

Another sunny day

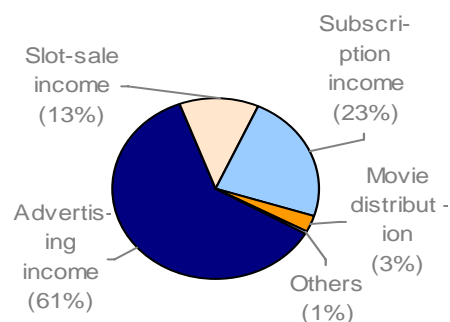
Sun TV's standalone PAT of Rs1.3bn (up 20.6% YoY and 9% QoQ) was in line with our estimate, while ad revenues beat our estimate with 32% QoQ growth. As the market leader, Sun is set to capture the increase in ad spend in the growing southern market, while its pay TV revenue stream is boosted by digitilisation. Competitive intensity is increasing in all markets except Tamil Nadu, but this has not affected Sun's leadership position. A low-cost business model and a low-risk programming strategy add to strong earnings visibility. Valuations remain attractive at a 40% discount to historic medians. We retain ADD.

Revenue growth stronger than implied by headline numbers; in-line EBIDTA hit by one-time provision: Revenues at Rs3.2bn were up 11.4% QoQ. Note that the previous quarter's revenue included Rs230m from the movie business, whose share was negligible in 2QFY10. Adjusted for this, revenue grew by 19% QoQ. EBIDTA, at Rs2.4bn (up 38% YoY and 8.9% QoQ), was in line with our estimates; it would have been higher but for a Rs50m one-time provision towards debtors. Broadcast fees remained steady as the company has taken no hike in slot sale rates for 1.5 years.

Maintaining stronghold on southern market; earnings visibility strong: Sun TV has maintained its dominant position in the southern market and is ideally poised to capture the recovery in ad spends continuing into 2HFY10. This is reflected in the 32% QoQ increase in ad revenues in 2QFY10. Subscription revenues are likely to maintain their robust growth driven by DTH—Sun TV's strong brand franchise enables it to eschew fixed-priced contracts with most of the large DTH players. The company is also likely to raise slot sale rates in 2H, which could lend further upside to earnings.

Premium justified; we retain ADD: The stock is currently trading at a PER of 20.3x on FY11ii EPS, which represents a 40% discount to its historic median. We believe valuations do not fully capture strong earnings visibility, possibility of positive surprises in advertising revenues, and robust revenue model (de-risking revenues through slot sales). We retain ADD.

Revenue mix



Source: Company, IIFL Research

Financial Summary

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Revenues (Rs m)	8,699	10,394	12,775	15,016	17,332
EBITDA Margins (%)	68.7	70.9	72.0	72.7	73.3
Pre-Exceptional PAT (Rs m)	3,267	3,683	4,958	5,949	6,864
Reported PAT (Rs m)	3,267	3,683	4,958	5,949	6,864
EPS (Rs)	8.3	9.3	12.6	15.1	17.4
Growth (%)	-53.6	12.7	34.6	20.0	15.4
PER (x)	37.0	32.8	24.4	20.3	17.6
ROE (%)	24.1	22.7	25.8	25.5	24.1
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0
EV/EBITDA (x)	19.6	16.0	12.5	10.2	8.3
Price/Book (x)	9.1	7.7	6.3	5.1	4.2

Price as at close of business on 28 October 2009

12-mth TP (Rs) 360 (8%)

Market cap (US\$ m) 2,771

52Wk High/Low (Rs) 373/122

Diluted o/s shares (m) 394

Daily volume (US\$ m) 2

Dividend yield FY10ii (%) 0.9

Free float (%) 23.0

Shareholding pattern (%)

