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Initiation of Coverage

UBS Investment Research

Indian Media Sector

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Tune in to growth

- **We forecast strong, consistent growth**

We forecast a 20% revenue CAGR for the Indian media industry over the next five years, driven by a favourable economic environment and increasing investment in the sector as it opens up.

- **Sustainable premium valuations**

We think Indian media stocks will continue to trade at premium valuations, given their high growth potential over the long term and strong growth in the near to medium term. Low free float and ownership restrictions could add a scarcity premium, in our view.

- **Buy ENIL and HT Media; reduce Sun**

We initiate coverage of three stocks—Entertainment Network India (ENIL), HT Media and Sun TV. We rate ENIL and HT Media Buy 2 and Sun TV Reduce 2. We base our price target for ENIL of Rs455 on a sum-of-the-parts valuation of its three businesses. We base our price target for HT Media of Rs215 on a DCF methodology. Our price target of Rs1,203 for Sun is also DCF-based, and we think its current valuation premium is excessive.

- **Major sector risks are competition and execution**

We believe intensifying price-based competition could dent profitability, as it has in some segments. We think HT Media and ENIL's new initiatives have execution risks. The key upside risk for all three companies is higher earnings growth, and in the case of ENIL, the demerger of its non-radio businesses, in our view.

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Summary and Investment case

Industry expected to grow at 20% for the next five years

We forecast new media such as radio and internet to grow 30-60%; print and TV 15-20%

We forecast a 20% revenue CAGR for the Indian media sector over next five years from revenue base of Rs436bn in 2006. We think newer segments such as radio and Internet will grow at faster rates of 30-60%, and even the large traditional segments such as print and television are likely to grow 15-20%. Rising incomes, favourable demographics, and media under-penetration will be the driving forces of the strong growth, in our view.

Gradual liberalisation could spur investments

New products and marketing could gain momentum as the sector is liberalised

The government has gradually opened up the media sector over the past few years, resulting in higher investments—both foreign and domestic. For example, there were several IPOs and M&A deals in the newspaper segment when foreign ownership, albeit restricted, was allowed, and there has been significant expansion in radio after the second round of licensing. We believe higher investments will also drive growth through new products and marketing. Some genre and segments such as news and radio are still heavily regulated, implying more room for liberalisation.

Industry leaders are best placed to grow profits

Talent retention and content are key to success

The media industry is characterised by high operating leverage and high revenue concentration. This implies that revenue and profitability increase disproportionately with increasing market share and vice versa. In such an environment, we believe, industry/segment leaders are best placed to grow profits. They will also be able to access better content and attract good talent—two critical resources—in our view.

Valuations should factor in long-term potential

We think DCF is the appropriate methodology to value long-term growth

Media stocks globally trade at a significant premium to market valuations and Indian media stocks are no different. Based on our expectation of strong growth, we think the multiples will largely be sustainable. Indian media stocks have low free float and there are foreign ownership restrictions and this could lead to higher multiples. We prefer to value media companies on a DCF basis, given secular growth, the free cash-flow nature of the business, and high long-term growth potential. We value ENIL's radio on a DCF basis and other businesses on PE multiples.

Initiating coverage of three companies

1) Entertainment Network India (Buy 2, Rs455 price target)

We expect the new outdoor advertising business will increase its contributions; we have not factored in this value

ENIL, largest private radio operator in India with licences to operate in 32 cities, is part of The Times of India group—the leading newspaper publisher in India. ENIL also has a significant presence in out-of-home advertising (OOH) and the event management industry where it has signed many new contracts recently. We believe ENIL will continue to be the dominant player in radio given its established franchise and strong client relationships. We expect ENIL's OOH revenue to grow nine-fold over next three years. The potential demerger of that business could be a stock trigger in the next six months. Our price target of Rs455 is based on a sum-of-the-parts methodology, where we value radio on DCF, and OOH and events on a PE multiple basis. We believe the key downside risk is margin erosion in radio because of high competition and execution risk, while the key upside risk is faster growth in the radio and OOH businesses.

2) HT Media (Buy 2, Rs215 price target)

Strong margin expansion expected to drive earnings

HT Media, the largest listed print newspaper company in India, is the publisher of *Hindustan Times*—the second most widely read English language newspaper in India—and *Hindustan*—the fourth largest most widely read non-English language newspaper. The company has launched many new initiatives in the past two years which are now bearing fruit and should drive growth over next two to three years. Easing competition in Delhi would also improve profitability, in our view. We forecast an earnings CAGR of 43% over FY07-09, as we expect the EBITDA margin to expand 620bp on our forecast revenue CAGR of 20%. Our DCF-based price target of Rs215 is 22% above the current share price level. The key downside risk is increased competition in its big markets, while the upside risk is a faster ramp up in Mumbai.

3) Sun TV (Reduce 2, Rs1,203 price target)

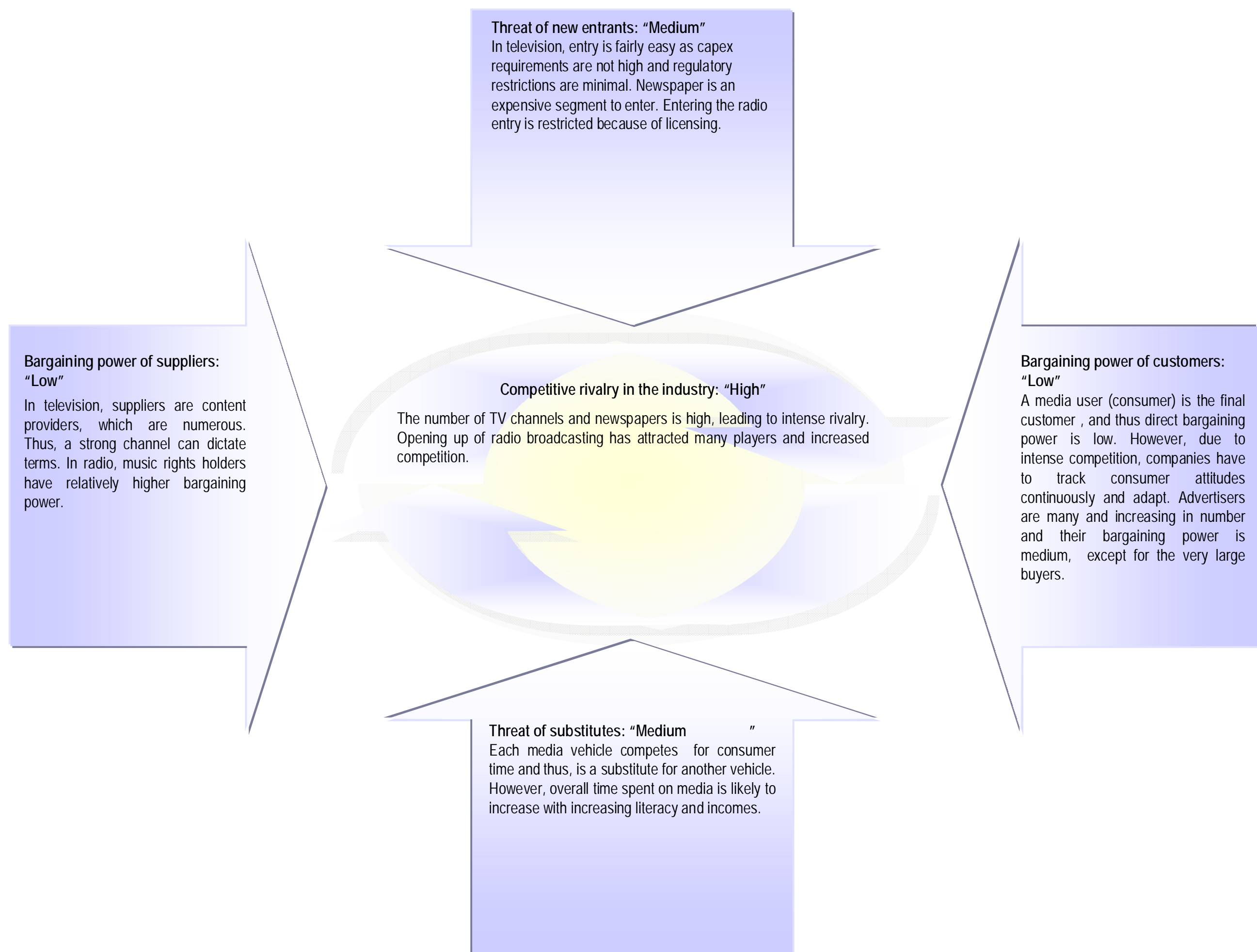
We think high valuations capture all upside potential; downside could come from dilution

Sun TV has been the largest television broadcaster in Tamil Nadu for the past several years. Its recent merger with promoter (founder and majority shareholder) -owned companies, Gemini TV and Udaya TV, the two leading companies in Andhra Pradesh and Karnataka, respectively, will complete its South Indian portfolio. We expect Sun to maintain its dominant position for the foreseeable future. Pay-TV and overseas subscriptions are two untapped areas for Sun that are likely to record high growth over the next two years, in our view. We forecast an earnings CAGR of 28% over FY07-09, driven by a revenue CAGR of 24% and a 60bp improvement in the EBITDA margin. However, we believe its current high valuation captures all the growth potential and also the scarcity premium of a stock, which has a low free float. Our DCF-based price target of Rs1,203 is 27% below the current share price level. The impending share dilution to reduce the promoter's holding is an overhang. The key risk to our call is higher earnings and a sentiment boost from the recently announced share split and the bonus issue.

Competitive analysis

Assessment of industry attractiveness

Chart 1: Five competitive forces analysis



Source: Michael Porter, UBS

We forecast the Indian media industry's revenue to grow 20% pa over the next five years, based on the current low penetration rate, positive demographic changes, economic growth, and improvement in the regulatory environment. We expect strong growth in media segments that have low penetration rates such as radio, which should grow faster from a smaller base.

Low penetration segments such as radio and Internet could grow rapidly

Table 1: Revenue from different media segments

Rs bn	2004	2005	2006P*	2007E	2008E	2009E	2010E	2011E	CAGR %
Television	129	159	191	226	269	324	395	487	21%
Print	88	110	128	148	170	195	224	257	15%
Film	60	68	85	107	136	169	207	248	24%
Radio	2.4	3.2	5.0	7.0	9.5	12.6	16.5	21.2	32%
Music	7	7	7	7	7	8	8	8	2%
Out of home (OOH)	9	9	10	12	13	15	17	20	14%
Live entertainment	7	8	9	11	12	14	16	18	15%
Internet	1	1	2	3	4	7	12	19	65%
Total	302	364	436	520	622	746	896	1,079	20%

Note: *P denotes provisional data.
Source: Indian Readership Survey (IRS), quoted in Jagran Prakashan DRHP, FICCI-PWC media & entertainment study, 2007, UBS estimates

Low media penetration at the lower end

Media penetration still very low in lower socio economic classes

We think there is still scope for media penetration growth in India, especially in the lower socioeconomic groups. As a large section of the population is in the lower strata, improving penetration there can impact the overall penetration rate significantly.

Table 2: Outreach of different media in urban areas

	Print		Television		Satellite TV		Radio	
SEC	Reach (m)	Reach (%)	Reach (m)	Reach (%)	Reach (m)	Reach (%)	Reach (m)	Reach (%)
A1	7.6	95.2	7.6	96.1	6.7	84.0	2.9	36.5
A2	13.9	90.5	14.5	94.5	11.9	77.5	4.6	29.8
B1, B2	32.0	81.1	35.7	90.6	26.6	67.4	9.7	24.7
C	33.8	69.5	41.7	85.8	28.9	59.4	11.2	23.1
D	29.3	52.6	43.2	77.5	27.2	48.9	11.4	20.5
E1, E2	21.0	30.1	45.3	65.0	26.4	37.8	11.0	15.8

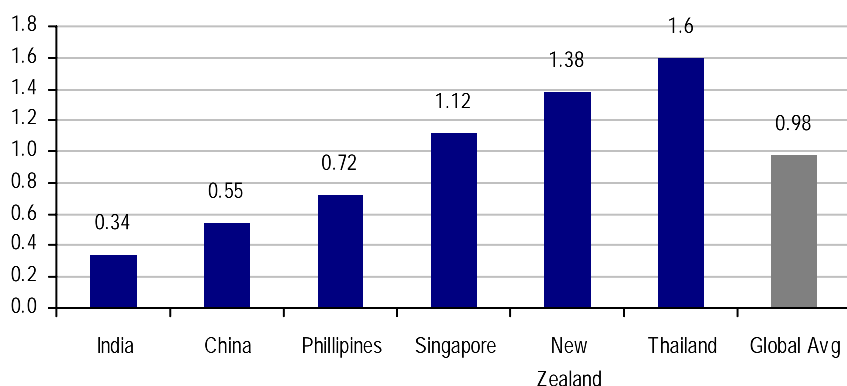
Note: The population is divided by socioeconomic class (SEC), based on education and income levels—A1 is the highest and E2 the lowest.
Source: IRS quoted in Jagran Prakashan DRHP, FICCI-PWC media & entertainment study, 2006

Low advertising spending

We expect ad spend to grow faster than GDP

India's ad spend-to-GDP ratio of 0.34% is among the lowest in the world and is lower than in that of comparable countries. We expect this ratio to improve, as newer sectors such as financial services, automobiles, and retail increase their ad budgets. If ad spend grows 1.5x nominal GDP growth, we estimate this ratio would increase to about 0.45% in five years, much lower than the global average.

