several Indian languages. It is world's no.1 Tamil channel that features movies, news, serials and shows -- 24 hours a day.

It has control over 50,000 hours of original content, which is an essential driver for any media company. It also has a presence in South Africa, Australia, Europe, USA, Canada and Asia.

It also has Sun Direct one of the largest DTH (Direct To Home Satellite TV service) service provider in India having more than 4 million subscribers and Sun Pictures the film division of Sun Network which produces / releases atleast 8 movies every year.

Awards

- ✚ It was awarded Business Excellence Award by CNBC.
- ✚ Surya TV was awarded as Best Tamil TV Channel by Indian Television Academy.
- ✚ Kalanithi Maran, CMD of SunTV Network was awarded Outstanding Businessman Award in the entertainment and information sector

Company Business

Business activities

- ✚ **TV channels-** It has 22 channels in four languages Tamil, Telugu, Malayalam and Kannada. namely Sun TV, KTV, Sun Music, Sun News, Chutti TV, Surya TV, Kiran TV, Gemini TV, Teja TV, AdithyaTV, Teja News, Gemini News, Gemini Music, Gemini Cable Vision, Udaya TV, she TV, Udaya2, Udaya Movies, Udaya Varthegalu, Udaya News, Kushi TV & Chintu TV.
- ✚ **FM Radio-** It has also forayed into the radio broadcasting segment and has 43 FM radio channels. Sun TV Network became first to open Tamil's first private FM station -- Suryan FM
- ✚ **Print Media-** It has six publications under this segment namely Dinakaran, Tamizh Murasu, Kungumum, Mutharam, Vannathirai and Kumguma Chimizh.



Financials Results

12 Month Ended Profit & Loss Accounts (Standalone):

Value(Rs.in.mn)	FY08	FY09	FY10E	FY11E
Description	12m	12m	12m	12m
Net Sales	8610.60	10082.00	12854.55	14795.59
Other Income	649.30	833.20	516.58	568.24
Total Income	9259.90	10915.20	13371.13	15363.83
Expenditure	-2391.80	-2366.10	-2956.55	-3402.99
Operating Profit	6868.10	8549.10	10414.59	11960.84
Interest	-55.60	-38.90	-11.67	-12.25
Gross profit	6812.50	8510.20	10402.92	11948.59
Deprecation	-1130.30	-1849.20	-2311.50	-2658.23
Profit Before Tax	5682.20	6661.00	8091.42	9290.37
Tax	-2012.40	-2289.90	-2751.08	-3158.72
Profit After Tax	3669.80	4371.10	5340.34	6131.64
Equity capital	1970.40	1970.40	1970.40	1970.40
Reserves	12736.30	15954.70	21295.04	27426.68
Face value	5.00	5.00	5.00	5.00
Total No. of Shares	394.08	394.08	394.08	394.08
EPS	9.31	11.09	13.55	15.56

