

Equities

12 December 2011 | 11 pages

Sun TV Network (SUTV.BO)

Management Meeting Takeaways

- Cyclical weakness in advertising** — Near-term advertising outlook remains lackluster as the slower macro is impacting market growth. Given Sun's dependence on consumer companies (~55-60% of ad pie) that have lowered brand building spends to protect their margins, coupled with the past two years' high base, ad revenue growth remains muted. Management, however, notes that it continues to outperform the industry given its dominant viewership.
- Viewership stabilizes?** — There were concerns on the sustenance of Sun's ratings given the new Tamil Nadu (TN) government's revival of its cable business, Arasu, that didn't carry Sun channels. As per TAM data, Sun's share is stable in recent weeks after some slippage post Arasu launch – share of all Sun channels is now stable at ~50% (v/s. ~60% share in July / August). Press reports also indicate that illegal signals of Sun's channels are available on Arasu – which continues to support ratings.
- The 'Arasu' impact** — The gov't's push of Arasu has impacted Sun's cable subscription revenues. Cable revenues from TN have relatively limited impact (~5% of overall revenues); however, Arasu's impact on viewership is key. Mgmt is negotiating with Arasu and expects to be on its network in the near future. Jaya TV (viewership shares of only 2-3%) is expected to go pay from Dec 15th, which could lead to some settlement between Sun & Arasu – news flow around which should be a short-term positive.
- Overhang of group issues** — The stock has been impacted by political uncertainties around the promoter family with many issues in group companies (funding/entertainment tax in SunDirect, competition from Arasu in Sumangali Cable, tough operating environment in Spicejet, etc). We believe these issues may take some time to resolve, which will prevent a meaningful stock re-rating. Promoter pledging of Sun TV shares for sister companies may continue to be an overhang.
- Strong franchise... but near-term uncertainties aplenty** — While Sun's positioning in regional markets & attractive business model are long-term positives, we'd await a better entry point in the stock. The 4% dividend yield does provide some support.

Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2010A	5,234	13.28	42.1	20.4	5.6	29.2	2.8
2011A	7,722	19.59	47.5	13.8	4.7	37.3	3.2
2012E	7,899	20.04	2.3	13.5	4.1	32.7	3.7
2013E	9,119	23.14	15.4	11.7	3.6	33.1	4.6
2014E	10,675	27.09	17.1	10.0	3.2	34.3	5.5

Source: Powered by dataCentral

Company Update

Neutral/High Risk	2H
Price (12 Dec 11)	Rs270.30
Target price	Rs280.00
Expected share price return	3.6%
Expected dividend yield	3.7%
Expected total return	7.3%
Market Cap	Rs106,521M
	US\$2,053M

Price Performance

(RIC: SUTV.BO, BB: SUNTV IN)