Chart 2: Ad spend as a percentage of GDP



Source: Zenith Optimedia, as quoted in the FICCI PWC media study, 2006

Liberalisation of foreign investments

We expect foreign investments to accelerate and government policy to become more favourable

The media industry has been opening up to foreign investments in the past few years. Currently 100% foreign investment is allowed in non-news media (except radio), 26% in news-related media, and 20% in radio (only portfolio). Major foreign companies have been entering India either through joint ventures or directly. We believe this trend is likely to accelerate because of the industry's strong growth potential.

Table 3: Recent deals in the Indian media sector

Investor	Investee	Category	Deal value (Rs m)
Private equity			
Warburg Pincus	Dainik Bhaskar group	Newspaper	1,500
UTI Venture Funds	Lakshya Media	Out of Home	450
New Vernon	Jagran TV	Television	NA
Blackstone	Eenadu Group	Diversified	11,925
T Rowe Price	Saregama	Music	191
M&A/ Others			
Disney	Hungama	TV	1,373
	UTV	Diversified	630
Adlabs	Synergy Communication	TV content	120
Zee	Ten Sports	TV	2,500
Times of India group	Sandesh	Newspaper	270

Source: FICCI PWC study on media, entertainment, 2007, UBS

Overview of different media

Television

Subscription revenue could grow rapidly as addressability improves

FICCI PWC estimates the Indian television industry was worth around Rs191bn in 2006. Subscription revenue was the biggest contributor to this amount, at 60%, while ad revenue was around 35%. We assume an overall industry CAGR of 21% over the next five years, driven by our assumptions of a 15% CAGR in advertising and a 24% CAGR in subscription revenue. We think higher addressability and new technologies such as DTH are likely to drive faster growth in subscription revenue, in our view.

Table 4: TV revenue

Rs bn	2004	2005	2006P*	2007E	2008E	2009E	2010E	2011E	CAGR %
Ad revenue	48	54.5	66.2	74	83	94.5	109	123	13%
Subscription revenue	75	97	117	136.5	172.5	224	306	378	26%
Content	5.7	7	8	9.4	11	12.8	16	18	18%
Total	128.7	158.5	191.2	219.9	266.5	331.3	431	519	22%

Note: *P denotes provisional data.
Source: FICCI PWC study on media, entertainment, 2007, UBS estimates

Niche/regional channels could grow faster at cost of Hindi entertainment

Within television, the general Hindi entertainment channels (Star Plus, Zee, and Sony TV) have been losing viewership and revenue share over the past few years to the niche and regional channels. We expect this trend to continue, as niche channels gradually increase their market share over the next few years, the result of evolving consumer preferences; however, general entertainment channels are likely to maintain their dominance.

Table 5: Share of different genres in TV viewership and ad revenue

	2004		2005	
Category	Viewership share (%)	Ad revenue share (%)	Viewership share (%)	Ad revenue share (%)
Hindi general entertainment	33	47	34	39
Regional language	41	20	36	24
News channels	5	10	7	12
Hindi movies channels	5	4	8	6
English entertainment	2	5	1	4
Sports	9	10	8	9
Others	5	4	6	6
Total	100	100	100	100

Source: FICCI PWC study on media and entertainment, 2006, Adex India

Print

The print media has been re-energised over the past two years by the relaxation of foreign investment norms in 2005. Leading newspaper companies have become public companies and foreign publishers have entered into partnerships or joint ventures with Indian companies. FICCI PWC estimates the Indian print media industry was worth around Rs128bn in 2006, with newspapers contributing 90% of revenue and magazines 10%. Advertising constituted a dominant portion at 70%, while circulation prices were low, resulting in the lower share of circulation revenue. We forecast a revenue CAGR of 14% for the next five years, advertising a higher CAGR of 16%, and circulation at 10.5% CAGR.

High activity in the print media following the opening up of the sector

Table 6: Print revenue

(Rs bn)	2004	2005	2006P*	2007E	2008E	2009E	2010E	2011E	CAGR (%)
Newspaper ad	45.6	53.3	66.0	77.8	90.9	105.2	121.9	141.2	16.1
Newspaper circulation	40.5	42.9	45.6	48.9	53.0	58.4	65.0	73.0	10.5
Magazines	11.7	13.5	16.4	18.7	21.3	23.8	26.9	30.4	12.9
Total	97.8	109.7	128.0	145.4	165.1	187.5	213.8	244.6	13.9

Note: *P denotes provisional data.
Source: FICCI PWC study on media & entertainment, 2007, UBS estimates

We think the main growth factors of the print media are rising literacy and outreach rates, especially in the younger age groups, and increasing investments in the sector. Over 2002-05, the newspaper readership base grew 14%, and the time spent on reading newspapers grew almost 30%. The reach of the print media in India, as a proportion of the literate population, is only 27% compared with the global average of 50%; this signifies high growth potential, in our view.

Growth potential still exists, both in readership and reading time

Table 7: Highlights of National Readership Survey, 2006

Print Reach	Has increased to 222 m readers from 216m in one year- CAGR of 3% in last 3 years
Urban Rural	Number of readers in rural India (110m) alsmost same as uran India (112m)
Literacy	Has grown to 71.1% from 69.9% in one year
Newspapers dominate	Have 204m readers and added 12 m readers in last one year
Potential	20m non readers belong to higher socio economic classes

Source: FICCI PWC study on media & entertainment, 2007

The Indian print market is highly fragmented, with over 1,900 news publications. Vernacular publications are dominant and hold about 49% of readership. Historically, there have been numerous small local publishers, a few regional companies and one or two national ones. Family ownership and a lack of access to outside capital have constrained investment. However, over the past two years the environment has changed significantly, with many regional players expanding into more cities at the expense of the smaller players. The industry is at the early stage of consolidation, and we expect consolidation to accelerate over the next few years.

The print market is highly fragmented; consolidation likely to accelerate

We think there are two unique features of the Indian print market that are likely to help the national publishers more than the local companies. 1) Advertising revenue is higher than circulation revenue, which implies that financially stronger players can lower edition prices to gain readership. In most large cities, edition prices are 20-25% of newspaper and printing costs. 2) National and large advertisers have a bigger share of the advertising market. Thus, package deals offered across several cities are attractive to advertisers, and this favours the larger media players.

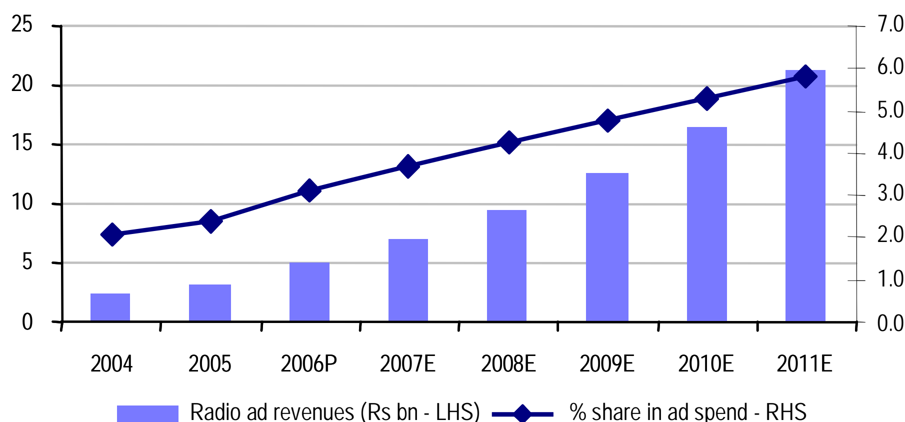
National companies have some advantages

Radio

Radio is the newest medium on the scene. The new government policy allowing 20% foreign investment and the migration to a revenue-sharing licence fee have provided a significant boost to the sector—over 100 companies bid for 338 licences in 87 cities. FICCI PWC estimates the industry is small, worth around Rs5bn in 2006, but growing at a rapid pace. Radio's share, as a percentage of total ad spend was only 3% compared with the global average of 8.4% in 2005. We expect this share to increase to 6% over next five years, implying an ad revenue CAGR of 34%.

Radio share of total ad spend is low in India and we expect that to increase

Chart 3: Radio revenues (Rs bn) and share in ad spend



Note: *P denotes provisional data.
Source: FICCI PWC study on media and entertainment, 2007, UBS estimates

The old licensing regime was based on high fixed licence fees, which resulted in substantial losses for the operators. Under the new regime, licence fees have been reduced to 5.3% of net revenue, in addition to a one-time entry fee. This has significantly improved the viability of the channels. Existing players were given the option to migrate with the payment of entry fees based on the average of the successful bids in the second licensing round. The government plans to allot a further 700 channels in the third round of licensing, primarily in the smaller towns. Unallocated frequencies in larger towns will also be auctioned during this phase.

The new licensing policy has boosted investments and increased viability

We believe radio is an attractive medium for local advertisers in new segments such as retail, real estate, etc. Radio's reach has increased substantially over the past two years, with Mumbai and Delhi recording almost 50% listenership (that is, 50% of population tuned in to a radio station at least once in the previous four weeks). As a reference, the total newspaper readership in Delhi is around 8m (53% of population).

Radio reach is already high; should translate to revenue

Table 8: Radio listenership

	Mumbai		Delhi+NCR	
	'000	%	'000	%
Universe	14,837	100	15,125	100
Previous day	4,985	33.6	6,015	39.8
Previous 3 days	1,037	7.0	1,156	7.6
Previous 7 days	820	5.5	977	6.5
Previous 1-2 weeks	605	4.1	1,073	7.1
Previous 2-4 weeks	236	1.6	629	4.2
>1 month	7,154	48.2	5,276	34.9

Source: Media Research Users Council (MRUC)

Key industry risks

Growth slowdown

Advertising expenditure (the primary source of a media company's revenue) is closely linked to overall economic growth, especially in the consumer sector. Any economic slowdown could dampen consumer demand. Advertising expenditure is discretionary and is usually among the first expense that is cut. Even subscription/circulation revenue could be affected if the ability, or willingness, of consumers to pay decreases.

Ad spend is linked to economic growth and consumer sentiment

Irrational competition

High growth is also likely to attract competition, which can impact market share and hence revenue. For example, the numerous launches within a short time span in the television news segment resulted in significant earnings decline for many companies. We think financially strong companies that have established franchises are likely to fare better in an environment of intensifying competition

Spike in competitive activity could dent margins

Regulatory risk

The media is still subject to many regulations—especially the news media. Although we expect a gradual relaxation of regulations over the long term, any adverse step by the government would impact the business. Such steps could be curbs on investments, or preferential treatment to government broadcasters at the cost of private companies, etc.

The media is free, but heavily regulated

Rising cost of content and personnel

Most content in India is outsourced, except news. High fragmentation and intensifying competition will likely increase the demand and thus the cost of quality content. Managerial expertise is becoming a scarce resource, resulting in increasing costs. In such a scenario, we think the industry/segment leaders are likely to have more leverage with content providers and also attract and retain the best talent.

Fragmentation implies competition for content and talent

Valuations and comparables

Media stocks have outperformed over the past 6-12 months

Indian media stocks have outperformed the broader market for the past year, because of strong earnings (see Table 9). Zee Entertainment (covered by Sandeep Bhatia) is the demerged entity of Zee Telefilms and hence its performance is not comparable. Adjusted for the other parts, Zee would have also outperformed significantly.

Table 9: Stock performance

	Absolute performance				Relative performance			
	1mo	3mo	6mo	1yr	1mo	3mo	6mo	1yr
ENIL	2	20	44	48	(2)	22	36	32
HT Media	(10)	3	34	66	(14)	5	26	50
Sun TV	4	2	33	87	(0)	4	25	72
Zee Entertainment	7	(9)	(10)	10	3	(7)	(18)	(5)
Sensex	4	(2)	8	16	-	-	-	-

Source: Reuters

We think DCF is the most appropriate valuation method. We add the estimated value of other businesses in case of ENIL

We prefer to value media stocks on a DCF basis because of their long-term growth potential and free cash flow. In our three-stage DCF model, we apply explicit forecasts to FY10, 18-20% revenue growth over the intermediate growth phase, a 5% terminal growth rate (4% for HT Media), and a 13% WACC. We have used a lower terminal growth rate for HT Media, because of potential difficulties in the print business—as currently being experienced in developed economies. For ENIL, we have added the value of the OOH and events businesses on a PE multiple basis, as we expect these businesses to increase their contribution over the next three years and thus, become a factor in valuation.

