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Sector Comment

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Indian Media Sector

Takeaways from FICCI-FRAMES 2011

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■ India media & entertainment industry revenues to grow 14% in 2010-15

We attended FICCI FRAMES 2011—an annual media and entertainment conference—last week. In this note, we summarise key takeaways from select panel discussions held during the conference and key points from the FICCI-KPMG Indian Media and Entertainment industry report 2011 released during the conference. According to the report, the India media and entertainment industry's revenue grew 11% in 2010 and is expected to grow at a CAGR of 14% over 2010-15 to Rs1,276bn.

■ Takeaways from select panel discussions held at the conference

1) TRAI highlighted that it is not facing significant opposition to the recommendations on mandatory digitisation. TRAI mentioned that the timelines for implementing digitisation are being debated and the two primary concerns being discussed are: availability of set-top boxes and the investment required by MSOs [estimated to be Rs500bn]. 2) The regional media is growing rapidly, led by favourable demographics, and increasing income and consumption in tier-2 and tier-3 cities. Maharashtra, West Bengal, and the southern states are the fastest growing regional markets. 3) While the usage of digital media is likely to increase in the medium term, the traditional media platforms (TV and print) are likely to co-exist in India.

■ Maintain positive view on India media sector led by digitisation

We maintain Buy ratings on Zee Entertainment, IBN18, Dish TV, and Hathway as we believe they will benefit from increasing digitisation in the long term. We maintain our Sell rating on Sun TV as we believe the upcoming state elections and any negative newsflow relating to the promoters' involvement in the telecom spectrum controversy could create an overhang on the stock price in the near term.

Table 1: Valuation comparison

		29-Mar-11	Price	% upside/	Mcap		P/E (x)			EV/EBIT (x)	
Company Name	Rating	Price (Rs)	target	downside	USD m	FY11	FY12E	FY13E	FY11	FY12E	FY13E
Zee Entertainment	Buy	124	165	33.3%	2,704	22.0	18.1	15.3	15.0	12.8	10.5
IBN18	Buy	93	130	40.5%	744	110.5	33.3	16.5	25.1	13.2	7.6
Sun TV	Sell	434	400	-7.9%	3,825	24.8	20.7	17.9	15.6	12.8	10.7
Dish TV India	Buy	65	77	19.4%	1,533	-	-	48.5	-	139.7	45.1
Hathway Cable	Buy	99	275	178.5%	315	32.9	22.8	16.9	15.3	10.9	8.3

Source: Bloomberg, UBS estimates

M&E industry revenues to grow 14% in 2010-15

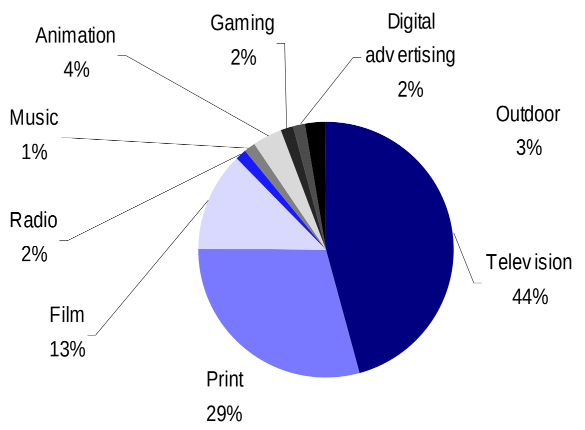
According to the FICCI-KPMG Indian Media and Entertainment Industry Report 2011, the India media and entertainment industry's revenue grew 11% in 2010 and is expected to grow at 14% CAGR for 2010-15, from Rs653bn in 2010 to Rs1,276bn in 2015. While the share of television is expected to increase from 45% of total revenue in 2010 to 49% by 2015, the share of print is likely to decline from 30% to 24%.

Table 2: KPMG's forecasts for the India media and entertainment industry's revenues

