

Sun TV Network

BUY
Maintained
Rs333

Competition shown the door

Reason for report: Q2FY10 results review and earnings revision

Sun TV Network's Q2FY10 results were better than expectations, with revenues increasing 35% YoY to Rs3,204mn and PAT rising 20.5% YoY to Rs1,306mn. Sun's strong performance in the past five quarters and ad growth of 37% YoY in Q2FY10 indicate no impact of slowdown. The regional advertising players – Sun, Zee News (ZNL) and Jagran Prakashan – have weathered the slowdown well, corroborating our 'Regional play' investment theme. Also, Sun reported Rs400mn in DTH revenues, up 9.6% QoQ, driven by rising digitalisation. The recent conversion of ZNL's Zee *Tamizh*, launched as a Tamil GEC, into a predominantly news channel further reiterates the dominance of Sun's channels and the strength of the Group's distribution network. Factoring in better ad revenue growth, we raise FY10E & FY11E estimates 3.5% & 6% respectively. Further, Astro Malaysia, recently paid Rs790.48mn to acquire 13.02% in South Asia FM (SAFM), Sun's radio subsidiary. We raise target price to Rs345/share (earlier Rs298/share) based on 25x FY11E EPS. Maintain BUY.

- **Ad revenue growth of 37% YoY** was significantly better than our expectations of 10% YoY. Subscription revenues grew 62% YoY to Rs760mn, with DTH contributed Rs400mn (~Rs365mn in Q1FY10). Consistent ramping up of Sun's channel offering with the addition of Kids and Comedy genre channels in the South Indian markets has enabled the company to record above-industry growth and further strengthen its market dominance.
- **PAT better than expected.** EBIT margin declined slightly QoQ to 58.2% from 58.6% on account of higher depreciation and amortisation. PAT grew 20.5% YoY and 9% QoQ to Rs1,306mn, better than our estimate of Rs1,235mn.
- **Earnings upgrade.** We raise FY10E and FY11E estimates 3.5% & 6% respectively accounting for better ad revenue growth. We are factoring in 23% YoY and 19% YoY consolidated ad revenue growth in FY10E & FY11E respectively. We now expect FY10E & FY11E EPS to be Rs11.7 & Rs13.8 respectively.
- **Maintain BUY** with revised target price of Rs345/share from Rs298/share based on 25x FY11E EPS. Sun continues to enjoy a robust business model owing to its regional focus and Pay TV revenue ramp-up through DTH.

Market Cap	Rs128.3bn/US\$2.8bn	Year to Mar	2008	2009	2010E	2011E
Reuters/Bloomberg	SUTV.BO/SUN IN	Revenue (Rs mn)	8,699	10,394	13,098	15,344
Shares Outstanding (mn)	394.1	Rec. Net Income (Rs mn)	3,267	3,683	4,597	5,441
52-week Range (Rs)	373/122	EPS (Rs)	8.3	9.3	11.7	13.8
Free Float (%)	23.0	% Chg YoY	32.2	12.7	24.8	18.3
FII (%)	8.5	P/E (x)	40.2	35.6	28.5	24.1
Daily Volume (US\$/'000)	2,185	CEPS (Rs)	11.4	14.9	19.4	22.6
Absolute Return 3m (%)	27.1	EV/E (x)	21.5	17.4	13.3	11.2
Absolute Return 12m (%)	146.5	Dividend Yield (%)	0.8	0.8	1.2	1.6
Sensex Return 3m (%)	7.3	RoCE (%)	22.5	20.4	23.6	25.1
Sensex Return 12m (%)	80.0	RoE (%)	23.6	21.6	24.2	25.2

Media

Target Price Rs345

Earnings revision

(%)	FY10E	FY11E
Sales	↑ 0.9	↑ 2.4
EBITDA	↑ 2.5	↑ 4.3
EPS	↑ 3.5	↑ 6.0

Target price revision

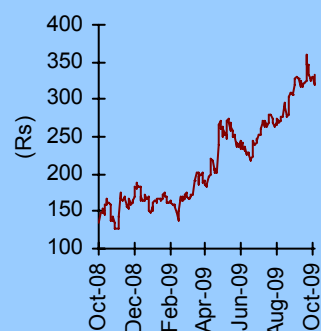
Rs345 from Rs298

Shareholding pattern

	Mar-09	Jun-09	Sep-09
Promoters	77.0	77.0	77.0
Institutional investors	11.6	10.6	12.2
MFs and UTI	2.5	2.1	3.7
Insurance Cos.	0.1	0.1	0.1
FII	9.0	8.4	8.5
Others	11.4	12.4	10.8