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Fiscal year end 31-Mar	2010	2011	2012E	2013E	2014E
Valuation Ratios					
P/E adjusted (x)	20.4	13.8	13.5	11.7	10.0
EV/EBITDA adjusted (x)	9.3	6.3	6.2	5.5	4.7
P/BV (x)	5.6	4.7	4.1	3.6	3.2
Dividend yield (%)	2.8	3.2	3.7	4.6	5.5
Per Share Data (Rs)					
EPS adjusted	13.28	19.59	20.04	23.14	27.09
EPS reported	13.28	19.59	20.04	23.14	27.09
BVPS	47.85	57.19	65.58	74.16	83.77
DPS	7.50	8.75	10.00	12.50	15.00
Profit & Loss (RsM)					
Net sales	14,528	20,135	20,145	22,436	25,288
Operating expenses	-6,794	-9,137	-8,872	-9,548	-10,269
EBIT	7,735	10,998	11,273	12,888	15,019
Net interest expense	-49	-23	-86	-86	0
Non-operating/exceptionals	350	487	603	920	1,092
Pre-tax profit	8,035	11,463	11,790	13,723	16,111
Tax	-2,991	-3,831	-3,891	-4,528	-5,317
Extraord./Min.Int./Pref.div.	190	90	0	-75	-120
Reported net income	5,234	7,722	7,899	9,119	10,675
Adjusted earnings	5,234	7,722	7,899	9,119	10,675
Adjusted EBITDA	10,944	15,803	15,822	17,510	19,684
Growth Rates (%)					
Sales	39.8	38.6	0.1	11.4	12.7
EBIT adjusted	49.8	42.2	2.5	14.3	16.5
EBITDA adjusted	48.5	44.4	0.1	10.7	12.4
EPS adjusted	42.1	47.5	2.3	15.4	17.1
Cash Flow (RsM)					
Operating cash flow	9,928	10,696	10,373	13,833	15,645
Depreciation/amortization	3,209	4,805	4,549	4,622	4,664
Net working capital	1,596	-1,811	-2,075	17	186
Investing cash flow	-6,159	-5,083	-4,331	-4,580	-4,618
Capital expenditure	-5,618	-4,810	-4,268	-4,580	-4,618
Acquisitions/disposals	-541	-273	-63	0	0
Financing cash flow	-3,056	-3,950	-2,867	-7,539	-7,007
Borrowings	-715	0	1,724	-1,725	0
Dividends paid	-3,449	-4,015	-4,591	-5,739	-6,887
Change in cash	713	1,663	3,175	1,714	4,021
Balance Sheet (RsM)					
Total assets	25,052	28,669	33,258	35,372	39,730
Cash & cash equivalent	4,367	6,030	9,205	10,919	14,939
Accounts receivable	3,292	4,300	5,243	5,225	5,543
Net fixed assets	12,126	12,132	11,850	11,809	11,762
Total liabilities	4,948	4,883	6,164	4,897	5,468
Accounts payable	0	0	0	0	0
Total Debt	1	1	1,725	0	0
Shareholders' funds	20,104	23,786	27,094	30,475	34,263
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	75.3	78.5	78.5	78.0	77.8
ROE adjusted	29.2	37.3	32.7	33.1	34.3
ROIC adjusted	36.2	49.8	45.5	49.0	57.3
Net debt to equity	-21.7	-25.3	-27.6	-35.8	-43.6
Total debt to capital	0.0	0.0	6.0	0.0	0.0

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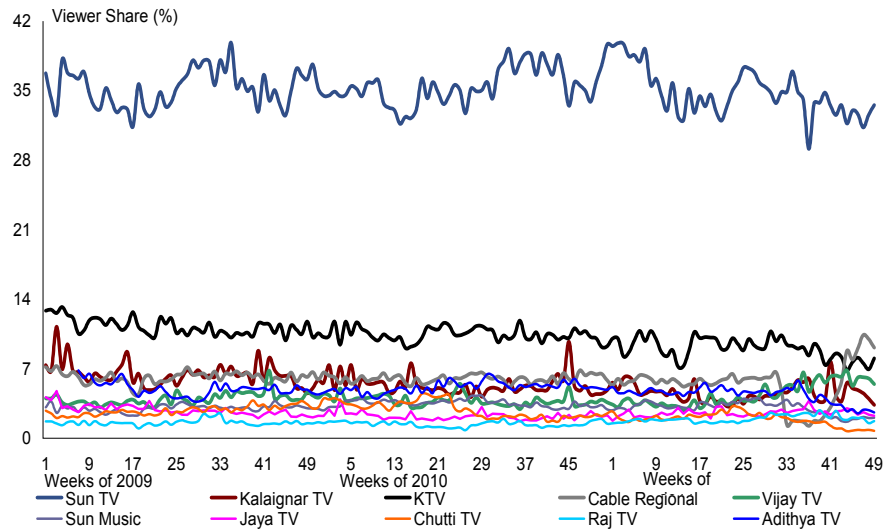
Viewership Ratings

While Sun's competitive position remains unmatched, there has been some slippage in ratings during the course of the year...