Table 10: Price target and rating summary

	Price target (Rs)	Est. % upside potential	Rating	Triggers
ENIL	455	21.6	Buy 2	Demerger of TIMPL, radio earnings
HT Media	215	21.5	Buy 2	Higher than expected margin expansion
Sun TV	1,203	(26.6)	Reduce 2	Equity dilution

Note: Above data as at 25 April 2007.
Source: UBS estimates

On comparative valuations, we note the following:

Sun's premium to peers is too high, in our view

Sun TV is trading at a significant premium to its global and regional counterparts and a 50% premium to Zee on PE. We believe this is unsustainable, even though Sun has a strong competitive position in its market. Also, our earnings 40% earnings CAGR estimate over FY07-09 for ZEE is superior to our forecast CAGR of 28% for SUN over the same period. At our price target of Rs1,203, Sun would trade at 15% premium to Zee.

Table 11: Valuation of broadcast companies

	Mkt cap	PE (x)			EV/EBITDA (x)			ROE (%)			ROIC (%)		
	US$ m	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
Fuji Television Network	5,678	25.5	27.6	N/A	7.8	8.2	N/A	4.9	5.6	5.1	8.4	8.2	7.4
Viacom Inc.	32,145	18.7	18.8	16.1	11.6	12.0	10.8	19.8	20.9	20.2	10.6	13.3	12.3
Walt Disney Co.	70,194	20.8	15.9	16.9	9.9	10.8	9.7	11.5	11.8	11.8	6.8	8.1	8.6
TVB	2,904	19.1	15.9	14.5	10.1	11.2	10.4	26.6	29.3	29.7	41.0	43.9	46.4
Cheil Commu Co.	1,134	14.9	16.6	13.5	9.7	11.9	9.2	18.1	15.1	17.1	137.1	1,880.9	(1,623.7)
Zee	2,746	41.9	26.7	21.6	32.4	19.6	15.9	8.5	10.0	14.1	11.4	6.9	8.2
Sun TV	2,675	55.0	43.0	33.7	17.9	17.0	13.5	36.4	33.7	24.1	27.5	35.1	48.8

Note: Above data as at 25 April 2007.
Source: UBS estimates

HT Media is trading at slight premium to its counterparts in developed economies and comparable Asian stocks. We think this premium is justified given HT Media's superior earnings growth expectations. Newspapers in developed markets are in a declining phase, while we think there is significant untapped potential in India.

HT Media's slight premium to other newspaper companies is justified, in our view

Table 12: Valuation of print companies

	Mkt cap	PE (x)			EV/EBITDA (x)			ROE (%)			ROIC (%)		
	US$ m	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
New York Times	3,467	14.8	19.5	20.8	8.7	10.0	10.1	18.5	15.0	11.2	11.6	10.8	11.2
SCMP	579	14.8	14.4	16.0	9.0	9.1	9.9	17.9	18.2	16.5	17.7	23.3	24.6
Star Publications	711	18.0	18.2	16.9	11.6	10.4	9.7	11.8	11.7	12.7	17.1	13.0	13.2
Tribune Co	10,765	15.5	27.3	18.6	10.2	12.3	13.5	9.2	10.2	9.3	8.7	7.8	8.1
Singapore Press	4,578	19.4	16.7	15.4	15.6	14.8	13.3	21.9	25.1	27.1	33.6	32.3	39.5
Next Media	493	17.3	14.7	12.6	17.1	12.3	10.5	14.1	10.8	12.7	9.7	14.7	10.6
HT Media	965	33.5	22.1	16.4	14.2	13.0	9.8	10.9	16.2	22.2	9.1	11.9	19.8

Note: Above data as at 25 April 2007.
Source: UBS estimates

We think global comparisons for radio might be misleading for ENIL, as radio is a very new industry in India, while it is a mature medium in most developed markets. Our DCF valuation for ENIL's radio business of Rs332 is comparable with GCap Media of the UK. Our valuation of ENIL's OOH business at 15x estimated FY09 EPS is at a discount to comparable outdoor advertising companies, primarily because of the as-yet unproven skills in running the business and execution.

Few comparables for ENIL as there are not many pure listed radio broadcasting companies

Table 13: Valuation of radio companies

	Mkt cap	PE (x)			EV/EBITDA (x)			ROE (%)			ROIC (%)		
	US$ m	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
Radio													
Gcap Media	716	45.7	34.2	23.2	16.8	15.0	11.5	5.3	2.0	2.7	20.6	5.3	2.4
Macquarie Media	716	15.5	11.5	9.9	8.8	6.9	6.3	6.1	9.2	9.7	N.A.	6.6	21.4
XM Satellite Radio	2,423	(4.1)	(5.7)	(5.7)	(0.0)	(0.0)	(0.0)	461.7	89.9	50.1	N.A.	N.A.	N.A.
Worldspace Inc	133	(1.1)	(1.1)	(1.1)	(3.4)	(1.7)	(1.6)	8.0	8.0	7.8	N.A.	N.A.	N.A.
Entertainment Network India	429	63.0	47.6	33.4	26.5	28.3	17.0	13.2	10.0	11.9	(73.5)	13.6	8.6

Note: Above data as at 25 April 2007.
Source: UBS estimates

Table 14: Valuation of outdoor advertising companies

	Mkt cap	PE (x)			EV/EBITDA (x)			ROE (%)			ROIC (%)		
	US$ m	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
Outdoor													
JC Decaux	6,900	23.6	22.4	21.1	10.0	10.0	N.A.	11.5	11.9	11.6	9.2	10.5	11.2
Viacom Inc.	33,033	19.2	19.3	16.6	11.6	12.2	10.9	19.8	20.9	20.2	10.6	13.3	12.3
Clear Channel	17,738	27.0	24.0	21.1	11.3	10.8	10.3	7.8	7.0	7.1	7.8	8.0	12.5

Note: Above data as at 25 April 2007.
Source: Bloomberg, UBS estimates

UBS Investment Research

Entertainment Network India

On air

■ **Play on three emerging segments**

We initiate coverage of Entertainment Network India (ENIL) with a Buy 2 rating. ENIL is the leading radio company in India (in terms of revenue) and a strong player in the outdoor advertising and live entertainment segments. Radio has been reenergised by the new licensing regime. We see significant potential in the outdoor advertising segment given its unorganised status and emerging opportunities.

■ **ENIL has unique advantages and proven capabilities**

We believe ENIL's parent company (the Times of India group) gives it unique advantages in building client relationships and in understanding their requirements. ENIL's management team has ramped up the radio business and strengthened its leadership position in major cities.

■ **We forecast a 37% earnings CAGR for the radio business**

We forecast a radio revenue CAGR of 34% over FY07-09 and for margins to expand in FY09 when the expansion phase is over. We value the outdoor advertising and events businesses separately. We forecast outdoor advertising's EBITDA to reach 55% of radio's EBITDA by FY09.

■ **Valuation: Rs455 price target; execution key risk**

We value each business separately—radio on DCF (Rs332/share); outdoor advertising (Rs110/share) and events (Rs13/shares) on PE. Our sum-of-the-parts valuation is Rs455. The key risks are intensifying competition in radio and execution risks in all its business.

Highlights (Rsm)	03/05	03/06	03/07E	03/08E	03/09E
Revenues	749.44	1,174.14	1,667.87	2,384.22	3,004.71
EBIT (UBS)	(189.11)	230.29	281.62	337.14	692.99
Net Income (UBS)	(179.26)	196.59	278.43	368.14	524.67
EPS (UBS, Rs)	(1.53)	4.13	5.85	7.74	11.03
Net DPS (UBS, Rs)	0.00	0.00	0.00	0.00	0.00

Profitability & Valuation	5-yr hist av.	03/06	03/07E	03/08E	03/09E
EBIT margin %	-	19.6	16.9	14.1	23.1
ROIC (EBIT) %	-	16.1	9.1	10.2	23.4
EV/EBITDA (core) x	-	30.3	40.0	28.3	17.0
PE (UBS) x	-	55.5	63.9	48.3	33.9
Net dividend yield %	-	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of Rs374.05 on 25 Apr 2007 23:39 HKT

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Global Equity Research

India

Entertainment

Rating	Buy 2
	Prior: Not Rated
Price target	Rs455.00/US$11.21 -
Price	Rs374.05/US$9.22

RIC: ENIL.BO BBG: ENIL IN

26 April 2007

Trading data (local/US$)

52-wk range	Rs374.05-165.35/US$9.22-3.61
Market cap.	Rs17.8bn/US$0.44bn
Shares o/s	47.6m (ORD)
Free float	29%
Avg. daily volume ('000)	15
Avg. daily value (Rsm)	5.3

Balance sheet data 03/07E

Shareholders' equity	Rs2.92bn
P/BV (UBS)	6.1x
Net Cash (debt)	(Rs0.81bn)

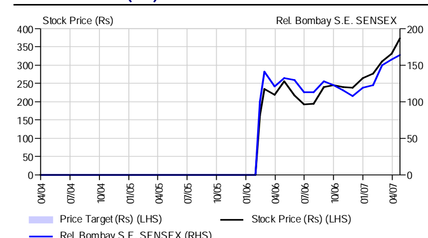
Forecast returns

Forecast price appreciation	+21.6%
Forecast dividend yield	0.0%
Forecast stock return	+21.6%
Market return assumption	12.8%
Forecast excess return	+8.8%

EPS (UBS, Rs)

	03/07E			03/06
	From	To	Cons.	Actual
Q1	-	0.00	-	-
Q2	-	0.00	-	-
Q3	-	0.00	-	-
Q4	-	0.00	-	-
03/07E	-	5.85	-	
03/08E	-	7.74	-	

Performance (Rs)



Source: UBS

www.ubs.com/investmentresearch

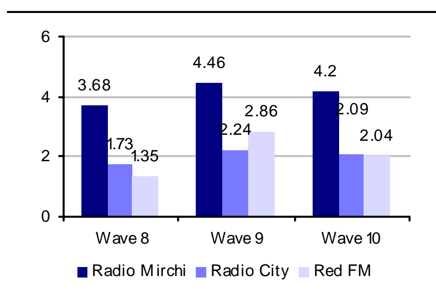
Summary and Investment case

The largest radio company in India

ENIL, the leader, has first-mover advantages

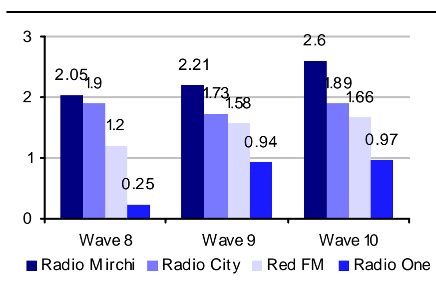
ENIL is the leading radio broadcaster in India in terms of revenue. It operates 10 stations and plans to add another 22 in the near future. It was the first to enter the business and leads in almost all the areas where it broadcasts—as reflected in the listenership ratings over the past year. Its brand, *Radio Mirchi,* is probably the strongest in the segment. We believe ENIL has an advantage in content sourcing, given its association with the Times of India group, and its relationship with the Indian film industry. However, given the lack of differentiated radio content, we think these associations are not very advantageous. For example, ENIL broadcasts music from a few new movies exclusively for, say, a week.

