

Sun TV

Rs250

NEUTRAL

RESULT NOTE

Mkt Cap: Rs98.5bn; US\$2.3bn

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Result: Q1FY09

Comment: Unimpressed!

Last Report: 2 July 2008 (Price Rs267; Recommendation: Neutral)

Key valuation metrics

Year to 31 March (Rs m)	Net Sales	% change yoy	Net Profit	EPS (Rs)	% change yoy	PER (x)	EV/ EBITDA (x)
FY06	3,219	10.9	1,302	4.2		59.5	84.5
FY07	6,780	110.6	2,475	7.2	71	34.8	15.9
FY08	8,699	28.3	3,266	8.3	15	30.2	18.8
FY09E	11,402	31.1	4,312	10.9	32	22.8	14.2
FY10E	14,333	25.7	5,603	14.2	30	17.6	10.8

Disappointing on numbers, Sun TV (standalone operations) has reported revenue growth of 10% at Rs2.24bn in Q1FY09 and EBITDA and PAT also growing at 10% each at Rs1.7bn and Rs1bn respectively. Advertising and broadcasting revenues have grown by 20%, international pay revenues have grown by 43% and pay revenues from DTH platform has come in at Rs112m. However, aberration in pay revenue collection from few markets (Karnataka, Kerala) has led to dip in domestic pay revenues. Sun TV is now operational in 41 FM Radio stations of the total 44 that it has acquired license for.

While continuing to like Sun TV's business operations, our Neutral call on Sun TV stems from fair valuations. Sun TV continues to dominate the South India markets, Tamil in particular, and has come unscathed in the first round of competition (sustained viewership). While competition in South India is only increasing - Zee News, Star and Eenadu are extending their reach and there is likely entry of Reliance ADAG into this space, we expect Sun TV to maintain its leadership in the near term, though would see some erosion in viewership share. This coupled with planned new launches (extending Kids channels beyond Tamil) would drive advertising revenue growth at 20% CAGR over FY08-10. Sun TV is also mulling to make a foray into Hindi GEC, with Rs7bn+ of cash on books, We also expect Sun TV to gain from improving pay revenue streams, as Sun TV piggy rides the DTH ramp up (currently reaching out to 1.7m DTH subscribers, including 1m on Sun Direct platform) and taps the untapped markets like Chennai (currently FTA on conventional mode) and Mumbai and Delhi (15%+ reach). We expect the Sun TV to garner Rs4bn of pay revenues by FY10 and overall broadcast business growth at 23% CAGR over FY08-10. However, increasing competitive pressure and gestation losses in the radio operations would impact the near term profitability. Trading at 18x FY10E multiple, we believe that Sun TV is fairly valued. Maintain Neutral with a price target of Rs285.

HIGHLIGHTS OF Q1FY09 RESULTS

- Disappointing on numbers, Sun TV (standalone operations) has reported revenue growth of 10% at Rs2.24bn in Q1FY09 and EBITDA and PAT also growing at 10% each at Rs1.7bn and Rs1bn respectively.
- Advertising and broadcasting revenues have grown by 20%, international pay revenues have grown by 43% and pay revenues from DTH platform has come in at Rs112m.
- However, aberration in pay revenue collection on account of power cuts in few markets (Karnataka, Kerala) has led to dip in domestic pay revenues. Pay revenue decline in this market is expected at 30%+ during the quarter.
- Sun TV's DTH reach is now at 1.7m (up from 1m at the end of March 2008). Sun TV is well placed to piggy ride the scale up of DTH, including Group's DTH venture. Sun Direct (group's DTH venture) has already reached 1m+ of subscriber base.
- International pay revenues have been driven by higher growth in Malaysia, one of the largest markets for South India linguistic content
- Margins during the quarter have remained steady at 75.3%, however, transmission and programming cost has moved up by over 50%oyoy.
- Sun TV's 41 of the 44 FM Radio stations have commenced operations, besides 3 stations under Red FM.
- Post the success of Chutti TV, the Kids channel in Tamil, Sun TV is soon launching its kids channels in other markets like Malayalam, Telugu and Kannada.
- Sun TV has Rs7bn+ of cash on books and the management is mulling plans of entry into Hindi GEC in the coming period.

□ Increasing competition – Leadership, but with lower share

Albeit increasing competition, Sun TV continues to maintain its unmatched dominance in all the South India markets – Tamil in particular. While in Telugu genre, Sun TV Network accounts for 48% of the market share (50-53% one year back), in Kannada its market share is sustained at ~50%, in Malayalam at 41% and in Tamil at 70%. While we believe that competitive intensity is increasing in the South India market (more so as the largest regional broadcaster makes profit as much as the largest national broadcaster), we see Sun TV maintaining its lead. Competition has been heating up in the space with Zee Telugu and Zee Kannada gaining market share and entering into the Tamil segment, Star Network planning to extend its regional reach (likelihood of buying a stake into Asianet), and Reliance ADAG planning a foray. While we anticipate some loss of market share, specifically in Telugu and Kannada segments, competition would find it difficult to make inroads in the Tamil market given Sun TV's exclusive alignments with leading content providers. We believe that as Sun TV continues to command its dominance in the South India regional market, we are confident of sustained advertising traction at 20%+ over the next couple of years.

