

Company Flash

26 October 2007 | 6 pages

HT Media (HTML.BO)

2Q FY08: Slowdown Continues; Sell

- Disappointing 2Q FY08** — HTML posted a subdued 2Q FY08, with both sales growth of 12.4% and net profit growth of 18.6% coming below our expectations. EBITDA margin was lower by 182bps despite a lower tax rate (35.7% vs. 23.3%).
- Growth slowdown** — Advertising growth has slowed over the past few quarters from 25%-35% levels, and slowed to 14% in 2Q — lowest in the last 8 quarters. While the high base effect seems to have set in, we are concerned with the company's advertising revenues growing below the industry's growth.
- Fixed costs taking a toll on margins** — EBITDA margin fell 182bps; though adjusted for the losses in the Mint, margins would have improved 100bps — still subdued in our view. Fixed costs continue to increase, with staff costs now at 15.1% of sales (113bps), mitigating the benefits of lower newsprint costs.
- Hindi newspaper being transferred to subsidiary** — HTML is transferring its Hindi newspapers to a subsidiary and has indicated that it is looking at making significant investments in this business. We do not rule out a potential equity dilution in the subsidiary once it is created. However, we are unable to comprehend the rationale for creating a subsidiary; HTML has significant amount of cash & equivalents on its books (about Rs2.25bn in FY07, Rs3.5bn in FY08E), which can be utilized for investing in the Hindi newspaper expansion – more transparently if Hindi business remains in the parent entity.

Sell/Low Risk	3L
Price (26 Oct 07)	Rs215.00
Target price	Rs212.00
Expected share price return	-1.4%
Expected dividend yield	0.7%
Expected total return	-0.7%
Market Cap	Rs50,359M US\$1,279M

Price Performance (RIC: HTML.BO, BB: HTML IN)



Statistical

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2006A	373	1.59	36.3	135.2	7.5	7.0	0.1
2007A	1,151	4.91	208.9	43.8	6.4	15.8	0.1
2008E	1,555	6.64	35.1	32.4	5.6	18.4	0.6
2009E	1,988	8.49	27.9	25.3	4.8	20.3	0.8
2010E	2,496	10.66	25.5	20.2	4.1	21.7	1.1

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

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HT Media Results Tables

Figure 1. HTML 2Q FY08 Profit and Loss Summary (Rupees in Millions, Percent)

	2Q07	2Q08	% Change YoY
Advertising Revenues	2,100.0	2,393.0	14.0
Circulation & Other Revenues	399.3	417.2	4.5
Total Revenues	2,499.3	2,810.2	12.4
Operating Expenses	-2,022.5	-2,325.1	15.0
EBITDA	476.8	485.1	1.7
<i>EBITDA Margin (%)</i>	<i>19.1</i>	<i>17.3</i>	<i>-182 bps</i>
Other Income	75.8	84.5	11.5
Interest	-37.9	-43.8	15.6
Depreciation	-95.9	-109.6	14.3
PBT & Exceptional Items	418.8	416.2	-0.6
Tax	-149.6	-96.8	-35.3
<i>Tax Rate (%)</i>	<i>35.7</i>	<i>23.3</i>	<i>-1246 bps</i>
Net Profit	269.2	319.4	18.6
No of shares	234.2	234.2	0.0
EPS	1.1	1.4	18.6
Key Costs	2QFY07	2QFY08	% Change YoY
Raw Materials	1,075.8	1,129.4	5.0
<i>% of Sales</i>	<i>43.0</i>	<i>40.2</i>	<i>-285 bps</i>
Employee Costs	348.2	423.3	21.6
<i>% of Sales</i>	<i>13.9</i>	<i>15.1</i>	<i>113 bps</i>
Advertising & Sales Promotion	106.3	198.2	86.5
<i>% of Sales</i>	<i>4.3</i>	<i>7.1</i>	<i>280 bps</i>
Other Expenses	492.2	574.2	16.7
<i>% of Sales</i>	<i>19.7</i>	<i>20.4</i>	<i>74 bps</i>

Source: Company Reports

HT Media

Company description

HT Media is India's second-largest and one of its oldest newspaper publishing companies. It aims to transform from a single-city newspaper to a national print major. It has a strong presence in Delhi and recently forayed into the Mumbai market. Its long-term plan includes launching or acquiring a business newspaper, entering the rapidly growing radio segment and strengthening its position in the Hindi print segment.