Promoters 77.0

FII's 8.4

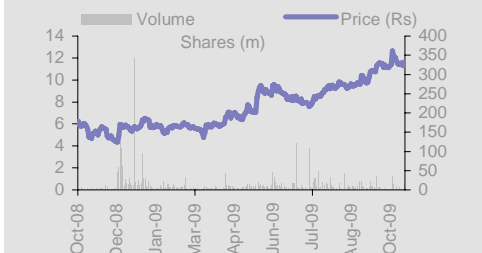
Domestic MFs 3.8

Others 10.8

Price performance (%)

	1M	3M	1Y
Sun	1.6	31.2	129.7
Rel. to Sensex	4.1	25.0	49.0
Zee	0.0	34.0	76.9

Stock movement



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Figure 1: Quarterly income statement summary

Rs m	2QFY09	1QFY10	2QFY10	YoY (%)	QoQ (%)
Net sales	2,379	2,877	3,204	34.7	11.4
Expenditure	616	640	768	24.7	20.0
Transmission & Prog cost	219	208	208	-4.9	0.0
(As% of revenues)	9	7	6	-29.4	-10.3
Employee cost	256	311	319	24.6	2.7
(As% of revenues)	11	11	10	-7.4	-7.8
Admin & other costs	141	122	241	70.9	98.4
(As% of revenues)	6	4	8	26.9	78.1
EBIDTA	1,763	2,236	2,436	38.2	8.9
(As% of revenues)	74	78	76	2.6	-2.2
Other income	172	142	115	-33.3	-19.4
Interest	21	6	2	-91.4	-71.4
Depreciation & Amortization	464	550	571	23.0	3.8
PBT before exceptionals	1,450	1,822	1,978	36.4	8.5
Exceptionals	-200	0	0	NA	NA
PBT	1,650	1,822	1,978	19.9	8.5
Current tax	567	624	672	18.5	7.6
Total tax	567	624	672	18.5	7.6
PAT	1,083	1,198	1,306	20.6	9.0
Revenue break-up					
Advertising income	1,360	1,467	1,940	42.6	32.2
Broadcast fees	390	316	316	-19.0	-0.1
Program licensing income	125	144	144	15.2	0.1
Subscription income	504	719	760	50.8	5.7
Others	0	230	44	NA	-80.9

Source: Company, IIFL Research

Sequential growth in topline driven by ad revenue growth

Tight rein on programming costs maintained

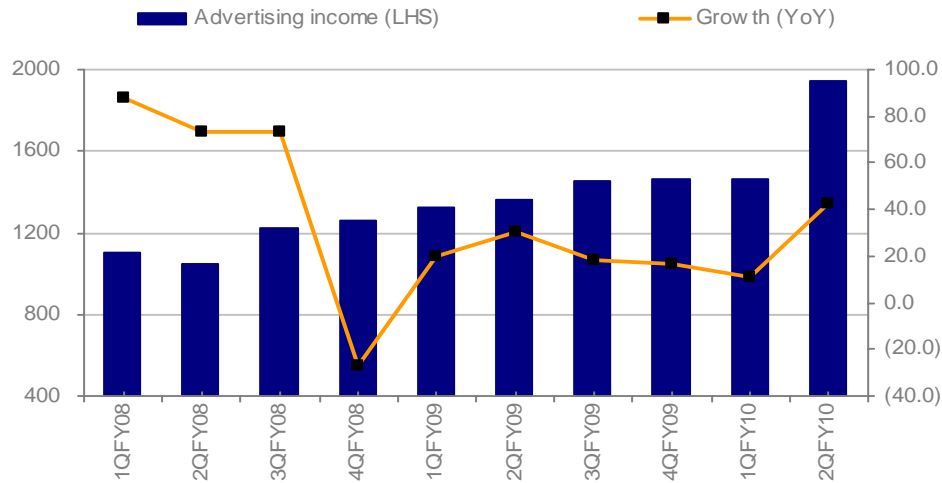
Admin costs inflated on account of one-time provision of Rs50m for debtors