... Its top 2 channels, Sun TV & KTV have ~34% & 8% shares of the overall Tamil Nadu (TN) market now - v/s. ~40% & 10% respectively at the start of the year

We would closely monitor viewership rating trends – these would be the key to ad growth in a tough environment

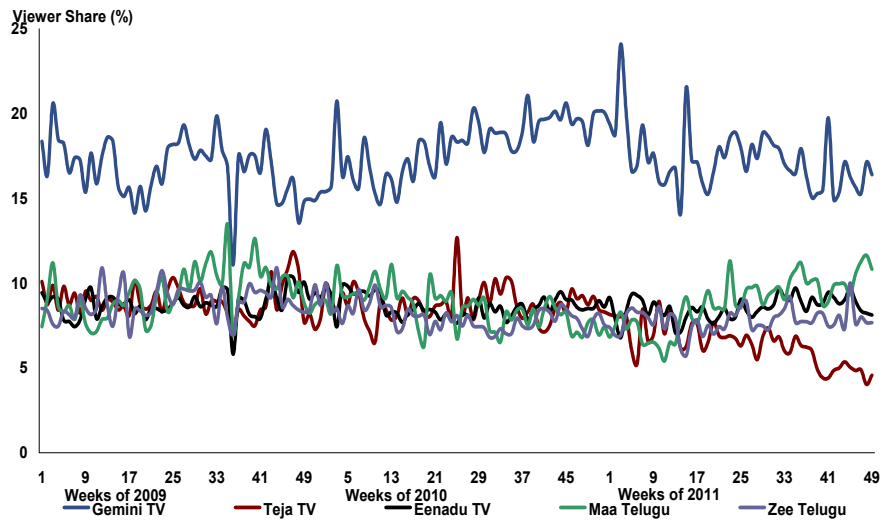
Figure 1. Tamil Nadu Market - Overall Channel Shares (%)



Source: TAM Media, All Channels, C&S 4+; TN Market; All 24 hours

AP remains a competitive market with many players eyeing the 2nd spot, behind Sun TV Network's Gemini TV

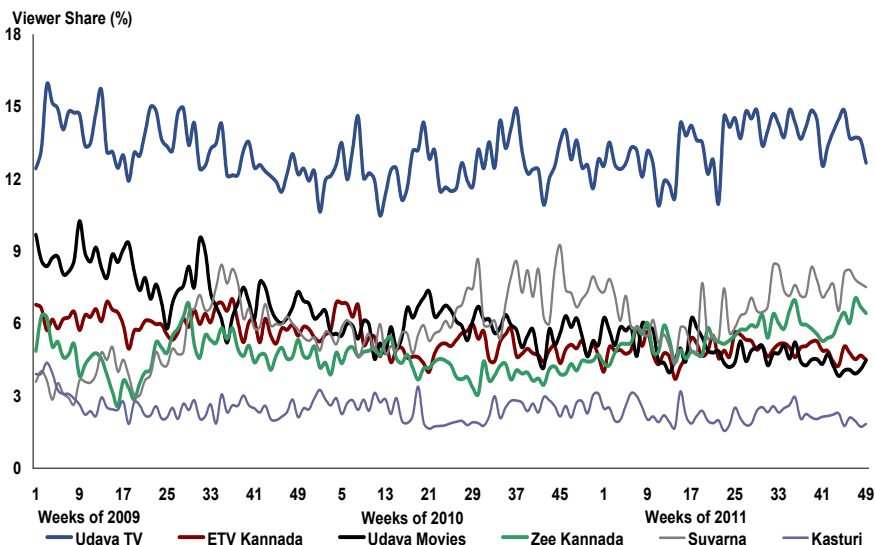
Figure 2. Andhra Pradesh Market- Overall Channel Shares (%)



Source: TAM Media, All Channels, C&S 4+; AP Market; All 24 hours

Sun's Udaya TV maintains its lead – followed by Suvarna, Zee and ETV garnering the next 3 spots

Figure 3. Karnataka Market- Overall Channel Shares (%)