Source: NSE

Price chart



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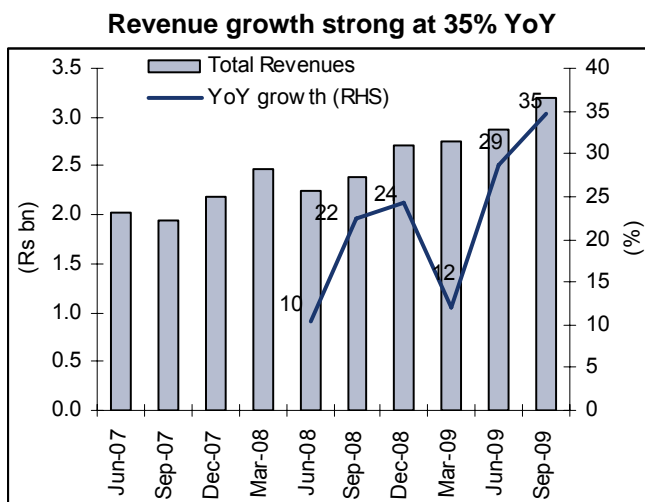
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Revenues grew 35% YoY driven by ad revenue growth

Standalone revenues grew 35% YoY and 11% QoQ to Rs3,204mn (I-Sec: Rs3,016mn). Ad revenue growth of 37% YoY was significantly better than our expectations of 10% YoY.

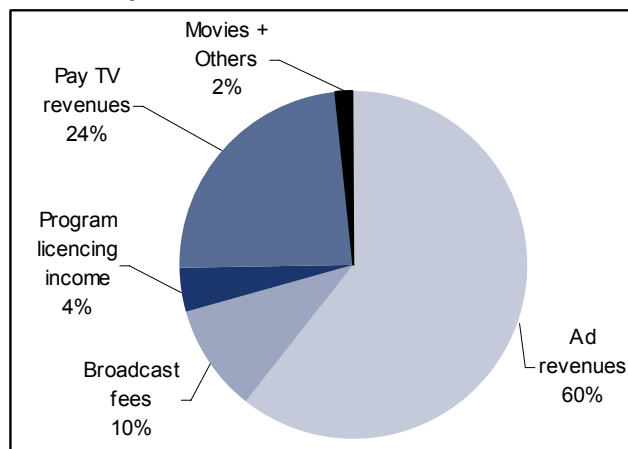
Subscription revenues grew 62% YoY to Rs760mn, with DTH contributing Rs400mn (~Rs365mn in Q1FY10). The management has guided for Rs1.5-1.6bn DTH revenues in FY10. Sun Motion Pictures, Sun's movie production & distribution subsidiary, generated ~Rs30mn revenues, down sequentially from Rs220mn in Q1FY10.

