

SUN TV NETWORK LTD

MEDIA

Digitization to boost subscription revenue

Sun TV surprised positively with 20% YoY ad revenue growth in Q3FY13 (vs. our est. of 12%). Revenue grew 14.3% YoY to Rs 4.9 bn, EBITDA was up 10.3% YoY at Rs 3.8 bn, and PAT grew 13.2% YoY to Rs 1.9 bn (vs. our est. of Rs 1.7 bn).

We maintain our bullish stance on Sun TV given (a) improvement in ad growth outlook, (b) likely increase in subscription revenue mainly driven by digitization in Chennai, and (c) limited losses in IPL in initial years. We introduce FY15 estimates and roll forward our TP to FY15E EPS. Maintain BUY with our revised TP of Rs 550 (22x FY15E EPS of Rs 25) vs. Rs 475 earlier, which implies 25% upside from CMP of Rs 439. The stock trades at PE of 19.6x FY14E EPS of Rs 21.6 and 16.9x FY15E EPS of Rs 25.0.

BUY

Target Price: Rs 550

CMP	: Rs 439
Potential Upside	: 25%
Relative to Sector	: Outperformer

MARKET DATA

No. of Shares	: 394mn
Free Float	: 23%
Market Cap	: Rs 173bn
52-week High / Low	: Rs 447 / Rs 177
Avg. Daily vol. (6mth)	: 1.3 mn shares
Bloomberg Code	: SUNTV IB Equity
Promoters Holding	: 77%
FII / DII	: 14% / 2%
BSE Code	: 532733
NSE Code	: SUNTV

Key Q3FY13 highlights

- Ad revenue grew 20% YoY to Rs 2.9 bn (vs. our est. of Rs 2.75 bn) on higher ad spends across sectors; however realty, telecom, and BFSI yet to pick up completely.
- DTH revenue grew 5% QoQ to Rs 945 mn. DTH subscriber base increased to 8.27 mn in Q3FY13 vs. 7.87 mn in Q2FY13. Domestic cable revenue grew 10% QoQ to Rs 370 mn given subscription revenues from Arasu in the quarter.
- Rollout of STBs by some MSOs in Chennai indicates higher subscription revenue for Sun TV going forward. With subscription realization of Rs 25/sub/month for digital cable and ~1.5 mn target subscribers in phase I (Chennai) and ~4 mn in phase II (across south India), we expect Sun TV to be the obvious beneficiary of digitization.
- Depreciation and amortization declined marginally QoQ to Rs 1.04 bn (Rs 870 mn amortization + Rs 225mn depreciation).

FINANCIAL SUMMARY (Consolidated)

Y/E March	FY12	FY13E	FY14E	FY15E
Sales (Rs mn)	18,471	20,060	24,418	28,245
Adj PAT (Rs mn)	6,928	7,371	8,516	9,866
Con. EPS* (Rs.)	-	18.0	21.1	25.2
EPS (Rs.)	17.6	18.7	21.6	25.0
Change YOY (%)	(10.1)	6.4	15.5	15.8
P/E (x)	17.8	22.7	19.6	16.9
RoE (%)	29.1	27.9	29.2	30.4
RoCE (%)	36.8	36.4	38.6	40.9
EV/EBITDA (x)	8.5	10.7	9.3	7.9
DPS	9.5	10.3	11.9	13.8

Source: *Consensus broker estimates, Company, AXIS Capital estimates

Key Revenues drivers

	FY12		FY13		
	Q3	Q4	Q1	Q2	Q3
Ad	2.4	2.3	2.4	2.4	2.9
% YoY growth	(6.4)	(9.1)	4.7	4.0	20.0
Subscriptions	1.39	1.36	1.45	1.50	1.58
% YoY growth	(3.0)	(9.1)	(9.4)	3.9	13.6