Rs bn	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	CAGR
Television	163.3	182.5	211.0	241.0	257.0	297.0	341.0	389.0	455.0	533.0	630.0	16.2%
Print	117.1	138.6	160.0	172.0	175.0	193.0	211.0	231.0	254.0	280.0	310.0	9.9%
Film	66.9	78.0	93.0	104.0	89.0	83.0	91.0	98.0	109.0	120.0	132.0	9.7%
Radio	4.9	6.0	7.0	8.0	8.0	10.0	12.0	15.0	18.0	21.0	25.0	20.1%
Music	8.3	7.8	7.0	7.0	8.0	9.0	9.0	11.0	13.0	16.0	19.0	16.1%
Animation	10.0	12.0	14.0	17.0	20.0	24.0	28.0	33.0	40.0	47.0	56.0	18.5%
Gaming	2.2	3.0	4.0	7.0	8.0	10.0	13.0	17.0	23.0	31.0	38.0	30.6%
Digital advertising	2.0	2.0	4.0	6.0	8.0	10.0	13.0	18.0	22.0	28.0	36.0	29.2%
Outdoor	10.0	11.7	14.0	16.0	14.0	17.0	19.0	22.0	24.0	27.0	30.0	12.0%
Total Size	384.7	441.6	514.0	578.0	587.0	653.0	737.0	834.0	958.0	1,103.0	1,276.0	14.3%

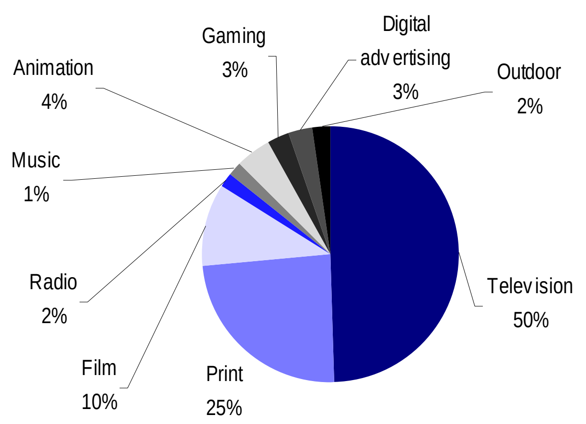
Source: FICCI-KPMG Indian Media and Entertainment Industry Report 2011

Chart 1: India media and entertainment revenue industry revenue split by segments – 2010



Source: FICCI-KPMG Indian Media and Entertainment Industry Report 2011

Chart 2: India media and entertainment revenue industry revenue split by segments – 2015E



Source: FICCI-KPMG Indian Media and Entertainment Industry Report 2011

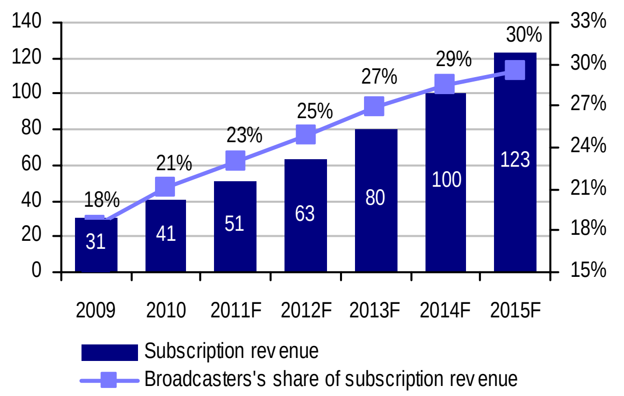
Table 3: India TV industry revenue forecasts by FICCI-KPMG

Television	2005	2006	2007	2008	2009	2010	2011F	2012F	2013F	2014F	2015F	CAGR
Advertising revenue	51.9	61.0	71.0	82.0	88.0	103.0	118.0	136.0	157.0	183.0	214.0	15.8%
Subscription revenue	111.4	121.5	140.0	159.0	169.0	194.0	222.0	253.0	298.0	350.0	416.0	15.7%
Total Size	163.3	182.5	211.0	241.0	257.0	297.0	341.0	389.0	455.0	533.0	630.0	15.7%

Source: FICCI-KPMG Indian Media and Entertainment Industry Report 2011

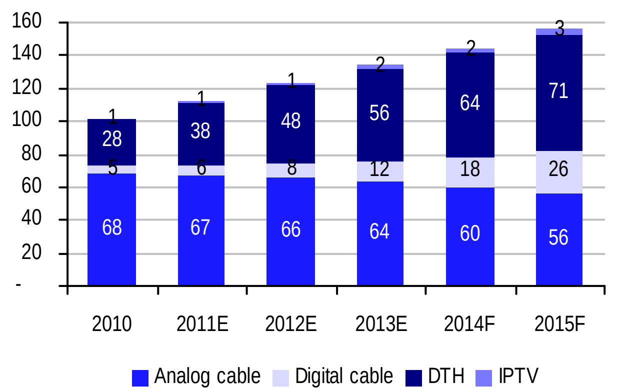
The TV industry reported a 15.6% growth in revenue in 2010 to Rs297bn and is expected to grow at 14.8% in 2011, according to the FICCI-KPMG Indian Media and Entertainment Industry Report 2011. The broadcasters' share of subscription revenue is expected to increase from 21% in 2010 to 30% by 2015, primarily led by increasing adoption of digital platforms (DTH and digital cable).