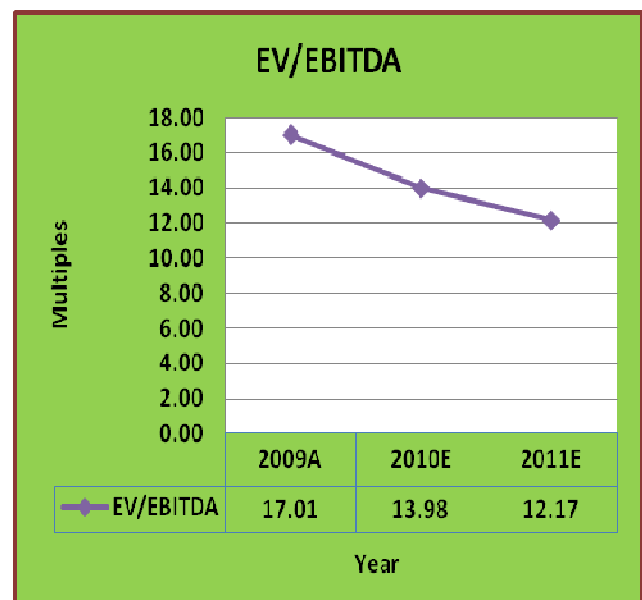
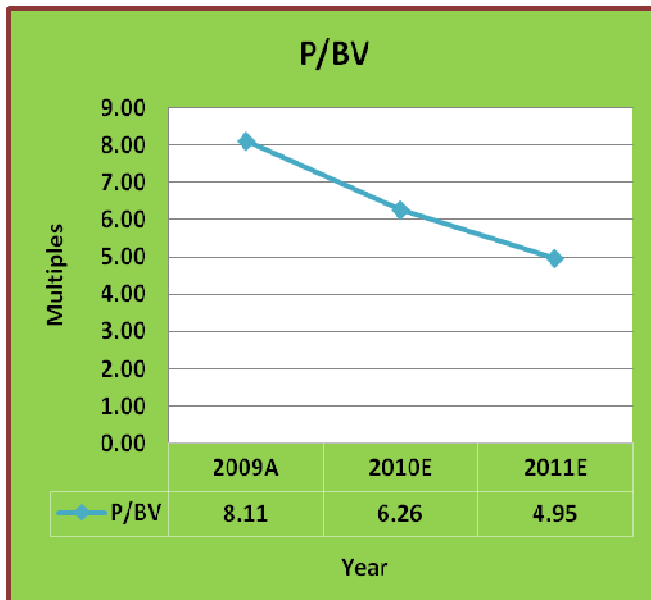
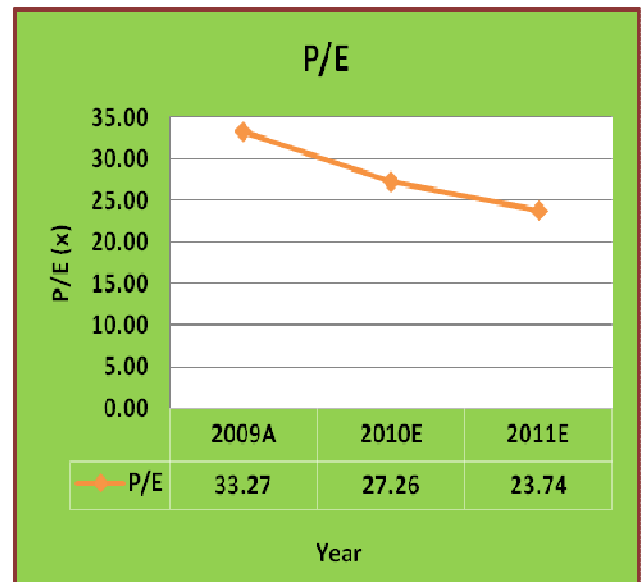
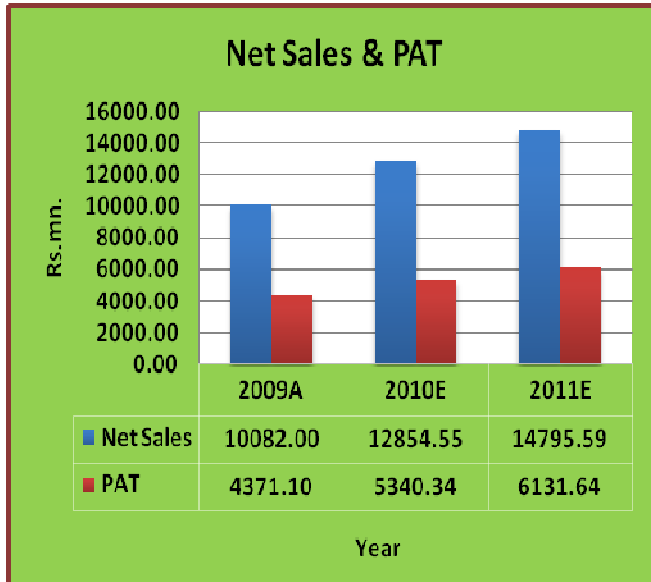
Quarterly Ended Profit & Loss Account (Standalone):

Value(Rs.in.mn)	31-Mar-09	30-Jun-09	30-Sep-09	31-Dec-09(E)
Description	3m	3m	3m	3m
Net sales	2759.20	2876.50	3203.90	3364.10
Other income	153.50	142.30	114.70	120.44
Total Income	2912.70	3018.80	3318.60	3484.53
Expenditure	-501.90	-640.40	-768.30	-807.38
Operating profit	2410.80	2378.40	2550.30	2677.15
Interest	-9.70	-6.30	-1.80	-1.87
Gross profit	2401.10	2372.10	2548.50	2675.28
Deprecation	-661.80	-549.80	-570.90	-582.32
Profit Before Tax	1739.30	1822.30	1977.60	2092.96
Tax	-599.00	-624.30	-672.00	-711.61
Profit After Tax	1140.30	1198.00	1305.60	1381.35
Equity capital	1970.40	1970.40	1,970.40	1,970.40
Face value	5.00	5.00	5.00	5.00
Total No. of Shares	394.08	394.08	394.08	394.08
EPS	2.89	3.04	3.31	3.51

Key Ratios:

