

## Initiation coverage

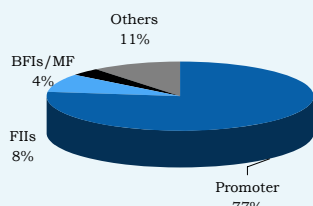
 Sector Relative View/Sector Weightage: **Outperform/Overweight**
**Rumit Dugar** (+91 22 6639 9186, rumit.dugar@alchemyonline.com)

### Key points

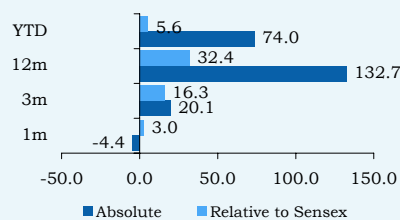
- Play regional – be with the leader
- Strong market leadership in key markets.
- Strong topline 2QFY10 performance.

CMP	Rs314
Reuters code	SUTV.BO
Bloomberg code	SUNTV IB
Shares o/s (mn)	394
Mkt Cap	Rs124bn/US\$2.6bn
52 wk high / Low	Rs371/125
Avg daily trad vol	0.3(mn shs)
BSE Sensex	15,896
Nifty	4,712

### Shareholding pattern



### Performance



### Share price movement



## Strong 2Q - Sun continues to shine. Initiate with a Buy.

**Good 2QFY10 performance:** SunTV reported 2QFY10 numbers with Rev/EBITDA/PAT at Rs3.2bn/Rs2.4bn/Rs1.3bn vs. our estimates of Rs2.9bn/Rs2.2bn/Rs1.2bn. Ad revenues grew 24%qoq (up 29% on a yoy basis) ahead of expectations. Sequential ad revenue growth was driven by increasing in volumes. Subscription revenues grew at 51% y/y basis (6% qoq). EBITDA margins were lower at 76% (77.6% in 1QFY10). This was driven by sharp increase in other expenses. However, there was provisioning for debtor greater than 90 days of about Rs50mn, adjusting for which the margins would have been stable qoq.

**Market leader in an attractive end market:** SunTV Network is one of the largest television broadcasters in southern states with market leadership in 3 of the four markets - Tamil, Telegu and Kannada. Malayalam is the only market where SunTV is positioned at second spot. Further we believe that regional play remains attractive given the high media consumption in these markets, low content costs and large role of movie library. SunTV has c8,500 (c80% of total movie library) strong movie library, a key content for these markets.

**Advertising revenue has held up well despite adverse macro environment driven by clear leadership** in these markets, relatively stronger local economy which constitutes high proportion of ad revenues. Further we expect increasing proportion of national advertisers tapping regional media as incremental growth in key advertising clients gets more rural. This has been reflected in sharp volume pickup we have seen in this quarter. Additionally we expect the subscription growth to remains strong with increasing penetration of DTH. While the key segments continue to do well; radio business continues to make losses. Further the company has ventured into movie production and distribution.

**Estimates:** We estimate a Rev/EPS CAGR of 21%/24% over FY09-FY11. The company reported a net loss of Rs969mn on radio business in FY09; however it's expected to trim down to Rs650mn-Rs750mn in FY10. We expect an EBITDA margin of 72% in FY10E/FY11E leading to an EPS of Rs11.8/Rs14.4 in FY10/FY11.

**Investment View:** We are initiating coverage on SunTV with a **Buy** rating and a PE based price target of Rs360/share based on FY11 EPS of Rs14.4 and a multiple of 25x, at a 50% premium to Sensex and below long term average multiple of 35x. This is in our view is valid, given its strong business model, leadership position in southern markets and superior growth profile.

### Financial Summary

Year end march (Rs.mn)	FY07	FY08	FY09	FY10E	FY11E
Net sales	6,780	8,699	10,394	12,698	15,284
EBITDA	4,742	5,975	7,368	9,229	11,186
Net profit	2,461	3,267	3,683	4,642	5,684
EPS (Rs)	6.3	8.3	9.3	11.8	14.4
ROE (%)	33	25	23	25	25
P/E (x)	241.7	36.4	17.9	26.7	23.2
P/BV	51.1	8.2	3.9	6.1	5.1