Chart 3: Total TV subscription revenue & broadcasters' share



Source: FICCI-KPMG Indian Media and Entertainment Industry Report 2011

Chart 4: India cable and satellite subscriber forecasts



Source: FICCI-KPMG Indian Media and Entertainment Industry Report 2011

Key takeaways from select panel discussions during FICCI-FRAMES 2011 media conference on 23-25 March 2011:

- **Confronting realities in television: overcoming regulatory hurdles:** TRAI discussed its recommendations on implementing digital cable systems in India and highlighted that it has not faced significant opposition on digitisation, except from a few local cable operators. Two concerns that are being discussed are: 1) availability of set-top boxes; and 2) investment required by multi-system operators (MSOs). TRAI mentioned that the government has set up a committee of stakeholders to debate the timelines for implementing digitisation.

  India cable industry (specifically MSOs) needs to invest Rs500bn to implement digital cable systems in India. The cable companies highlighted their willingness to invest in subsidising STBs and making their networks digital ready provided they get greater co-operation from broadcasters, in terms of revenue sharing.

- **News in the internet age: how to give your best shot in the World Wide Web:** While news consumption on the internet is increasing globally, the panellists believed that traditional print media is likely to co-exist with new media (digital) in India. The credibility of news is important for most readers and they rely on traditional print media for it. However, the traditional print media companies might need to look at innovative ways of monetising online content and evolve their business models in the medium term. For example, a large proportion of people in India could be willing to share their demographic details in order to consume online content, which could be a valuable database for advertisers.

- **TV delivery infrastructure for the future: are we ready for it?** The panel discussed the changing definition of television as it moves away from physical television to mobile phones and laptops. However, it concluded that mobile devices and laptops can not replace television completely in India in the medium to long term. These devices are likely to be used along with the television, and television will continue to be used to view high quality programming. One of the panellists highlighted that by 2015, more than 500bn hours of video content is expected to be available on the internet with more than 12bn devices that can receive or download TV content from the internet.

- **Resurgence of regional media:** The panel discussed how regional media is growing faster given favourable demographics, higher per capita income and increasing consumption trends in tier 2 and tier 3 cities. The following regional markets are the fastest growing: Marathi (Maharashtra), Bengali (West Bengal) and the southern languages (Tamil Nadu, Kerela, Andhra Pradesh and Karnataka). The per capita income of southern states is 18% higher than the north Indian states. The critical success factors for operating in a regional market are: 1) ability to source local content 2) distribution and 3) monetisation of reach.

■ Statement of Risk

We believe key risks for IBN18 are: 1) excessive competition in most of its broadcasting genres, especially the Hindi GEC; 2) heavy reliance on advertising revenue; and 3) regulatory risk, as the news segment of the Indian broadcasting industry is exposed to significant regulation on up-linking guidelines and ownership. We believe key risks for Zee are excessive competition and high sports costs. Content costs could increase for Dish TV if broadcasters negotiate a variable fee structure based on the number of subscribers. Hathway faces execution risk in implementing its business model of executing a stream of value-accretive acquisitions. We see upside risks to our estimates and valuation, if mandatory digitisation is implemented.

■ Analyst Certification

Each research analyst primarily responsible for the content of this research report, in whole or in part, certifies that with respect to each security or issuer that the analyst covered in this report: (1) all of the views expressed accurately reflect his or her personal views about those securities or issuers and were prepared in an independent manner, including with respect to UBS, and (2) no part of his or her compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in the research report.

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UBS Investment Research: Global Equity Rating Allocations

UBS 12-Month Rating	Rating Category	Coverage[1]	IB Services[2]
Buy	**Buy**	49%	40%
Neutral	**Hold/Neutral**	42%	35%
Sell	**Sell**	8%	21%
UBS Short-Term Rating	**Rating Category**	**Coverage[3]**	**IB Services[4]**
Buy	**Buy**	less than 1%	14%
Sell	**Sell**	less than 1%	0%

1:Percentage of companies under coverage globally within the 12-month rating category.
2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.
3:Percentage of companies under coverage globally within the Short-Term rating category.
4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Rating allocations are as of 31 December 2010.