Particulars	FY08	FY09	FY10E	FY11E
EBITDA Margin (%)	79.76%	84.80%	81.02%	80.84%
PAT Margin (%)	42.62%	43.36%	41.54%	41.44%
P/E Ratio (x)	39.62	33.27	27.26	23.74
ROE (%)	24.95%	24.39%	22.95%	20.86%
ROCE (%)	39.01%	37.38%	34.83%	31.64%
EV/EBITDA (x)	21.17	17.01	13.98	12.17
Debt-Equity Ratio	0.00	0.00	0.00	0.00
Book Value (Rs.)	37.32	45.49	59.04	74.60
P/BV	9.89	8.11	6.26	4.95

Charts



Valuation

- ✦ At the current market price of Rs.369.35, the stock is trading at 27.26 x FY10E and 23.74 x FY11E respectively.
- ✦ Price to Book Value of the stock is expected to be at 6.26 x and 4.95 x respectively for FY10E and FY11E.
- ✦ Earning per share (EPS) of the company for the earnings for FY10E and FY11E is seen at Rs. and Rs. respectively.
- ✦ On the basis of EV/EBITDA, the stock trades at 13.98 x for FY10E and 12.17 x for FY11E.
- ✦ The topline & bottomline of the company are expected to grow at a CAGR of 20% and 19% over 2008 to 2011E.
- ✦ Sun TV, which recently hiked its advertisement rates in its flagship channel Sun TV, has announced an increase in advertisement rates for all other channels in Telugu, Kannada and Malayalam.
- ✦ Sun TV Network has introduced two channels- Kushi TV and Chintu TV as a Kid's channel in Telugu and Kannada languages respectively.
- ✦ Sun Direct is planning to invest USD 300 million in the next four to five years in penetrating the DTH market.
- ✦ Chennai-based Sun Direct TV, part of the Sun TV Group, has inked agreement with IBM to employ and manage Customer Relationship Management (CRM) related applications for Sun Direct TV.
- ✦ Sun TV Network plans to restructure its distribution business and team with creation of two separate verticals, one focused on managing the south Indian operations and the International business and other focused on expanding the Sun TV bouquet into north, west and eastern markets of India.
- ✦ The Indian media and entertainment industry is one of the largest markets in the world having potential of becoming \$200 billion industry by 2015. In this, television has the biggest share of all, is estimated to generate revenue \$13.11 billion by 2011. Media companies like Sun TV Network have huge potential to expand itself.
- ✦ We recommend '**BUY**' in this particular scrip with a target price of **Rs.425.00** for Medium to Long term investment.

Industry Overview

The Indian media and entertainment (M&E) industry is one of the fastest growing industries in the country. Its various segments—film, television, advertising, prints media and music among others—have witness tremendous growth in the last few years.

According to a report jointly published by the Federation of Indian Chambers of Commerce and Industry (FICCI) and KPMG, the media and entertainment industry in India is likely to grow 12.5 per cent per annum over the next five years and touch US\$ 20.09 billion by 2013.

With a majority of the population below the age of 35, and increasing disposable income in the Indian households, the average spend on media and entertainment industry is likely to grow in India, according to a report by PricewaterhouseCoopers (PwC).

Television

According to the study by FICCI and KPMG, the television industry, which is currently valued at about US\$ 4.63 billion, will expand by 14.5 per cent between 2009 and 2013.

Digital distribution platforms such as direct-to-home (DTH) and Mobile TV are transforming the industry. Mobile TV—where content will stream in on mobile phones—is poised to grow big with the advent of 3G, according to experts.

With the DTH industry estimated to grow by almost 100 per cent in the current financial year—from US\$ 310.16 million in 2008-09 to an expected US\$ 620.25 million in 2009-10—leading DTH firms such as Sun Direct, Bharti Airtel DTH and Big TV have increased their marketing budget by 20-25 per cent.

Further, Television channels such as Cartoon Network, Pogo, Disney, MTV and Star Plus are expanding their product range to tap India's growing US\$ 125.9 million licensing and merchandise market.

Aside from the three large incumbent players in the general entertainment channel (GEC) category—Star Plus, Sony and Zee TV—and the other relatively smaller players, Star One and Sahara One, more new GECs were launched between the end of 2007 and mid-2009. These included NDTV Imagine (NDTV Group), Colors (Viacom 18 Group) and Real (Miditech Turner).

Television distribution industry is expected to reach US\$ 5.2 billion in 2013 from the current estimated size of US\$ 3.12 billion in 2008, which translates into a growth of 12.2 per cent on cumulative basis over the next five years.

Music

Industry experts estimate that the current size of the music industry is about US\$ 149 million. According to a PwC study, the industry is likely to grow by 2 per cent over the next five years and will be a US\$ 164.56 million industry by 2012.