Source: Alchemy, Company, Bloomberg

## 2QFY10 – Inline performance

### Exhibit 1 - SunTV Network: Quarterly Performance

Rs in millions, Year-end March	1QFY09	2QFY09	3QFY09	4QFY09	1QFY10	2QFY10
<b>Advertising Income</b>	1,691	1,750	1,830	1,759	1,812	2,250
<i>Q/Q Growth (%)</i>	34	3	5	-4	3	24
<i>Y/Y Growth (%)</i>	53	68	50	39	7	29
<b>Income from Pay channels</b>	422	504	580	695	720	760
<i>Q/Q Growth (%)</i>	-33	19	15	20	4	6
<i>Y/Y Growth (%)</i>	-19	-2	-10	10	71	51
<b>Total Revenues</b>	<b>2,238</b>	<b>2,379</b>	<b>2,708</b>	<b>2,760</b>	<b>2,876</b>	<b>3,204</b>
<i>Q/Q Growth (%)</i>	-9	6	14	2	4	11
<i>Y/Y Growth (%)</i>	11	22	24	12	29	35
<b>Cost of Revenues</b>	(198)	(219)	(268)	(132)	(208)	(208)
<i>Q/Q Growth (%)</i>	14	11	23	-51	58	0
<i>Y/Y Growth (%)</i>	50	44	86	-24	5	-5
<b>Employees Remuneration &amp; Benefits</b>	(245)	(256)	(257)	(263)	(311)	(319)
<i>Q/Q Growth (%)</i>	-11	5	0	3	18	3
<i>Y/Y Growth (%)</i>	9	46	9	-5	27	25
<b>Other Expenditure</b>	(110)	(141)	(171)	(107)	(122)	(241)
<i>Q/Q Growth (%)</i>	-75	28	22	-38	14	98
<i>Y/Y Growth (%)</i>	-20	-36	95	-75	10	71
<b>Total expenditure</b>	<b>(553)</b>	<b>(616)</b>	<b>(696)</b>	<b>(502)</b>	<b>(640)</b>	<b>(768)</b>
<i>Q/Q Growth (%)</i>	-37	11	13	-28	28	20
<i>Y/Y Growth (%)</i>	12	13	49	-43	16	25
<b>EBITDA</b>	<b>1,683</b>	<b>1,763</b>	<b>2,013</b>	<b>2,257</b>	<b>2,236</b>	<b>2,436</b>
<b>EBITDA margin %</b>	<b>75.3%</b>	<b>74.1%</b>	<b>74.3%</b>	<b>81.8%</b>	<b>77.7%</b>	<b>76.0%</b>
<i>Q/Q Growth (%)</i>	6	5	14	12	-1	9
<i>Y/Y Growth (%)</i>	10	26	18	43	33	38
<b>EBIT</b>	1,405	1,300	1,567	1,595	1,686	1,865
<i>Q/Q Growth (%)</i>	17	-7	21	2	6	11
<i>Y/Y Growth (%)</i>	9	13	8	32	20	43
<b>Other Income</b>	164	372	144	154	142	115
<i>Q/Q Growth (%)</i>	-24	127	-61	7	-8	-19
<i>Y/Y Growth (%)</i>	10	160	2	-28	-13	-69
<b>Interest</b>	(0)	(21)	(8)	(10)	(6)	(2)
<i>Q/Q Growth (%)</i>	-97	6,800	-60	22	-37	-71
<i>Y/Y Growth (%)</i>	-94	41	-67	-9	2,000	-91
<b>PAT</b>	<b>1,025</b>	<b>1,083</b>	<b>1,122</b>	<b>1,132</b>	<b>1,198</b>	<b>1,306</b>
<i>Q/Q Growth (%)</i>	12	6	4	1	6	9
<i>Y/Y Growth (%)</i>	10	35	10	24	17	21

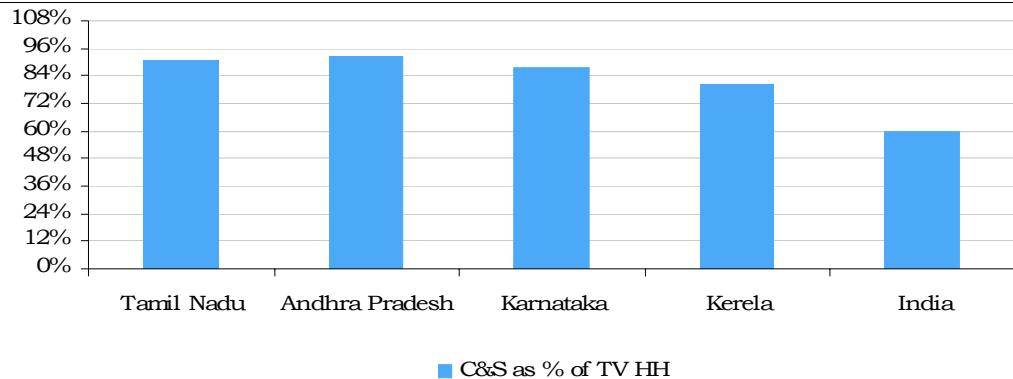
Source: Company

**REGIONAL PLAY REMAINS ATTRACTIVE**

South market (Tamil Nadu, Andhra Pradesh, Karnataka and Kerela) constitutes c30% of the TV viewing households in India. Further the C&S penetration in these markets is higher as compared to the national average and constitutes c42% of total C&S TV HH. Further we believe the southern markets have greater appetite for C&S driven by buoyant demand regional content.

