

# Sun TV Network

Rating: ◀▶

Target price: ▼

EPS: ▼

CMP

Rs. 491

Absolute

Buy

Target

Rs. 595

Relative

Outperform

## Results beat the street as usual, Maintain Outperform

Sun TV (STN) continued its strong show in 3QFY11; core business growth (excluding Sun Pictures) was a hefty 23.8% y-o-y with advertising income increasing by 16%. Additional kicker to the revenues and net profits came from 'Enthiran' that contributed Rs1.5bn and ~Rs 0.29bn respectively. While the overall bottomline surged by 48.4% y-o-y, core business (excluding 'Enthiran') profits likely grew by a handsome ~30%.

### Key Takeaways from conference call with Management

- To hike ad rates effective end of April-beginning May'11 unlike normal phenomenon of annual hike in January, this is to ensure effective pass on of rate increases given heavy cricket, events World Cup and T20 that should attract ad budgets away from entertainment channels.
- Contemplating launch of two new channels in South Indian languages in FY12, though did not hint at the genre's.
- DTH Revenues likely to increase ~10% q-o-q in 4QFY11 (after fattish qoq number in 3QFY11) as deal renewals with operators over in Dec-Jan.

**View and Valuations:** We reiterate our liking for STN's strong business model. Unlike listed broadcasting peers such as Zee Entertainment that are up against revenue and cost pressures due to competition, STN is in a far better position to reap increase in ad spends in its markets without cost pressures.

After a blockbuster FY11 we expect STN 's revenues and earnings to grow at a CAGR of ~17% and 19% respectively over FY11-13E (excluding the non-recurring gains made in FY11 from 'Enthiran'). Likely new channel launches should address streets concerns on new growth drivers to some extent. Net Cash equivalents of Rs7.2bn and return ratios in excess of 30% speak of the financial strength.

We have toned down our revenue and earnings estimates for FY12 (and accordingly the target price) to account for lesser ad revenue growth given postponement of rate hikes. We maintain our Buy/ Outperform call on the stock with a 1 yr target price of Rs595 (27x FY12E earnings).

### Financial summary (Consolidated)

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	Adj PAT (Rs. mn)	EPS (Rs.)	P/E(x)	EV/EBITDA (x)
FY10	14,528	10,909	5,199	13.2	37.2	17.3
FY11E	20,238	15,891	7,499	19.0	25.8	11.7
FY12E	21,979	17,024	8,690	22.1	22.3	10.7
FY13E	25,106	19,479	10,235	26.0	18.9	9.1

### 3QFY11 Update

Date: Feb 1, 2011

#### Market Data

SENSEX	18328
Nifty	5506
Bloomberg	SUNTV IN
Shares o/s	394mn
Market Cap	Rs. 192bn
52-wk High-Low	Rs. 557-352
3m Avg. Daily Vol	Rs. 96mn
Index member	BSE 200

#### Latest shareholding (%)

Promoters	77.0
Institutions	12.8
Public	10.2

#### Stock performance (%)

	1m	3m	12m
Sun TV	-7.2	-2.2	26.3
Sensex	-10.6	-8.5	12.0
M&E Index	-11.9	-14.4	-2.9

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# Sun TV Network

## Quarterly Financial Results

<b>CMP</b>	Rs. 491	<b>Absolute</b>	Buy
<b>Target</b>	Rs. 595	<b>Relative</b>	Outperform

### Quarterly Financial Result (Standalone)

Rs. mn\Period	31-Dec-10	31-Dec-09	YoY Growth	30-Sep-10	QoQ Growth	FY11E#	FY12E#	YoY Growth
<b>Revenues</b>	<b>5,980</b>	<b>3,951</b>	<b>51.4%</b>	<b>4,248</b>	<b>40.8%</b>	<b>20,238</b>	<b>21,979</b>	<b>8.6%</b>
Cost of Revenues	226	251	-10.0%	250	-9.7%	1,276	1,394	9.2%
Employee cost	481	364	32.3%	407	18.3%	1,889	2,207	16.8%
Other Expenditure	255	211	20.8%	268	-4.9%	1,181	1,353	14.6%
Total Operating Cost	962	826	16.5%	925	4.0%	4,346	4,954	14.0%
<b>EBITDA</b>	<b>5,018</b>	<b>3,125</b>	<b>60.6%</b>	<b>3,323</b>	<b>51.0%</b>	<b>15,891</b>	<b>17,024</b>	<b>7.1%</b>
EBITDA margins	83.9%	79.1%	481bps	78.2%	569bps	78.5%	77.5%	-107bps
Depreciation & Amortisation	1,740	885	96.6%	908	91.7%	5,030	4,459	-11.4%
Other income	91	84	8.6%	93	-1.9%	390	598	53.3%
EBIT	3,369	2,324	45.0%	2,508	34.3%	11,251	13,163	17.0%
Interest	1	2	-18.8%	3	-56.7%	11	13	18.2%
PBT	3,367	2,322	45.0%	2,505	34.4%	11,240	13,150	17.0%
Tax	1,112	803	38.6%	830	34.0%	3,843	4,525	17.7%
Effective tax rate	33.0%	34.6%		33.1%		34.2%	34.4%	
<b>PAT</b>	<b>2,255</b>	<b>1,519</b>	<b>48.4%</b>	<b>1,674</b>	<b>34.7%</b>	<b>7,397</b>	<b>8,626</b>	<b>16.6%</b>
PAT margin	37.7%	38.5%	-75bps	39.4%	-171bps	36.5%	39.2%	270bps
Minority Interest	-	-		-		-102.7	-64.7	
PAT after Minority Interest	<b>2255</b>	<b>1519</b>	<b>48.4%</b>	<b>1674</b>	<b>34.7%</b>	<b>7499</b>	<b>8690</b>	<b>15.9%</b>
EPS (Rs. )	5.72	3.86	48.4%	4.25	34.7%	19.0	22.1	15.9%

