

January 24, 2008

Rating	Market Performer
Price	Rs352
Target Price	Rs377
Implied Upside	7.1%
Sensex	17,594

(Prices as on January 23, 2008)

Trading Data

Market Cap. (Rs bn)	138.6
Shares o/s (m)	394.1
Free Float	4.4%
Avg. Daily Vol ('000)	251.6
Avg. Daily Value (Rs m)	100.1

Major Shareholders

Promoters	77.0%
Foreign	7.6%
Domestic Inst.	1.5%
Public & Others	13.9%

Stock Performance

(%)	1M	6M	12M
Absolute	(7.2)	(19.5)	(12.7)
Relative	1.0	(31.3)	(38.0)

Price Performance (RIC: SUTV.BO, BB: SUNTV IN)



Source: Bloomberg

- **Result in brief:** Sun's Q3FY08 results were in line with our expectations, with 12% sequential growth in revenue (not comparable YoY) to Rs2,178m. Margins positively surprised us with an expansion of 662bps QoQ to 78.5%, earnings as a result were up 28% QoQ to Rs1,023m.
- **DTH revenue starts contributing:** In Q2FY08, Sun TV resolved its stand-off with DTH service providers. The company reported 598,000 subscribers within a span of two months of operations. It charges Rs25/subscriber per month for its services. We expect the company's subscriber base to increase going forward with higher penetration of its own DTH services and the launch of Reliance and Bharti's DTH services.
- **Margins surprise:** For the quarter, the company reported an operating margin of 78.5% against our expectation of 76%; this translates into an expansion of 662bps QoQ. It was mainly due to reduction in administration costs, which contained a one-time write-off in Q2FY08. Also, we believe that the management has been able to prop-up margins of its recently amalgamated channels viz. *Udaya* and *Gemini*, which were historically operating on lower margins than that of *Sun*.
- **Outlook & valuation:** Sun TV continues to maintain its leadership position in southern India. The company has announced an increase in ad. rates w.e.f February 2008 (approximately 15-20% across all channels). Also, with increasing contribution of subscription based revenue, we expect the company to post 24% revenue and 28% earnings CAGR in FY07-09E. However, we maintain Market Performer rating on the stock, since it is trading at 33x our FY09E estimates.

Key financials (Y/e March)	FY06	FY07	FY08E	FY09E
Revenue (Rs m)	3,219	6,780	8,944	10,475
Growth (%)	10.9	110.6	31.9	17.1
EBITDA (Rs m)	2,645	5,153	7,181	8,555
PAT (Rs m)	1,302	2,469	3,669	4,250
EPS (Rs)	3.3	6.3	9.3	10.8
Growth (%)	67.0	89.6	48.6	15.8
Net DPS (Rs)	0.4	1.5	2.0	2.0

Source: Company Data; PL Research

Profitability & valuation	FY06	FY07	FY08E	FY09E
EBITDA margin (%)	82.2	76.0	80.3	81.7
RoE (%)	36.4	32.9	25.7	22.7
RoCE (%)	27.4	27.7	24.5	21.9
EV / sales (x)	14.1	9.4	14.5	12.0
EV / EBITDA (x)	18.3	13.4	19.3	15.7
PE (x)	106.5	56.1	37.8	32.6
P / BV (x)	14.1	5.8	8.4	6.7
Net dividend yield (%)	0.1	0.4	0.5	0.5

Source: Company Data; PL Research

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Highlights

Festive season buoys revenue, grows 12% sequentially

Sun TV reported 12% increase in revenue to Rs2,178m after a lacklustre H1FY08. This growth in revenue was due to increase in advertisement revenue on account of the festive season; also subscription revenue grew on the back of contribution from DTH subscriptions. In Q2FY08, Sun TV resolved its stand-off with DTH service provider Tata Sky. It also began streaming its channels on the DTH platform for two months of Q3FY08. We expect the company's subscription revenue to increase from 14% in FY06 to 26% in FY09E aided by better addressability platforms falling in place.

Proposed advertisement rate hikes

	Language	Rate hikes	Existing spot Rates (Rs./10 Sec)#
Sun TV	Tamil	10-21%	~15500
Surya TV	Malayalam	3-13%	~8000
Gemini	Telegu	15%	~15000
Udaya	Kannada	10-20%	~10000

Source: Company Data, PL Research

Card Rates as of 1st January 2007

Operating margins surprise; expand by 660bps QoQ

Improving margins on *Udaya & Gemini* (about 40% of total revenue), and reduction in administration cost led to an operating margin expansion of 662bps QoQ to 78.5% from 71.9% in Q2FY08. We expect the company to continue to post robust margin expansion on the back of improving synergies between the parent and *Udaya & Gemini*. We have factored in a blended operating margin of 75% and 77% in FY08E and FY09E respectively.

Earnings, as a result of robust operating margin expansion, grew by 28% QoQ to Rs1,023m.

Outlook & valuation

Sun TV continues to maintain its leadership position in southern India. The company has announced an increase in ad. rates w.e.f February 2008 (approximately 15-20% across all channels). Also, with increasing contribution of subscription based revenue, we expect the company to post 24% revenue and 28% in earnings CAGR in FY07-09E. However, we maintain Market Performer rating on the stock, since it is trading at 33x our FY09E estimates. Our target price for Sun TV is Rs377, translating into 35x PER of our FY09E estimates.



Q3FY08 result overview

(Rs m)

Y/e March	Q3FY08	Q3FY07	YoY gr. (%)	Q2FY08	9MFY08	9MFY07	YoY gr. (%)
Net revenue	2,178	1,140	91.0	1,945	6,146	2,979	106.3
Cost of revenue	144	64	123.1	152	427	170	150.7
Staff cost	236	126	86.8	175	636	327	94.6
Other expenditure	88	66	33.4	219	445	191	133.4
Total expenditure	468	257	82.2	546	1,508	688	119.3
Operating profit	1,710	884	93.5	1,398	4,638	2,291	102.4
<i>Operating margins (%)</i>	<i>78.5</i>	<i>77.5</i>		<i>71.9</i>	<i>75.5</i>	<i>76.9</i>	
Other income	142	110	29.2	143	434	224	93.6
Depreciation	262	90	191.9	248	753	327	130.3
Interest	25	2	1566.7	15	45	15	204.8
PBT	1,565	902	73.5	1,278	4,274	2,174	96.6
Tax	542	305	78.0	477	1,519	771	97.1
<i>Tax rate (%)</i>	<i>34.6</i>	<i>33.8</i>		<i>37.3</i>	<i>35.5</i>	<i>35.4</i>	
Adjusted PAT	1,023	598	71.2	802	2,755	1,403	96.3



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PL's Recommendation Nomenclature

BUY	: > 15% Outperformance to BSE Sensex	Outperformer (OP)	: 5 to 15% Outperformance to Sensex
Market Performer (MP)	: -5 to 5% of Sensex Movement	Underperformer (UP)	: -5 to -15% of Underperformance to Sensex
Sell	: <-15% Relative to Sensex		
Not Rated (NR)	: No specific call on the stock	Under Review (UR)	: Rating likely to change shortly

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