Further increasing purchasing power of tier II and tier III towns is attractive for advertisers, given large chunks of their growth is driven by smaller towns – FMCG, Telecom and Auto. As per industry estimates top 6 metros account for 30% of consumption of goods, while they contribute 60% towards the advertising spend. While this could be also due to lower reach of the media in rural India, we believe with increasing disposable income and improving penetration on the back of DTH services; we could see increasing traction in these markets.

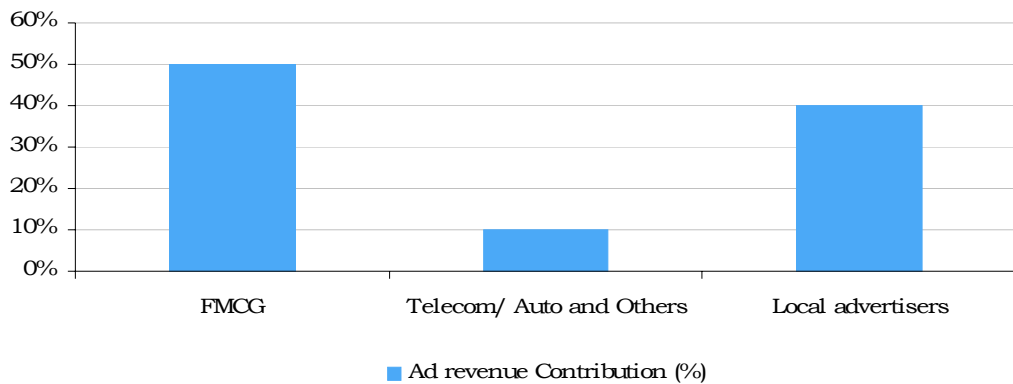
**Exhibit 2 - Indian Media: High C&S penetration in regional markets**



Source: Alchemy

Additionally in our view, southern broadcasters have greater dependence on the local brands for their advertising revenue stream as compared to National/Hindi GEC players given their localized presence. This in our view helps them tide the downturn much better as compared to their Hindi GEC peer group. The strong movie library and content has resulted in clear market leaders in each regional segment, which equips them with significant pricing power.

**Exhibit 3 - Indian Media: High advertising exposure to localized brands**



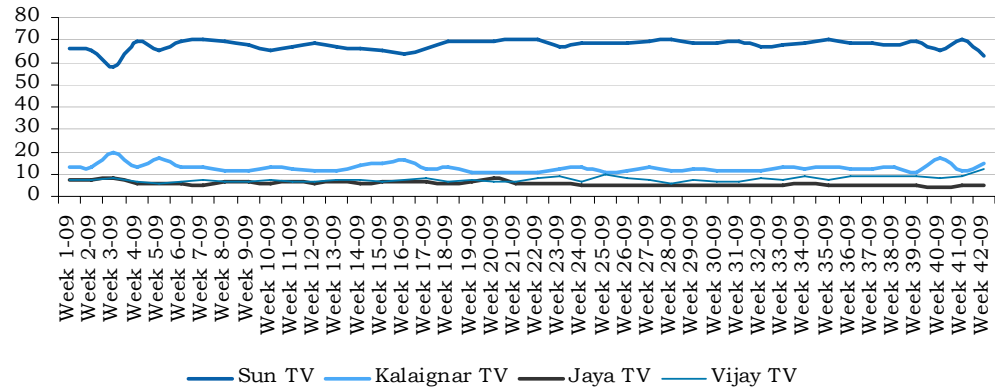
Source: Alchemy

### Dominant Player in Southern India

SunTV Network is one of the largest television broadcasters in southern states. The company has a portfolio of 20 channels across the 4 southern languages (Tamil, Telegu, Kannada and Malayalam). SunTV is the market leader by a significant margin in 3 of the 4 states.

