

**Sun TV Network Limited****Rs 508****Continue to Shine bright****HOLD**

Sun TV Network Ltd. (Sun) is a diverse media and entertainment company managing regional broadcasting, Radio and Film production business. The company through a portfolio of 20 satellite channels in four languages Tamil, Telugu, Kannada and Malayalam mainly caters Southern regional markets. It is the leading broadcaster as per TVR ratings and is known for its integrated and unique business model. In Radio category it is currently operating 43 radio stations across India. Sun TV reported a robust top-line growth of 53.1% y-o-y and 12.4% q-o-q to Rs440 crore on account of movie business, absorption of average advertising rate hike of ~13% with a lower base in Q4FY10 and growth in DTH ARPU from Rs26 to Rs36.

**Triple digit growth in movie business** – Double digit growth in net sales on account of a) movie segment (contributes ~10% to top-line) clocked revenue of Rs48 crore translating a growth of 118% y-o-y and 439.2% q-o-q on the back of 2 films released, named as “Sura” and “Signam”, b) increase in DTH revenue by 85% y-o-y on account of improvement in ARPU and subscriber addition of 1.4 million, and c) advertising rate hike and lower base led advertising space to increase by Rs74 crore to Rs222 crore. We were surprised seeing the analogue segment registering a sequential growth of ~10.8% to Rs51 crore as for several quarters it was reflecting sub-duded growth.

**Impressive margin performance:** Operating margin improved from 77.7% to 81.7% on y-o-y basis mainly on account of robust top-line growth combined with higher realization from the segments like advertising and DTH. Net margins growth could not catch the proportional pace of growth in operating margin on account of higher non-cash expenditure to the tune of ~Rs115 crore. Non-cash expenditure was higher on account of amortization of Rs42 crore towards movies released. However, operating margin dropped sequentially on account of significant increase in employee cost. Employees cost increase is attributable to director’s remuneration (10% of profit) which was lower in FY10. (Kept at same level as in FY09).

**Our View** – We believe the company to register higher growth in advertising space than its guidance of ~18% backed by higher expenditure from sectors like FMCG (~60-70%), Retail, Auto and BFSI. The segments like analogue and movie have shown a healthy outlook on the back of positive growth registered in Q1FY11. Robust advertising growth, improving analogue revenue, growing DTH penetration and big ticket size movie “Endhiran” coming in Q2FY11 provides SUN TV as a better bet in broadcasting space. Thus, with raising our previous estimates on the back of a) Robust growth registered in movie business in Q1FY11, b) Surprising ~10% q-o-q growth in pay channel and c) Kerala market turning pay from FTA. However at current levels recommend a HOLD rating on the stock with target price of Rs552.

**Key Financials****Rs Crore**

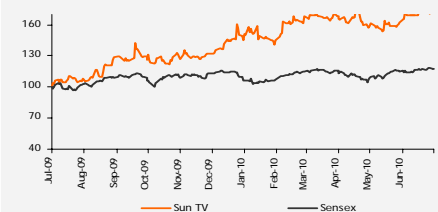
Particulars	FY09	FY10	FY11E	FY12E
Revenue	869.9	1,395.0	1,793.5	1,856.5
EBITDA	597.5	1,153.2	1,494.1	1,541.4
PAT	326.7	567.5	736.8	790.5
EPS	8.3	14.4	18.7	20.1
P/E	54.8	31.5	24.3	22.6
P/BV	9.1	9.6	7.3	5.9
EV/EBITDA	24.2	15.8	13.2	11.3
Dividend yield	0.61%	0.83%	0.96%	0.83%
ROE	22.9%	29.0%	29.1%	28.3%

**Price Target (Rs): 552**

Market Data	22 Sep, 2010
Shares outs (Rs)	39.41
Equity Cap (Rs Cr)	197.0
Mkt Cap (Rs Cr)	18,144
52 Wk H/L (Rs)	548/302
Avg Vol (1yr avg)	86,599
Face Value (Rs)	5.0
Bloomberg Code	SUNTV.IN

**Market Info:**

SENSEX	19,941
NIFTY	5,991

**Price Performance****Share Holding pattern (%)**

Particulars	30Jun	31Mar	Chg
Promoters	77.00	77.00	-
Institutions	4.29	4.58	-0.29
Foreign	8.39	8.04	0.35
Public/Others	10.32	10.38	-0.06
Total	100.0	100.0	

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