PRICE PERFORMANCE



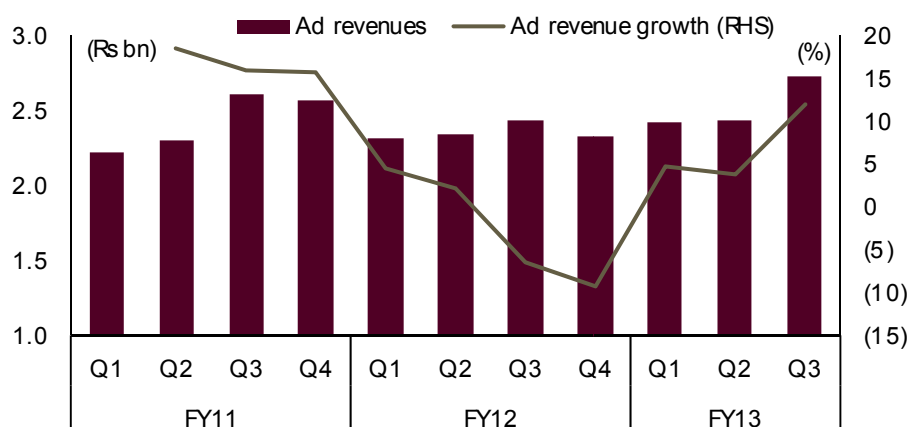
Exhibit 1: Results update

(Rsmn)	Quarter ended				12 months ended			
	Dec-12	Dec-11	% Chg	Sep-12	% Chg	Mar-13E	Mar-12	% Chg
Net Sales	4,860	4,251	14.3	4,333	12.2	20,060	18,471	8.6
EBITDA	3,765	3,412	10.3	3,290	14.4	15,193	14,143	7.4
Other income	106	232	(54.5)	96	9.8	623	796	(21.7)
PBIDT	3,870	3,644	6.2	3,386	14.3	15,816	14,938	5.9
Depreciation	1,044	1,125	(7.2)	1,138	(8.3)	4,961	4,736	4.7
Interest	17	36	(53.6)	5	234.0	25	58	(57.0)
PBT	2,810	2,483	13.2	2,243	25.3	10,830	10,144	6.8
Tax	910	804	13.1	727	25.2	3,563	3,317	7.4
Minority Interest and associates	0	0	-	0	-	54	(101)	-
Adjusted PAT	1,900	1,679	13.2	1,517	25.3	7,371	6,928	6.4
No. of shares (mn)	397	395	-	396	-	394	394	0.0
EBITDA margin (%)	77.5	80.3	(3.5)	75.9	2.0	75.7	76.6	(1.1)
PBIDT margin (%)	79.6	85.7	(7.1)	78.1	1.9	78.8	80.9	(2.5)
EPS - annualized (Rs.)	19.1	17.0	12.6	15.3	25.0	18.7	17.6	6.4