UBS Investment Research: Global Equity Rating Definitions

UBS 12-Month Rating	Definition
Buy	FSR is > 6% above the MRA.
Neutral	FSR is between -6% and 6% of the MRA.
Sell	FSR is > 6% below the MRA.
UBS Short-Term Rating	**Definition**
Buy	Buy: Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.
Sell	Sell: Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.

KEY DEFINITIONS

Forecast Stock Return (FSR) is defined as expected percentage price appreciation plus gross dividend yield over the next 12 months.
Market Return Assumption (MRA) is defined as the one-year local market interest rate plus 5% (a proxy for, and not a forecast of, the equity risk premium).
Under Review (UR) Stocks may be flagged as UR by the analyst, indicating that the stock's price target and/or rating are subject to possible change in the near term, usually in response to an event that may affect the investment case or valuation.
Short-Term Ratings reflect the expected near-term (up to three months) performance of the stock and do not reflect any change in the fundamental view or investment case.
Equity Price Targets have an investment horizon of 12 months.

EXCEPTIONS AND SPECIAL CASES

UK and European Investment Fund ratings and definitions are: Buy: Positive on factors such as structure, management, performance record, discount; Neutral: Neutral on factors such as structure, management, performance record, discount; Sell: Negative on factors such as structure, management, performance record, discount.
Core Banding Exceptions (CBE): Exceptions to the standard +/-6% bands may be granted by the Investment Review Committee (IRC). Factors considered by the IRC include the stock's volatility and the credit spread of the respective company's debt. As a result, stocks deemed to be very high or low risk may be subject to higher or lower bands as they relate to the rating. When such exceptions apply, they will be identified in the Company Disclosures table in the relevant research piece.

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UBS Securities India Private Ltd: Nupur Agarwal.

Company Disclosures

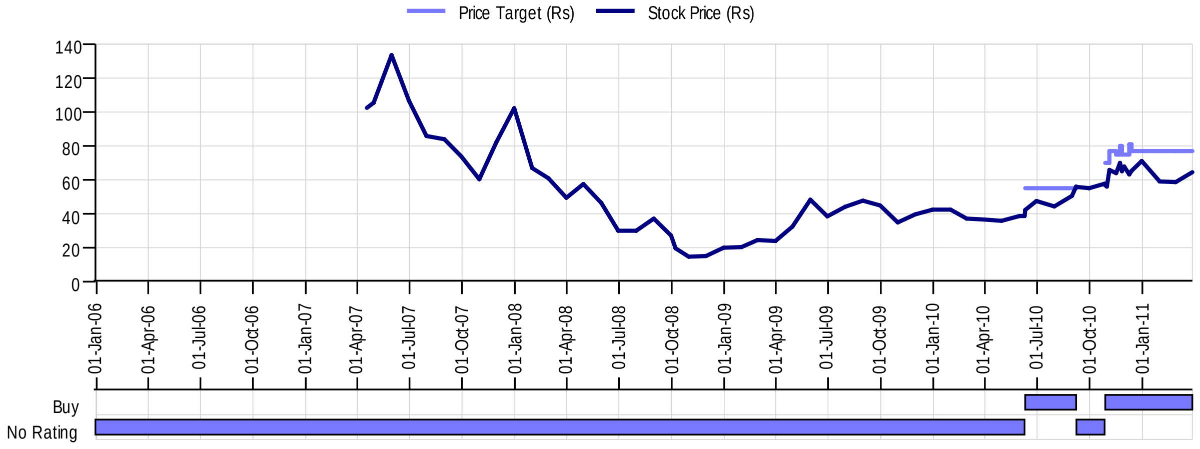
Company Name	Reuters	12-mo rating	Short-term rating	Price	Price date
Dish TV India	DSTV.BO	Buy	N/A	Rs64.50	29 Mar 2011
Hathway Cable & Datacom[4]	HAWY.BO	Buy	N/A	Rs98.75	29 Mar 2011
IBN18 Broadcast	IBN.BO	Buy	N/A	Rs92.50	29 Mar 2011
Sun TV Limited	SUTV.BO	Sell	N/A	Rs434.35	29 Mar 2011
Zee Entertainment Enterprises Ltd	ZEE.BO	Buy	N/A	Rs123.75	29 Mar 2011

Source: UBS. All prices as of local market close.
Ratings in this table are the most current published ratings prior to this report. They may be more recent than the stock pricing date

4. Within the past 12 months, UBS AG, its affiliates or subsidiaries has received compensation for investment banking services from this company/entity.

