Hathway Cable & Datacom Ltd

Initial Opinion BUY

Equity | India | Cable TV
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Play on imminent digitalisation; a new Buy

Bank of America Merrill Lynch

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Buy for 40% upside potential

We initiate coverage of Hathway Cable & Datacom (Hathway) with a Buy rating and PO of Rs130. Hathway is the largest digital cable television service provider in India. We expect it to benefit from (1) increasing adoption of digital cable services, (2) implementation of regulation to digitalise the cable network in India, and (3) cross-selling of broadband services to its cable TV consumers.

Well placed to capitalize on imminent digitalisation

Given the fragmented nature of cable TV distribution and the dominance of analogue connections (70%), subscriber underreporting remains a key issue. Multi system operators (MSOs) such as Hathway get paid for only 20% of the subscriber base. With impending digitalisation, MSOs' subscription revenue share is likely to rise given ability to track subscriber numbers in a digital environment. Hathway is also well positioned to capitalize on digitalisation given strong presence in key cities such as Mumbai (40% mkt share) & Delhi (25% share).

Turnaround in financials likely

Expect revenues to double and PBIT to jump 5x over next two years driven by digital roll out in metros. Further upside to earnings likely from digital roll out in other tier 2/3 cities as well.

Risk reward favorable

While we value the stock at 6x EV/EBITDA at lower end of valuation band of 6-9x enjoyed by US peers such as Comcast during the digitalisation phase, we believe valuations could expand to 9x as clarity emerges on timelines for implementation.

Key risk is delay in digitalisation given pending approval from the Government. Assuming digitalisation to be perpetually delayed our FY13 PBIT estimate could halve and stock upside could be capped at 15%.

Stock Data

Price	Rs96.05
Price Objective	Rs130.00
Date Established	22-Mar-2011
Investment Opinion	C-1-9
Volatility Risk	HIGH
52-Week Range	Rs93.20-Rs240.00
Mrkt Val / Shares Out (mn)	US$304 / 143.0
Average Daily Volume	89,015
BofAML Ticker / Exchange	XHKYF / NSI
Bloomberg / Reuters	HATH IN / HAWY.BO
ROE (2011E)	-2.1%
Net Dbt to Eqty (Mar-2010A)	24.5%
Est. 5-Yr EPS / DPS Growth	50.0% / 40.0%
Free Float	33.0%

Estimates (Mar)

(Rs)	2009A	2010A	2011E	2012E	2013E
Net Income (Adjusted - mn)	(975)	(754)	(285)	156	570
EPS	(6.82)	(5.28)	(2.00)	1.09	3.99
EPS Change (YoY)	-50.3%	22.7%	62.2%	NM	265.6%
Dividend / Share	0	0	0	0	1.02
Free Cash Flow / Share	(29.86)	(1.81)	5.45	9.87	6.99

Valuation (Mar)

	2009A	2010A	2011E	2012E	2013E
P/E	NM	NM	NM	87.96x	24.06x
Dividend Yield	0%	0%	0%	0%	1.06%
EV / EBITDA*	20.45x	13.87x	10.33x	7.78x	5.79x
Free Cash Flow Yield*	-24.21%	-1.88%	5.67%	10.27%	7.27%

* For full definitions of *iQmethod* SM measures, see page 25.

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Refer to important disclosures on page 25 to 27. Analyst Certification on Page 23. Price Objective Basis/Risk on page 23. Link to Definitions on page 23.11031726

iQprofile SM Hathway Cable & Datacom Ltd

Key Income Statement Data (Mar)	2009A	2010A	2011E	2012E	2013E
(Rs Millions)					
Sales	6,550	7,328	8,917	9,858	12,085
Gross Profit	2,951	3,520	4,275	5,048	6,146
Sell General & Admin Expense	(1,809)	(1,855)	(2,051)	(2,215)	(2,410)
Operating Profit	(88)	126	235	690	1,179
Net Interest & Other Income	(411)	(482)	(250)	(239)	(288)
Associates	NA	NA	NA	NA	NA
Pretax Income	(499)	(357)	(15)	450	891
Tax (expense) / Benefit	(120)	(156)	(169)	(183)	(198)
Net Income (Adjusted)	(975)	(754)	(285)	156	570
Average Fully Diluted Shares Outstanding	143	143	143	143	143
Key Cash Flow Statement Data					
Net Income	(677)	(605)	(285)	156	570
Depreciation & Amortization	939	1,129	1,448	1,546	1,827
Change in Working Capital	(24)	(87)	(393)	(190)	(725)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	583	933	545	515	573
Cash Flow from Operations	822	1,370	1,315	2,027	2,245
Capital Expenditure	(4,147)	(1,628)	(536)	(617)	(1,246)
(Acquisition) / Disposal of Investments	NA	NA	NA	NA	NA
Other Cash Inflow / (Outflow)	170	(4,015)	1,500	1,000	1,000
Cash Flow from Investing	(3,978)	(5,644)	964	383	(246)
Shares Issue / (Repurchase)	2,472	4,853	0	0	0
Cost of Dividends Paid	0	0	0	0	(146)
Cash Flow from Financing	3,434	4,828	(1,446)	(424)	(616)
Free Cash Flow	(3,326)	(259)	779	1,411	999
Net Debt	5,830	3,603	1,787	(199)	(1,582)
Change in Net Debt	1,193	252	(1,833)	(1,987)	(1,383)
Key Balance Sheet Data					
Property, Plant & Equipment	9,503	9,771	9,361	9,226	9,182
Other Non-Current Assets	4,043	8,820	7,321	6,322	5,323
Trade Receivables	1,879	1,955	2,408	2,658	3,493
Cash & Equivalents	445	1,004	1,820	3,807	5,190
Other Current Assets	1,629	1,525	1,585	1,645	1,705
Total Assets	17,499	23,076	22,496	23,658	24,893
Long-Term Debt	6,275	4,607	3,607	3,607	3,607
Other Non-Current Liabilities	55	91	594	1,388	1,925
Short-Term Debt	NA	NA	NA	NA	NA
Other Current Liabilities	3,785	3,643	3,743	3,843	3,993
Total Liabilities	10,115	8,342	7,945	8,839	9,526
Total Equity	7,382	14,729	14,545	14,812	15,359
Total Equity & Liabilities	17,497	23,071	22,490	23,651	24,885
iQmethod* SM - Bus Performance					
Return On Capital Employed	0.1%	1.1%	2.0%	2.7%	5.2%
Return On Equity	-15.1%	-7.6%	-2.1%	1.2%	4.1%
Operating Margin	-1.3%	1.7%	2.6%	7.0%	9.8%
EBITDA Margin	13.0%	17.1%	18.9%	22.7%	24.9%
iQmethod* SM - Quality of Earnings					
Cash Realization Ratio	NM	NM	NM	13.0x	3.9x
Asset Replacement Ratio	5.9x	1.8x	0.4x	0.5x	0.8x
Tax Rate (Reported)	NM	NM	NM	40.6%	22.2%
Net Debt-to-Equity Ratio	79.0%	24.5%	12.3%	-1.3%	-10.3%
Interest Cover	-0.2x	0.2x	0.5x	1.6x	2.5x

Key Metrics

* For full definitions of *iQmethod* SM measures, see page 25.

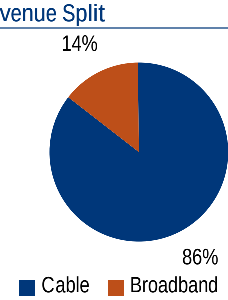
Company Description

Hathway is the largest digital cable service provider and cable broadband services provider in India. It runs cable operations across 127 cities and towns and high speed cable broadband services across 19 cities in India. It owns and operates cable networks that reach approximately eight million cable homes across India, supported by 71 analog head ends, 19 digital head ends and more than 15000 kilometers of HFC networks.