Chart 1: Revenue growth driven by 37% YoY ad revenue growth



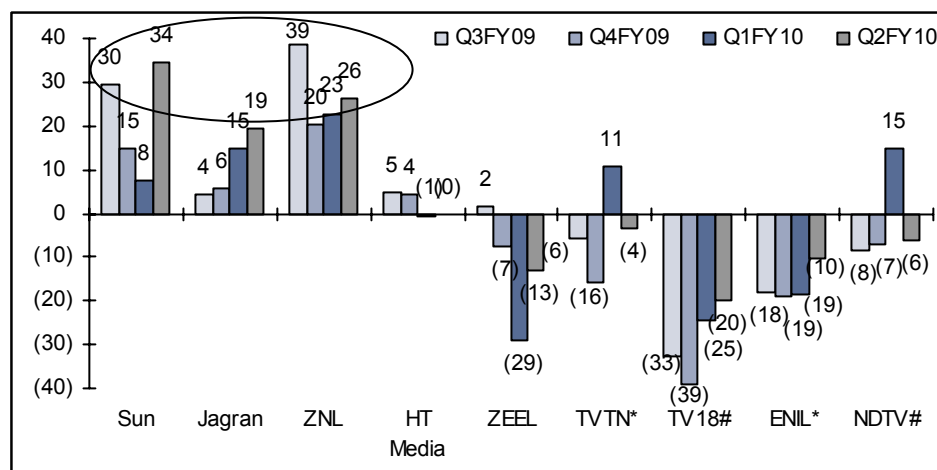
Source: Company data, I-Sec Research

Subscription revenues form ~24% of revenues



Source: Company data, I-Sec Research

Chart 2: Sun, Jagran and ZNL lead industry in ad revenue growth



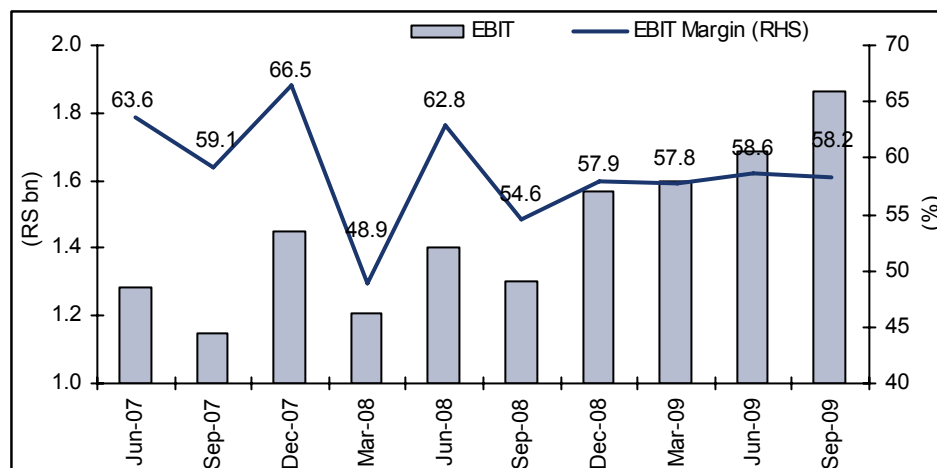
Note: ZEEL – Zee Entertainment Enterprises, TVTN – TV Today Network, ENIL – Entertainment Network India. * Total revenues considered; # Revenues of news operations considered

Source: Company data, I-Sec Research

EBIT grew 10.6% QoQ; PAT better than expected

EBIT margin declined slightly QoQ to 58.2% from 58.6% on account of higher depreciation and amortisation. D&A rose 3.8% QoQ to Rs571mn, which comprised Rs160mn from depreciation and Rs410mn from amortisation. PAT grew 20.5% YoY and 9% QoQ to Rs1,306mn, better than our estimates of Rs1,235mn.

Chart 3: EBIT grew 10.6% QoQ; margins almost flat QoQ



Source: Company data, I-Sec Research

Table 1: Q2FY10 results review (standalone)

(Rs mn, year ending March 31)

	I-Sec estimates	Q2FY10	Q2FY09	% chg (YoY)	% chg (QoQ)	YTD FY10*	YTD FY09*	% chg YoY
Total revenues	3,016	3,204	2,379	34.7	11.4	6,080	4,615	31.8
Expenditure	679	768	616	24.8	20.0	1,409	1,168	20.6
Cost of revenues	208	208	219	(4.8)	(0.0)	417	416	0.0
Employee costs	302	319	256	24.6	2.7	630	501	25.7
Other expenditure	169	241	141	71.3	98.4	363	251	44.5
EBITDA	2,337	2,436	1,763	38.1	8.9	4,672	3,446	35.6
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Other income	157	115	372	(69.1)	(19.4)	257	535	(52.0)
Depreciation	577	571	464	23.1	3.8	1,121	742	51.1
Finance Expenses	7	2	21	(91.3)	(71.4)	8	21	(61.4)
PBT	1,909	1,978	1,650	19.8	8.5	3,800	3,219	18.1
Less: Provision for Tax	657	672	567	18.5	7.6	1,296	1,110	16.8
Adjusted PAT	1,253	1,306	1,083	20.5	9.0	2,504	2,109	18.7
Operating margin (%)	77.5	76.0	74.1			76.8	74.7	
Gross margin (%)	93.1	93.5	90.8			93.2	91.0	
Staff cost to revenues (%)	10.0	10.0	10.8			10.4	10.9	
Effective tax rate (%)	34.4	34.0	34.4			34.1	34.5	
NPM (%)	41.5	40.8	45.5			41.2	45.7	

*April- September

Source: Company data, I-Sec Research

Earnings revision

We have factored in higher YoY ad revenue growth of 23% and 19% for FY10E & FY11E respectively. We raise FY10E & FY11E estimates 3.5% and 6% respectively and now expect EPS to be Rs11.7 & Rs13.8 respectively.