Ad revenue growth stronger than guided, likely to beat full-year guidance of 15%

Broadcast fee rates have not been hiked for 1.5 years; hike likely

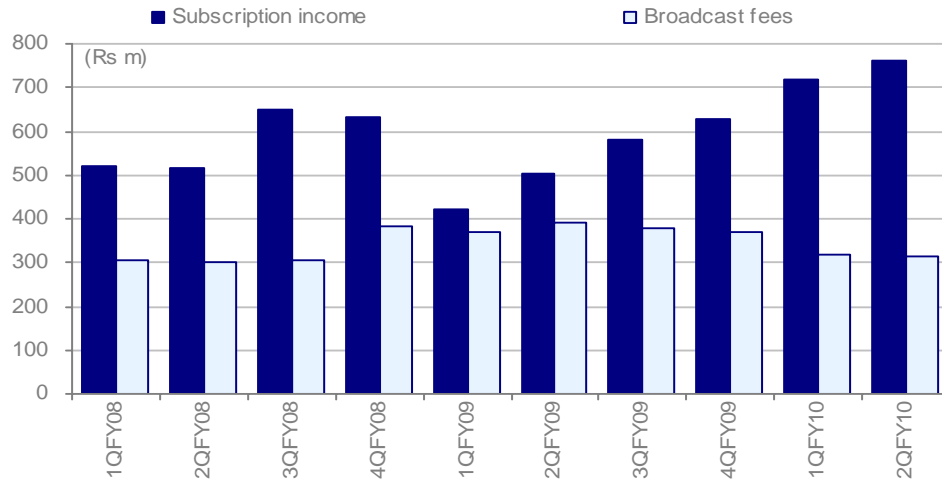
Subscription revenue growth remains steady; on track for full-year guidance of Rs3bn

Figure 2: Ad revenues staging a strong recovery



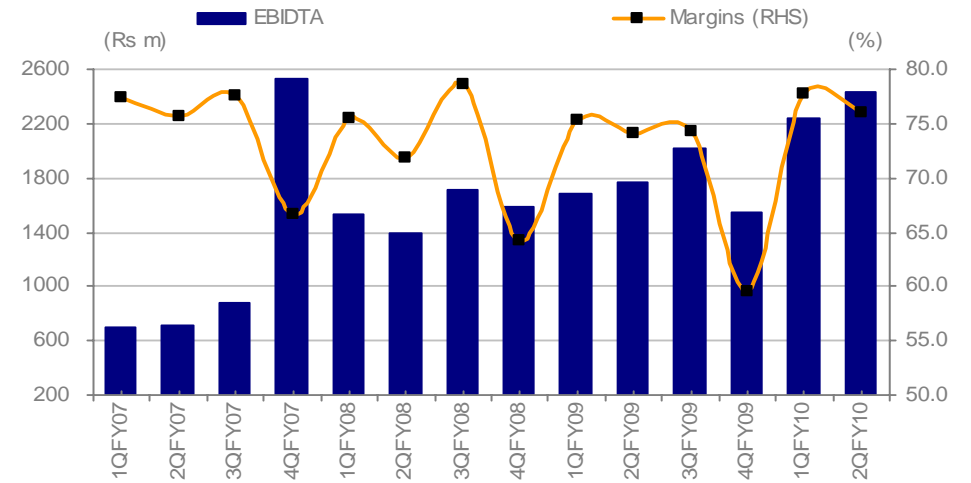
Source: Company IIFL Research

Figure 3: Subscription revenue growth robust, broadcast rates unchanged for 1.5 years; hike likely in 2HFY10