Investment Thesis

We believe Hathway is well placed to capitalise on imminent digitalisation India. Digitalisation will enable the company to capture its true share of subscription revenues, which is not possible currently given significant underreporting of subscriber data by local cable operators(LCO) given fragemented industry structure and large analogue dominance. Given its strong foot hold in markets such as Mumbai & Delhi it stands to gain the most when compared to peers from digitalisation

Chart 1: Revenue Split



Source: Company

Stock Data

Price to Book Value	1.0x

Table 1: Bull and bear case

XHKYF C-1-9 Rs130	Bull case	Bear case	BofA Merrill Lynch view
Will digitalisation be approved & implemented?	Information & Broadcasting (I&B) ministry has already agreed to most recommendations of TRAI (Regulatory Body). While TRAI recommendations require Government approval and could see delays, it is inevitable in our view.	TRAI role limited to providing recommendations. Implementation requires Government approval and could see delays. .	I&B ministry recently responded to TRAI Aug 2010 recommendation. It has agreed to most recommendations and has advised a new time frame for digitalisation. While it requires Government approval and could see some delays we believe the Industry today is in favor of digitalisation. Increasing penetration of direct to home (DTH) services reflects demand for digital services and likelihood of consumer to adopt digital cable services as well.
Previous attempts to digitalise failed. Why would it succeed now?	We believe all stakeholders keen to see digitalisation happen and industry well prepared today to implement digitalisation.	Previous attempts (Conditional Access System-CAS in 2006) failed due to – lack of cooperation from broadcasters (pricing cap), lack of preparedness by MSOs to implement digitalisation and gaps in earlier regulations by government..	Unlike previous attempt renewed effort to digitalise likely to be successful: 1) All stake holders (broadcasters/ MSOs and Government) are in favor of digitalisation. 2) Current recommendations favor pricing to be determined by competitive forces and have recommended that all channels to be transmitted in digital mode only. Previously free to air was allowed to be in analogue mode resulting in piracy of pay channels. 3) LCOs are losing customers to DTH players and hence keener to cooperate with MSOs to digitalise. 4) Availability of set top boxes not an issue today.5) Regulator involved in the process this time as compared to earlier recommendation from government directly.
LCOs unlikely to cooperate with MSOs	LCOs are losing customers to DTH players. Likely to cooperate.	Given fragmented nature of business, MSO don't have much control over LCOs. Implementing digitalisation requires the support of LCOs	LCOs are losing customers to DTH and would like to protect home turf by going digital. As per TRAI all channels will be digital and require set top box. Given high capex requirement LCOs will partner with MSOs to go digital. Role of LCOs likely to reduce to servicing and collections.

Source: BofA Merrill Lynch Global Research estimates

Play on digitalisation in India

We initiate coverage on Hathway with a Buy rating and PO of Rs130, for potential upside of 40%. It is the largest digital cable television service provider in India with 1.3mn digital subscribers and ranks third in terms of subscriber base with nearly 8.3mn subscribers.

We believe the India cable and satellite (C&S) industry is evolving with increasing adoption of direct to home -DTH and digital cable services by consumers in India. With the recent Telecom Regulatory Authority of India (TRAI) recommendation to digitalise analogue networks in India, we expect the trend to accelerate. Hathway being a leading multi system operator (MSO) stands to gain from this.

Key Investment thesis

1. Industry dynamics in C&S set to change

Fragmented C&S industry; significant underreporting of subscriber data by LCO

The India C&S industry remains fragmented with nearly 6,000 MSOs and over 60,000 local cable operators (LCOs). With nearly 115mn C&S households in India, 70% of whom have analogue connections, and the fragmented nature of distribution, subscriber underreporting by LCOs, and hence revenue, remains key issue for MSOs.

65% of subscription revenues retained by LCOs currently vs global average of 30%

While subscription revenue for the industry is estimated at US$4.6bn a year, nearly 65% of it is retained by LCOs compared to around 30% globally. As per industry estimates, MSOs like Hathway are being paid for just 20% of their subscriber base given its inability to track subscriber data in an analogue environment. Hathway has 8mn subscribers, but is being paid for only 1.8mn subscribers.

Digitalisation imminent; share of MSO revenues to increase

Revised time line to digitalised proposed by TRAI

While adoption of digital cable/DTH services is on the increase, we expect the trend to accelerate with implementation of the TRAI recommendation on digitalizing cable networks in India. Last year, TRAI, the regulatory body for the broadcasting and cable industry, recommended that all analogue cable TV services be migrated to digital addressable cable TV over the next four years, starting from March 2011. While the timeline was revised by TRAI to December 2011 to factor in Information & Broadcasting (I&B) ministry's observation, we believe digitalisation is now inevitable.

We have factored in upside in revenues from implementation of phase I-IV in our estimates, albeit with delay in time lines.

Table 2: TRAI … revised recommendation post response from I&B ministry

	Areas suggested	I&B response (28th Jan 2011)	Revised timelines recommend by TRAI (22nd Feb 2011)
Phase I	Four Metros of Delhi , Mumbai, Kolkata and Chennai	31st March 2012	31st Dec 2011
Phase II	Cities with a Population more than one million	31st March 2013	31st Dec 2012
Phase III	All Urban areas (Municipal Corp/ Municipalities)	30th November 2014	31st Dec 2013
Phase IV	Rest of India	31st March 2015	31st Dec 2013. Can be extended to 30th June 2014

Source: TRAI

More hopeful of implementation than previous attempts

While a similar initiative (the Conditional Access System) was undertaken in 2006 by I&B ministry, with some success in Chennai city, a few parts of Mumbai, Delhi and Kolkata, we believe the current recommendation addresses the shortcomings of 2006 recommendations and is likely to be a success.

Key areas where the current recommendation scores are (1) compulsory digitalisation of all channels vs. partial earlier and (2) retail pricing forbearance.

Besides TRAI is driving the entire process this time as compared to earlier recommendation/ implementation from I&B ministry.

Table 3: Digitalisation (2010) vs CAS (2006)

	TRAI recommendation (2010)	CAS (2006) from I&B
All channels to be in digital mode only	Under the revised guideline all channels are required to be transmitted in digital mode only and every consumer will require a set top box. Effectively role of LCO will be reduced to a collecting/ servicing agent.	CAS had provided for free to air channels to be transmitted in analogue mode. No Set top Box required for Free to Air. Hence LCOs were provided with both analogue and digital feeds resulting in piracy.
End user pricing	No cap on pricing though given competition with DTH pricing will be competitive. Prescribes Rs150 pm as max for base level pricing	Cap of Rs5.35 per channel. Unexciting for broadcasters. Also inability to price niche channels differently remained a concern. For eg Sports

Source: BofA Merrill Lynch Global Research

2. Hathway- well positioned in key markets

We believe Hathway is well positioned to capitalize on imminent digitalisation given its presence in nearly 127 cities with an estimated subscriber base of over 8mn. It has a strong presence in some of the larger markets such as Mumbai (40% market share) and Delhi (25% market share) which are likely to be digitalised first as per TRAI recommendations.

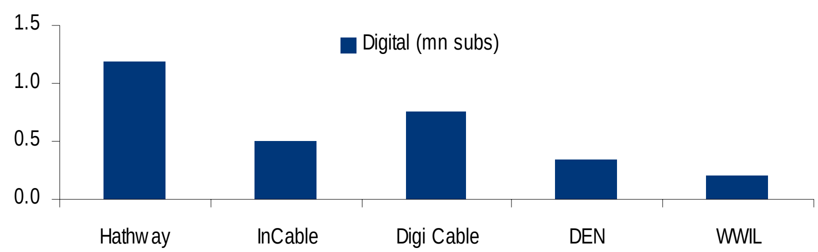
Upside from current digital base likely

Ahead of peers. Has been investing in digitalisation voluntarily

Hathway has been investing in digitalizing its network and migrating its consumers to digital cable services on a voluntary basis for the last 4-5 years. Though it has nearly 1.2mn digital subscribers, almost 50% more than peers, it is not necessarily being paid for offering digital services to these subscribers given negotiations with LCOs are largely on a fixed-sum basis versus per subscriber given significant underreporting of subscriber data.

