

# Sun TV Network

## Phase I Digitization to Boost Sub Revenue

Sun TV Network's (Sun TV's) Q2FY13 performance was in line with our expectations. Standalone revenue declined 4% YoY to Rs 4.33 bn, EBITDA declined 10% YoY to Rs 3.29bn, and PAT dropped 16% YoY to Rs 1.52 bn.

### Key Q2FY13 highlights

- **Ad revenue grew 4% YoY** to Rs 2.44 bn (in line with our est.) on higher TV ad spends across major sectors like FMCG (~55% of ad revenue), mobile handsets, and consumer durables. Management remains confident of a double digit growth in ad revenue in H2FY13.
- **DTH revenue grew 1% QoQ** to Rs 900 mn. DTH subscriber base increased to 7.87 mn in Q2FY13 vs. 7.74 mn in Q1FY13. Given the onset of digitization (Sunset date in Chennai likely to be postponed to Dec 31<sup>st</sup>, 2012), we expect a significant addition in DTH subscriber numbers in H2FY13.
- **Domestic Cable revenue grew 12% QoQ** to Rs 340 mn. Arasu now pays Sun TV distribution revenue of Rs 25 mn/month.
- **Depreciation and amortization** was higher QoQ at Rs 1.14 bn (Rs 910 mn amortization + Rs 230 mn depreciation).
- While the **acquisition of Hyderabad franchise of Indian Premier League (IPL)** will be EPS dilutive in the near term (we expect Rs 250 mn loss in FY14), Sun TV could benefit in the medium term from synergies with its television business.

### Outlook and valuation

We believe mandatory digitization in Chennai, faster DTH off take in TN, and an improved ad outlook augur well for Sun TV. At CMP of Rs 360, the stock trades at 17.5x FY13E EPS of Rs 18.8 and 16x FY14E EPS of Rs 20.3. Maintain **BUY** with TP of Rs 366 (18x FY14E EPS) -- implies 2% upside.

### Financial summary (Consolidated)

Y/E Mar	Sales (Rs mn)	Adj.PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)
2011	20,135	7,708	-	19.6	48	-	36.6	52.3	-
2012	18,471	6,928	-	17.6	(10)	-	28.7	40.7	-
2013E	20,106	7,401	18.4	18.8	7	19.1	27.7	39.5	8.3
2014E	23,665	8,010	21.2	20.3	8	17.7	27.3	38.9	7.5

Source: Company, Axis Capital; \*Consensus broker estimates

CMP (Rs)	360
Target price (Rs)	366
Potential upside	2%

### Stock data

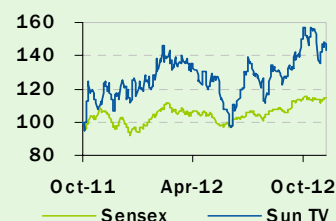
No. of shares (mn)	394
FV (Rs)	5/-
Market cap (Rs bn)	130
52 week high/low (Rs)	373/177
Avg. daily vol.* (shares)	1.2
BSE Code	532733
NSE Code	SUNTV
Bloomberg code	SUNTV IB
Reuters Code	SUTV.BO

\* BSE & NSE 6 monthly

### Shareholding (%)

	Sep-12	QoQ Chg
Promoter	77.0	0.0
FIIs	14.2	1.0
MFs / UTI	2.1	(0.8)
Banks / FIs	0.0	0.0
Others	6.7	(0.2)

### Price performance



Source: Cline, ENAM Research

## Results update

(Rs mn)	Quarter ended				12 months ended			
	Sep-12	Sep-11	% Chg	Jun-12	% Chg	Mar-13E	Mar-12	% Chg
Net Sales	4,333	4,513	(4.0)	4,258	1.8	20,106	18,471	8.8
EBITDA	3,290	3,655	(10.0)	3,230	1.9	15,239	14,143	7.8
Other income	96	186	(48.3)	132	(27.4)	623	796	(21.7)
PBIDT	3,386	3,841	(11.8)	3,362	0.7	15,862	14,938	6.2
Depreciation	1,138	1,176	(3.2)	933	22.1	4,961	4,736	4.7
Interest	5	8	(34.2)	2	150.0	25	58	(57.0)
PBT	2,243	2,657	(15.6)	2,427	(7.6)	10,876	10,144	7.2
Tax	727	856	(15.1)	785	(7.4)	3,578	3,317	7.9
Minority Interest and associates	-	-	-	-	-	54	(101)	-
Adjusted PAT	1,517	1,802	(15.8)	1,643	(7.7)	7,401	6,928	6.8
No. of shares (mn)	396	394	-	396	-	394	394	0.0
EBITDA margin (%)	75.9	81.0	(6.3)	75.9	0.1	75.8	76.6	(1.0)
PBIDT margin (%)	78.1	85.1	(8.2)	79.0	(1.0)	78.9	80.9	(2.5)
EPS - annualized (Rs.)	15.3	18.3	(16.3)	16.6	(7.7)	18.8	17.6	6.8

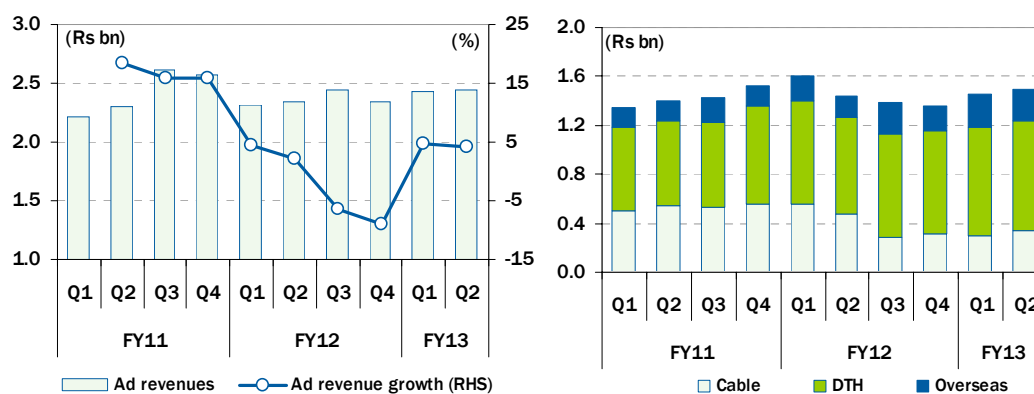
Source: Company, Axis Capital; \*Quarterly numbers are on a standalone basis (i.e. ex-radio subsidiaries)

## Other highlights

- Radio business turned profitable clocking revenue of Rs 520 mn and PAT of Rs10mn in H1FY13.
- Overseas revenue grew 44% YoY to Rs 260 mn.
- Sun TV declared interim dividend of Rs 2.5 per share (50% of face value of Rs 5 per share). We expect dividend payout to be 55-60% of total profits in FY13 and FY14.

## Ad revenue growth reviving

## Overseas subscription revenue grows



Source: Company; Axis Capital

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