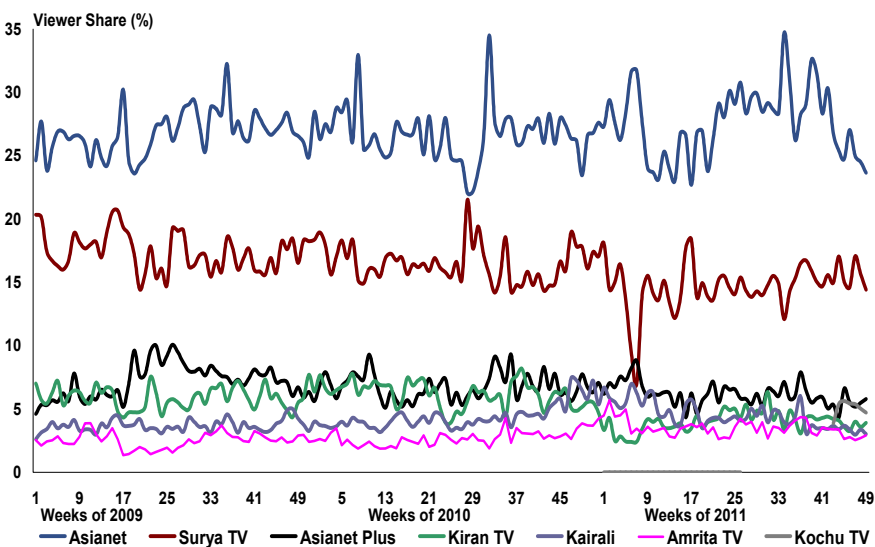


Source: TAM Media, All Channels, C&S 4+; Karnataka Market; All 24 hours

Leader Asianet has lost significant market share in recent weeks

Sun TV Network's Surya TV maintains its No 2 position in Kerala; The network's latest launch, kid's channel, Kochu TV, has been well received – is now the 4th most watched channel in the state

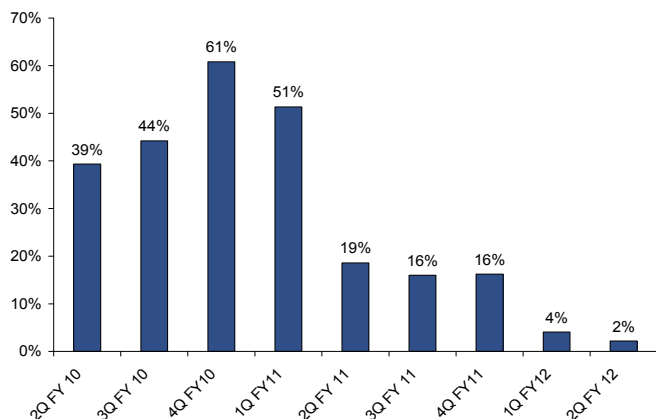
Figure 4. Kerala Market- Overall Channel Shares (%)



Source: TAM Media, All Channels, C&S 4+; Kerala Market; All 24 hours

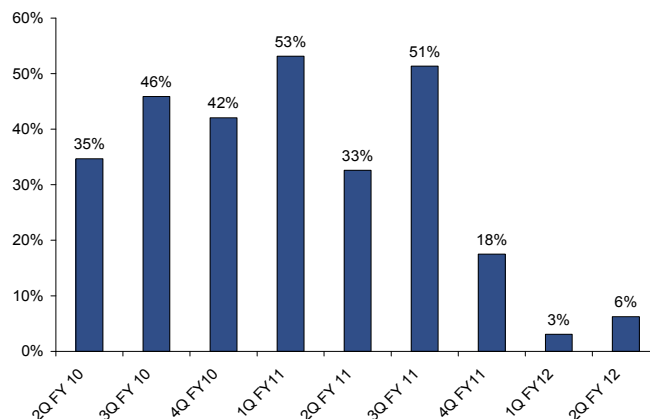
Near-Term Ad Growth Lackluster

Figure 5. Ad Revenues Growth Trends (% YoY)