In the likelihood of mandatory digitalisation being implemented in metros/Tier 2 cities from FY13, Hathway would be able to capture its share of subscriber fees (revenues) from LCOs for offering digital services to these consumers.

Chart 2: Digital subscriber base: Better placed than peers



Source: MPA 2010 report, BofA Merrill Lynch Global Research

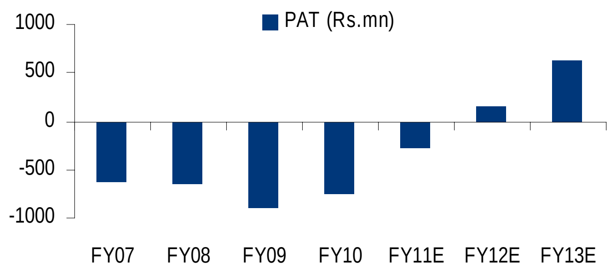
3. 2x jump in revenues, 5x jump in PBIT from Phase I

Assuming implementation of just phase I (four metros), cable subscription revenues could double and profits jump five-fold over the next two years for Hathway. Assuming Phase I implementation from 2Q FY13, a delay of six months than scheduled to be conservative, we expect EBITDA margins to expand from the current 17% to 25% by FY13 driven by migration of nearly 1.5mn subscribers to digital services in these metros.

Hathway has nearly 2.3mn subscribers (mostly analogue) in Delhi, Mumbai and Kolkata and, based on its plans to voluntarily seed digital boxes in these cities, should derive revenues from at least additional 1.5mn subscribers, in our view.

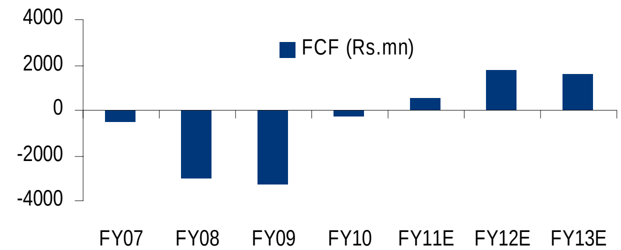
Consequently FCF is also likely to turn around in FY12, driven by improvement in profitability and a recent financing tie-up with NDS (digital set top box provider) for set-top boxes where Hathway would now be required to make the bulk of payments to NDS in the third year.

Chart 3: PAT swing likely



Source: Company, BofA Merrill Lynch Global Research

Chart 4: FCF to turn around



Source: Company, BofA Merrill Lynch Global Research

…. Further upside from Phase II/III implementation

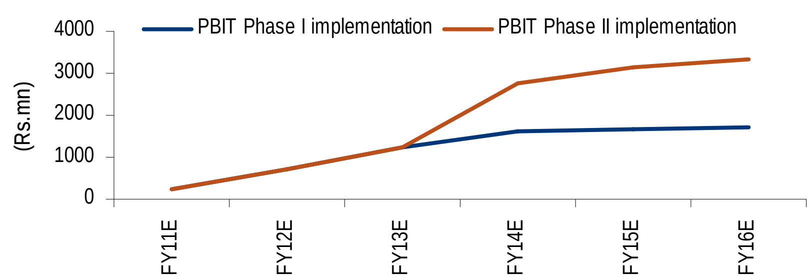
Assuming Phase II is implemented with a delay of a year (FY14), revenue trajectory is likely to improve further.

We believe Hathway has nearly 6mn subscribers residing in Phase II locations. Assuming 20% of these are contributing to revenues currently and factoring in competition from DTH providers, we expect potential to digitalise at least 2.8mn subscribers.

We see significant upside to PBIT from implementation of phase II albeit with a lag.

Sharp jump in PBIT likely from Phase II. Delays likely though

Chart 5: Potential upside from Phase II



Source: BofA Merrill Lynch Global Research

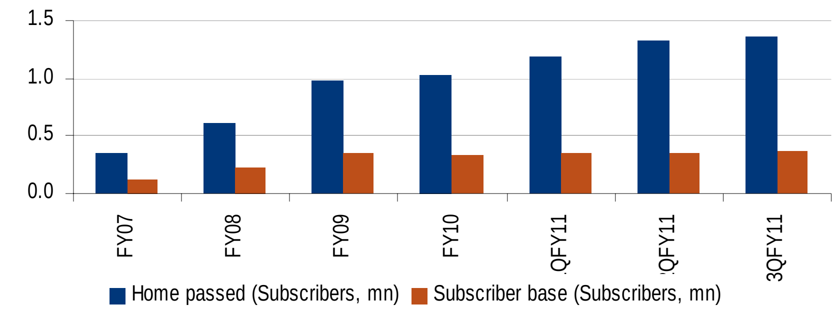
4. Cross selling of broadband services

We expect revenues from broad band (14% of revenues) to register CAGR of 22% over FY11-13E, driven by strong growth in subscriber numbers on:

1. **Significant investments in enabling two-way connection with homes** over the last 18 months and its plan to cross sell broadband services to existing cable subscribers. The number of homes passed increased from 0.9mn (FY09) to over 1.3mn as of end-3Q FY11. Homes Passed are homes that could be easily and inexpensively connected to a cable network where the feeder cable is nearby. Subscriber numbers increased modestly during this time though.

2. **Renewed focus, improved competitive positioning**. Renewed focus in this segment as reflected by recent hiring at senior levels and the launch of new attractive schemes in the market place, improving competitive positioning. While this would attract new clients, even existing customers are likely to upgrade, driving higher ARPUs for the company. So far, Hathway was offering 512Kbp plans to customers which have now been upgraded to 5mbps.

Chart 6: Significant investment in Home passes; conversions likely



Source: Company

Valuations: Risk reward favorable

40% potential upside from current levels

The stock is down 50% since listing and has underperformed the broader index sharply due to disappointment in earnings. Growth in cable subscriber numbers was disappointing and was driven by slow down in acquisition of competing networks during last 2-3 quarters.

We believe the industry is evolving and the best is yet to come. We believe valuations could mirror that of US based companies such as Comcast. In US share of digital consumers increased from ~20% in 2001 to 70% currently and during that time stocks like Comcast (provider of video, high speed Internet & phone services) traded at multiples of 6-9x and are currently trading at about 6x EV/EBITDA, one year forward.

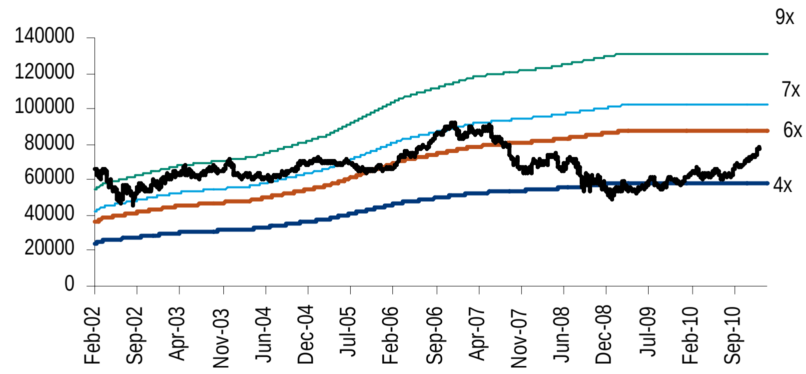
Could trade at 7-9x EV/EBITDA FY13E. Valuing at 6x at lower end of band.

Our PO of Rs130 is at a conservative 6x EV/EBITDA FY13E on par with current multiples for Comcast. We believe this is fair given

1) Likely jump in revenues and profits from digitalisation and our view that Hathway is well placed to capitalize on this opportunity.

2) Our view that digitalisation is inevitable.

Chart 7: Comcast – EV/EBITDAx



Source: BofA Merrill Lynch Global Research

Clarity on timelines could drive EV/EBITDA x to 9x vs. our assumption of 7x.