While cassettes and compact discs (CDs) have traditionally accounted for most of the sales, future growth will come from non-physical formats such as digital downloads and ringtones, among others. Digital music sales are expected to account for 88 per cent of the total music industry revenue in India by 2009.

Radio

The cheapest and oldest form of entertainment, reaching 99 per cent of the population, this segment is likely to see many dynamic changes.

According to the PwC study, revenues from radio are likely to grow at a compound annual growth rate (CAGR) of 24 per cent over the next five years and the industry will grow from US\$ 150.52 million in 2007 to US\$ 370.22 million in 2012.

Private FM radio has emerged as the fastest growing segment in the media, notching up an average 30 per cent growth in advertising revenues, compared to the industry's average of 18 per cent, according to ACNielsen's Radio Audience Measurement (RAM) service. Moreover, it is expected to increase to US\$ 218.49 million over the next two years from the current US\$ 133.52 million. FM radio broadcasting has expanded at a rapid pace and India today has over 300 FM radio stations.

Advertising

The number of brands advertised on television witnessed an 82 per cent increase during 2008 compared to 1999, according to a survey by AdEx India, a division of Tam Media Research.

The television advertising industry is expected to reach US\$ 3.12 billion in 2013 from the estimated size of US\$ 1.75 billion in 2008, which translates into a growth of 12.2 per cent on cumulative basis over the next five years.

Going forward, digital media advertising (internet, mobile and digital signage) is expected to emerge as the medium of choice for advertisers. According to a FICCI-PwC report, online advertising is expected to touch US\$ 212.03 million in 2011 from the current US\$ 57.83 million.

Digital advertising on newspaper web sites will increase at a 6.8 percent compound annual rate to US\$ 8.3 billion in 2013 from US\$ 6 billion in 2008, increasing its share of total newspaper advertising to 9.1 per cent from 5.4 per cent in 2008, as per a PwC report on the Indian media and entertainment industry.

Print

The print industry is projected to grow by 5.6 per cent over the period 2009-13, touching US\$ 4.26 billion in 2013 from the present US\$ 3.24 billion in 2008. The relative shares of newspaper publishing and magazine publishing are not expected to change significantly and are expected to remain the same at around 87 per cent in favour of newspaper publishing. Magazine publishing is expected to grow at a higher rate of 6.5 per cent as compared with newspaper publishing which is expected to grow at 5.6 per cent for the next five years.

New Delhi-based media company 9.9 Media Pvt. Ltd plans to launch the Indian version of Inc., a New York-based monthly magazine targeted at entrepreneurs and leaders of fast-growing companies, in October 2009. India Inc. will be the second local version of a foreign business magazine to launch this year. In May 2009, broadcaster Network18 started publishing the Indian edition of business magazine Forbes.

Digital media

According to a FICCI-KPMG study, the Indian animation industry will grow from the current US\$ 362 million to US\$ 811.2 million by calendar 2013.

Further, with the country turning out to be a hub for graphic industries like animation and design, companies such as Intel and Advanced Micro Devices (AMD) are reworking their India strategies to grow their businesses in the computing segment. The move has been triggered by the emergence of high-end games involving real-time 3D rendering.

Global and domestic entertainment companies like DQ Entertainment, Yashraj Films, Disney, MGM and Paramount have announced that they will tap the Indian market through locally-produced animation and graphics content.

Cartoon Network, a kid's entertainment television channel, has increased the acquisition of animation content from the country.

Government Initiatives

The Government has initiated major reform measures, which have had a cascading effect on the growth of the industry.

- ✚ Permitting 100 per cent foreign direct investment (FDI) through the automatic route for film industry and advertising.
- ✚ Allowing 49 per cent foreign holding in cable TV and DTH.
- ✚ Allowing 100 per cent FDI in non-news publications and 26 per cent FDI in news publications.
- ✚ The government has allowed 100 per cent FDI in fax editions of magazines and newspapers.
- ✚ Recently, the government has allowed companies with core business in news segment but hived off non-news business, to raise funds from overseas beyond the stipulated FDI limit of 26 per cent. Such companies can raise and route funds from overseas through its non-news arm, which will not be calculated as foreign investment.
- ✚ The FM radio sector was opened for FDI with a 20 per cent cap.
- ✚ Permitting setting up of uplinking hubs for satellite uplinking by private TV broadcasters from Indian soil.
- ✚ Giving industry status to the films segment.
- ✚ Opening FM Radio operations to the private sector.
- ✚ The government has allotted US\$ 50.13 million in the current Five-Year-Plan for various development projects of the film industry. The funds will be utilized to set up a centre for excellence in animation, gaming and visual effects among others.

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