

Company

30 July 2009 | 7 pages

UTV Software Communications (UTVS.BO)

Equity 

Alert: 1QFY10 in the Red, Expect a Weak Q2 Too

- **Dismal top line performance** — UTV reported a disappointing ~36% decline in sales yoy, materially below our expectations. Movie revenues came in largely in line with our estimates despite no releases, given the dispute between film producers and multiplex owners. UTV booked Rs145m from last year Hollywood release, *The Happening* in this quarter. Additionally, there were no new releases in Interactive (gaming) segment, leading to sales decline of ~20% Y/Y and ~70% QoQ. TV vertical continued to post a muted growth.
- **EBITDA loss** — The company reported an EBITDA (ex other operational income) loss of ~Rs630m, given weakness in movies and gaming, coupled with continued investments in new media and broadcasting. There was an impact of ~Rs100m non cash inventory write-down expenses in films vertical. Interest costs continued to go up as debt increased yoy. Reported loss was ~Rs230m.
- **Expect Q2 to remain weak** — Management has guided that Q2FY10 will also remain under pressure — given the continued investments in new verticals and only three planned releases in key movies segment.
- **Analyst Meet** — Management is hosting an Analyst meet today (Thursday July 30) at 18:45 hrs IST.

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UTV Software Communications (UTVS.BO; Rs428.00; 3H)

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

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UTV Software Communications

Company description

UTV Software Communications is an integrated media and entertainment company with a presence in Indian and international film production and distribution, television content, broadcasting, gaming and new media. It started by producing ad-films and then TV content in 1990 for state-owned Doordarshan and later Zee TV. UTV ventured into movie production and distribution in 1998. In 2005, it launched Hungama, which became the top kids' channel within a year. UTV sold Hungama to Walt Disney Co. Disney recently raised its stake to 32.1%. Disney and UTV are equal partners with Indian promoters having management control. UTV listed its movie subsidiary UTV Motion Pictures Plc (UTV IOM) on London Stock Exchange's AIM market raising US\$70m by offloading a 23% stake. It acquired an online and mobile gaming company, Indiagames, and console game company Ignition, which would give it presence across the integrated media value-chain. UTV has also re-entered the broadcasting space through the launch of four channels.

Investment strategy

We rate UTV Sell/High Risk (3H), believing that its current valuations price in our ~41% revenue as well as ~28% profit CAGR estimates for FY09-11E. Various businesses are inherently volatile or are at nascent stages, increasing execution risk. That said, UTV is one of few listed integrated media players in India, straddling the media value chain from motion pictures, broadcasting and TV content to high-growth gaming and new media businesses. UTV broke new ground in India's motion picture business by operating a studio-like model. Relationships with international production houses like Walt Disney, 20th Century Fox and Overbrook Entertainment have catapulted UTV into the international motion picture space.

Valuation

Our target price of Rs375 is based on sum of the parts. We use EV/EBIT for most divisions, as this is the most widely used method in the absence of segmental profitability beyond the EBIT level. We value the movie business at 11x mid-FY11E EV/EBIT, a ~20% premium to the global filmed entertainment universe, justified in our view given the growth and scarcity premium applied to UTV. We value the TV content business at a mid-FY11E EV/EBIT of 5x, at a discount to Balaji Telefilms - one of the segment leaders in India - based on consensus earnings. We benchmark the gaming vertical with the regional valuations and ascribe a mid-FY11E EV/EBIT of 12x. We are giving the broadcasting business a 2x EV/Sales multiples on mid-FY11E, a ~50% discount to the leading broadcasters, justified given their superior earnings visibility and viewership ratings. We ascribe a 1.5x mid-FY11E EV/Sales on New Media.

Risks

Using our quantitative risk-rating system, which tracks 260-day historical share price volatility, we rate UTV High Risk. Upside risks that could prevent the stock from achieving our target price include: 1) The movie business doing better than expected could result in upside surprises to our estimates; 2) The gaming business could be valued at higher levels. Gaming remains a growth business globally. While we value UTV's gaming business at par with global peers, a higher valuation accorded to UTV's gaming business (on account of higher growth) could result in

upside; 3) UTV has talked of more acquisitions in the mobile content aggregation and TV content space. Any value accretive acquisition would pose an upside risk to our target price.

Appendix A-1

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UTV Software Communications (UTVS.BO)

Ratings and Target Price History Fundamental Research

Analyst: Surendra Goyal, CFA
Covered since April 3 2008

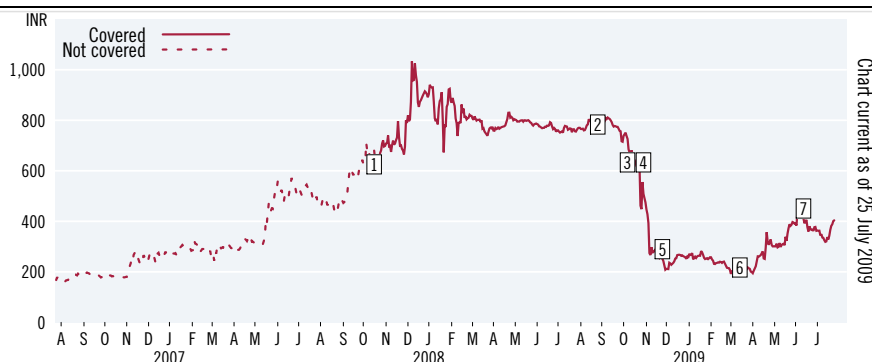


Chart current as of 25 July 2009

	Date	Rating	Target Price	Closing Price
1	16-Oct-07	*1H	*887.00	679.95
2	26-Aug-08	*3H	*753.00	790.40
3	7-Oct-08	3H	*662.00	726.05

	Date	Rating	Target Price	Closing Price
4	29-Oct-08	3H	*450.00	508.45
5	25-Nov-08	3H	*250.00	251.70
6	13-Mar-09	3H	*190.00	195.85

	Date	Rating	Target Price	Closing Price
7	11-Jun-09	3H	*375.00	411.05

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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