Chart 4: Listenership in Delhi (m)



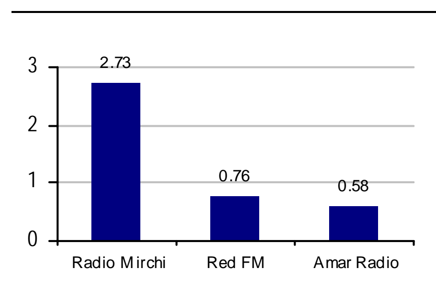
Source: Company data, MRUC

Chart 5: : Listenership in Mumbai (m)



Source: Company data, MRUC

Chart 6: Listenership in Kolkata (m)



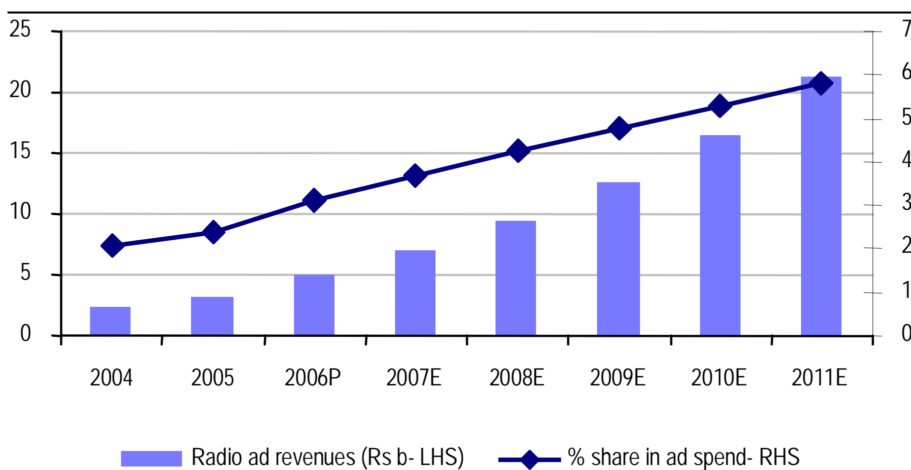
Source: Company data, MRUC

High potential in radio

We expect radio to grow at a 34% CAGR over next five years

We believe radio will grow rapidly over the next five years because of the low penetration rate and recent regulatory changes. We expect radio advertising to increase its share to 6% of total ad spend by 2011, from 3% in 2006. This implies a CAGR of 34% in ad revenue. Even then, the share of radio in India will be below the global average (see the industry section on radio for more detail).

Chart 7: Radio to grow its share in advertising



Note: P denotes provisional data.
Source: FICCI PWC report on the Indian media, 2007, UBS estimates

Focus on the major towns and young listeners

Larger towns will likely earn higher profits and young listeners will help expand ENIL's reach

ENIL is the only incumbent radio company with a licence to operate in all the 13 most populated towns in India. It has focused on these towns despite the higher entry fees because of the larger revenue potential. Most of the costs in radio are fixed (variable costs such as royalty and licence fees are less than 10% of revenue) and are unlikely to vary significantly from one city to another. Thus, the larger towns/cities are likely to earn more profits than smaller towns. ENIL also targets young listeners who tend to be early adopters.

Table 15: ENIL has a strong presence in the big cities

Player	Category of cities				
	A+	A	B	C, D	Total
ENIL	4	9	11	8	32
Sun (with subsidiaries)	1	8	13	22	44
Adlabs	4	4	10	27	45
MBPL (Radio City)	3	8	3	6	20
Mid Day	4	3			7
HT Media	3	1			4
Red FM	3				3

Source: Information & Broadcasting Ministry, company data

Part of largest media group

We believe ENIL will leverage upon parent relationships

ENIL is promoted by Bennett Coleman & Co. Ltd (BCCL)—the largest print media group in India. We believe ENIL benefits from its parent company's strong relationships with both content providers and clients. *Times of India*—BCCL's flagship newspaper and India's largest selling English language daily, is also a strong business platform for ENIL.

Expanding in the OOH market—good potential

Outdoor advertising is an untapped opportunity for organised players

ENIL's fully owned subsidiary, Times Innovative Media (TIMPL) is in the out-of-home (OOH) media and events management segments OOH is a large and fragmented market in India, but is rapidly consolidating with the entry of organised players. TIMPL has made great strides and has won many prestigious advertising sites such as the Delhi Metro and the recently privatised Delhi and Mumbai airports. We forecast TIMPL's OOH revenue to grow seven-fold in next two years, when the new sites start operations. We value this business separately on a PE basis at Rs110/ENIL share.

Table 16: Increasing presence in outdoor advertising

Site	City	Start date	End date	Length of contract (years)
Bus shelters	Mumbai	Jul-06	Jun-09	3
Patel Bridge	Delhi	Oct-05	Oct-07	2
Metro 1	Delhi	Jul-06	Jul-11	5
Metro 2	Kolkata	May-06	May-11	5
Metro	Delhi	Mar-06	Feb-09	3
Airport	Mumbai	Apr-06	Mar-09	3
Airport	Mumbai	Jul-06	Jun-09	3

Source: Company data

Event management, a steady growth business

TIMPL's event management business organises live entertainment shows for clients. PWC-FICCI estimates the Indian event management industry was worth around Rs9.4bn in 2006. We forecast a 15% revenue CAGR over the next three years, driven by increasing marketing spend and a pick-up in the popularity of experiential marketing. The industry is fragmented, with unorganised companies holding a 70% share. TIMPL has a 3.5% share and we expect this to grow. We assume a 22% revenue CAGR, and the EBITDA margin to expand to 14%. We value the business (one-year forward) at Rs13/ENIL share based on 12x estimated FY09 EPS.

We forecast event management's revenue to grow 22%. We value it at Rs13/ENIL share

Company risks

A lack of differentiated content

In the absence of news-related programmes, the content on radio is restricted. Also, with only one frequency allotted to a company per city, specialised channels are not possible. Thus, the primary content is popular film music. We believe news and news-related programmes will eventually be allowed and this would further increase the popularity of radio channels. However, until then, retaining listener loyalty is a challenge, in our view.

Radio stations are restricted from broadcasting news-related content

Unforeseen aggression by other players

Competition is likely to intensify in radio broadcasting next year, as newer companies ramp up. This, coupled with a lack of differentiating content, could lead to irrational pricing, and thus affect profitability. The mitigating factor is the strong growth of this segment. Also, we expect the ban on licence transfer (likely to continue for at least five years) will force players to take a long term view.

New players could be aggressive competitors

Execution risk in expansion

ENIL is planning to roll out its final expansion phase in the remaining 19 cities in July 2007. The simultaneous launch in so many cities poses execution risk. ENIL's previous experience with new launches and successful operations in 13 cities might help it manage this risk, in our view.

New rollouts entail execution risk

Rising programming costs

With an increasing number of players, competition for talent—especially for radio jockeys—is likely to increase. In terms of royalty, radio stations pay a fixed charge (Rs661/needle hour) to music rights holders through two associations. Thus, for smaller stations, royalty costs are higher as a percentage of revenue. Music rights holders want a higher rate while radio stations are asking for a revenue sharing/volume-related formula. Any hike in royalty costs would impact our estimates.

With competition, the cost of content is likely to increase

Slowdown in ad spend

Any overall slowdown in ad spend because of a downturn in economic growth would affect radio spend too.

Ownership restrictions

Foreign ownership is limited to 20%, and this restricts access to capital.

Competition from other media

Radio broadcasting has been slow to take off in India because of restrictive regulations. In other countries, radio is a well entrenched, mature medium. Radio also has to compete with other new media such as the Internet, satellite radio, etc.

Financials

We forecast a 34% radio revenue CAGR

A+ and A towns could contribute 90% of revenue even after two years

We expect the 13 major towns in the A+ and A categories to be the prime revenue drivers of ENIL's radio business for the next two to three years. We assume an A+-category revenue CAGR of 19% and an A-category revenue CAGR of 27% CAGR over FY07-09, driven by overall growth in radio ad spend in these cities and ENIL's strong position in the segment. New launches in FY08 in the A category, and also in lower category towns should propel further growth. We expect A+ and A towns to contribute 84% of revenue by FY09, down from 100% in FY07.

Table 17: Radio revenue and share

Category (Rs m)	FY05	FY06	FY07E	FY08E	FY09E
A+	450	622	840	1,008	1,190
A	300	552	828	1,076	1,345
B	-	-	-	200	320
C,D	-	-	-	100	150
Total	749	1,174	1,668	2,384	3,005
Revenue share (%)					
A+	60	53	50	42	40
A	40	47	50	45	45
B	-	-	-	8	11
C,D	-	-	-	4	5
Total	100	100	100	100	100

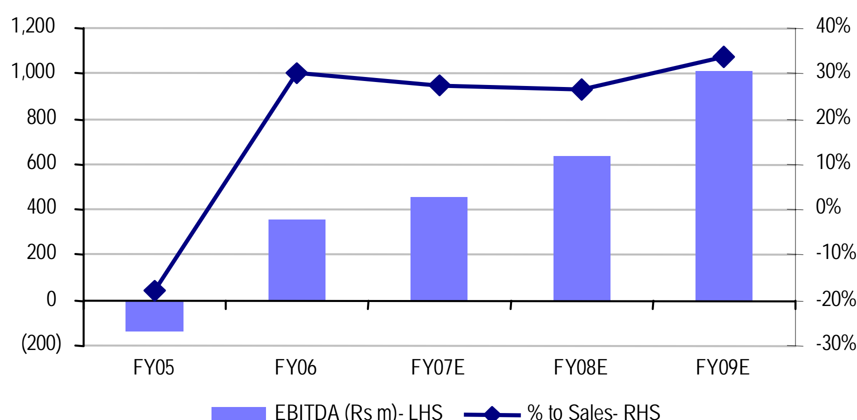
Source: Company data, UBS estimates

EBITDA margins to expand in FY09E

New launches could add pressure on margins in FY07 and FY08

We expect ENIL's overall EBITDA margin to come under pressure in FY07 and FY08, as new radio stations are launched We expect all radio stations to be launched by July 2007 and start contributing to revenue and margins from FY09**.** Thus, we expect marketing expenses to decline in FY09, resulting in a rebound in the EBITDA margin to 33.6%. We assume a 49% EBITDA CAGR over FY07-09.

Chart 8:EBITDA margin to pick up in FY09E



Source: Company data, UBS estimates

We forecast a 37% earnings CAGR

We assume Rs600m and Rs300m capex in FY07 and FY08, respectively, as new stations are launched. Also, amortisation expenses on one-time entry fees will increase sharply as fees relating to new channels are amortised. We expect debt levels to increase in FY07, while cash surplus should increase from FY09, as launched stations generate cash flow. Investments in TIMPL might be funded via debt. We expect the tax rate to remain low at 4-5% (primarily the Fringe Benefit Tax) as the tax credit for accumulated losses continues until FY08. Overall, we expect earnings to grow 32% in FY08 and 43% in FY09. We forecast return ratios to also improve significantly as capital is used for the new stations. We assume ROE increases from 10% in FY06 to 15% in FY09.

The tax rate could increase in FY09, as tax shelters run out. ROE could also increase with improvement in margins

Table 18: Profit and loss account (Rs m)

Year-ending March	2005	2006	2007E	2008E	2009E
Revenues	749	1,174	1,668	2,384	3,005
Cost of goods sold	(676)	(490)	(711)	(1,115)	(1,343)
Gross profit	73	684	957	1,269	1,661
SGA	(263)	(453)	(675)	(932)	(968)
Other core income	-	-	-	-	-
EBIT	(189)	230	282	337	693
Income from associates	-	-	-	-	-
Other investment income	12	27	44	61	63
Pension	-	-	-	-	-
Abnormal items (pre-tax)	-	-	-	-	-
Interest	(2)	(25)	(33)	(11)	27
Other pre-tax non-operating	-	-	-	-	-
Goodwill	-	-	-	-	-
Profit before taxes	(179)	232	293	388	783
Taxes	(0)	(36)	(15)	(19)	(258)
Profit after tax	(179)	197	278	368	525
Minorities	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Abnormal items (post-tax)	-	98	-	-	-
Net income	(179)	295	278	368	525
Revenue growth		57%	42%	43%	26%
EBIT margin	-25%	20%	17%	14%	23%
EBIT growth		-222%	22%	20%	106%
Net profit growth		-264%	-6%	32%	43%

Source: Company data, UBS estimates

Table 19: ROCE/ROE decomposition

Year ending March	2005	2006	2007E	2008E	2009E
Asset turnover		82.0%	53.9%	71.9%	101.3%
EBIT margin	-25.2%	19.6%	16.9%	14.1%	23.1%
EBIT ROIC		16.1%	9.1%	10.2%	23.4%
Taxes	100.0%	84.7%	95.0%	95.0%	67.0%
Returns on invested capital		13.6%	8.6%	9.7%	15.6%
IC as a % of capital employed		87.6%	92.7%	95.9%	95.4%
Returns on other invested capital		11.1%	17.4%	40.7%	29.5%
Other assets/CE		12.4%	7.3%	4.1%	4.6%
Returns on capital employed		13.3%	9.3%	10.9%	16.3%
Leverage		99.3%	108.1%	108.7%	90.9%
Minorities		100.0%	100.0%	100.0%	100.0%
Exceptionals	100.0%	149.9%	100.0%	100.0%	100.0%
ROE		19.8%	10.0%	11.9%	14.8%
ROE (adjusted)		19.8%	10.0%	11.9%	14.8%

Source: Company data, UBS estimates

Table 20: Balance sheet (Rs m)