See scope for multiples to expand… 95% upside

We believe valuation multiples could expand to 9x EV/EBITDA FY13E at higher end of EV/EBITDA band, as clarity emerges on timelines for implementation of Phase II/III.

Given that only 30% of its subscriber base reside in Phase I cities, growth trajectory is likely to continue well beyond 2013. Factoring in 9x EV/EBITDA, we see upside potential of 95% from current levels in a best case scenario.

Valuations backed by DCF

For DCF purposes we have factored in upside from phase II/III implementation as well given our view that digitalisation is inevitable, albeit with a delay. Our DCF valuation is at Rs200 in a best case scenario.

Table 4: DCF Value- assuming implementation of all phases

	Rs.mn	Per Share
Value during Explicit period (FY11-18E)	8104	57
Terminal value	19706	138
Net Cash (FY11)	896	6
Equity Value	28706	201
Key assumptions		
Revenue Growth	CAGR of 12% over FY11-18E	
EBITDA Margins	Likely to expand from current 19% to 31% driven by digitalisation	
Terminal Growth rate	4.00%	
WACC	13.50%	

Source: BofA Merrill Lynch Global Research

Still see upside potential of 15% in a worst case scenario.

What if digitalisation perpetually delayed?

If digitalisation is perpetually delayed, which we believe is unlikely given strong support by stakeholders (broadcasters, DTH and MSOs) and recent comments from the I&B Ministry toward TRAI's recommendation, we see the following implications.

1. FY13 PBIT could halve.

2. Capex will reduce. We have assumed seeding of boxes to accelerate from 3Q FY12. Hathway may choose to seed boxes at gradual phase as against acceleration assumed by us in end FY12.

3. **Stock upside could be capped. Our DCF value falls to Rs110 - upside potential of 15%.**

Relative valuations: Key players likely to benefit

Expect both MSOs & DTH to benefit. Hathway well placed in our view vs peers.

We believe all players, ie, DTH and cable operators, will benefit given the industry today is impacted by structural issues, such as underreporting by local cable operators and the low level of digitalisation currently. Revenues likely to shift from LCOs to MSOs/ DTH operators and growth for MSOs would be driven by its ability to digitalise their consumer base and provide quality offerings to consumers.

While we believe both Hathway & Den will benefit. Both stock are trading at EV/EBITDA multiples of 6x FY12E. We highlight a few areas where Hathway is placed relatively better than its peers.

1. Number of digital subscribers stood at 1.3mn for Hathway compared to 0.4mn for Den as per MPA report. Hathway has been proactively seeding digital boxes much ahead of its peers.

2. We believe Hathway's footprint is much more diversified than peers and should benefit given its presence in two large markets, i.e., Mumbai and Delhi. Den has a strong presence in Delhi currently.

3. Hathway also provides broad band services to its clients. Nearly 18% of its revenues come from broadband services.

Table 5: Relative player profiles

	Hathway	DEN
Cable TV subscriber base	~8.3mn	~10mn
Digital TV subscriber base	~1.3mn	~0.5mn
Broadband Internet presence	Yes	No
Content aggregation	No	Yes
Key markets present	Delhi & NCR Uttar Pradesh Punjab Haryana Rajasthan Gujarat Maharashtra Kerala Andhra Pradesh Madhya Pradesh Chhattisgarh	Delhi & NCR Uttar Pradesh Rajasthan Gujarat Maharashtra Karnataka

Source: BofA Merrill Lynch Global Research

Table 6: Relative valuation

Hathway	FY12E	FY13E	Den Networks*	FY12E	FY13E
Revenues (including Broadband)	9858	12085	Revenues (including content aggregation)	12239	14680
Cable revenues	81%	81%	Cable Revenues	~54%	~54%
EBITDA	2236	3006	EBITDA	1975	3096
EBIT	1275	1780	EBIT	1495	2234
PAT	696	1140	PAT	592	1017
EPS	1.1	4.3	EPS	4.5	7.8
EBITDA%	23%	25%	EBITDA %	16%	21%
EBIT%	13%	15%	EBIT%	12%	15%
EV/ EBITDA	6	4	EV/EBITDA	6	4

* Consensus estimates from Bloomberg

Source: BofA Merrill Lynch Global Research; Bloomberg

Key risks

Delay in digitalisation

We believe delays in digitalisation remain a key risk for the stock. We have factored in a six-month delay to the revised timeline for implementation in metros. We note that TRAI recommendations need to be approved by the Government.

Increasing competition from competing MSOs/DTH players

Our capex assumptions could change substantially if competition between MSOs increases substantially. Currently there is truce between players and given that MSOs such as Hathway and Den have a strong subscriber base to deal with in their respective territories, it is unlikely that they will enter each others' territories in our view. DTH remains a competition. We have factored in market share loss of 20% to 40% to DTH players in our assumptions.

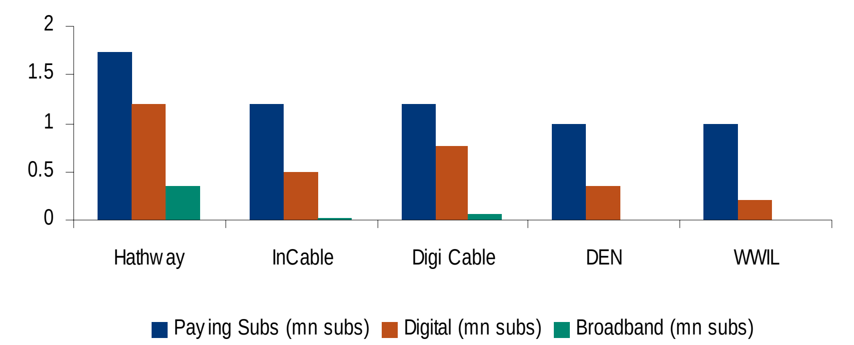
Competitive strengths and strategy

Strong foothold in India cable market

Hathway is a leading cable service provider in India with an estimated reach of nearly 8.3mn cable subscribers. As per the MPA 2010 report, it leads in terms of number of paying subscribers, compared to peers. Paying subscribers stood at 1.8mn, compared to 1.2mn for peers, such as InCable and Digi Cable.

Also, we believe Hathway's presence is well diversified with operations in key cities such as Mumbai, Delhi, Ahmedabad, Pune and Hyderabad to name a few. These are cities that have been identified by TRAI for digitalisation in Phase I (December 2011) and Phase II (December 2012).

Chart 8: Large subscriber base vs peers



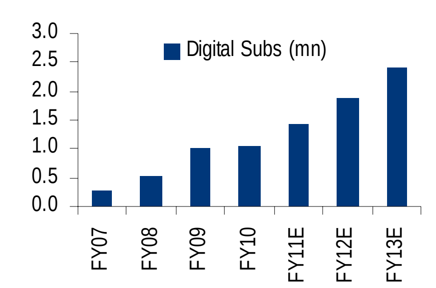
Source: MPA Report 2010

Improve penetration of digital subs

Analogue network digitalisation is a key growth driver for the industry. Given a lack of regulatory support for digitalisation, cable operators have been digitizing their network on a voluntary basis. Hathway has been at the forefront of digitalisation with an installed digital subscriber base of nearly 1.1mn subscribers, nearly double its immediate peer.

Given recent changes in the regulatory environment whereby TRAI has recommended digitalisation in phases, the company intends to seed nearly 1mn boxes over the next year. We have assumed the number of digital subscribers to double over next two years to around 2.9mn.

Chart 9: Digital subscriber base to double



Source: Company, BofA Merrill Lynch Global Research

Improve ARPUs through providing value-added services

The shift to digital will enable the company to provide value-added services such as pay per view, personal video recording, electronic program guide, games, radio channels and program alerts. While the number of channels provided itself will increase from 85 to over 176, it can also offer specialty channels to consumers.

More importantly, Hathway can now tier its customer base and package channels based on customer preferences and choice and charge higher rates for these services. In our view quality & packaging of services will be similar to DTH services. Hathway has already started charging consumers Rs20/30 p.m additional in some cities for these services.