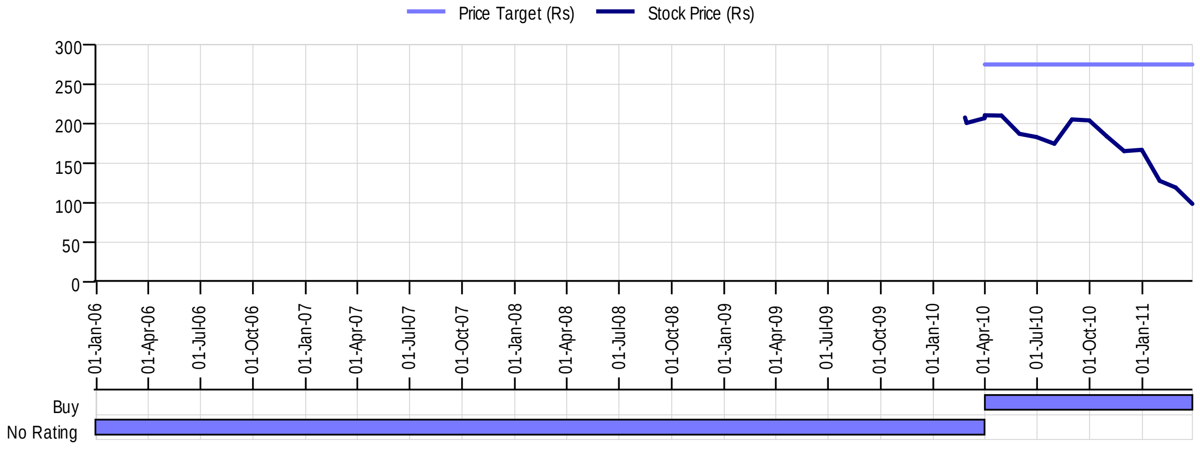
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Dish TV India (Rs)



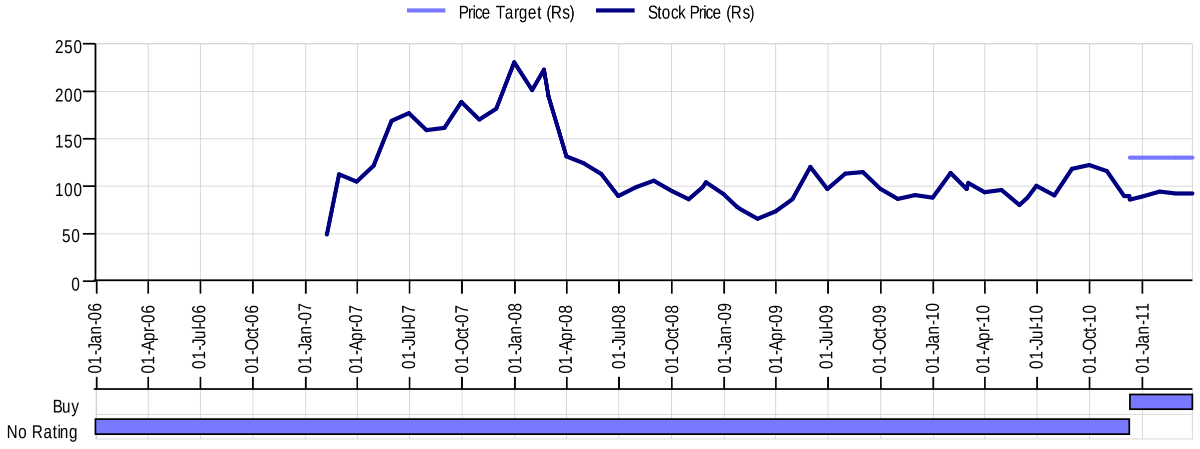
Source: UBS; as of 29 Mar 2011

Hathway Cable & Datacom (Rs)