Year end 31 March	2005	2006	2007E	2008E	2009E
Net tangible fixed assets	243	322	877	1,076	1,020
Net intangible fixed assets	-	2,046	1,919	1,722	1,510
Net working capital	15	238	787	256	352
Other long-term liabilities	-	-	-	-	-
Total invested capital	257	2,605	3,583	3,053	2,882
Investments/other assets	63	342	142	142	142
Total capital employed	320	2,948	3,726	3,196	3,024
Net (cash)/debt	(17)	311	810	(88)	(784)
Provisions	-	-	-	-	-
Minority Interests	-	-	-	-	-
Shareholders' funds	337	2,637	2,916	3,284	3,808
Financing capital employed	320	2,948	3,726	3,196	3,024
Fixed asset growth		33%	173%	23%	-5%
Working capital growth		1537%	231%	-68%	38%
Capital employed growth		821%	26%	-14%	-5%

Source: Company data, UBS estimates

Table 21: Cash flow statement (Rs m)

Year end March	2005	2006	2007E	2008E	2009E
EBIT	(189)	230	282	337	693
Depreciation	53	123	173	299	317
Capex	-	(2,248)	(602)	(300)	(50)
Change in working cap	-	(224)	(550)	531	(96)
Other operating	12	117	30	42	(196)
Operating free cash flow	(123)	(2,001)	(667)	909	669
Interest	(2)	(25)	(33)	(11)	27
Taxes paid	(0)	(28)	(0)	(0)	(0)
Free cash flow	(126)	(2,054)	(700)	898	696
Net acquisitions / disposals	-	-	-	-	-
Investments in associates	-	(40)	-	-	-
Dividends	-	-	-	-	-
Share issues / buybacks	-	-	-	-	-
Other	-	(248)	-	-	-
Change in short term debt	-	350	600	(350)	(600)
Change in long term debt	-	-	-	-	-
Change in preferred debt	-	-	-	-	-
Net change in cash	(126)	(1,991)	(100)	548	96
Free cash flow yield	-0.8%	-12.3%	-4.2%	5.4%	4.2%
Dividend yield	0.0%	0.0%	0.0%	0.0%	0.0%
Capex/sales	0.0%	191.5%	36.1%	12.6%	1.7%
Net debt to equity	-5.0%	11.8%	27.8%	-2.7%	-20.6%

Source: Company data, UBS estimates

OOH and event management

Delhi and Mumbai airports should drive OOH revenue, in our view

We value the OOH and event management businesses separately, as we believe their business dynamics are different. We assume OOH's revenue increases nine-fold over FY07-09, to Rs3bn, as new sites start generating revenue. We believe the big contributors will be the Delhi and Mumbai airports for which TIMPL has three-year exclusive contracts. We think the EBITDA margin will be low in FY07 because of the ramp-up phase and higher revenue sharing at the airport sites (we estimate at about 70%). We forecast OOH's EBITDA to reach Rs547m by FY09, almost 55% of the radio EBITDA in the same year.

The key risks to our forecasts are slower ramp ups at airports and execution issues. The company is looking at significant investments in this business as new opportunities open up. We would not rule out the possibility of stake sale in TIMPL to strategic/ financial partners, and this could unlock value. There are no ownership restrictions on the outdoor advertising/event management businesses.

Table 22: Profit & loss model for outdoor advertising business (Rs m)

Year end March	FY06	FY07E	FY08E	FY09E
Revenues	**17**	**290**	**1,900**	**3,135**
Total costs	10	297	1,596	2,555
EBITDA	7	(20)	304	580
EBITDA (%)	41	(7)	16	19
Other Income	2	1	2	2
Depreciation	0	2	4	4
Interest	0	22	80	50
PBT	9	(43)	222	528
Tax	5	(13)	75	180
PAT	**4**	**(30)**	**147**	**348**

Note: FY06 figures are for five months.
Source: Company data, UBS estimates

New events/higher marketing spend expected to drive revenues

We forecast a 15% CAGR for the event management and live entertainment business over the next five years. We believe the key drivers of this business will be higher marketing spend and the move up the value chain from pure execution to offering complete marketing solutions to clients. We forecast a 22% revenue CAGR for ENIL's event business for FY07-09, and we expect the EBITDA to expand because of better quality events and operating leverage.

Table 23: Event management profit and loss (Rs m)

	FY06	FY07E	FY08E	FY09E
Revenues	207	380	494	568
Total expenses	187	361	430	489
EBITDA	20	19	64	80
EBITDA (%)	10	5	13	14
Other Income	2	3	3	3
Interest	0	1	1	1
Depreciation	0	1	1	1
PBT	22	20	65	81
Tax	5	7	22	27
PAT	17	13	43	53

Source: Company data, UBS estimates

Price target derivation

We base our 12-month price target of Rs455 for ENIL on a sum-of-the-parts valuation of the three businesses. We value all three businesses separately, as their growth and margins drivers are different. Moreover, there is a possibility of the demerger of the non-radio businesses, in which case the Street will also start valuing them separately.

We base our 12-month price target of Rs455 for ENIL on a sum-of-the-parts valuation

Radio business

We value the radio business on a three-stage DCF model—consistent with our valuation method for other media companies such as Zee, Sun, and HT Media. We use explicit forecasts until FY10, which we believe will be the high growth phase. We assume revenue growth will taper to 20% in the next five years, while margins stabilise and cash flows improve. We assume a WACC of 13.0% and a terminal growth rate of 5%—similar to our assumptions for other media companies. Our beta of 0.9 is in line with ENIL's historical beta of 0.9 and with that of other Indian media companies. Our one-year DCF value is Rs332/share, implying 30x forecast FY09 EPS for ENIL (standalone) and 15x estimated FY09 EV/EBITDA. This is in line with comparable Indian companies such as Zee, Sun, and HT Media. Compared with regional/global radio companies, the multiple is higher, but we think it is justified, given India's faster growth rate and its under-penetrated radio market.

We value radio on DCF, assuming 13% WACC and 5% terminal growth

Table 24: Primary DCF assumptions

Risk free rate	8.5%
Market risk premium	5.0%
Capex to sales	3%
Operating margin	32%
Intermediate growth	20%
Terminal year	5%
FCF multiple	13.1
WACC	13%
Beta	1%
Tax rate	36%
Debt-equity	11%
WC to sales	1%
Depreciation to sales	2%

Source: UBS estimates

Table 25: DCF sensitivity to WACC and terminal growth rates

WACC ->	11.0%	12.0%	13.0%	14.0%	15.0%
Terminal growth					
3%	379	329	289	257	231
4%	415	355	308	272	242
5%	463	388	332	289	255
6%	529	432	362	311	271
7%	629	493	403	339	292

Source: UBS estimates

Valuing the OOH and events businesses

PE based valuation for OOH, events-OOH at Rs110 and event at Rs13 per share

We value the OOH business at Rs110/per ENIL share on a target multiple of 15x estimated FY09 EPS. We believe the PE multiple is reasonable given the order-based nature of the business, where sites are obtained through bids/negotiations and are generally for a fixed period. Other global OOH companies such as JC Decaux, Viacom, and Clear Channel are trading at 18-24x one-year forward PE. We apply a discount to ENIL given its as-yet unproven business and the lack of comparables in India.

Table 26: Outdoor advertising valuation

FY09E PAT (Rs m)	348
Multiple (x)	15
Equity value (Rs m)	5,227
No. of shares (m)	47.6
Per share value (Rs)	110

Source: UBS estimates

Table 27: Global comparables in outdoor

	Mkt cap	PE (x)			EV/EBITDA(x)			ROE (%)			ROIC (%)		
	US$ m	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
Outdoor													
JC Decaux	6,900	23.6	22.4	21.1	10.0	10.0	N.A.	11.5	11.9	11.6	9.2	10.5	11.2
Viacom Inc.	33,033	19.2	19.3	16.6	11.6	12.2	10.9	19.8	20.9	20.2	10.6	13.3	12.3
Clear Channel	17,738	27.0	24.0	21.1	11.3	10.8	10.3	7.8	7.0	7.1	7.8	8.0	12.5

Note: Above data as at 25 April 2007.
Source: Bloomberg, UBS estimates

We value the event business at Rs13/per ENIL share on a target multiple of 12x estimated FY09 EPS, which we believe is reasonable, based on our expectations of steady growth in the business.

Table 28: Event management valuation

FY09E PAT	53
Multiple	12
Equity value	638
No. of shares	47.6
Per share value	13

Source: UBS estimates

We do not apply a holding company discount given the current full ownership structure. However, if holdings in any business are reduced, we will apply the discount.

Table 29: Our sum-of-the-parts based price target (Rs/share)

Radio	332	DCF
OOH	110	15x FY09E EPS
Event	13	12x FY09E EPS
Total	455	

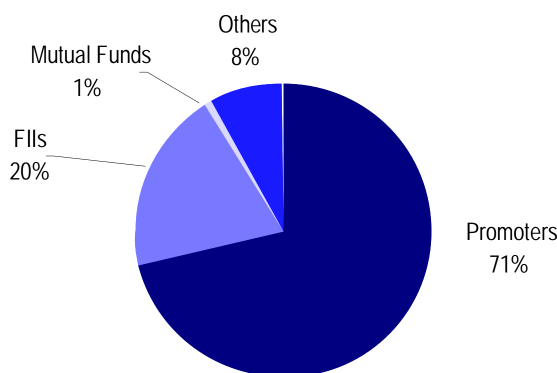
Source: UBS estimates

Company background

Part of the Times of India group

ENIL is a subsidiary of Times Innovative Media, which is wholly owned by Bennett Coleman & Co (BCCL). BCCL runs the Times of India group of publications and is one of the largest media conglomerates in India. BCCL has been in the newspaper and magazines publishing business for over 150 years. It has strong brands such as T*imes of India*, *The Economic Times*, *Navbharat Times*, and *Femina*, among others. ENIL was incorporated in 1999 and listed on the Bombay and national stock exchanges in Q4 FY06. Post-IPO, Times Innovative holds a 64% stake while BCCL holds a 7% direct stake.

Chart 9: Shareholding as on 31 March 2007

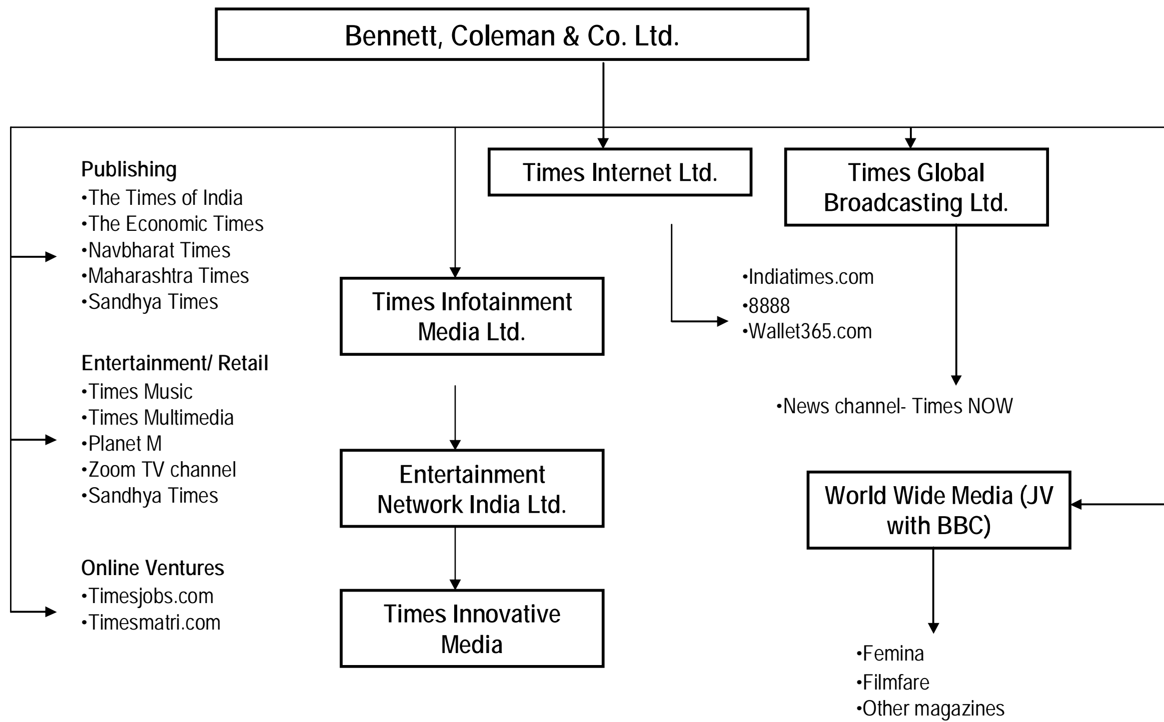


Source: BSE

ENIL entered the FM radio business in 2000 when the government allotted 108 stations across 40 cities to private companies. ENIL won seven licences, the largest number, and was the only private radio broadcaster to have presence in all four metropolitan cities. However, the licence fees were very high, resulting in high fixed costs and almost all players including ENIL suffering losses.