Investment strategy

We have a Sell/Low Risk (1L) rating on the stock on high valuations and slowing earnings growth momentum. While HT Media is well positioned to benefit from strong growth in Indian media, we believe that current valuations are expensive. In addition, HT Media is likely to see its earnings growth momentum slowing down, given the losses in its new businesses. We are also wary of the high fixed cost base of HT Media, which we believe will stifle operating leverage, once new businesses turn around. The stock now trades at almost an 80% premium to our regional print media universe. While HT Media warrants a premium owing to its relatively superior earnings profile and presence in a fast growing market, we find extent of the premium unjustified.

Valuation

Our target price of Rs212 is based on 25x FY09E P/E. We benchmark our valuations against global print companies and believe that HTML can trade at a 40%-50% premium to its global peer group average given its relatively strong earnings growth profile. In addition, global newspaper stocks trade at a premium to the broader market valuations given secular earnings growth potential, strong cash flow generation and high capital efficiencies relative to the market. We expect HTML to trade at a premium to Sensex valuations, and also benchmark our valuation against Sensex valuations, attributing a 25-30% premium to HT Media.

Risks

We rate HT Media Low Risk based on our quantitative risk-rating system because of steady earnings growth and visibility of earnings. Upside to our price target could emerge from earlier than expected breakeven of new ventures like the business newspaper, increase in market share in key markets like Delhi and Mumbai and decline in paper prices. Key downside risks to our price target could emanate from the entry of new players. If HT Media fails to garner market share in Mumbai, it would be perceived negatively and would hurt profits. A slowdown in GDP growth or economic activity could result in slowdown of overall advertising market growth, adversely impacting HTML's profits.

Appendix A-1

Analyst Certification

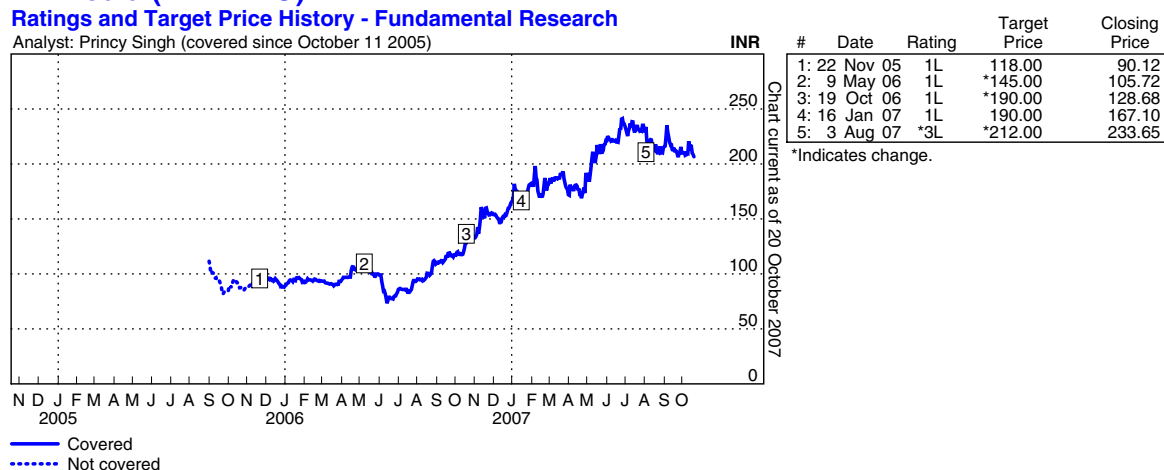
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HT Media (HTML.BO)

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Analyst: Princy Singh (covered since October 11 2005)



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