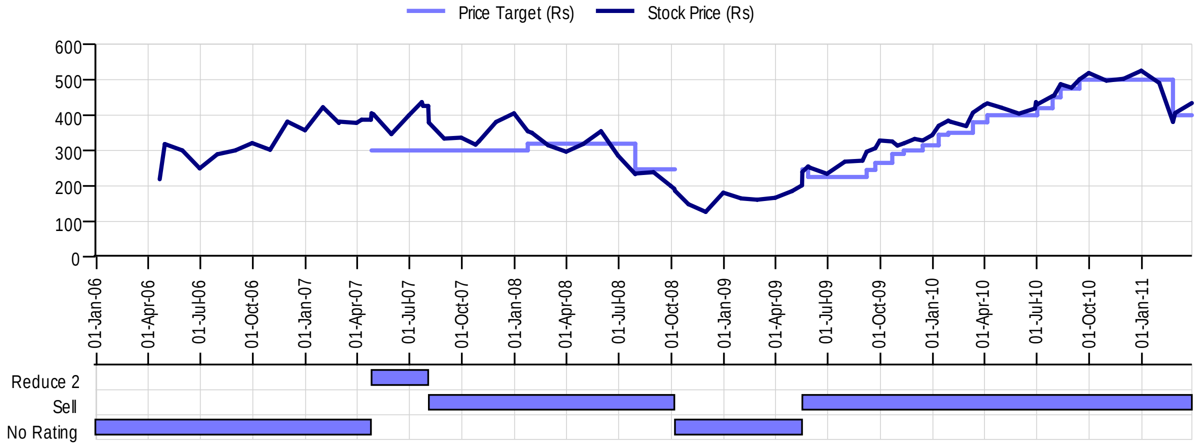
Source: UBS; as of 29 Mar 2011

IBN18 Broadcast (Rs)



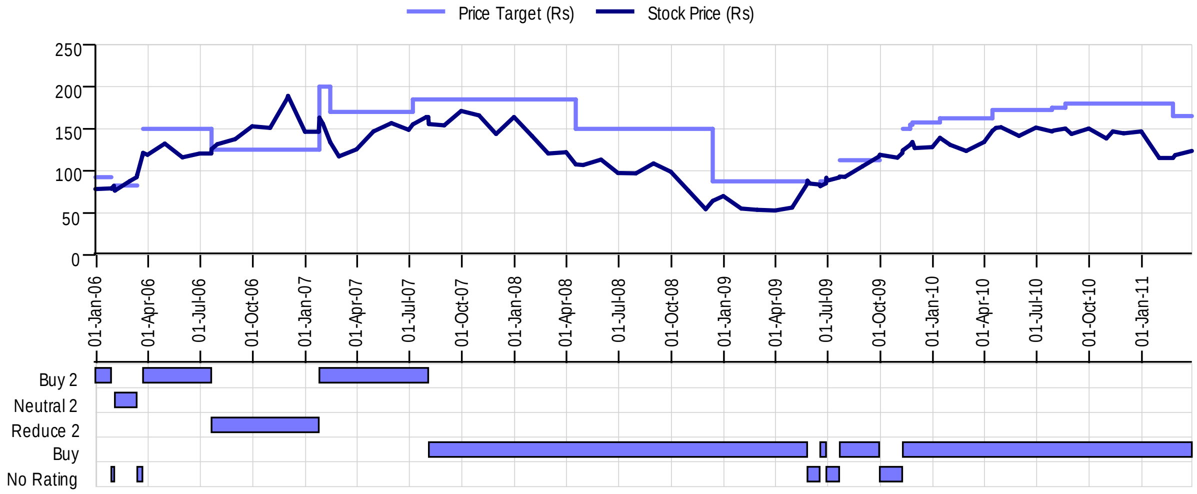
Source: UBS; as of 29 Mar 2011

Sun TV Limited (Rs)



Source: UBS; as of 29 Mar 2011

Zee Entertainment Enterprises Ltd (Rs)



Source: UBS; as of 29 Mar 2011

Note: On August 4, 2007 UBS revised its rating system. (See 'UBS Investment Research: Global Equity Rating Definitions' table for details). From September 9, 2006 through August 3, 2007 the UBS ratings and their definitions were: Buy 1 = FSR is > 6% above the MRA, higher degree of predictability; Buy 2 = FSR is > 6% above the MRA, lower degree of predictability; Neutral 1 = FSR is between -6% and 6% of the MRA, higher degree of predictability; Neutral 2 = FSR is between -6% and 6% of the MRA, lower degree of predictability; Reduce 1 = FSR is > 6% below the MRA, higher degree of predictability; Reduce 2 = FSR is > 6% below the MRA, lower degree of predictability. The predictability level indicates an analyst's conviction in the FSR. A predictability level of '1' means that the analyst's estimate of FSR is in the middle of a narrower, or smaller, range of possibilities. A predictability level of '2' means that the analyst's estimate of FSR is in the middle of a broader, or larger, range of possibilities. From October 13, 2003 through September 8, 2006 the percentage band criteria used in the rating system was 10%.

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