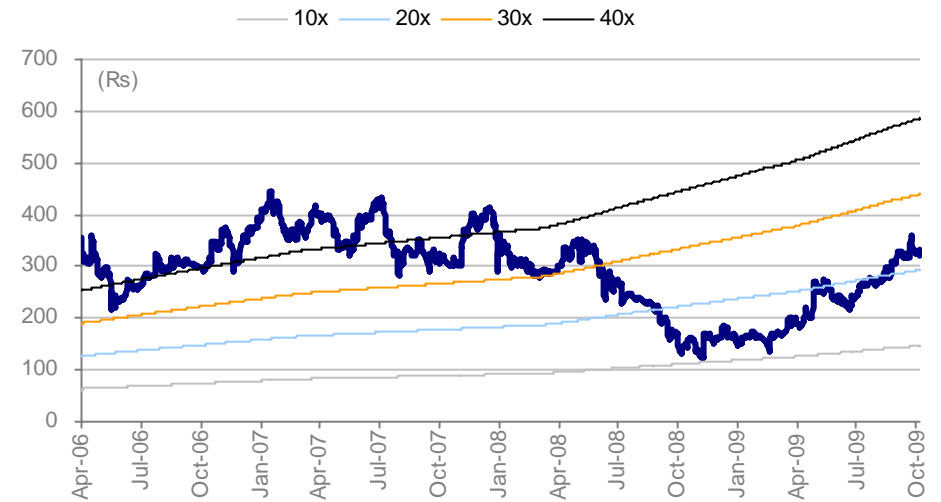
Source: Company, IIFL Research

Figure 4: EBITDA margins back to historical levels



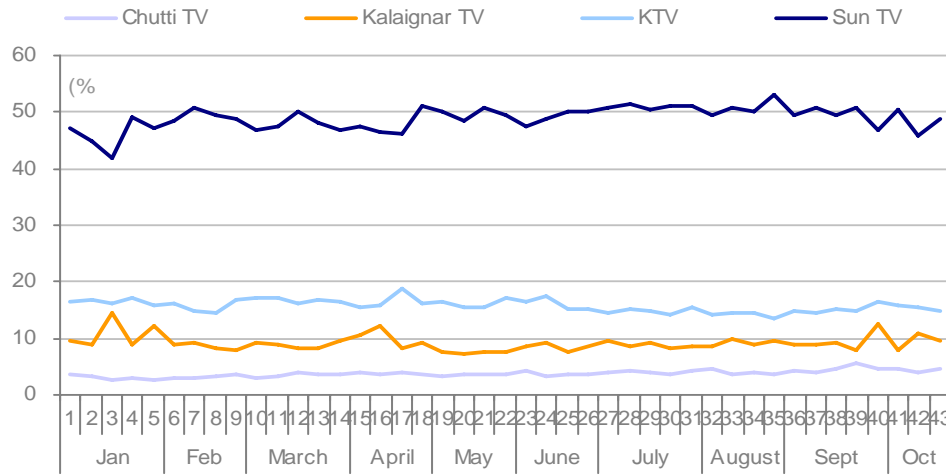
Source: Company, IIFL Research

Figure 5: One-year-forward PER bands



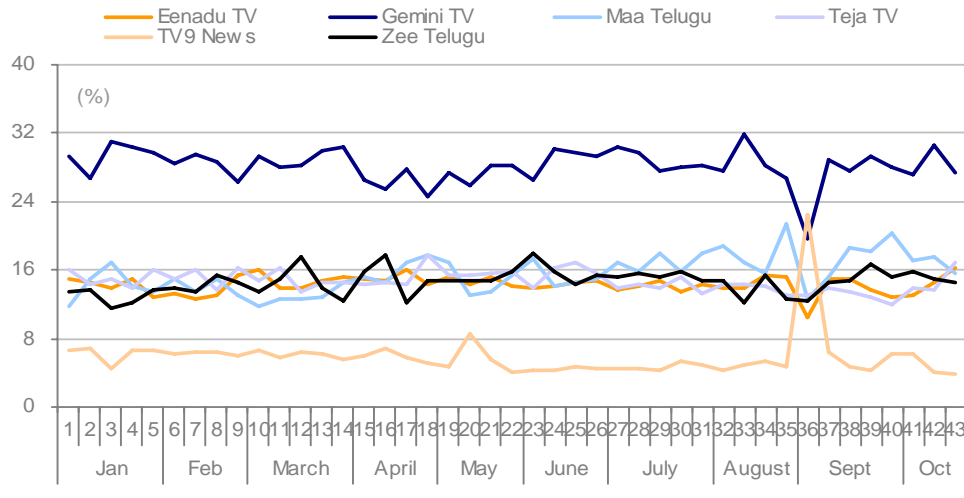
Source: Bloomberg, IIFL Research

Figure 6: Tamil market—status quo maintained (market share)