Cross-selling broadband services

Hathway's broadband subscriber base CAGR was 39% to 0.3mn over FY07-10. However, over the last three years, it has made substantial investments in increasing its reach across the country. The home-passed subscriber base increased threefold in FY07-10 and now stands at 1mn subscribers (Chart 18).

With substantial investments increasing reach across the country, Hathway is now focused on cross-selling its broadband capabilities to its cable consumers and attracting new consumers.

While it has hired resources at senior levels from Cisco, it has also launched new schemes at attractive price points compared to peers.

Financial assumptions

Voluntary seeding of set-top boxes: Hathway currently has nearly 1.3mn digital subscribers. With digitalisation on the anvil, we believe it is likely to speed up the process ahead of the sunset date. Management has made known its intent to seed nearly 1mn boxes over the next year. We assume nearly 1.8mn boxes will be seeded over the next 6-7 quarters, and most of the boxes will be seeded free of cost.

Table 7: Digital boxes roll out

	FY11E	FY12E	FY13E
No of digital boxes being seeded (mn)	0.4	0.8	1.0

Source: BofA Merrill Lynch Global Research

Capex assumptions: We assume capital expenditure of Rs1bn for FY11 and Rs1.4 and 1.8bn for FY12 and FY13E. Depreciation for set-top boxes over seven years as per company policy.

While capex requirements are higher for FY12 and FY13, we note that cash outflow may not be so high given Hathway's agreement with set-top box vendors for financing. Accordingly, it will be required to pay only 30% of STB capex upfront with the rest due at the end of the third year. Hathway will be required to pay 7% interest on outstanding liabilities here.

Table 8: Capex assumptions

Capex Assumptions	FY11E	FY12E	FY13E
Broadband	257	242	287
Digitalisation	670	1059	1386
Others	110	115	120
Total	1037	1416	1793

Source: BofA Merrill Lynch Global Research

FY13 factors phase I implementation: TRAI has set a sunset date of December 2011 for implementation in the four metros. This is subject to approval from the Government. We assume Phase I implementation from 2Q FY13 (July–September 2012) in our assumptions, a delay of six months to TRAI's recommendation.

We believe Hathway currently has around 2.3mn subscribers in Mumbai, Delhi and Kolkata, and after factoring in CAS consumers and paying consumers, it potentially can tap in to 1.9mn subscribers. Given that Hathway plans to proactively seed set-top boxes in these households before the sunset date and assuming competition from DTH players, we believe at least 80% (1.5mn) of the households could still be tapped into.

For DCF purpose we have factored in revenues from phase II implementation as well. We believe Hathway has around 5.8mn subscribers in phase II/III locations. Assuming revenues recognized for 20% of subs currently and factoring market share loss of 40% DTH providers we see scope for additional 2.8mn subs to be tapped in to.

Cross-selling broadband services: We assume 22% revenue CAGR from broadband over FY11-13E driven by (1) growth in subscriber adds and (2) likely higher ARPU given the recent launch of high value schemes.

Financial implications from digitalisation

- **Increase in subscription revenues:** We factor in Rs1.8bn in incremental subscription revenues from implementation of Phase I in FY13. This is based on a 75% share of ARPU (Rs180p.m) for each digital subscriber added and includes the 45% due to content providers. We assume revenue share as per the CAS recommendation, ie, 30% for MSOs, 45% for content providers and 25% for LCOs.
- **Likely reduction in carriage and placement revenues:** Carriage and placement contributes nearly 50% to revenues currently. With digitalisation likely, carriage revenues are set to decline.

Table 9: Key revenue split

	FY09	FY10	FY11E	FY12E	FY13E	FY14E
Rs.mn						
Cable Revenues	3028	3000	3460	3912	6087	9045
Carriage/ placement revenues	2329	2775	3808	4044	3684	2754
Total Cable revenues	5357	5775	7268	7956	9771	11799
Broadband revenues	1055	1254	1279	1498	1910	2322
Others	138	299	370	404	404	423
Total revenues	6550	7328	8917	9858	12085	14543

Source: BofA Merrill Lynch Global Research

India C&S: Poised to grow

Analogue connections, under reporting key issues

Table 10: India C&S Snapshot

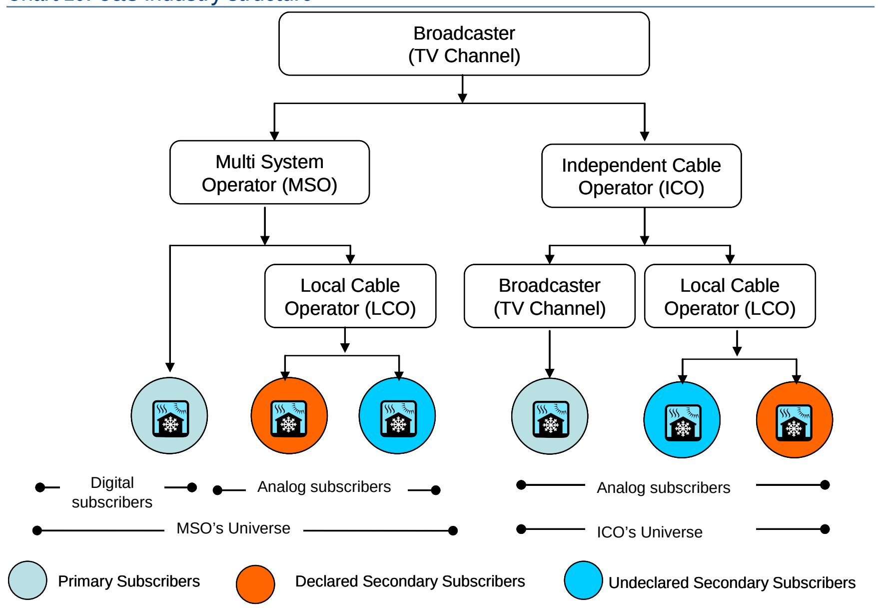
India Cable & Satellite Industry	CY10
No of TV households (mn)	142
Households with C&S connections (mn)	114
Of which cable -analogue	69%
Of which cable - digital	4%
Of which DTH	26%
No of channels telecasted	526

Source: BofA Merrill Lynch Global Research

With nearly 140mn TV households and around 114mn C&S households, the Indian C&S industry is the third largest after China and the US. The C&S industry has witnessed strong growth with the number of private satellite channels growing from less than ten in 2000 to 526 as of September 2010 and continues to grow.

However, nearly 69% of households with TV have analogue connections and given bandwidth constraints in analogue, these households have access to just 90-100 channels. Besides the industry remains very fragmented with around 6,000 MSOs and nearly 60,000 LCOs.

Chart 10: C&S industry structure



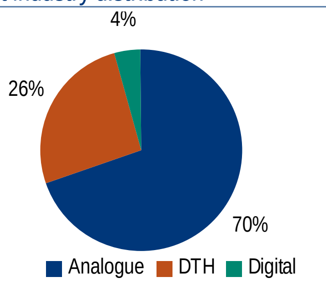
Source: BofA Merrill Lynch Global Research

While these MSOs have direct access to a few subscribers, most are secondary and are accessed through the LCO. Given the fragmented nature of the industry, we have seen emergence of large MSOs such as Hathway, Den and InCable who purchase content from various broadcasters and provide to multiple LCOs.

Given that most connections are analogue in nature and given that a large part of the subscriber base is reached through an LCO, there is limited visibility currently on the actual subscriber base at the MSO level. For example, while Hathway has an estimated reach of nearly 8mn subscribers, it is paid for only 20% of its subscriber base.

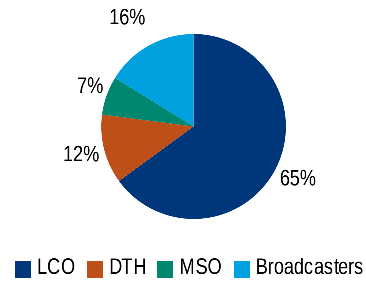
While the subscription revenue is estimated at US$4.6bn, according to industry estimates, nearly 65% of it rests with LCOs, compared to global norms of 30-35%.