ENIL's 100% subsidiary, Times Innovative India (TIMPL), runs the OOH media and event management (referred to as 360 degrees by the company) businesses. In FY06, radio was the largest business, contributing 76% of consolidated revenue.

Chart 10: Company structure



Source: Company data

Entertainment Network India Limited

Income statement (Rsm)	03/02	03/03	03/04	03/05	03/06	03/07E	% ch	03/08E	% ch	03/09E	% ch
Revenues	-	-	-	749.44	1,174.14	1,667.87	42.1	2,384.22	43.0	3,004.71	26.0
Operating expenses (ex depn)	-	-	-	(885.11)	(820.52)	(1,213.22)	47.9	(1,748.48)	44.1	(1,994.42)	14.1
EBITDA (UBS)	-	-	-	(135.67)	353.62	454.65	28.6	635.74	39.8	1,010.29	58.9
Depreciation	-	-	-	(53.44)	(123.33)	(173.03)	40.3	(298.60)	72.6	(317.30)	6.3
Operating income (EBIT, UBS)	-	-	-	(189.11)	230.29	281.62	22.3	337.14	19.7	692.99	105.5
Other income & associates	-	-	-	12.41	26.53	44.32	67.1	60.99	37.6	62.72	2.8
Net interest	-	-	-	(2.50)	(24.68)	(32.85)	33.1	(10.62)	-67.7	27.38	-
Abnormal items (pre-tax)	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	-	-	-	(179.19)	232.14	293.09	26.3	387.51	32.2	783.09	102.1
Tax	-	-	-	(0.07)	(35.55)	(14.65)	-58.8	(19.38)	32.2	(258.42)	1233.7
Profit after tax	-	-	-	(179.26)	196.59	278.43	41.6	368.14	32.2	524.67	42.5
Abnormal items (post-tax)	-	-	-	0.00	98.11	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Net income (local GAAP)	-	-	-	(179.26)	294.70	278.43	-5.5	368.14	32.2	524.67	42.5
Net Income (UBS)	-	-	-	(179.26)	196.59	278.43	41.6	368.14	32.2	524.67	42.5
Tax rate (%)	0.00	0.00	0.00	0.00	15.31	5.00	-67.3	5.00	0.0	33.00	560.0
Pre-abnormal tax rate (%)	0.00	0.00	0.00	0.00	15.31	5.00	-67.3	5.00	0.0	33.00	560.0

Per share (Rs)	03/02	03/03	03/04	03/05	03/06	03/07E	% ch	03/08E	% ch	03/09E	% ch
EPS (local GAAP)	-	-	-	(1.53)	6.20	5.85	-5.5	7.74	32.2	11.03	42.5
EPS (UBS)	-	-	-	(1.53)	4.13	5.85	41.6	7.74	32.2	11.03	42.5
Net DPS	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash EPS	-	-	-	(1.08)	6.73	9.49	41.1	14.02	47.7	17.70	26.3
BVPS	-	-	-	7.08	55.45	61.30	10.6	69.04	12.6	80.07	16.0

Balance sheet (Rsm)	03/02	03/03	03/04	03/05	03/06	03/07E	% ch	03/08E	% ch	03/09E	% ch
Net tangible fixed assets	-	-	-	242.68	321.64	877.13	172.7	1,075.54	22.6	1,020.24	-5.1
Net intangible fixed assets	-	-	-	0.00	2,046.00	1,919.00	-6.2	1,722.00	-10.3	1,510.00	-12.3
Net working capital (incl. other assets)	-	-	-	14.51	237.52	787.13	231.4	255.70	-67.5	351.75	37.6
Other liabilities	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating invested capital	-	-	-	257.19	2,605.15	3,583.25	37.5	3,053.23	-14.8	2,881.98	-5.6
Investments	-	-	-	62.97	342.48	142.48	-58.4	142.48	0.0	142.48	0.0
Total capital employed	-	-	-	320.16	2,947.64	3,725.73	26.4	3,195.71	-14.2	3,024.46	-5.4
Shareholders' equity	-	-	-	336.86	2,637.07	2,915.51	10.6	3,283.64	12.6	3,808.31	16.0
Minority interests	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Total equity	-	-	-	336.86	2,637.07	2,915.51	10.6	3,283.64	12.6	3,808.31	16.0
Net debt / (cash)	-	-	-	(16.70)	310.56	810.23	160.9	(87.93)	-	(783.85)	791.4
Debt deemed provisions	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Total capital employed	-	-	-	320.16	2,947.64	3,725.73	26.4	3,195.71	-14.2	3,024.46	-5.4

Cash flow (Rsm)	03/02	03/03	03/04	03/05	03/06	03/07E	% ch	03/08E	% ch	03/09E	% ch
Operating income (EBIT, UBS)	-	-	-	(189.11)	230.29	281.62	22.3	337.14	19.7	692.99	105.5
Depreciation	-	-	-	53.44	123.33	173.03	40.3	298.60	72.6	317.30	6.3
Net change in working capital	-	-	-	0.00	(223.55)	(549.60)	145.8	531.42	-	(96.05)	-
Other (operating)	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating cash flow	-	-	-	(135.67)	130.07	(94.95)	-	1,167.16	-	914.24	-21.7
Net interest received / (paid)	-	-	-	(2.50)	(24.68)	(32.85)	33.1	(10.62)	-67.7	27.38	-
Dividends paid	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Tax paid	-	(0.01)	(0.01)	(0.07)	(28.05)	(0.01)	-100.0	(0.01)	0.0	(0.01)	0.0
Capital expenditure	-	-	-	0.00	(2,248.23)	(601.53)	-73.2	(300.00)	-50.1	(50.00)	-83.3
Net (acquisitions) / disposals	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Other	-	-	-	-	(170.37)	29.67	-	41.63	40.3	(195.69)	-
Share issues	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Cash flow (inc)/dec in net debt	-	-	-	(125.82)	(2,341.25)	(699.67)	-70.1	898.16	-	695.92	-22.5
FX / non cash items	-	-	-	-	2,013.99	200.00	-90.1	0.00	-	0.00	-
Balance sheet (inc)/dec in net debt	-	-	-	-	(327.26)	(499.67)	52.7	898.16	-	695.92	-22.5
Core EBITDA	-	-	-	(135.67)	353.62	454.65	28.6	635.74	39.8	1,010.29	58.9
Maintenance capital expenditure	-	-	-	(0.01)	(120.71)	(601.53)	398.3	(300.00)	-50.1	(50.00)	-83.3
Maintenance net working capital	-	-	-	0.00	(223.55)	(549.60)	145.8	531.42	-	(96.05)	-
Operating free cash flow, pre-tax	-	-	-	(135.68)	9.36	(696.48)	-	867.16	-	864.24	-0.3

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

India

Entertainment

Rating **Buy 2**

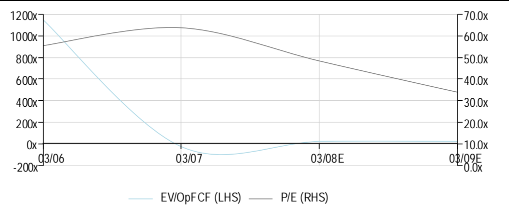
Price target **Rs455.00**

Entertainment Network India Limited

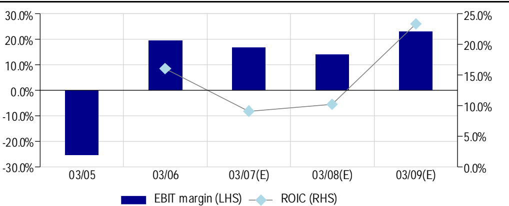
Company profile

Entertainment Network India Ltd (ENIL) is the largest radio company in India (in revenue terms). It operates radio stations in 10 cities and has plans to launch 22 more by July 2007. It also has a subsidiary operating in the outdoor advertising and event management segments. The Times of India group—the largest newspaper publishing house in India—is its largest shareholder.

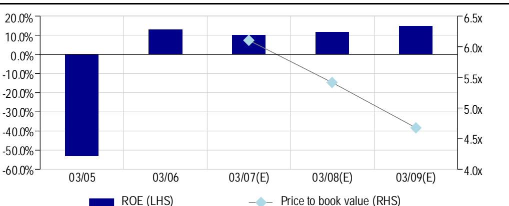
Value (EV/OpFCF & P/E)



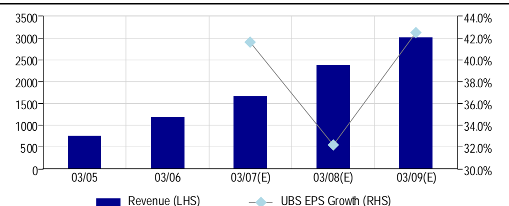
Profitability



ROE v Price to book value



Growth (UBS EPS)



Valuation (x)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
P/E (local GAAP)	-	-	37.0	63.9	48.3	33.9
P/E (UBS)	-	-	55.5	63.9	48.3	33.9
P/CEPS	-	-	34.1	39.4	26.7	21.1
Net dividend yield (%)	-	-	0.0	0.0	0.0	0.0
P/BV	-	-	4.1	6.1	5.4	4.7
EV/revenue (core)	-	-	9.1	NM	7.6	5.7
EV/EBITDA (core)	-	-	30.3	40.0	28.3	17.0
EV/EBIT (core)	-	-	NM	NM	NM	24.8
EV/OpFCF (core)	-	-	NM	NM	20.8	19.9
EV/op. invested capital	-	-	7.5	5.9	5.4	5.8

Enterprise value (Rsm)	03/05	03/06	03/07E	03/08E	03/09E
Average market cap	-	10,907.47	17,789.82	17,789.82	17,789.82
+ minority interests	0.00	0.00	0.00	0.00	0.00
+ average net debt (cash)	(16.70)	146.93	560.40	361.15	(435.89)
+ pension obligations and other	0.00	0.00	0.00	0.00	0.00
- non-core asset value	(62.97)	(342.48)	(142.48)	(142.48)	(142.48)
Core enterprise value	-	10,711.92	18,207.73	18,008.49	17,211.45

Growth (%)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
Revenue	-	-	56.7	42.1	43.0	26.0
EBITDA (UBS)	-	-	-	28.6	39.8	58.9
EBIT (UBS)	-	-	-	22.3	19.7	105.5
EPS (UBS)	-	-	-	41.6	32.2	42.5
Cash EPS	-	-	-	41.1	47.7	26.3
Net DPS	-	-	-	-	-	-
BVPS	-	-	NM	10.6	12.6	16.0

Margins (%)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
EBITDA / revenue	-	NM	30.1	27.3	26.7	33.6
EBIT / revenue	-	-25.2	19.6	16.9	14.1	23.1
Net profit (UBS) / revenue	-	NM	16.7	16.7	15.4	17.5

Return on capital (%)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
EBIT ROIC (UBS)	-	-	16.1	9.1	10.2	23.4
ROIC post tax	-	-	13.6	8.6	9.7	15.6
Net ROE	-	(53.2)	13.2	10.0	11.9	14.8

Coverage ratios (x)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
EBIT / net interest	-	-	10.4	9.9	NM	-
Dividend cover (UBS EPS)	-	-	-	-	-	-
Div. payout ratio (%, UBS EPS)	-	-	-	-	-	-
Net debt / EBITDA	-	0.1	0.9	1.8	NM	NM

Efficiency ratios (x)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
Revenue / op. invested capital	-	-	0.8	0.5	0.7	1.0
Revenue / fixed assets	-	-	0.9	0.6	0.9	1.1
Revenue / net working capital	-	-	9.3	3.3	4.6	9.9

Investment ratios (x)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
OpFCF / EBIT	-	0.7	0.0	NM	2.6	1.2
Capex / revenue (%)	-	0.0	NM	NM	12.6	1.7
Capex / depreciation	-	0.0	NM	3.5	1.0	0.2

Capital structure (%)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
Net debt / total equity	-	(5.0)	11.8	27.8	(2.7)	(20.6)
Net debt / (net debt + equity)	-	(5.2)	10.5	21.7	(2.8)	(25.9)
Net debt (core) / EV	-	-	1.4	3.1	2.0	(2.5)

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs374.05 on 25 Apr 2007 23:39 HKT Market cap(E) may include forecast share issues/buybacks.

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UBS Investment Research
HT Media

Headline Times

■ **Initiatives bearing fruit**

We believe HT Media will benefit from the initiatives it had launched over the past two years—the biggest was its entry into Mumbai. The Mumbai edition of *Hindustan Times* has achieved critical mass, in our view, and has significantly improved HT Media's client offering.