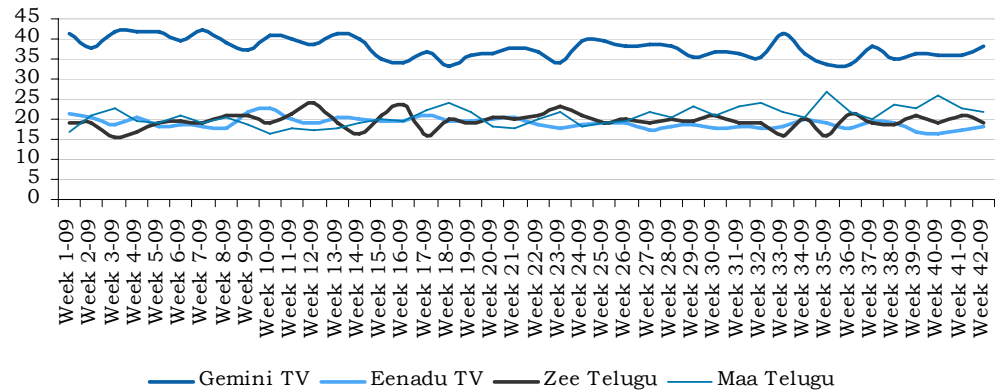
The company has strong content coupled with its large movie library. The movie content is one of the significant differentiators for the southern market, and SunTV network has an 8,500 strong movie library across the 4 southern languages. This covers almost 80% of the movies released in these languages. While films in themselves may not be a paying proposition, but they help push up GRPs which can then influence advertisers. Further in our view there is vast advertising potential of regional markets given high GRPs in the regional and which could lead to higher than expected advertising growth for these markets.