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

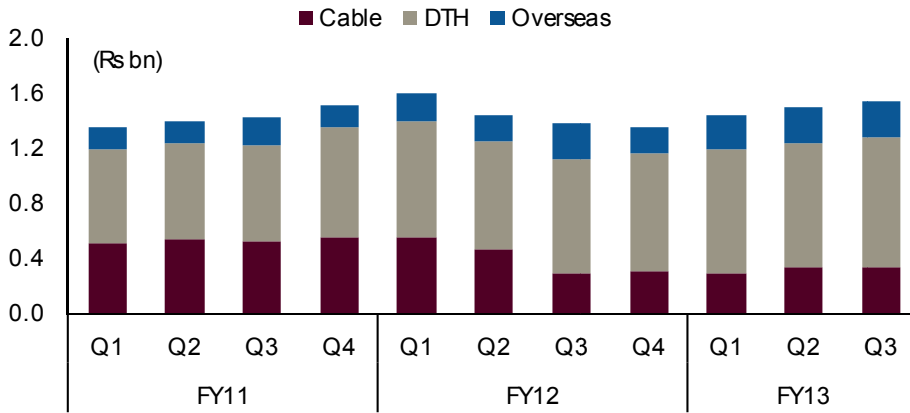
Other highlights

- Radio business clocked revenue of Rs780mn, EBIT of Rs 220 mn and PAT of Rs 50mn in 9m FY13.
- Management has guided for a capex of Rs 0.5 - 0.75 bn annually and additional Rs 3.0 - 3.25 bn for movie acquisition in FY14.
- While there is not much clarity on DAS license for Arasu cable, we expect Chennai to be fully digitized by March 2013.
- Sun TV declared its third interim dividend of Rs 2.5 per share (50% of face value of Rs 5 per share) for FY13. We expect dividend payout to be 55-60% of total profits in FY13 and FY14.

Exhibit 2: Ad revenue growth reviving


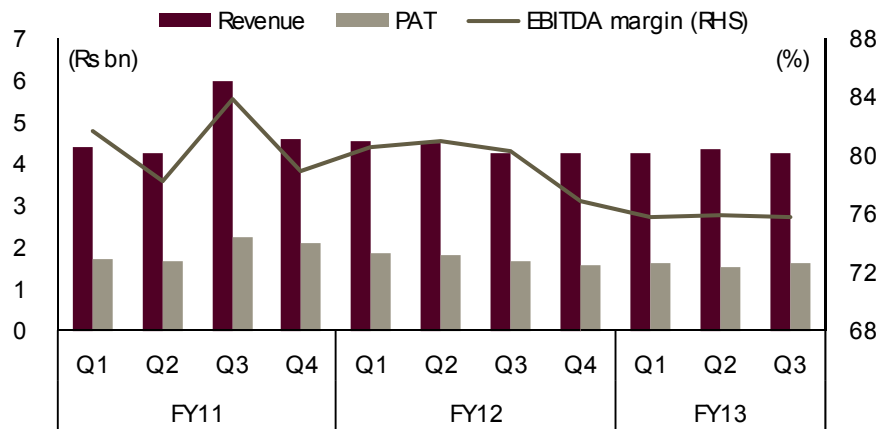
Source: Company; Axis Capital

Exhibit 3: DTH subscription revenue grows QoQ



Source: Company; Axis Capital

Exhibit 4: Revenue and profitability performance



Source: Company; Axis Capital

FINANCIAL SUMMARY (Consolidated)
Profit & Loss (Rsmn)

Y/E March	FY12	FY13E	FY14E	FY15E
Net sales	18,471	20,060	24,418	28,245
Other operating income	-	-	-	-
Total operating income	18,471	20,060	24,418	28,245
Cost of goods sold	(1,334)	(1,646)	(3,259)	(3,571)
Gross profit	17,137	18,414	21,159	24,674
Gross margin (%)	92.8	91.8	86.7	87.4
Total operating expenses	(2,995)	(3,221)	(3,652)	(4,143)
EBITDA	14,143	15,193	17,507	20,531
EBITDA margin (%)	76.6	75.7	71.7	72.7
Depreciation	(4,736)	(4,961)	(5,569)	(6,562)
EBIT	9,407	10,232	11,938	13,969
Net interest	(58)	(25)	(25)	(30)
Other income	796	623	606	588
Profit before tax	10,144	10,830	12,519	14,527
Total taxation	(3,317)	(3,563)	(4,106)	(4,765)
Tax rate (%)	32.7	32.9	32.8	32.8
Profit after tax	6,828	7,267	8,413	9,762
Minorities	22	25	25	25
Profit/ Loss associate co(s)	79	79	79	79
Adjusted net profit	6,928	7,371	8,516	9,866
Adj. PAT margin (%)	37.5	36.7	34.9	34.9
Net non-recurring items	-	-	-	-
Reported net profit	6,928	7,371	8,516	9,866

Balance Sheet (Rsmn)