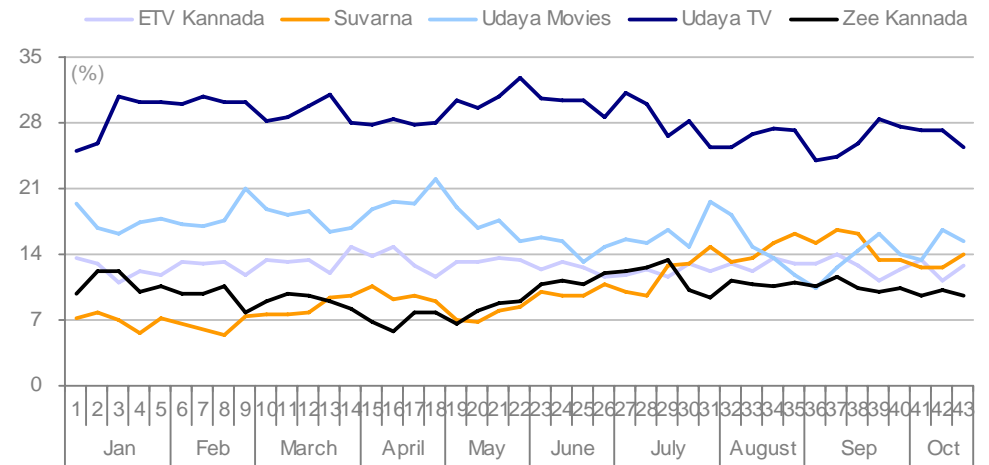
Source: TAM, IIFL Research

Figure 7: Telegu market—close competition for the second spot; Sun clear leaders through Gemini TV and Teja TV (market share)



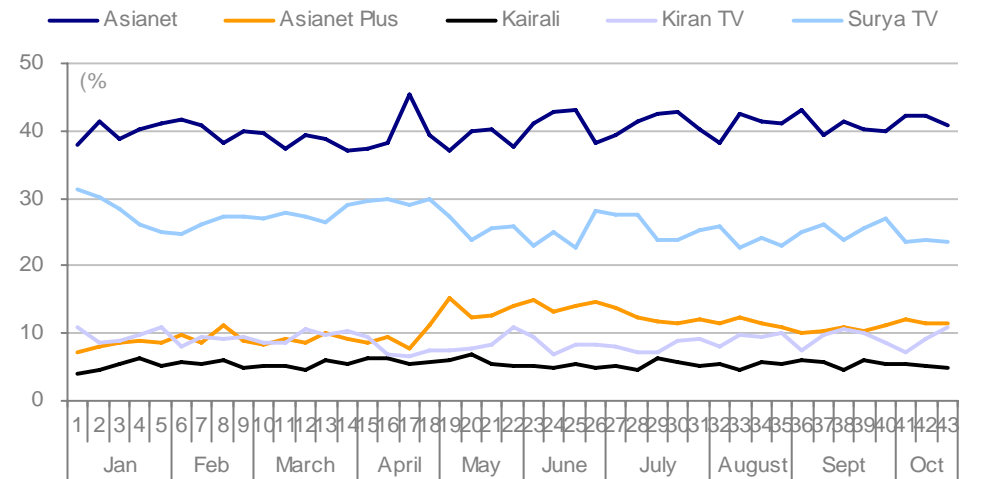
Source: TAM, IIFL Research

Figure 8: Kannada market—Sun leads through Udaya channels (market share)



Source: TAM, IIFL Research

Figure 9: Malayalam market—Surya TV's market share trending marginally downwards (market share)



Source: TAM, IIFL Research

Financial summary

Income statement summary (Rs m)