# consolidated financials

# Sun TV Network

## Business Overview

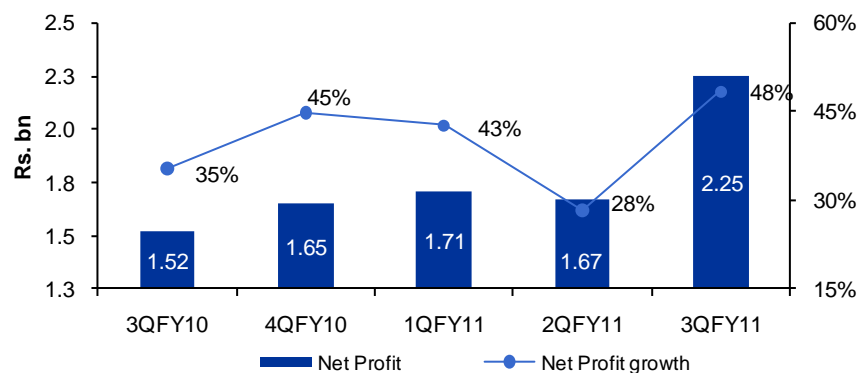
<b>CMP</b>	<b>Rs. 491</b>	<b>Absolute</b>	<b>Buy</b>
<b>Target</b>	<b>Rs. 595</b>	<b>Relative</b>	<b>Outperform</b>

### Key estimate revision

	FY11E			FY12E		
	Old	New	Change	Old	New	Change
Revenue	19,320	20,238	4.8%	22,762	21,979	-3.4%
EBITDA	14,889	15,891	7%	17,658	17,024	-3.6%
Margin (%)	77.1%	78.5%	146bps	77.6%	77.5%	-12bps
PAT	7,464	7,499	0%	8,994	8,690	-3.4%
PAT Margin	38.6%	37.1%	-158bps	39.5%	39.5%	2bps
EPS	18.9	19.0	0.5%	22.8	22.1	-3.4%

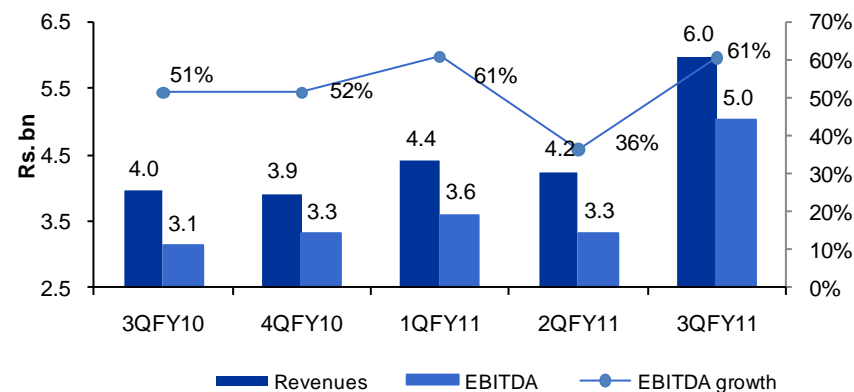
All figures in Rs. mn, except EPS, which is in Rs.

### Sustained strong growth in net profit



Source: Company, Spark Research

### Snapshot of Operating performance



Source: Company, Spark Research

### Healthy growth across Revenue lines

	3QFY11 (Rs mn)	y-o-y
Advertising	2,610	16.0%
Broadcast fees	420	20.0%
Subscription-Overseas	200	42.9%
Subscription-Analog	530	35.9%
Subscription-DTH	700	59.1%
Movie Distribution/ Production	1,510	344.1%

Source: Company, Spark Research

# Sun TV Network

## Financial Summary (Consolidated)

<b>CMP</b>	<b>Rs. 491</b>	<b>Absolute</b>	<b>Buy</b>
<b>Target</b>	<b>Rs. 595</b>	<b>Relative</b>	<b>Outperform</b>