**Exhibit 4 - SunTV Network: Tamil Market Share(%)**



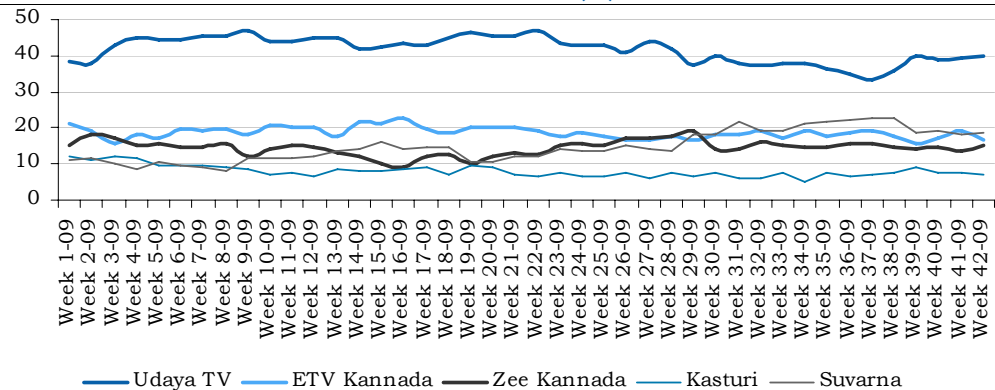
Source: exchange4media

**Exhibit 5 - SunTV Network: Telegu Market Share(%)**



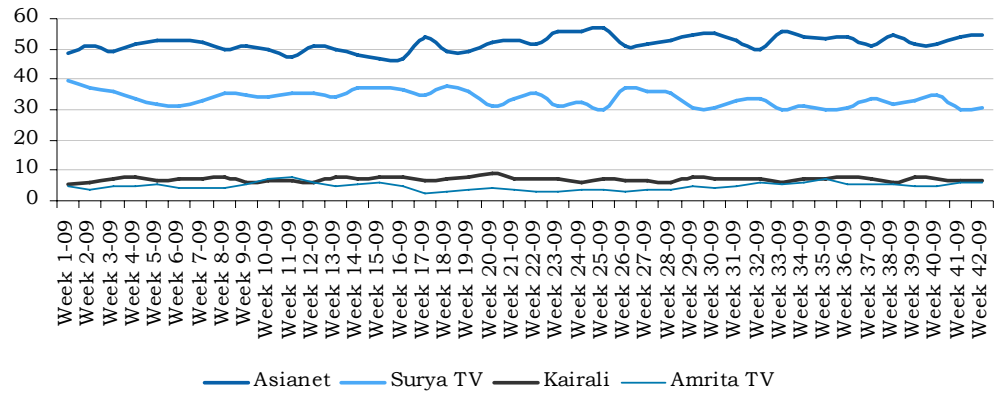
Source: exchange4media

**Exhibit 6 - SunTV Network: Kannada Market Share(%)**



Source: exchnge4media

**Exhibit 7 - SunTV Network: Malyalam Market Share (%) - Only weak market, with Sun at No. 2 spot**

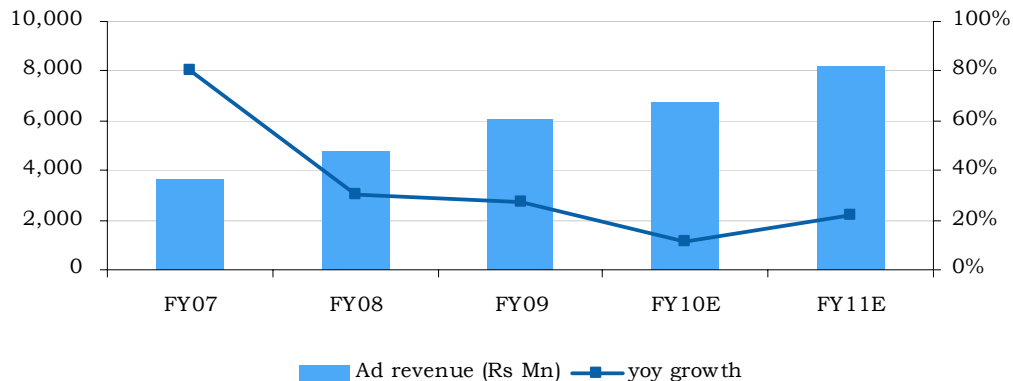


Source: exchange4media

### Strong Financials

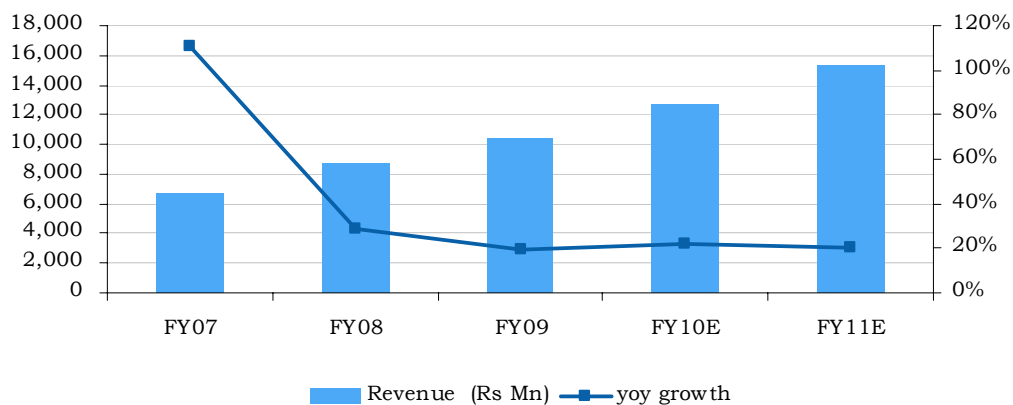
The .Despite the sluggish environment we expect the ad revenue growth of 11-12% in FY10. While the broadcasting revenues to grow at mid single digits; SunTV would continue to benefit from digitization. The company had a 27% ad revenue growth in FY09 and we expect FY10/FY11 ad revenues at Rs6.7bn/Rs8bn, a yoy growth of 11%/20%.

**Exhibit 8 - SunTV Network: Strong advertising revenue growth**



Source: Company

**Exhibit 9 - SunTV Network: Revenue growth**

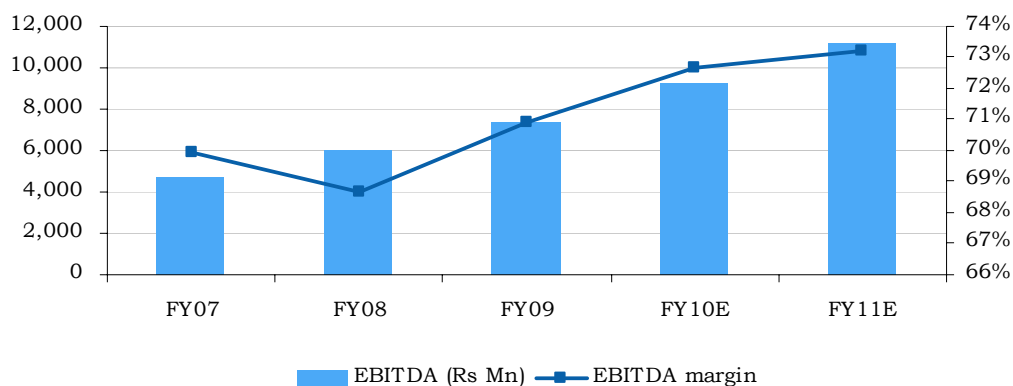


Source: Company

### Business model leads to superior margin profile

The company has a unique business model where it leases out its time slots to third party content producers for a fixed fee. However in return the content producers has the right to ~4 mins of advertising inventory per half an hour, while Sun gets 2mins of this half an hour slot. Further the content producers are bound by ratings and performance and SunTV has the right to revoke the slot in case of non-performance. This is a unique business model that helps SunTV Network achieve a c75% EBITDA margin. Further given strong brand franchise and dominant market share, the company is able to attract quality content producers and advertisers alike. Further the carriages charges are lower for regional channels as compared to Hindi GEC leading to better operating margins.