Y/E March	FY12	FY13E	FY14E	FY15E
Paid-up capital	1,970	1,970	1,970	1,970
Reserves & surplus	23,149	25,662	28,685	32,188
Net worth	26,347	28,860	31,882	35,386
Borrowing	-	-	-	-
Other non-current liabilities	444	531	520	509
Total liabilities	29,065	31,879	35,240	38,550
Gross fixed assets	31,599	38,081	44,562	51,141
Less: Depreciation	(19,140)	(24,101)	(29,670)	(36,232)
Net fixed assets	12,459	13,980	14,891	14,909
Add: Capital WIP	35	35	35	35
Total fixed assets	12,494	14,015	14,927	14,944
Total Investment	2,244	2,323	2,323	2,323
Inventory	5	5	5	5
Debtors	5,090	5,479	6,690	7,738
Cash & bank	3,075	4,153	4,338	5,560
Loans & advances	818	762	928	1,073
Current liabilities	2,275	2,488	2,837	2,655
Net current assets	7,110	8,312	9,612	12,287
Other non-current assets	4,942	4,742	5,542	6,342
Total assets	29,065	31,879	35,240	38,550

Cash flow (Rsmn)

Y/E March	FY12	FY13E	FY14E	FY15E
Profit before tax	10,144	10,830	12,519	14,527
Depreciation & Amortisation	(4,736)	(4,961)	(5,569)	(6,562)
Chg in working capital	(2,788)	(180)	(949)	(1,308)
Cash flow from operations	8,117	11,529	12,531	14,537
Capital expenditure	(4,061)	(6,481)	(6,481)	(6,579)
Cash flow from investing	(6,633)	(5,684)	(6,841)	(6,937)
Equity raised/ (repaid)	-	-	-	-
Debt raised/ (repaid)	(1)	-	-	-
Dividend paid	(4,380)	(4,743)	(5,480)	(6,348)
Cash flow from financing	(4,440)	(4,768)	(5,505)	(6,378)
Net chg in cash	(2,956)	1,078	185	1,222

Key ratios

Y/E March	FY12	FY13E	FY14E	FY15E
OPERATIONAL				
FDEPS (Rs)	17.6	18.7	21.6	25.0
CEPS (Rs)	29.6	31.3	35.7	41.7
DPS (Rs)	9.5	10.3	11.9	13.8
Dividend payout ratio (%)	54.0	55.0	55.0	55.0
GROWTH				
Net sales (%)	(8.3)	8.6	21.7	15.7
EBITDA (%)	(10.4)	7.4	15.2	17.3
Adj net profit (%)	(10.1)	6.4	15.5	15.8
FDEPS (%)	(10.1)	6.4	15.5	15.8
PERFORMANCE				
RoE (%)	29.1	27.9	29.2	30.4
RoCE (%)	36.8	36.4	38.6	40.9
EFFICIENCY				
Asset turnover (x)	0.9	0.8	0.9	1.0
Sales/ total assets (x)	0.6	0.7	0.7	0.8
Working capital/ sales (x)	0.1	0.2	0.2	0.2
Receivable days	100.6	99.7	100.0	100.0
Inventory days	0.4	0.4	0.3	0.2
Payable days	37.6	37.5	26.4	23.7
FINANCIAL STABILITY				
Total debt/ equity (x)	-	-	-	-
Net debt/ equity (x)	(0.1)	(0.2)	(0.2)	(0.2)
Current ratio (x)	4.1	4.3	4.4	5.6
Interest cover (x)	161.6	409.3	477.5	465.6
VALUATION				
PE (x)	17.8	22.7	19.6	16.9
EV/ EBITDA (x)	8.5	10.7	9.3	7.9
EV/ Net sales (x)	6.5	8.1	6.7	5.7
PB (x)	4.9	6.0	5.5	4.9
Dividend yield (%)	3.0	2.4	2.8	3.2
Free cash flow yield (%)	3.3	3.0	3.6	4.8

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