Abridged Financial Statements					
Rs. mn	FY09	FY10	FY11E	FY12E	FY13E
<b>Profit &amp; Loss</b>					
Revenues	10,394	14,528	20,238	21,979	25,106
EBITDA	7,368	10,909	15,891	17,024	19,479
Depreciation	2,205	3,209	5,030	4,459	4,891
EBIT	5,163	7,700	10,861	12,566	14,588
Other Income	668	350	390	598	892
Interest	138	49	11	13	14
PBT	5,693	8,000	11,240	13,150	15,466
Net Profit	3,683	5,199	7,499	8,690	10,235
Adjusted Net Profit	3,683	5,199	7,499	8,690	10,235
<b>Balance Sheet</b>					
Shareholders Equity	17,401	20,104	24,043	29,211	35,953
Deferred Tax	261	339	339	339	339
Total debt	716	1	1	1	1
<b>Total Networth &amp; Liabilities</b>	<b>18,378</b>	<b>20,445</b>	<b>24,384</b>	<b>29,551</b>	<b>36,294</b>
Net fixed assets	8,146	8,978	11,087	10,953	10,910
CWIP & Intangibles under developm	1,572	3,149	1,500	2,250	3,000
Investments	5,099	6,198	7,813	11,813	17,313
Non Current Assets	233	300	254	397	471
Current assets	5,516	6,427	8,705	9,423	10,227
Current liabilities	2,188	4,607	4,976	5,285	5,626
Net current assets	3,328	1,820	3,729	4,139	4,601
Misc exp not w/off	-	-	-	-	-
<b>Total Assets</b>	<b>18,378</b>	<b>20,445</b>	<b>24,384</b>	<b>29,551</b>	<b>36,294</b>
<b>Cash Flows</b>					
Cash flow s from Operations	5,875	7,471	11,069	12,207	14,029
Cash flow s from Investing	(3,715)	(6,544)	(7,095)	(9,061)	(11,084)
Cash flow s from Financing	(2,088)	(838)	(3,469)	(3,471)	(3,472)
Free cash flow to fund	957	1,652	3,929	7,882	9,181
Free cash flow to equity	652	900	5,567	7,869	9,167

Key metrics					
	FY09	FY10	FY11E	FY12E	FY13E
<b>Growth ratios (%)</b>					
Sales	19.5%	39.8%	39.3%	8.6%	14.2%
EBITDA	23.3%	48.1%	45.7%	7.1%	14.4%
Net Profit	12.7%	41.2%	44.2%	15.9%	17.8%
<b>Margin ratios (%)</b>					
EBITDA	70.9%	75.1%	78.5%	77.5%	77.6%
EBIT	49.7%	53.0%	53.7%	57.2%	58.1%
Net Profit	35.4%	35.8%	37.1%	39.5%	40.8%
<b>Performance ratios</b>					
RoE (%)	21.6	28.0	35.4	33.8	32.4
RoCE (%)	34.1	41.5	50.2	48.8	47.0
Dividend Yield (%)	0.5	0.5	1.5	1.5	1.5
Total Assets Turnover (x)	0.7	0.9	1.0	1.1	1.2
Fixed Assets Turnover (x)	2.0	2.5	2.3	2.4	2.7
<b>Financial stability ratios</b>					
Net Debt to Equity (x)	0.0	0.0	0.0	0.0	0.0
Debtor days	85	83	83	83	83
Loans and Advances	59	40	33	35	35
Other current assets	38	27	24	28	29
Creditor days	55	39	39	39	39
Other current liabilities	152	147	147	147	147
<b>Working capital days</b>	<b>117</b>	<b>46</b>	<b>67</b>	<b>69</b>	<b>67</b>
<b>Valuation metrics</b>					
Market Cap (Rs.mn)	193,612	193,612	193,612	193,612	193,612
Diluted Shares (mn)	394	394	394	394	394
Adjusted EPS (Rs.)	9.3	13.2	19.0	22.1	26.0
P/E (x)	52.6	37.2	25.8	22.3	18.9
EV (Rs. mn)	190,674	188,779	186,659	182,985	178,012
EV/ EBITDA (x)	25.9	17.3	11.7	10.7	9.1
EV/ Operating cash flow (x)	32.5	25.3	16.9	15.0	12.7

<b>CMP</b>	Rs. 491	<b>Absolute</b>	Buy
<b>Target</b>	Rs. 595	<b>Relative</b>	Outperform

## Absolute Rating Interpretation

<b>BUY</b>	Stock expected to provide positive returns of > 15% over a 1-year horizon
<b>ADD</b>	Stock expected to provide positive returns of <=15% over a 1-year horizon
<b>REDUCE</b>	Stock expected to fall <=15% over a 1-year horizon
<b>SELL</b>	Stock expected to fall >15% over a 1-year horizon

## Relative Rating Interpretation

<b>OUTPERFORM</b>	Stock expected to outperform sector index /sector peers in our coverage
<b>UNDERPERFORM</b>	Stock expected to underperform sector index/ sector peers in our coverage

## Recommendation History

Date	CMP	Target price	Absolute Rating	Relative Rating
13-Jan 11	500	616	Buy	O-PF
3-Jan 11	524	616	Buy	O-PF

### Analyst Certification

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