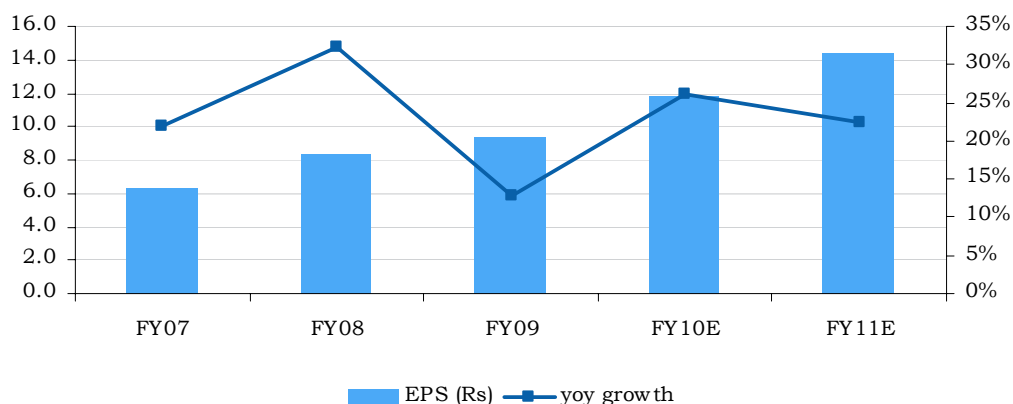
**Exhibit 10 - SunTV Network: EBITDA and EBITDA margin (%)**



Source: Company

**Resulting in strong EPS growth**

**Exhibit 11 - SunTV Network: EPS and EPS growth (%)**



Source: Company

**Radio**

The company operates 41 radio stations through its two radio subsidiaries Kal Radio and South Asia FM. As of Mar-09, SunTV Network holds 97.8% and 64% in the two subsidiaries respectively. Kal radio operates 18 stations in southern states (Tamilnadu, Karnataka, Kerela and Andhra Pradesh) while South Asia FM has 23 radio licenses across India except the southern states. Further the company has an arrangement with RED FM to jointly market the radio stations and change channel identity from S FM to RED FM.

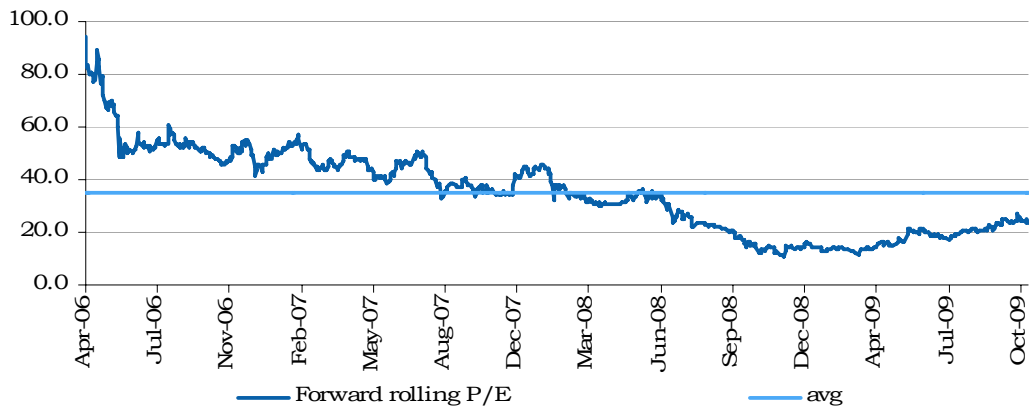
Both the radio businesses are loss making at EBITDA and PAT level. The total losses from radio business in FY09 was Rs970mn. However the company expects Kal radio to breakeven at the EBITDA level in FY10 and South Asia FM in FY11. The management expects radio revenues to be cRs450mn and the losses to come down to Rs650-Rs700mn in FY10.