Chart 11: Current Industry distribution



Source: MPA report

Chart 12: Revenue share between key players



Source: MPA report

Digitalisation a game changer

However, we believe the industry dynamics are now changing with increasing share of the digital consumer base. Given that the base requires installation of preprogrammed set-top boxes by an MSO at consumer premises, measurement of subscriber numbers becomes possible. An MSO will be able to track the number of consumers it reaches accurately and can capture its due share of revenues from LCO.

Threefold jump in digital consumer base likely

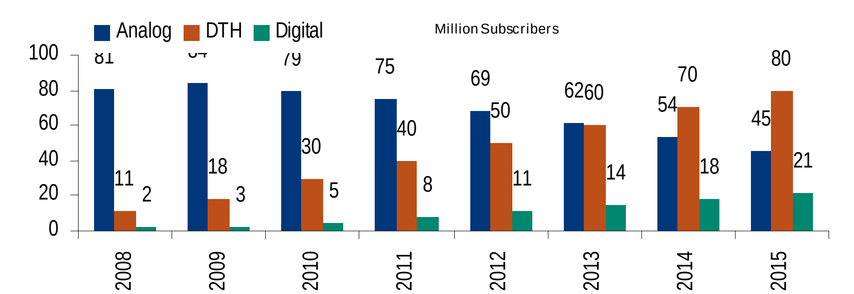
The share of digital consumers (DTH and digital cable) has increased from 5% (2007) to 30% (2010) driven by strong growth in DTH subscriber base and voluntary adoption of digital cable by analogue subscribers.

Over the next five years we expect the share of digital consumers to increase threefold to 70% driven by (1) an aggressive push by DTH players to garner market share and (2) faster adoption of digital cable services given changes in regulatory environment.

DTH penetration in India remains very robust. DTH subscribers increased from 4mn in 2007 to around 30mn (2010) and continues to grow. While LCOs hitherto were reluctant to partner with MSOs to digitalise their consumer base, loss of customers to DTH and need to invest in digitalisation to protect home turf are forcing LCOs to collaborate with MSOs to digitalise.

Consequently, underreporting by LCOs is likely to decrease substantially and MSOs revenues share is likely to increase over the next 3-4 years.

Chart 13: Growing digital base



Source: Industry, BofA Merrill Lynch Global Research

TRAI recommendation a shot in the arm for MSOs

Last year TRAI, the regulatory body for the broadcasting and cable industry, recommended that all analogue cable TV services be migrated to digital addressable cable TV over the next four years, starting March 2011.

Digitalisation inevitable but delays possible

After the response from the I&B Ministry to its August 2010 recommendation, TRAI recently revised its implementation dates for complete digitalisation. It has now recommended a sunset date of December 2011 for four the metros and December 2013 for the country. This is still ahead of I&B ministry's view of complete digitalisation by 2015.

While this still requires Government approval and could see some delays, we believe digitalisation is now a reality and is also well supported by key stakeholders, ie, broadcasters, MSOs and DTH providers.

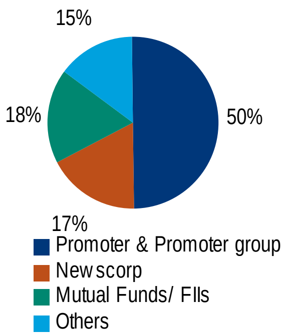
Table 11: TRAI ... revised recommendation after response from I&B ministry

	Areas suggested	I&B response (28th Jan 2011)	Revised timelines recommend by TRAI (22nd Feb 2011)
Phase I	Four Metros of Delhi , Mumbai, Kolkata and Chennai	31st March 2012	31st Dec 2011
Phase II	Cities with a Population more than one million	31st March 2013	31st Dec 2012
Phase III	All Urban areas (Municipal Corp/ Municipalities)	30th November 2014	31st Dec 2013
Phase IV	Rest of India	31st March 2015	31st Dec 2013. Can be extended to 30th June 2014

Source: TRAI, I&B ministry

Hathway :leading cable & broadband operator

Chart 14: Shareholding pattern



Source: Company

Hathway is a leading cable television and cable broadband service provider in India. **It runs cable operations across 127 cities and towns and high speed cable broadband services across 19 cities in India.** It owns and operates cable networks that reach approximately 8mn cable homes across India, supported by 71 analog head ends, 19 digital head ends and more than 15,000km of hybrid fiber co-axial (HFC) networks.

It offers cable services directly and through partnerships with independent cable operators (ICOs) and LCOs. While it reaches 8mn cable homes, given significant underreporting of subscriber data by LCOs, paying subscribers stood at around 1.8mn.

Hathway also holds a pan-India ISP license and was the first cable television service provider to offer broadband internet services in India. It currently has 0.4mn broadband subscribers. It went public in 2010, and raised Rs6.6bn through its initial public issue. Shares were priced at Rs240.

Table 12: Hathway Snapshot

Cable- mn subscribers	
Universe Cable Subscribers	8.3
Paying Cable subscribers	1.8
No of digital subscribers	1.2
Broadband- mn subscribers	
Home Passed	1.4
Broad band subscriber base	0.4

Source: Company

At end-FY10, it reported revenues of Rs7.3bn, with EBITDA margins of 17%. EBIT margins, however, stood at 2% due to high depreciation. The company is investing in digitalizing its consumer base leading to higher capex and depreciation.

Revenues CAGR was 29% over FY05-10E with EBITDA margin improving from -3% to 17% currently.

Table 13: Key milestones

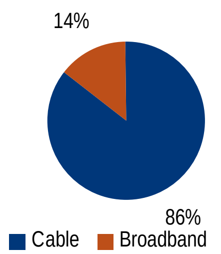
Year	
2000	Strategic partnership with NewsCorp (acquires 26% stake). Becomes first MSO to offer broadband services
2003	Launches digital cable services
2007	Monet/ Chrys capital acquires 15% stake
2008	Widens network- acquires stakes in other MSOs i.e. Marathwada Cable Network & Rajesh Multichannel Pvt Ltd. Gujarat Telelink Pvt Ltd (Gujarat) and Bhaskar Multilink (MP)
2009	MSPI, Kaup Capital & Arcadia invests in the company
2010	Floats public issue

Source: Company, Source: BofA Merrill Lynch Global Research

Cable (86% revs), broadband (14% revs)

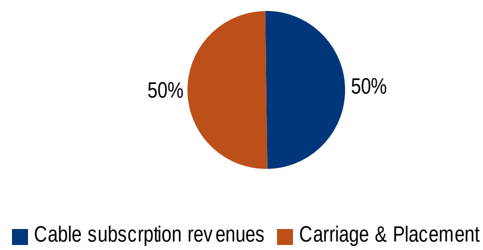
Cable business and broadband are two key revenue streams for Hathway. Cable contributes nearly 86% of revenues while broadband makes up 14%. In cable, it also derives revenues from placement and carriage. Given that 70% of the network is analogue, where bandwidth capacity is an issue, broadcasters pay MSOs to carry their channels and place them in premium slots. Placement and carriage revenues are estimated to be around 50% of its cable revenues.

Chart 15: Revenue split (%) – 9m FY11



Source: Company

Chart 16: Cable revenues split – 9m FY11



Source: BofA Merrill Lynch Global Research

Chart 17: Key presence across the country

Source: Company

Cable: Digitalisation to drive growth

Large player, presence in key attractive markets

Hathway is a leading MSO in India with a presence in 127 cities. It owns and operates cable networks that reach approximately 8mn cable homes across India, supported by 71 analog head ends, 19 digital head ends and more than 15,000km of HFC networks.

