

July 1, 2008

Rating	Market Performer
Price	Rs286
Target Price	Rs332
Implied Upside	16.0%
Sensex	13,462

(Prices as on June 30, 2008)

**Trading Data**

Market Cap. (Rs bn)	112.7
Shares o/s (m)	394.1
Free Float	23.0%
3M Avg. Daily Vol ('000)	46.5
3M Avg. Daily Value (Rs m)	15.4

**Major Shareholders**

Promoters	77.0%
Foreign	7.4%
Domestic Inst.	1.0%
Public & Others	14.6%

**Stock Performance**

(%)	1M	6M	12M
Absolute	(19.3)	(30.1)	(28.3)
Relative	(1.3)	3.6	(20.2)

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



Source: Bloomberg

■ **Results:** Sun TV's results were in line with our estimates. For Q4FY08, the company reported revenue of Rs2.46bn, a decline of 35% YoY; margins slid by 250bps to 64%, as a result earnings declined by 23% YoY to Rs914m.

Consolidated revenue for the year grew by 28% to Rs8.7bn. OPM declined by 120bps. Earnings recorded a robust growth of 32% YoY to Rs3.3bn.

■ **Core operations maintain momentum:** Sun's core ops. grew at a healthy 20% YoY to Rs8.1bn from Rs6.7bn, with subscription revenue growing at 26%, ad. sales at 20% and broadcast fees at 14%.

■ **New revenue streams start contributing:** During the year, the company added two new streams of revenue viz. DTH-based subscription revenue and revenue from radio operations. As of FY08, both these verticals contributed marginally (about 2%); however, going forward we expect their contribution to increase to 14% by FY10E.

■ **Competition heats up:** With competition heating up in the regional broadcasting space, Sun TV's channels are expected to face the heat. However, the management seems confident, despite increasing competition, of sustaining their leadership position in all four states.

■ **Outlook & valuation:** We have modelled for consolidated revenue CAGR of 16% FY08-10E to Rs11.6bn from Rs8.7bn; however, DTH and radio operations are likely to grow faster at 185% CAGR. Margins are expected to remain flat at 69%, due to losses in the radio venture, thus restricting earnings growth at 16% CAGR to Rs4.4bn from Rs3.3bn. Given the company's near monopoly position in the southern markets it continues to maintain rich valuations despite the 22% decline in stock price, we thus reduce our target price from Rs367 to Rs332 (30x FY10E). Maintain Market Performer.

Key financials (Y/e March)	FY07	FY08	FY09E	FY10E
Revenue (Rs m)	6,780	8,699	10,070	11,609
Growth (%)	110.6	28.3	15.8	15.3
EBITDA (Rs m)	4,742	5,975	6,923	8,039
PAT (Rs m)	2,469	3,267	3,808	4,359
EPS (Rs)	6.3	8.3	9.7	11.1
Growth (%)	89.6	32.3	16.6	14.5
Net DPS (Rs)	1.5	2.5	2.5	3.0

Source: Company Data; PL Research

Profitability & valuation	FY07	FY08	FY09E	FY10E
EBITDA margin (%)	69.9	68.7	68.8	69.3
RoE (%)	32.9	23.4	21.2	19.8
RoCE (%)	27.7	23.4	20.8	19.4
EV / sales (x)	7.5	11.9	10.1	8.4
EV / EBITDA (x)	10.7	17.4	14.6	12.1
PE (x)	45.7	34.5	29.6	25.9
P / BV (x)	4.7	7.0	5.7	4.7
Net dividend yield (%)	0.5	0.9	0.9	1.0

Source: Company Data; PL Research

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## Q4FY08 result overview

(Rs m)

Y/e March	Q4FY08	Q4FY07	YoY gr. (%)	Q3FY08	FY07	FY08	YoY gr. (%)
Net revenue	2,465	3,790	(35.0)	2,178	6,780	8,699	28.3
Cost of revenue	173	576	(70.0)	144	782	766	(2.0)
Staff cost	276	367	(24.7)	236	698	958	37.1
Other expenditure	434	323	34.3	88	557	1,000	79.5
Total expenditure	884	1,267	(30.2)	468	2,037	2,724	33.7
Operating profit	1,581	2,524	(37.4)	1,710	4,742	5,975	26.0
<i>Operating margins (%)</i>	<i>64.1</i>	<i>66.6</i>		<i>78.5</i>	<i>69.9</i>	<i>68.7</i>	
Other income	215	174	23.6	142	411	556	35.3
Depreciation	377	864	(56.4)	262	1,218	1,239	1.7
Interest	11	15	(26.5)	25	64	159	147.4
PBT	1,408	1,819	(22.6)	1,565	3,871	5,133	32.6
Minority interest	-	-		-	-	148	
Tax	494	630	(21.7)	542	1,401	2,015	43.8
<i>Tax rate (%)</i>	<i>35.1</i>	<i>34.6</i>		<i>34.6</i>	<i>36.2</i>	<i>39.2</i>	
Adjusted PAT	914	1,189	(23.1)	1,023	2,469	3,267	32.3



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#### PL's Recommendation Nomenclature

<b>BUY</b>	: > 15% Outperformance to BSE Sensex	<b>Outperformer (OP)</b>	: 5 to 15% Outperformance to Sensex
<b>Market Performer (MP)</b>	: -5 to 5% of Sensex Movement	<b>Underperformer (UP)</b>	: -5 to -15% of Underperformance to Sensex
<b>Sell</b>	: <-15% Relative to Sensex		
<b>Not Rated (NR)</b>	: No specific call on the stock	<b>Under Review (UR)</b>	: Rating likely to change shortly

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