■ **Print media in India still has a long way to go**

We think newspaper is a high-opportunity segment in Indian media, unlike the situation in developed economies. We forecast a 15% revenue CAGR for the print media over the next five years, driven by higher literacy rate and increasing purchasing power. Liberalisation of investment norms has spurred investment in the sector.

■ **Margin expansion to lead to a 43% EPS CAGR over the next two years**

We think HT Media will exploit its significant operating leverage. We expect ad revenues expand its EBITDA margin by 600bp over FY07-09E on a revenue CAGR of 20%. New initiatives in business newspapers and radio will likely incur losses for next two years.

■ **Valuation: Initiate coverage with Buy 2 rating and a Rs215 PT**

We base our price target on a three-stage DCF model, assuming 20% growth in the medium term, a WACC of 13.0% and a terminal growth rate of 4%. The key risks are intensifying competition in Delhi and Mumbai and execution risks in its new initiatives.

Highlights (Rsm)	03/05	03/06	03/07E	03/08E	03/09E
Revenues	6,279.28	8,210.11	10,355.42	12,602.56	15,023.97
EBIT (UBS)	521.28	798.62	1,615.81	2,561.56	3,429.69
Net Income (UBS)	379.79	601.60	1,208.59	1,829.61	2,459.35
EPS (UBS, Rs)	9.10	12.84	5.16	7.81	10.50
Net DPS (UBS, Rs)	0.92	1.20	0.59	0.89	1.20

Profitability & Valuation	5-yr hist av.	03/06	03/07E	03/08E	03/09E
EBIT margin %	-	9.7	15.6	20.3	22.8
ROIC (EBIT) %	-	16.6	28.2	39.9	48.6
EV/EBITDA (core) x	-	17.8	19.7	13.3	10.1
PE (UBS) x	-	7.2	34.3	22.7	16.9
Net dividend yield %	-	1.3	0.3	0.5	0.7

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs177.00 on 25 Apr 2007 23:39 HKT

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Global Equity Research

India	
Publishing	
Rating	Buy 2
	Prior: Not Rated
Price target	Rs215.00/US$5.30
	-
Price	Rs177.00/US$4.36

RIC: HTML.BO BBG: HTML IN

26 April 2007

Trading data (local/US$)

52-wk range	Rs198.15-73.29/US$4.50-1.60
Market cap.	Rs41.5bn/US$1.02bn
Shares o/s	234m (ORD)
Free float	22%
Avg. daily volume ('000)	153
Avg. daily value (Rsm)	27.0

Balance sheet data 03/07E

Shareholders' equity	Rs7.98bn
P/BV (UBS)	5.2x
Net Cash (debt)	Rs1.19bn

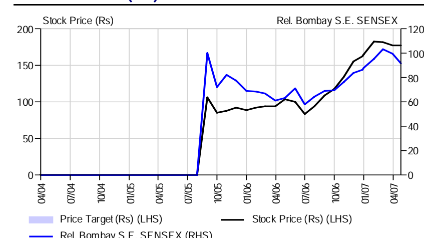
Forecast returns

Forecast price appreciation	+21.5%
Forecast dividend yield	0.0%
Forecast stock return	+21.5%
Market return assumption	12.8%
Forecast excess return	+8.7%

EPS (UBS, Rs)

	03/07E			03/06
	From	To	Cons.	Actual
Q1	-	0.00	-	-
Q2	-	0.00	-	-
Q3	-	0.00	-	-
Q4	-	0.00	-	-
03/07E	-	5.16	-	
03/08E	-	7.81	-	

Performance (Rs)



Source: UBS

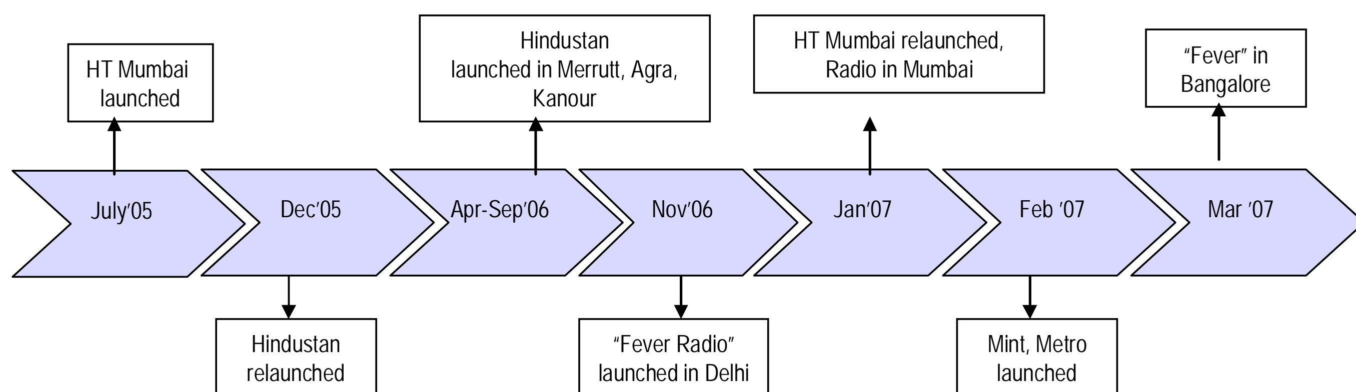
www.ubs.com/investmentresearch

Summary and Investment case

We expect strong, steady expansion

We believe HT Media (HT) has expanded steadily into newer markets over the past two years and is likely to reap the results over the next two years. From a primarily Delhi and north-based newspaper publisher, its footprint has expanded to Mumbai and its now plans to enter Bangalore, the third largest market after Delhi and Mumbai. We think its foray into business newspaper publishing also looks promising.

Chart 11: New initiatives in the past two years

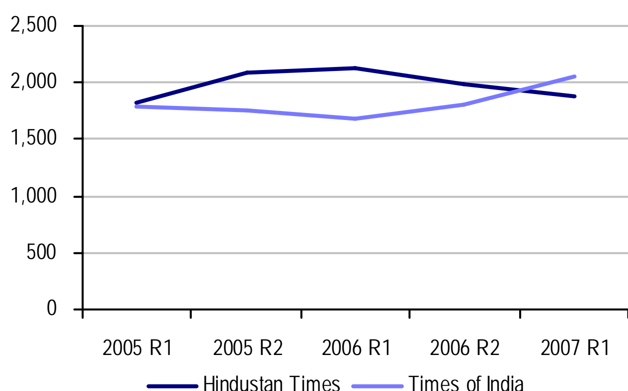


Source: Company data

A leader in Delhi; on the way up in Mumbai

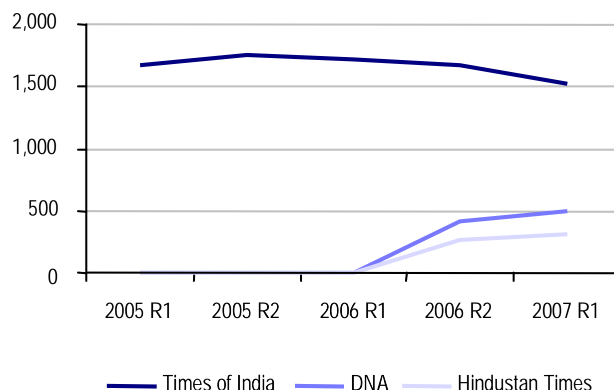
Hindustan Times (*HT*) is an equal leader in Delhi with *Times of India* (TOI) while TOI was the dominant newspaper in Mumbai until July 2005, when two new newspaper editions were published in the market, including *HT Mumbai*. *HT* ranks third in Mumbai and its readership has increased significantly since launch. The Mumbai market itself has expanded after the launch of the new editions, and we expect this trend to continue given Mumbai's low readership of English language newspapers vis-à-vis Delhi.

Chart 12: Readership in Delhi (m)



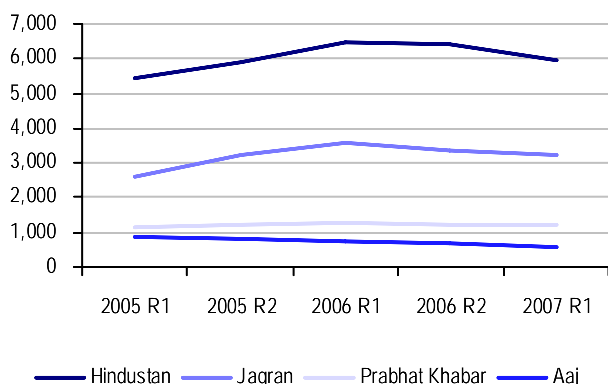
Source: Company data, (IRS data)

Chart 13: Readership in Mumbai (m)



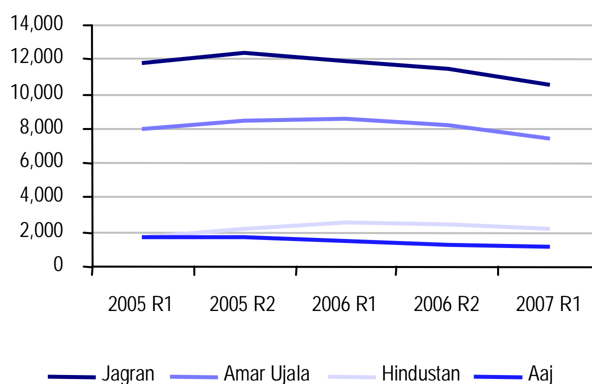
Source: Company data (IRS data)

Chart 14:Readership in Bihar, Jharkhand



Source: Company data (IRS data)

Chart 15: Readership in Uttar Pradesh



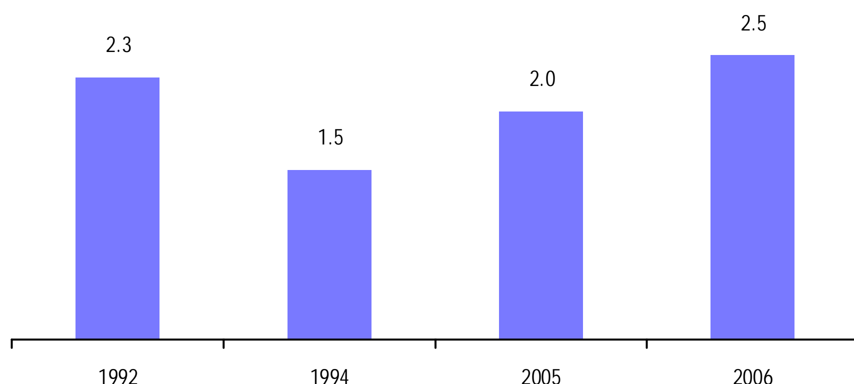
Source: Company data (IRS data)

Price competition has abated

The newspaper price has been raised in its main market as competition has abated

The competition between *HT* and *TOI* in Delhi led to cover prices falling to Rs1.50 per edition, and prices have not been raised for almost 10 years. This combined with rising newsprint prices and the launch in Mumbai, impacted HT severely. However, after the launch of *HT Mumbai*, the competition has abated and the cover prices both *TOI* and *HT* have been raised in Delhi. Incidentally, the two have jointly launched an afternoon newspaper in Delhi. We expect rationality to prevail, especially between *TOI* and *HT*.

Chart 16: Cover price of *HT* Delhi (Rs/edition)



Source: Company data

Network effect to drive revenue growth

A good multi city package will help drive growth

A strong Mumbai presence has closed a gap in HT's portfolio and it should now be able to sell attractive ad packages to advertisers—a key advantage, in our opinion. Over 70% of HT's ad revenue is from packages (this includes ads in two or more cities). The launch of a Bangalore edition is likely to further enhance the attractiveness of HT's offerings.

Strong presence in the northern markets

Hindustan is also expanding its reach and marketing presence

HT is among the top three newspapers in most of the northern markets, both through the English language *Hindustan Times* and Hindi language paper *Hindustan*. *HT* is lagging in the largest market of UP where *Jagran* has a stronghold. However, in other markets, *HT*'s readership has grown in the past two years and there is still significant room to grow in these markets. In the Hindi language markets, ad revenue tends to be less dominant (50-55% of total revenue) vis-à-vis circulation revenue, while in the English language market, ad revenue is 85% of the total. This could possibly change as companies try to increase their readership through lower cover prices and compensate through higher ad revenue. We think HT might have an advantage here, given its national presence, and relationship with large advertisers.