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Revenue	8,699	10,394	12,775	15,016	17,332
EBITDA	5,975	7,368	9,194	10,921	12,696
EBIT	4,736	5,163	6,737	8,004	9,330
Interest expense	-159	-138	-106	-106	-106
Others items	556	668	768	845	930
Profit before tax	5,133	5,693	7,400	8,743	10,153
Tax expense	-2,015	-2,293	-2,590	-2,885	-3,351
Net Profit	3,267	3,683	4,958	5,949	6,864

Cashflow summary (Rs m)

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Profit before tax	4,736	5,163	6,737	8,004	9,330
Depreciation & Amortization	1,239	2,205	2,457	2,917	3,367
Tax paid	-2,015	-2,293	-2,590	-2,885	-3,351
Working capital change	-515	-1,026	252	-309	-311
Other operating items	-1,241	131	-1	352	622
Operating Cash-flow	2,205	4,180	6,855	8,078	9,657
Capital expenditure	-2,744	-3,853	-3,298	-3,608	-3,908
Free cash flow	-539	327	3,557	4,470	5,748
Equity raised	1,001	-219	-137	-80	-50
Investments	-1,791	0	0	0	0
Debt financing/disposal	-172	21	-166	-50	0
Dividends paid	-1,153	-1,153	-1,200	-1,200	-1,200
Net change in Cash & cash equivalents	-2195	-494	2,716	3,879	5,322

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Cash & cash equivalents	4,297	3,654	6,359	10,227	15,537
Sundry debtors	2,532	2,449	3,010	3,539	4,084
Trade Inventories	3	1	1	1	1
Other current assets	1,923	2,860	2,489	2,689	2,889
Fixed assets	5,048	6,697	7,538	8,230	8,771
Intangible assets	2,620	3,021	3,171	2,910	2,350
Other assets	1,888	2,038	2,049	2,061	2,072
Total assets	18,311	20,720	24,618	29,656	35,705
Sundry creditors	1,349	1,874	2,217	2,536	2,870
Other current liabilities	1,167	468	568	668	768
Long-term debt/Convertibles	695	716	550	500	500
Other long-term liabilities	11	261	261	261	261
Minorities/other Equity	604	385	248	168	118
Networth	14,486	17,016	20,774	25,523	31,187
Total liabilities & equity	18,312	20,720	24,618	29,656	35,705

Ratio Analysis

Y/e 31 Mar	FY08A	FY09A	FY10ii	FY11ii	FY12ii
Sales growth (%)	28.3	19.5	22.9	17.5	15.4
Core EBITDA growth (%)	69.6	23.3	24.8	18.8	16.3
Core EBIT growth (%)	34.4	9.0	30.5	18.8	16.6
Core EBITDA margin (%)	68.7	70.9	72.0	72.7	73.3
Core EBIT margin (%)	54.4	49.7	52.7	53.3	53.8
Net profit margin (%)	37.6	35.4	38.8	39.6	39.6
Dividend payout ratio (%)	35.3	31.3	24.2	20.2	17.5
Tax rate (%)	39.2	40.3	35.0	33.0	33.0
Net Debt/Equity (%)	-24.9	-17.3	-28.0	-38.1	-48.2
Return on Equity (%)	22.6	21.6	23.9	23.3	22.0
Return on Assets (%)	19.9	18.9	21.9	21.9	21.0

Source: Company data, IIFL Research



Key to our recommendation structure

BUY - Absolute - Stock expected to give a positive return of over 20% over a 1-year horizon.

SELL - Absolute - Stock expected to fall by more than 10% over a 1-year horizon.

In addition, **Add** and **Reduce** recommendations are based on expected returns relative to a hurdle rate. Investment horizon for **Add** and **Reduce** recommendations is up to a year. We assume the current hurdle rate at 10%, this being the average return on a debt instrument available for investment.

Add - Stock expected to give a return of 0-10% over the hurdle rate, ie a positive return of 10%+.

Reduce - Stock expected to return less than the hurdle rate, ie return of less than 10%.

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