Table 2: Earnings revision (consolidated)

(Rs mn)

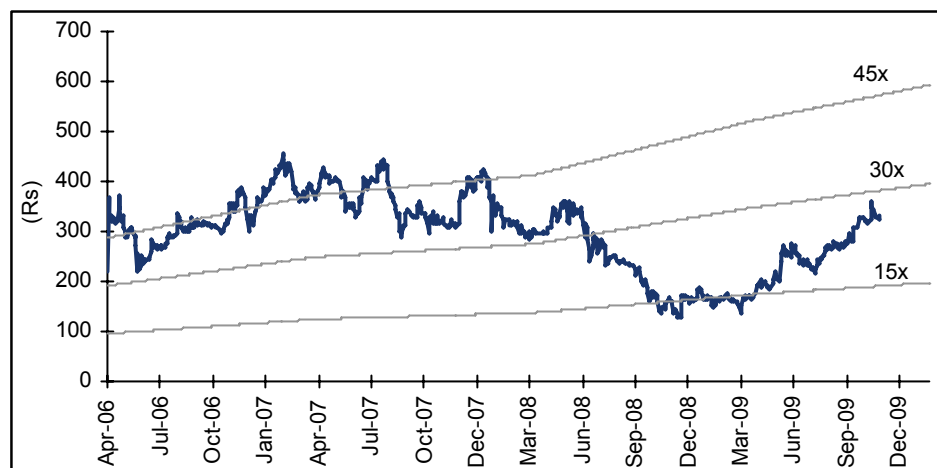
	FY10E			FY11E		
	Revised	Old	% chg	Revised	Old	% chg
Sales	13,098	12,982	0.9	15,344	14,980	2.4
EBITDA	9,618	9,387	2.5	11,406	10,940	4.3
PAT	4,597	4,442	3.5	5,441	5,132	6.0

Source: Company data, I-Sec Research

Maintain BUY

We maintain BUY on Sun with revised target price of Rs345/share from Rs298/share based on 25x FY11E EPS. The regional advertising players – Sun, ZNL and Jagran Prakashan – have weathered the slowdown well, corroborating our 'Regional play' investment theme. Further, Sun stands to gain from the rising digitalisation wave as DTH revenues witness robust growth. The recent conversion of ZNL's *Zee Tamizh*, launched as a Tamil GEC, into a predominantly news channel further reiterates the dominance of Sun's channels and the strength of the Group's distribution network.

Chart 4: P/E bands



Source: Company data, I-Sec Research

Financial Summary

Table 3: Profit and Loss statement
(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Operating Income (Sales)	8,699	10,394	13,098	15,344
of which Advertising Income	4,755	6,057	7,456	8,848
of which Pay Channels Income	2,293	2,151	3,290	3,968
of which Broadcast fee	1,256	1,304	1,375	1,457
Operating Expenses	2,724	3,026	3,480	3,938
EBITDA	5,975	7,368	9,618	11,406
% margins	0.69	0.71	0.73	0.74
Depreciation & Amortisation	1,239	2,205	3,042	3,465
Gross Interest	159	138	153	155
Other Income	556	668	689	623
Recurring PBT	5,133	5,693	7,113	8,410
Add: Extraordinaries	-	-	-	-
Less: Taxes	2,015	2,293	2,652	3,052
- Current tax	1,908	2,034	2,356	2,711
- Deferred tax	67	250	289	333
- Others	39	9	7	8
Less: Minority Interest	(148)	(283)	(136)	(83)
Net Income (Reported)	3,267	3,683	4,597	5,441
Recurring Net Income	3,267	3,683	4,597	5,441