## Valuation and Price Target

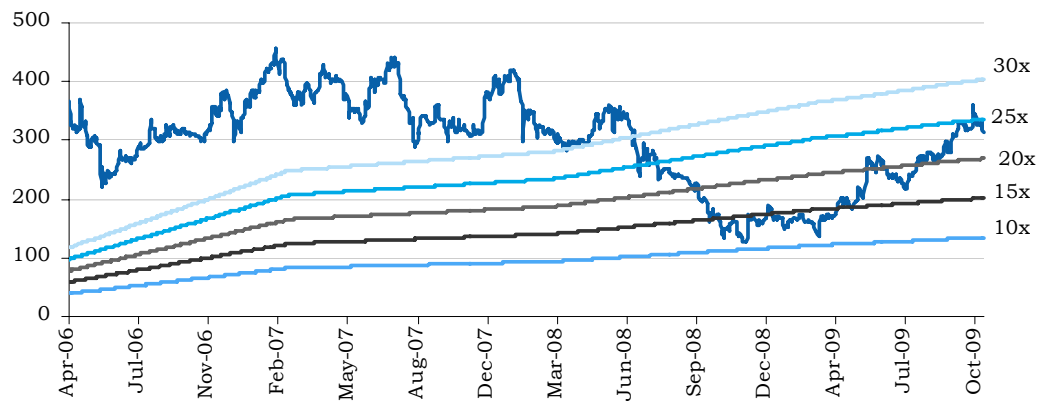
The stock is currently trading at 25x FY10 below its historical average multiple of 35x. We are initiating coverage on Sun TV Network with a **Buy** rating and a PE based price target of Rs360/share based on FY11 EPS of Rs14.4 and a multiple of 25x (below long term average multiple of 35x).

**Exhibit 12 - SunTV Network: One year forward PE chart (rolling)**



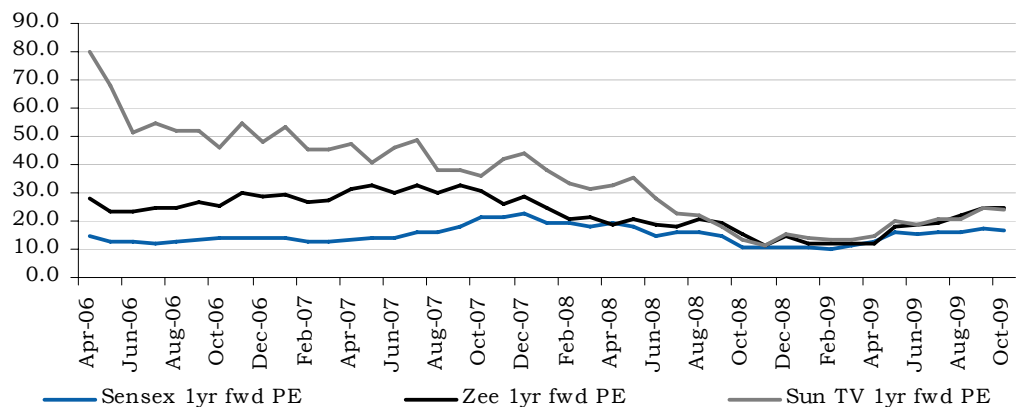
Source: Bloomberg, Company

**Exhibit 13 - SunTV Network: One year forward PE Band chart**



Source: Bloomberg, Company, Alchemy

**Exhibit 14 - SunTV Network: 1-yr forward PE chart SunTV vs. ZEEL vs. Sensex**



Source: Bloomberg, Company, Alchemy



**Income Statement (Rs mn)**

March end	FY08	FY09	FY10E	FY11E
Advertisement	4,755	6,057	6,724	8,068
broadcast fees	1,256	1,304	1,355	1,491
Other Sales & Services	2,688	3,033	4,619	5,537
Cost of Revenues	(766)	(1,114)	(1,119)	(1,330)
Staff Costs	(958)	(1,155)	(1,398)	(1,662)
Other expenditure	(1,000)	(757)	(952)	(1,208)
Total Operating Costs	(2,724)	(3,026)	(3,469)	(4,199)
<b>EBITDA Margin %</b>	68.7%	70.88%	72.68%	72.18%
Depreciation	(1,239)	(2,205)	(2,815)	(3,383)
EBIT	4,736	5,163	6,414	7,514
Interest and Other Income	556	668	694	601
Finance Costs	(159)	(138)	(122)	(122)
PBT	5,133	5,693	6,987	7,994
Tax	(2,015)	(2,293)	(2,655)	(3,038)
Tax Rate (%)	39.2%	40.3%	38.0%	38.0%
Reported PAT before Minority	3,119	3,400	4,332	4,956
Other adjustments	11	2	0	0
Minority Interest	137	281	310	372
DPS (Rs)	2.9	2.5	2.5	2.5
Shares Outstanding (Mn)	394	394	394	394
Advertisement Growth	31%	27%	11%	20%
broadcast fees	16%	4%	4%	10%
Revenue growth	28%	19%	22%	19%
EBITDA growth	26%	23%	25%	18%
EPS growth	32%	13%	26%	15%