Source: Company Reports

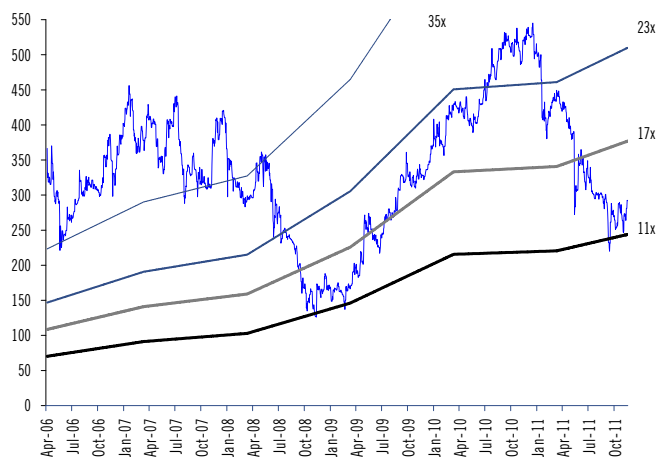
Figure 6. Total Revenue Growth Trends (% YoY)*



Source: Company Reports and CIRA; *3QFY11 revenues includes contribution from the movie, *Endhiran*

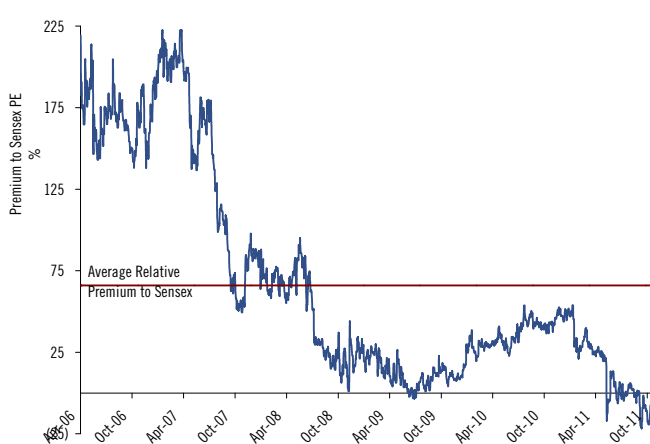
Band Charts

Figure 7. Sun TV (Consolidated) – One Year Forward P/E Band Chart



Source: Powered by dataCentral

Figure 8. Sun TV – Relative P/E to the Sensex



Source: Bloomberg, Company Reports and CIRA estimates

Sun TV Network

Company description

Sun TV Network (Sun) is the dominant broadcaster in the South Indian states of Tamil Nadu, Andhra Pradesh, Karnataka and Kerala, enjoying almost monopolistic advantage in key segments. Sun has the largest broadcasting platform in South India and operates 20 channels in South Indian languages, in key genres like general entertainment, cinema, news, music and kids programs. It began as a single-channel company in Tamil Nadu in 1993, and has evolved into a multi-language and multi-genre broadcaster. Besides TV broadcasting, Sun owns FM radio licenses for 45 cities.

Investment strategy

We rate Sun TV shares Neutral / High Risk (2H). It is the dominant South Indian broadcaster, enjoying strong leadership in its markets. We believe Sun TV will be one of the biggest beneficiaries of the pay market (particularly DTH) ramp up in India. Sun has successfully worked with the free commercial time (FCT) model. We expect ~9% advertising revenue CAGR over FY11-FY13E - slower than its historical growth rates and market expectations. Muted subscription revenue growth outlook is an overhang. Further, risks of rising competition in the regional markets and radio business investment could adversely impact profitability. News flow around political uncertainties around the promoter family will prevent a meaningful re-rating in the near term, in our view.

Valuation

Our target price of Rs280 is based on 12x March13E consolidated EPS. Our target multiple is around trough levels, factoring in the dual risks of a) moderating growth going forward (we forecast ~10% EPS CAGR over FY11-13E v/s ~44% EPS CAGR over FY09-11) and b) the political uncertainties around the promoter family. We note that our target multiple is much lower than the historical 5-year average multiples (>25x one year forward P/E), and just a tad higher than the trough multiples witnessed around the last downturn (~11x). In relative terms, our target P/E multiple will be at a slight discount to the market, much lower than the historical avg. P/E premium of ~70% to the BSE Sensex.