It currently offers around 85 channels of local and international programming on its analog cable television platform and up to 176 channels on its digital platform. It currently has 121 local customer-help centers where its subscribers can call a dedicated helpline or visit for any assistance. Its digital cable television services platform is based on encryption and compression technologies from NDS and Cisco systems.

Hathway has operations in key markets such as Mumbai, Delhi, Pune, Gujarat, Karnataka, Hyderabad, and Punjab, which have been earmarked for digital rollout under Phases I and II by TRAI.

Strong subscriber base, though underpaid

Over the last few years, Hathway has increased its subscriber base through both organic and inorganic means. It has acquired over 21 independent cable operators/MSOs since 2007. Its current reach in terms of subscribers is estimated at around 8.3mn as compared to around 5mn in FY07.

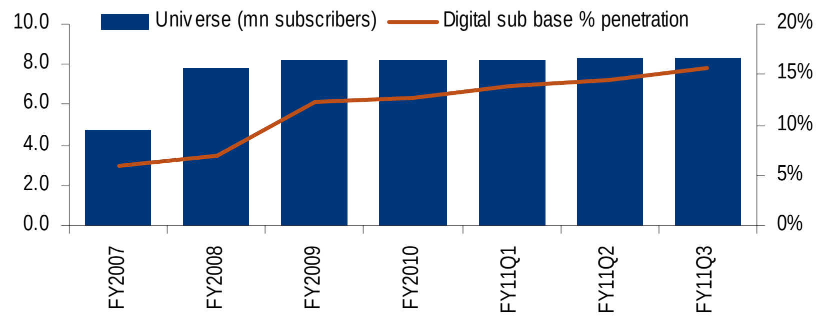
While Hathway has a majority stake in many acquisitions, it also has JVs with many leading MSOs. Key are Gujarat Telelink Pvt Ltd and Hathway Bhaskar Multinet Pvt Ltd.

While Hathway has direct last mile access with 0.5mn subscribers, the rest are through other LCOs. Given the fragmented nature of the business and that most last-mile connections are still analogue and not digital, subscriber numbers are underreported by LCOs. The company estimates it is being paid for just 1.8mn subscribers versus a universe of 8.3mn subscribers.

Focus on digitalising last mile

However, the company has been investing in digitizing the last mile over the last few years. Penetration of digital subscribers has improved from 6% in FY07 to 16% (3Q FY11) and the number of digital subscribers has increased 5x in the same period.

Chart 18: Increasing digital penetration

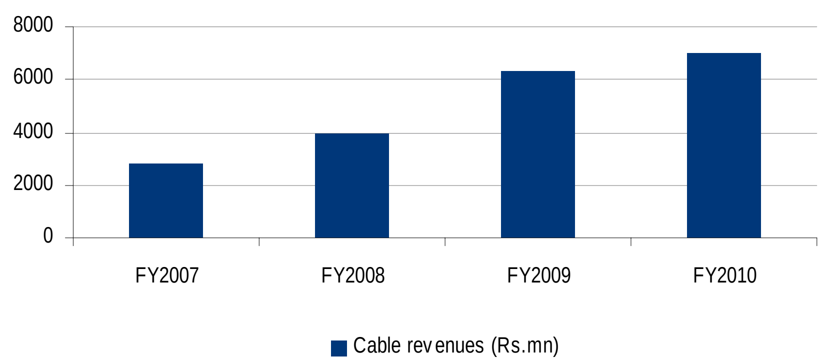


Source: Company

35% revenue CAGR in FY07-10

Cable revenues CAGR was 35% in FY07-10 and contributed around 86% of revenue. Growth was largely driven by expansion into new markets organically and acquisition of competing cable operators. Based on the number of paying subscribers, ARPU for Hathway is estimated at Rs161 currently.

Chart 19: Cable revenues trends



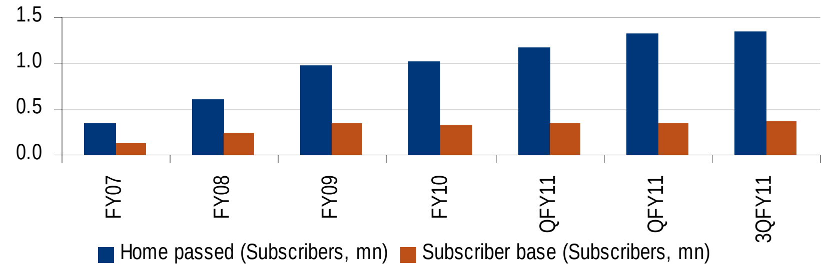
Source: Company

Broadband: Leveraging investments

Hathway started its broadband internet services in 2001, and was the first cable company in India to offer such services. It offers broadband internet access to both residential subscribers through HFC networks and also to corporate subscribers through dedicated optical fiber cables. Its broadband technology platform is supported by Cisco Systems.

In FY10, the number of home passes (two-way enabled homes) stood at 1mn and broadband subscribers stood at 0.3mn. Home passes increased at a CAGR of 42% over FY07-10 and we believe the company is now focusing on increasing subscriber base.

Chart 20: Strong investments in Home Passed, Subscriber growth to follow



Source: Company

Financials

Table 14: Profit and Loss Statement

Year end March, Rs.mn	FY09	FY10	FY11E	FY12E	FY13E	FY14E
Income from operations	6550	7328	8917	9858	12085	14543
Other income	98	68	195	184	182	214
Total Income	6570	7402	9112	10043	12267	14757
Operational exps	3599	3808	4642	4811	5939	6414
Staff cost	733	748	822	888	977	1094
Admin and gen exps	1076	1107	1229	1327	1433	1605
Provn for bad and doubtful debts	266	407	535	592	725	873
Loss on sale of set top boxes	25	4	5	5	5	5
Total exp	5700	6074	7233	7623	9079	9991
PBITDA	851	1255	1683	2236	3006	4552
Deprn/ ammortisation	939	1129	1448	1546	1827	2176
PBIT	-88	126	235	690	1179	2376
Less Interest	431	556	446	424	470	562
PBT	-499	-357	-15	450	891	2028
Total Exceptional items	298	149	0	0	0	0
Net PBT	-797	-505	-15	450	891	2028
Total taxation	120	156	169	183	198	435
PAT	-916	-662	-184	267	693	1593
PAT after minority interest	-975	-754	-285	156	570	1458

Source: BofA Merrill Lynch Global Research

Table 15: Balance Sheet

Year end March, Rs.mn	FY09	FY10	FY11E	FY12E	FY13E	FY14E
Shareholders Funds						
Share Capital	1114	1429	1429	1429	1429	1429
Reserve and surplus	5306	12001	11817	12084	12631	14075
Total	6431	13449	13265	13532	14079	15523
Minority Interest	951	1280	1280	1280	1280	1280
Total Loan	6275	4607	3607	3607	3607	3607
Other liabilities	0	0	503	1297	1834	3911
Application of Funds	13712	19428	18746	19808	20891	24412
Fixed Assets						
Gross Block	12057	13487	14526	15937	17720	21998
Net Block	9031	9497	9087	8952	8908	11010
Capital WIP	472	274	274	274	274	274
Investments	208	4183	2683	1683	683	683
Net Current Assets						
Current assets, Loans and Advances						
Sundry Debtors	1879	1955	2408	2658	3493	4520
Cash and Bank Balances	445	1004	1820	3807	5190	5771
Loans and advances	1585	1500	1550	1600	1650	1650
Total	3953	4485	5814	8110	10388	12006
Less : Current Liabilities and Provn						
Current liabilities & Provn	3785	3643	3743	3843	3993	4193
Net Current Assets	168	842	2070	4267	6395	7813
Profit and Loss Account Debit Balance	3822	4623	4623	4623	4623	4623
Sources of funds	13711	19428	18747	19808	20892	24413