□ Pay revenues – the new growth driver

We believe that pay revenue stream would be the next growth propeller for Sun TV, as it taps the untapped markets on the back of proliferation of DTH and digital cable. Despite being one of the leading broadcasters, Sun has failed to realize its full potential in terms of tapping the pay revenue stream. The channel is currently free-to-air in Chennai, where it has a 91% reach. Similarly, all its channels realize hardly anything from cable markets beyond Tamil Nadu. For instance, Sun has a 64% reach in Bangalore and 19-20% reach in Mumbai, Hyderabad and Delhi. However, pay revenue realization from these markets is negligible. Same holds true for all the other Telugu, Kannada and Malayalam channels. However, as digitization of cable distribution picks up pace, we expect a major uptick in Sun TV's pay revenues. Sun TV Network, within three quarters of providing signals to DTH operators, is getting paid for 1.7m subscribers on all India basis, including 1m on Sun's DTH platform. We expect Sun TV's pay revenues to scale up to Rs4bn by FY10.

❑ Radio operations – breakeven in FY10

Sun TV is the largest FM radio player in India in terms of number of stations (47 licenses). Through its subsidiaries, Kal Radio and South Asia FM, Sun TV has 44 licenses under Phase II of reforms in FM radio space for Rs2bn. Sun has also acquired 50% in Red FM through South Asia FM. Besides leading the Mumbai market, Red FM is a leading player in Delhi and Bangalore. FM Radio is Sun TV's first move towards extending its reach beyond the South. While currently in the commissioning mode, Sun TV's radio business would be fully operational in the current fiscal and we expect the business to break even in FY10.

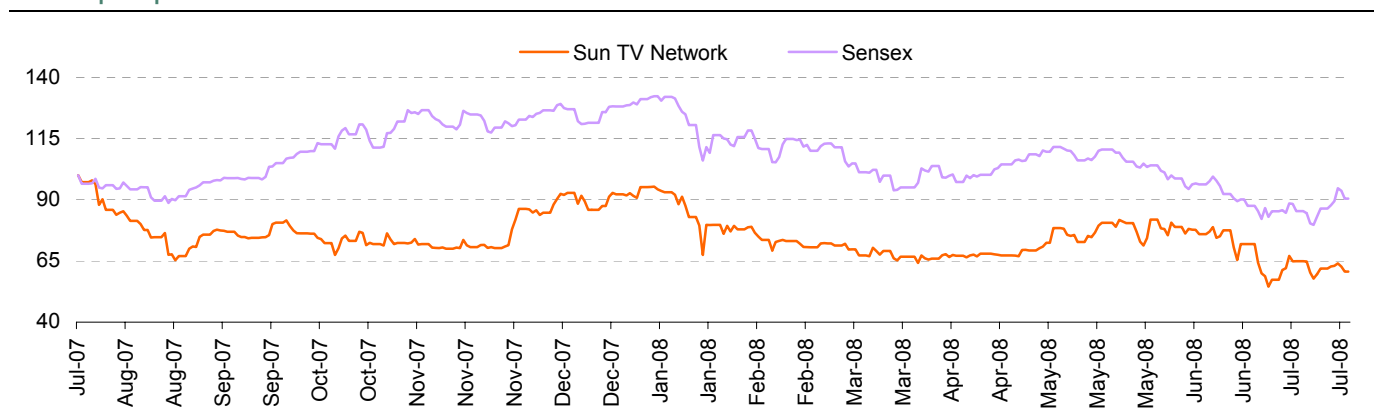
❑ Fairly valued – Maintain Neutral

Our Neutral call on Sun TV stems from increasing competition in the South India regional broadcasting as indeed the stretched valuations. While the broadcasting business would continue to track 23% revenue growth and 24% PAT growth CAGR over FY08-10, near term profitability would be impacted by gestation losses in the radio business (would breakeven only in FY10). However, trading at 18x FY10E earnings, stock factors in business superiority, Rs7bn+ of free cash on books as indeed the premium that Sun TV deserves over other broadcasters. Maintain Neutral with a price target of Rs285.

Quarterly results

	Q1FY08	Q2FY08	Q3FY08	Q4FY08	FY08	Q1FY09	FY09E	FY10E
Net Sales	2,023	1,945	2,178	2,465	8,699	2,236	11,402	14,333
<i>yoy change (%)</i>	126	106	91	(35)	28	10	31	26
Expenses	494	546	468	884	3,707	553	4,856	5,885
EBITDA	1,529	1,398	1,710	1,581	4,992	1,683	6,547	8,449
OPM (%)	75.6	71.9	78.5	64.1	57.4	75.3	57.4	58.9
Other Income	149	143	142	215	567	164	625	689
Interest	5	15	25	11	159	0	111	61
Depreciation	243	248	262	377	256	278	370	446
PBT	1,431	1,278	1,565	1,408	5,144	1,568	6,690	8,631
Tax	500	477	542	568	2,015	543	2,460	3,033
PAT	931	802	1,023	840	3,129	1,025	4,230	5,598
Minority Interest					(137)		(83)	(5)
PAT post minority interest	931	802	1,023	840	3,266	1,025	4,312	5,603

Relative price performance



IDFC - SSKI INDIA

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2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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