

Sun TV

Rs482

OUTPERFORMER

RESULT NOTE

Mkt Cap: Rs190bn; US\$4.2bn

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Result: Q3FY11

Comment: Ad growth at 16%!

Key valuation metrics

Year to 31 March (Rs m)	Net Sales	% change yoy	Net Profit	EPS (Rs)	% change yoy	PER (x)	EV/ EBITDA (x)
FY08	8,699	28.3	3,256	8.3	15.0	58.4	35.5
FY09	10,394	19.5	3,684	9.3	13.2	51.6	31.3
FY10	14,528	39.8	5,195	13.2	41.0	36.6	21.2
FY11E	19,945	37.3	7,179	18.2	38.2	26.5	15.7
FY12E	21,554	8.1	8,341	21.2	16.2	22.8	13.0

Source: Company, IDFC Securities Research

Highlights of Q3FY11 results and our interaction with the management

- Sun TV has reported its Q3FY11 results. With Sun TV's realizing gains from its big blockbuster movie – *Enthiran* – in the current quarter, reported numbers are strong. Excluding the gains from the movie, operational numbers have come in marginally below estimates.
- In Q3FY11, Sun TV has reported a revenue growth of 51.3% at Rs5.98bn (estimates of Rs5.98bn), EBITDA growth of 61% at Rs5.02bn (estimates of Rs4.84bn) and PAT growth of 48% at Rs2.25bn (estimates of Rs2.01bn).
- With regards the core broadcasting business (excluding the movie business), Sun TV has reported a revenue growth of 24% at Rs4.47bn during the quarter.
- During the quarter, Sun TV has reported advertising revenues of 16% at Rs2.61bn (albeit on a high base as Q3FY11 reported a 44% growth in advertising). For 9mFY11, Sun TV has registered a 26% growth in advertising revenues at Rs7.13bn.
- During the quarter, domestic DTH subscription revenues remained flat QoQ at Rs700m (59% growth yoy) as Sun TV is in the process of re-negotiating their contracts with DTH operators. Reach of Sun TV has increased from 6.55m subscribers in Q2FY11 to 7.55m subscribers in Q3FY11. However, ARPUs have dropped from Rs35/month in Q3FY10 to Rs31/month in Q3FY11 (similar drop in ARPUs was seen for ZEEL in the current quarter). The management has indicated that with new contracts now signed, growth in DTH revenues will be revived from Q4FY11 onwards.
- With respect to international pay and licensing revenues, Sun TV has seen a strong improvement recording a 25% QoQ increase at Rs200m. However, domestic pay revenues witnessed a 2% decline QoQ at Rs530m (36% growth yoy).
- During the quarter, Sun TV released its big budget movie – *Enthiran*. The cost of production for the movie stood at Rs1.32bn and Sun TV has earned total revenues of Rs1.79bn for the movie (including sale of satellite rights).
- Of the total revenues of Rs1.79bn for the movie, Sun TV had booked Rs130m in Q2FY11 and has booked Rs1.51bn in the current quarter. The remaining Rs150m which is towards satellite rights for Telugu and Tamil telecast will be booked as and when the movie is aired on television.

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- With respect to the amortization of the movie cost of Rs1.32bn, Rs100m was booked in Q2FY10 and Rs1.07bn has been booked in the current quarter. While no other operational expenses have been booked on account of the movie, it is important to note that employee cost during the quarter have been higher as directors' fee is directly linked with the aggregate profits generated by Sun TV.
- Sun TV is releasing one small budget movie in Q4FY11. Further, during the quarter, broadcast revenues have grown by 20% at Rs420m.
- EBIT during the quarter stood at Rs3.4bn – up 45% yoy from Rs2.32bn in Q3FY10, aided by the strong performance of the movie business.
- Cash on books of Sun TV currently stands at Rs7.2bn.
- While the core operational performance for Sun TV during the quarter has been below expectations, strong performance from *Enthiran* has negated the impact on the reported numbers. Our EPS estimates for FY11 remain unchanged. However, given the lower than expected ad growth during the quarter as also near term margin pressure for FMCG players (biggest spenders for Sun TV), we have downgraded our EPS estimates by 5% for FY12.

We continue to draw comfort in Sun TV's dominance in South India and limited risk of competition (unlike the Hindi GEC space) thereby ensuring its ability to garner the largest pie of the regional ad market as also sustain margins. While the 26% growth in advertising revenues for 9mFY11 indicates strong performance by Sun TV, our sense is that from hereon Sun TV would start to register a more stable state ad growth of <20% going forward (as seen over the last two quarters). Incrementally, Sun TV continues to piggyride the strong distribution revenue curve. With a reach of 7.55m DTH subscribers and strengthening international pay revenue stream (up 43% yoy in this quarter), Sun TV has locked in an assured annuity. Against this backdrop, we expect Sun TV to garner a 22% CAGR in revenues over FY10-12. Further, with broadcasting margins remaining firm and radio business turning profitable, earnings growth is poised to be sharper (27% CAGR over FY10-12E). While investments in the movie business remain to be the key monitorable, Sun TV has shown the ability to monetize the business (36% return earned on *Enthiran*) and de-risk the core operations. Maintain Outperformer with a price target of Rs550.

Quarterly results

(Rs m)	Q3FY10	Q4FY10	FY10	Q1FY11	Q2FY11	Q3FY11	FY11E	FY12E
Net Sales	3,951	3,919	14,528	4,404	4,248	5,979	19,945	21,554
<i>yoy change (%)</i>	46	42	40	53	33	51	37	8
Expenses	826	610	5,758	806	925	962	8,489	8,123
EBITDA	3,125	3,309	8,770	3,599	3,323	5,017	11,457	13,431
<i>OPM (%)</i>	79.1	84.4	60.4	81.7	78.2	83.9	57.4	62.3
Other Income	84	85	350	113	93	91	425	468
Interest	2	2	49	1	3	1	10	-
Depreciation	885	848	1,075	1,147	908	1,740	1,140	1,242
PBT	2,322	2,543	7,995	2,563	2,505	3,366	10,731	12,657
Tax	803	892	2,990	853	830	1,112	3,665	4,410
PAT	1,519	1,652	5,005	1,709	1,674	2,254	7,067	8,247
Minority Interest			(190)				(112)	(94)
PAT post minority interest	1,519	1,652	5,195	1,709	1,674	2,254	7,179	8,341

Annual numbers are for consolidated entity

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2. Neutral: Within 0-5% to Index (upside or downside)
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