Source: Company, BofA Merrill Lynch Global Research

Table 16: Cash Flow Statement

Year end March, Rs.mn	FY09	FY10	FY11E	FY12E	FY13E	FY14E
Net Profit/ Loss for the year	-848	-801	-184	267	693	1593
1. Non Cash Charges						
Depreciation/ Amortisation/ Impairment	940	1129	1448	1546	1827	2176
Inerest on finance charges	431	556	446	424	470	562
Operating Profit before working capital	845	1457	1710	2237	2990	4330
Change in Working capital						
(increase)/ Decrease in inventories	5	18	10	10	10	10
(increase)/ Decrease in sundry debtors	-788	-524	-453	-250	-835	-1027
(increase)/ Decrease in loans and advances	-634	88	-50	-50	-50	0
Increase/ (Decrease) in current liabilities and provn	1394	330	100	100	150	200
Net cash from operation activities	822	1370	1315	2027	2245	3494
Cash flow from investing activities						
Payment for fixed assets	-4147	-1628	-1039	-1411	-1783	-4279
STB financing	0	0	503	794	537	2077
Net cash realised from investing activities	-3978	-5644	964	383	-246	-2202
Cash flow from financing activities						
Interest and finance charges	-460	-568	-446	-424	-470	-562
issues of share capital (including premium) / FCCD	2472	4800	0	0	0	0
Net Loan funds borrowed\ (repaid)	1471	805	-1000	0	0	0
Net cash realized from financing activities	3434	4828	-1446	-424	-616	-711
Net increase in cash and cash equivalent	278	553	833	1987	1383	581
Cash & cash equivalents at the beginning of year	155	434	987	1820	3807	5190
Cash & cash equivalents at the end of year	434	987	1820	3807	5190	5771

Source: Company, BofA Merrill Lynch Global Research

Table 17: Ratios

Ratios	FY09	FY10	FY11E	FY12E	FY13E	FY14E
Growth - YoY %						
Cable subscription revenues	101%	-1%	15%	13%	56%	49%
Cable - carriage	36%	19%	37%	6%	-9%	-25%
Broadband revenues	44%	19%	2%	17%	27%	22%
Profitability						
EBITDA %	13%	17%	19%	23%	25%	31%
EBIT%	-1%	2%	3%	7%	10%	16%
Valuations						
EPS (Rs)			-2	1	4	10
CEPS (Rs)	0	3	8	12	17	25
BV (Rs)/ share	23	62	60	62	66	76
P/E (x)	-11	-19	-50	92	25	10
P/CEPS (x)	-306	37	12	8	6	4
P/BV (x)	4	2	2	2	2	1
EV/EBIDTA (x)	15	16	8	6	4	3
EV/ EBIT (x)	-145	156	57	19	11	6
RoCE (%)	0%	2%	18%	5%	8%	14%
RoE (%)	-14%	-7%	-1%	2%	5%	11%

Source: Company, BofA Merrill Lynch Global Research

Price objective basis & risk

Hathway Cable & Datacom Ltd (XHKYF)

Our PO of Rs130 implies a 6x EV/EBITDA in line with valuations for global peers and is backed by DCF (WACC:13.5% and Teminal Growth rate:4%). Our Buy rating is based on our view that digitalisation of cable & satellite industry in India is inevitable and likey to throw potential opportunities for leading multi system operators such as Hathway. While we assume upside from Phase I (metros) implementation, we believe valuation multiple could expand further to 9x as clarity emerges on timelines for digitalisation.

Key risks are a delay in regulatory clearance for digitalisation and intense competition from other MSOs and DTH players.

Link to Definitions

Media & Telecom

Click here for definitions of commonly used terms.

Analyst Certification

I, Pratish Krishnan, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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Tel : +91 22 6632 8000

India - Software & IT Services Coverage Cluster

Investment rating	Company	BofA Merrill Lynch ticker	Bloomberg symbol	Analyst
BUY				
	D.B.Corp Ltd	XDDCF	DBCL IN	Pratish Krishnan
	Educomp Solu	EUSOF	EDSL IN	Pratish Krishnan
	Firstsource	FSSOF	FSOL IN	Mitali Ghosh
	Hathway Cable & Datacom Ltd	XHKYF	HATH IN	Pratish Krishnan
	HCL	XHCLF	HCLT IN	Mitali Ghosh
	Hexaware Tech	XFTCF	HEXW IN	Pratish Krishnan
	Infosys Tech	INFYF	INFO IN	Mitali Ghosh
	Infosys Tech - A	INFY	INFY US	Mitali Ghosh
	Jagran Prakashan Ltd	JGRPF	JAGP IN	Pratish Krishnan
	Persistent Systems	XPSYF	PSYS IN	Kunal Tayal
	Rolta India	RLTAF	RLTA IN	Pratish Krishnan
	Rolta India-GDR	XLROF	RTI LI	Pratish Krishnan
	Sun TV Network Ltd	SUTVF	SUNTV IN	Pratish Krishnan
	Tata Consultancy	TACSF	TCS IN	Mitali Ghosh
	Zee Entertainment	XZETF	Z IN	Pratish Krishnan
NEUTRAL				
	ExlService Holdi	EXLS	EXLS US	Mitali Ghosh
	Infotech Enterprises Ltd	IFKFF	INFTC IN	Pratish Krishnan
	Tech Mahindra	TMHAF	TECHM IN	Pratish Krishnan
	Wipro	WIPRF	WPRO IN	Mitali Ghosh
	Wipro	WIT	WIT US	Mitali Ghosh
UNDERPERFORM				
	Genpact Ltd	G	G US	Mitali Ghosh
	Mastek	MSKDF	MAST IN	Pratish Krishnan
	MphasiS Ltd	MPSSF	MPHL IN	Pratish Krishnan
	WNS (Holdings) L	WNS	WNS US	Mitali Ghosh

iQmethod SM Measures Definitions

Business Performance	Numerator	Denominator
Return On Capital Employed	NOPAT = (EBIT + Interest Income) * (1 - Tax Rate) + Goodwill Amortization	Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization
Return On Equity	Net Income	Shareholders' Equity
Operating Margin	Operating Profit	Sales
Earnings Growth	Expected 5-Year CAGR From Latest Actual	N/A
Free Cash Flow	Cash Flow From Operations – Total Capex	N/A
Quality of Earnings		
Cash Realization Ratio	Cash Flow From Operations	Net Income
Asset Replacement Ratio	Capex	Depreciation
Tax Rate	Tax Charge	Pre-Tax Income
Net Debt-To-Equity Ratio	Net Debt = Total Debt, Less Cash & Equivalents	Total Equity
Interest Cover	EBIT	Interest Expense
Valuation Toolkit		
Price / Earnings Ratio	Current Share Price	Diluted Earnings Per Share (Basis As Specified)
Price / Book Value	Current Share Price	Shareholders' Equity / Current Basic Shares
Dividend Yield	Annualised Declared Cash Dividend	Current Share Price
Free Cash Flow Yield	Cash Flow From Operations – Total Capex	Market Cap. = Current Share Price * Current Basic Shares
Enterprise Value / Sales	EV = Current Share Price * Current Shares + Minority Equity + Net Debt + Other LT Liabilities	Sales
EV / EBITDA	Enterprise Value	Basic EBIT + Depreciation + Amortization

iQmethod SM is the set of BofA Merrill Lynch standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase ® is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Merrill Lynch.

Important Disclosures

Investment Rating Distribution: Media & Entertainment Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	61	56.48%	Buy	25	46.30%
Neutral	21	19.44%	Neutral	8	40.00%
Sell	26	24.07%	Sell	8	32.00%

Investment Rating Distribution: Global Group (as of 01 Jan 2011)

Coverage Universe	Count	Percent	Inv. Banking Relationships*	Count	Percent
Buy	2011	53.86%	Buy	874	48.31%
Neutral	925	24.77%	Neutral	444	52.30%
Sell	798	21.37%	Sell	276	36.75%

* Companies in respect of which BofA Merrill Lynch or one of its affiliates has received compensation for investment banking services within the past 12 months. For purposes of this distribution, a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster*
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

* Ratings dispersions may vary from time to time where BofA Merrill Lynch Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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