**Balance Sheet (Rs mn)**

March end	FY08	FY09	FY10E	FY11E
<b>SOURCES OF FUNDS:</b>				
Share Capital	1,970	1,970	1,970	1,970
Reserves and Surplus	12,515	15,046	18,393	22,363
<b>Total Shareholders Equity</b>	14,486	17,016	20,363	24,334
Minority Interest	604	385	385	385
Secured Loans	645	0	0	0
Unsecured Loans	50	716	716	716
<b>Current Liabilities</b>	1,349	1,874	2,267	2,729
Provisions	1,167	468	468	468
<b>ASSETS:</b>				
Gross Assets	4,768	7,562	9,562	11,562
Accumulated Depreciation	1,938	2,437	3,193	3,958
<b>Net Fixed Assets</b>	2,830	5,125	6,369	7,604
CWIP	2,218	1,572	1,572	1,572
Investments	1,803	1,805	1,805	1,805
Non current asset	85	233	233	233
Miscellaneous expenditure	1	1	1	1
Net intangible asset	2,620	3,021	2,962	2,344
Inventories	3	1	1	1
Sundry Debtors	2,533	2,449	3,163	3,807
Cash and Equivalents	4,297	3,654	5,467	8,051
Loans and Advances	1,399	1,192	1,732	2,085
Others	524	1,667	1,155	1,390
<b>Total Current Assets</b>	8,755	8,964	11,518	15,334

Source: Company, Alchemy Research

**Cash Flow (Rs mn)**

March end	FY08	FY09	FY10E	FY11E
Net profit before taxation	5,133	5,693	6,987	7,994
Depreciation	377	672	756	765
Amortization	862	1,532	2,059	2,619
Changes in working capital	(914)	413	(348)	(770)
Taxes paid	(2,127)	(2,017)	(2,655)	(3,038)
Others	83	(419)	(573)	(480)
Purchase of Fixed Assets/CWIP	(1,837)	(4,291)	(2,000)	(2,000)
Sale of Fixed assets	8	2,168	0	0
Interest income	523	484	694	601
Purchase of intangible assets	(2,045)	(2,794)	(2,000)	(2,000)
Increase in capital work in progress	19	0	0	0
Net term deposit with the bank	(288)	718	0	0
Net investment	(1,791)	0	0	0
Others	(322)	0	0	0
issue of equity including issuance to minority	762	62	0	0
Net loan availed/repaid	(165)	6	0	0
Interest expense	(302)	(312)	(122)	(122)
Dividend paid	(394)	(1,576)	(985)	(985)
Tax on interim/proposed dividend	(67)	(268)	0	0
<b>Net change in cash</b>	(2,484)	72	1,813	2,584
Opening balance	2,773	288	361	2,174
Closing balance	289	361	2,174	4,758

**Ratios**

March end	FY08	FY09	FY10E	FY11E
<b>% of net sales</b>				
Cost of Revenues	9%	11%	9%	9%
Staff Costs	11%	11%	11%	11%
Other expenditure	11%	7%	8%	8%
Total Operating Costs	31%	29%	27%	28%
EBITDA Margin	69%	71%	73%	72%
EBIT Margin	54%	50%	51%	50%
Reported PAT Margin	38%	35%	37%	35%
<b>Asset based ratios (%)</b>				
ROCE	19%	17%	19%	19%
ROE	25%	23%	25%	24%
<b>Turnover ratios (days)</b>				
Debtor days	119	94	100	100
Inventory days	0.11	0.05	0.04	0.03
<b>Growth ratios (%)</b>				
Net Sales	28%	19%	22%	19%
EBITDA	26%	23%	25%	18%
EPS	32%	13%	26%	15%
<b>Per share (Rs)</b>				
EPS	8.3	9.3	11.8	13.5
BV	36.8	43.2	51.7	61.7
DPS	2.9	2.5	2.5	2.5
<b>Valuations (x)</b>				
P/E	36.4	17.9	27.1	23.6
P/BV	8.2	3.9	6.2	5.2
EV/EBITDA	19.3	8.5	13.1	10.9
EV/sales	13.2	6.1	9.5	7.8
<b>Solvency ratios</b>				
Quick ratio	3.2	1.9	2.4	3.0
D/E ratio	0.05	0.04	0.04	0.03