Source: Company data, I-Sec Research

Table 4: Balance sheet
(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Assets				
Total Current Assets	8,755	8,964	9,946	11,853
of which cash & cash eqv.	4,297	3,654	2,011	2,558
Total Current Liabilities & Provisions	2,516	2,343	4,683	5,308
Net Current Assets	6,239	6,622	5,262	6,545
Investments				
of which	1,803	1,805	2,305	2,305
Strategic/Group	1,803	1,804	2,304	2,304
Other Marketable	1	1	1	1
Net Fixed Assets	7,668	9,718	12,500	14,129
of which				
Capital Work-in-Progress	2,218	1,572	1,572	1,572
Total Assets	15,796	18,378	20,300	23,212
Liabilities				
Borrowings	695	716	-	-
Deferred Tax Liability	11	261	261	261
Minority Interest	604	385	248	166
Equity Share Capital	1,970	1,970	1,970	1,970
Face Value per share (Rs)	5	5	5	5
Reserves & Surplus*	12,515	15,046	17,821	20,815
Net Worth	14,486	17,016	19,791	22,785
Total Liabilities	15,796	18,378	20,300	23,212

Source: Company data, I-Sec Research

Table 7: Quarterly trend
(Rs mn, year ending March 31)

	Dec-08	Mar-09	Jun-09	Sep-09
Net sales	2,708	2,759	2,877	3,204
% growth (YoY)	22	24	12	29
EBITDA	2,013	2,257	2,236	2,436
Margin (%)	74	82	78	76
Other income	1,703	1,739	1,822	1,978
Add: Extraordinaries	-	-	-	-
Net profit	1,122	1,140	1,198	1,306

Source: Company data

Table 5: Cashflow statement
(Rs mn, year ending March 31)

	FY08	FY09	FY10E	FY11E
Operating Cashflow	4,724	4,450	7,239	8,615
Working Capital Changes	(1,216)	(327)	(283)	(735)
Capital Commitments	(5,936)	(4,084)	(6,323)	(5,094)
Free Cashflow	(2,428)	40	632	2,786
Cashflow from Investing Activities	556	668	689	623
Issue of Share Capital	985	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	(172)	21	(716)	-
Dividend paid	(1,153)	(1,153)	(1,822)	(2,447)
Extraordinary Items	-	-	-	-
Chg. in Cash & Bank balance	(2,196)	(643)	(1,643)	547

Source: Company data, I-Sec Research

Table 6: Key Ratios
(Year ending March 31)

	FY08	FY09	FY10E	FY11E
Per Share Data (Rs)				
Recurring EPS	8.3	9.3	11.7	13.8
Reported EPS	8.3	9.3	11.7	13.8
Recurring Cash EPS	11.4	14.9	19.4	22.6
Dividend per share (DPS)	2.5	2.5	3.9	5.2
Book Value per share (BV)	36.8	43.2	50.2	57.8
Growth Ratios (%)				
Operating Income	28.3	19.5	26.0	17.1
EBITDA	26.0	23.3	30.6	18.6
Recurring Net Income	26.3	9.0	31.2	20.1
Diluted Recurring EPS	32.2	12.7	24.8	18.3
Diluted Recurring CEPS	22.0	30.7	29.7	16.6
Valuation Ratios (x)				
P/E	40.2	35.6	28.5	24.1
P/CEPS	29.1	22.3	17.2	14.7
P/BV	9.1	7.7	6.6	5.8
EV / EBITDA	21.5	17.4	13.3	11.2
EV / Operating Income	24.2	22.0	17.7	15.0
EV / Operating FCF	36.6	31.1	18.4	16.3

Operating Ratio

Cost of revenues / Revenues (%)	8.8	10.7	8.9	8.6
Selling Expenses/ Sales (%)	11.0	6.6	7.0	6.6
Other Income / PBT (%)	10.8	11.7	9.7	7.4
Effective Tax Rate (%)	39.2	40.3	37.3	36.3
NWC / Total Assets (%)	12.3	16.1	16.0	17.2
Receivables (days)	97	87	77	80
Payables (days)	43	48	75	93
D/E Ratio	4.9	5.7	1.3	1.1

Return/Profitability Ratio (%)

Recurring Net Income Margins	33.7	30.7	32.4	33.6
RoCE	22.5	20.4	23.6	25.1
RoNW	23.6	21.6	24.2	25.2
Dividend Payout Ratio	30.2	26.7	33.0	37.5
Dividend Yield	0.8	0.8	1.2	1.6
EBITDA Margins	68.7	70.9	73.4	74.3

Source: Company data, I-Sec Research

I-Sec investment ratings (all ratings relative to Sensex over next 12 months)

BUY: +10% outperformance; **HOLD:** -10% to +10% relative performance; **SELL:** +10% underperformance

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