Risks

We rate Sun TV Network shares as High Risk given the political uncertainties around the promoter family which may weigh on the stock price. Key downside risks to our target price include: 1) With increasing competitive intensity in various states, Sun TV could lose market share as channel fragmentation would be in play. This also increases the cost of content and may impact operating margins. 2) Higher than estimated funding for the radio ventures could change financials, return ratios and cash flow profile. 3) Adverse political equations could hurt the stock. Upside risks to our target price include: 1) Company could manage issues with cable / DTH operators better and improve its domestic subscription revenues. 2) Movie business could result in high returns, which may provide upside risk to our estimates. 3) With decent cash flows, any increase in dividend payouts could result in a higher yield and positively impact the stock.

Appendix A-1

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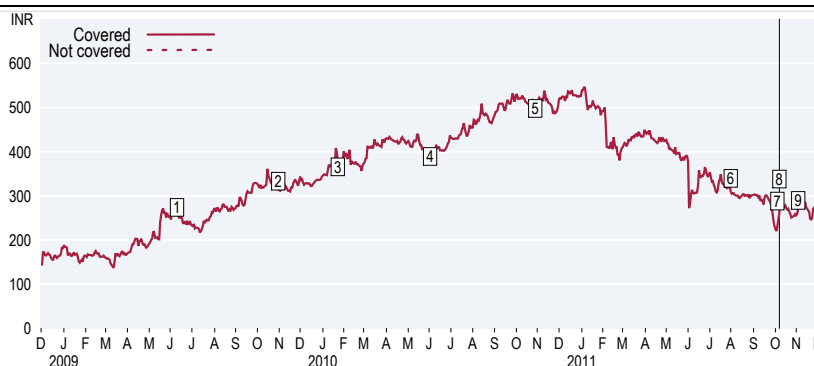
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Sun TV Network (SUTV.BO)

Ratings and Target Price History Fundamental Research

Analyst: Surendra Goyal, CFA



	Date	Rating	Target Price	Closing Price
1	10-Jun-09	*2M	*298.00	264.45
2	30-Oct-09	2M	*360.00	314.05
3	22-Jan-10	2M	*435.00	380.30

	Date	Rating	Target Price	Closing Price
4	2-Jun-10	*2L	*450.00	399.75
5	28-Oct-10	2L	*525.00	499.50
6	1-Aug-11	*2M	*345.00	309.75

	Date	Rating	Target Price	Closing Price
7	5-Oct-11	*2H	*265.00	231.45
8	7-Oct-11	Stock rating system changed		
9	3-Nov-11	2H	*280.00	273.35

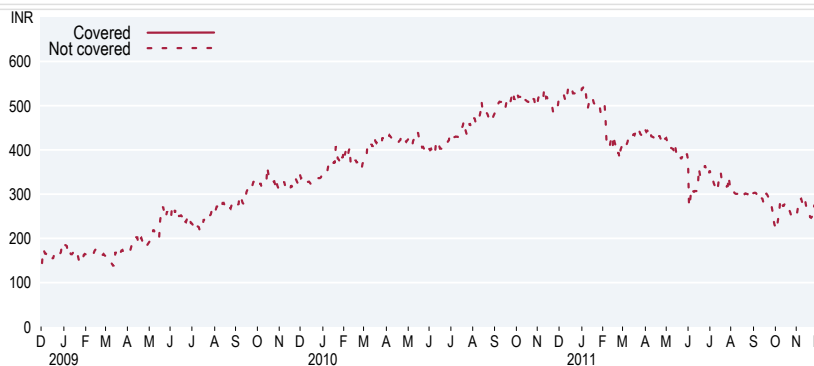
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Sun TV Network (SUTV.BO)

Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Surendra Goyal, CFA



* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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12 Month Rating			Relative Rating		
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45%	42%	37%	50%	43%	46%

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