Table 30: Newspaper editions

Hindustan Times (English)	Hindustan (Hindi)	Mint (Business)	Metro (Afternoon)
Delhi	Delhi	Delhi	Delhi
Mumbai	Uttar Pradesh	Mumbai	
Chandigarh	Bihar		
Bhopal	Jharkhand		
Lucknow			
Patna			
Ranchi			

Source: Company data

Entry in business newspapers

The response to Mint has been positive

HT has launched a business newspaper, *Mint,* in an arrangement with *The Wall Street Journal*. The initial response has been positive and the company claims a circulation of 80,000 in Delhi and Mumbai in three months, making it the second largest business newspaper after *The Economic Times* (of the Times of India group). We estimate ad revenue in the business dailies is US$100m pa but the market is dominated by *The Economic Times*. We believe HT's entry would lead to an expansion of the market over the next two years. We do not expect *Mint* to be a significant revenue and profit contributor for the next two years.

Radio—licences in four cities

Radio venture not very exciting

HT has tied up with Virgin of the UK and has licences to operate in Delhi, Mumbai, Bangalore, and Kolkata. It has launched stations in the first two named cities. HT is a relative late entrant in this space, and we do not expect radio to be a revenue and earnings contributor for some time.

Newsprint prices could soften

Lower newsprint prices would flow directly to earnings

The UBS global paper team is cautious on the newsprint market, as demand in North American is falling faster than expected and capacity reductions have slowed, while Asian capacities are rising faster than expected. Thus, newsprint prices are likely to remain stable to soft. Newsprint accounts for about 38% of HT's revenue and is the single largest cost item. Any decline in price would benefit margins. We assume stable newsprint rates in our forecasts.

Company risks

Increased competitive intensity with DNA

New competition in Delhi

DNA is a joint venture between the Dainik Bhaskar group (promoters of one of the highest selling Hindi newspapers) and the Essel group (promoters of the Zee media network) and is a new entrant in the English language newspaper market. Its Mumbai edition is slightly ahead of HT Mumbai because of the 'high-decibel' marketing and advertising. We believe DNA has plans to expand nationwide, beginning with Delhi. Increased competition in HT's main market could impact overall profitability.

Execution risks in expansion

Many new initiatives have to managed simultaneously

HTML is rolling out a number of new initiatives including the entry into Bangalore, the launch of *Mint*, Internet expansion, and radio station launches. Each of these carries execution risks.

Higher newsprint costs

The biggest cost for HTML is newsprint costs (almost 40% of revenue). Although we expect newsprint prices to soften after a run up in the past two years, a sustained hike in newsprint prices could impact margins. A hike in circulation price would depend on competition, which is easing for now.

Slowdown in ad revenue growth

An economic slowdown could slow growth in print ad revenue, which will impact our estimates.

Financials

Ad revenue growth to drive overall revenues

Mumbai ad revenue drives our 20% revenue CAGR estimate

We forecast an overall revenue CAGR of 20% over FY07-09, driven by a 22% CAGR in ad revenue and 12% CAGR in circulation revenue over the same period. Ad revenue growth will probably be driven by new markets such Mumbai, while Delhi is likely to grow in line with industry, at about 18%. We expect circulation revenue to fall as a proportion of total revenue, to 13%, in FY09 from 17% in FY06.

Table 31: Revenue split and growth (Rs m)

Year end Mar	FY04	FY05	FY06	FY07E	FY08E	FY09E
Advertising revenues	4,968	6,548	8,503	10,519	12,691	14,444
Circulation revenues	1,256	1,368	1,524	1,716	1,921	2,103
Others	55	293	329	368	412	462
Total	6,279	8,209	10,355	12,603	15,024	17,009
Revenue split (%)						
Advertising revenues	79	80	82	83	84	85
Circulation revenues	20	17	15	14	13	12
Others	1	4	3	3	3	3
Total	100	100	100	100	100	100
Growth (% YoY)						
Advertising revenues		32	30	24	21	14
Circulation revenues		9	11	13	12	9
Others		432	12	12	12	12
Total		31	26	22	19	13

Source: Company data, UBS estimates

EBITDA margins to rise as revenues flows through directly to the bottom line

We expect the EBITDA margin to widen 400bp in FY08 and 200bp in FY09, primarily from the increase in ad revenue from Mumbai, which feeds straight to the bottom line. We expect newsprint prices to remain stable at current levels and advertising and marketing expenses to decline as a percentage of sales in FY08 and FY09. Overall, we forecast a 39% EBITDA CAGR over FY07-09. Capex requirements are likely to be low and free cash flows strong over the next two years, in our view. We forecast a 43% EPS CAGR over FY07-09.

Table 32: Profit and loss (Rs m)

Year end March	2005	2006	2007E	2008E	2009E
Revenues	6,279	8,210	10,355	12,603	15,024
Cost of goods sold	(4,480)	(5,694)	(6,935)	(8,072)	(9,473)
Gross profit	1,800	2,516	3,420	4,530	5,551
SGA	(1,278)	(1,718)	(1,804)	(1,969)	(2,122)
Other core income	-	-	-	-	-
EBIT	521	799	1,616	2,562	3,430
Income from associates	-	-	-	-	-
Other investment income	81	83	124	124	124
Pension	-	-	-	-	-
Abnormal items (pre-tax)	-	-	-	-	-
Interest	(58)	(41)	(13)	86	172
Other pre-tax non-operating	-	-	-	-	-
Goodwill	-	-	-	-	-
Profit before taxes	545	841	1,727	2,772	3,726
Taxes	(165)	(239)	(518)	(943)	(1,267)
Profit after tax	380	602	1,209	1,830	2,459
Minorities	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Abnormal items (post-tax)	(106)	(229)	-	-	-
Net income	273	373	1,209	1,830	2,459
Revenue growth	51%	31%	26%	22%	19%
EBIT margin	8%	10%	16%	20%	23%
EBIT growth	-4471%	53%	102%	59%	34%
Net profit growth	-1279%	36%	224%	51%	34%

Source: Company data, UBS estimates

Table 33: Balance sheet (Rs m)

Year end March	2005	2006	2007E	2008E	2009E
Net tangible fixed assets	3,823	3,736	3,977	3,896	3,979
Net intangible fixed assets	158	400	362	326	290
Net working capital	439	1,467	2,103	2,762	3,446
Other long-term liabilities	(132)	(296)	(296)	(296)	(296)
Total invested capital	4,288	5,307	6,146	6,688	7,420
Investments/other assets	1,009	644	644	644	644
Total capital employed	5,297	5,951	6,790	7,332	8,064
Net (cash)/debt	1,227	(982)	(1,194)	(1,194)	(2,244)
Provisions	-	-	-	-	-
Minority Interests	-	-	-	-	-
Shareholders Funds	4,070	6,933	7,984	8,526	10,308
Financing capital employed	5,297	5,951	6,790	7,332	8,064
Fixed asset growth	32%	-2%	6%	-2%	2%
Working capital growth	-29%	234%	43%	31%	25%
Capital employed growth	29%	12%	14%	8%	10%

Source: Company data, UBS estimates

Table 34: ROCE/ROE decomposition

Year end March	2005	2006	2007E	2008E	2009E
Asset turnover	157.8%	171.1%	180.8%	196.4%	213.0%
EBIT margin	8.3%	9.7%	15.6%	20.3%	22.8%
EBIT ROIC	13.1%	16.6%	28.2%	39.9%	48.6%
Taxes	69.7%	71.6%	70.0%	66.0%	66.0%
Returns on invested capital	9.1%	11.9%	19.8%	26.3%	32.1%
IC as a % of capital employed	84.5%	85.3%	89.9%	90.9%	91.6%
Returns on other invested capital	7.8%	7.2%	13.5%	12.7%	12.7%
Other assets/CE	15.5%	14.7%	10.1%	9.1%	8.4%
Returns on capital employed	8.9%	11.2%	19.1%	25.1%	30.5%
Leverage	122.9%	97.5%	84.8%	88.3%	85.7%
Minorities	100.0%	100.0%	100.0%	100.0%	100.0%
Exceptionals	72.0%	62.0%	100.0%	100.0%	100.0%
ROE	7.9%	6.8%	16.2%	22.2%	26.1%
ROE (adjusted)	11.0%	6.8%	16.2%	22.2%	26.1%

Source: Company data, UBS estimates

Table 35: Cash flow (Rs m)

Year end March	2005	2006	2007E	2008E	2009E
EBIT	521	799	1,616	2,562	3,430
Depreciation	227	385	397	417	452
Capex	(1,135)	(251)	(600)	(300)	(500)
Change in working cap	115	(1,068)	(637)	(659)	(684)
Other operating	(168)	(320)	124	124	124
Operating free cash flow	(440)	(456)	901	2,144	2,822
Interest	(58)	(41)	(13)	86	172
Taxes paid	(22)	(65)	(518)	(943)	(1,267)
Free cash flow	(520)	(561)	369	1,288	1,728
Net acquisitions / disposals	-	-	-	-	-
Investments in associates	-	150	-	-	-
Dividends	(44)	(64)	(157)	(238)	(320)
Share issues / buybacks	885	2,556	-	-	-
Other	(492)	(86)	-	-	-
Change in short term debt	(159)	(20)	-	-	-
Change in long term debt	-	-	-	-	-
Change in preferred debt	-	-	-	-	-
Net change in cash	(331)	1,975	212	1,050	1,408
Free cash flow yield	-1.3%	-1.4%	0.9%	3.1%	4.2%
Dividend yield	0.5%	0.7%	0.3%	0.5%	0.7%
Capex/sales	18.1%	3.1%	5.8%	2.4%	3.3%
Net debt to equity	30.2%	-14.2%	-15.0%	-14.0%	-21.8%

Source: Company data, UBS estimates

Price target derivation

We base our 12-month price target of Rs215 on a DCF model, which is our primary valuation tool, given HT's high free cash flows and the industry's structural growth potential. We use explicit forecasts until FY10, 20% revenue growth for the next five years, and a 4% terminal growth rate—lower than the 5% we forecast for Sun and ENIL. We believe print might face pressure from other news media in the long term, especially the Internet, as has been the case in developed economies. The UBS global media team forecasts slower growth for print than for other media in developed economies. We believe the same situation could emerge in India eventually, although we do not expect this to occur in our forecast period of nine years.

Our DCF-based PT is Rs215. We have used a lower terminal growth rate of 4% because of our long-term cautious view for newspaper industry

We use a beta of 0.9 to calculate our cost of equity estimate. HT Media's historical beta is 0.6 for one year and 0.66 for 18 months. We believe the historical beta is not representative, given the stock's short trading history and limited free float. Thus, we have used a beta similar our beta for Sun and ENIL.

Table 36: Primary DCF assumptions

Risk Free rate	8.5%
Market risk premium	5.0%
Capex to sales	4.0%
Operating margin	25.0%
Intermediate growth	20.0%
Terminal Year	4.0%
FCF Multiple	11.6
WACC	13.0%
Beta	0.90
Tax rate	36.0%
Debt-equity	0.0%
WC to sales	1.0%
Depreciation to sales	2.0%

Source: UBS estimates

Table 37: DCF sensitivity to WACC and terminal growth rates

WACC ->	11.0%	12.0%	13.0%	13.5%	14.0%	15.0%
Terminal growth						
2%	239	213	192	183	174	160
3%	257	226	202	192	182	166
4%	280	243	215	203	192	174
5%	311	265	230	216	204	183
6%	355	294	250	233	218	193

Source: UBS estimates

At our price target, the stock would trade at 21x estimated FY09 EPS, which is a premium to global and regional peers. We think the premium is justified, given the still untapped potential in India and visible high growth over the medium term. Indian newspaper companies are not facing the strong headwinds their counterparts in developed economies face, as growing literacy and higher disposable income offer growth opportunities in the Indian print media.

Premium valuation to other newspaper stocks is justified, in our view

Table 38: Comparative valuations

	Mkt cap	PE(x)			EV/EBITDA(x)			ROE (%)			ROIC (%)		
	US$ m	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E	FY07E	FY08E	FY09E
Publishing													
New York Times	3,411	14.6	19.2	20.5	8.7	9.8	9.9	18.5	15.0	11.2	11.6	10.8	11.2
SCMP	595	15.2	14.8	16.5	9.0	9.3	10.1	17.9	18.2	16.5	17.7	23.3	24.6
Star Publications	764	19.3	19.5	18.1	11.6	11.3	10.5	11.8	11.7	12.7	17.1	13.0	13.2
Tribune Co.	10,865	15.7	27.5	18.7	10.2	12.5	13.6	9.2	10.2	9.3	8.7	7.8	8.1
Singapore Press	4,651	19.7	17.0	15.7	15.6	14.7	13.2	21.9	25.1	27.1	33.6	32.3	39.5
Next Media	496	17.4	14.8	12.7	17.1	12.2	10.5	14.1	10.8	12.7	9.7	14.7	10.6
HT Media LTd.	1,023	34.6	22.9	17.0	14.2	13.3	10.1	10.9	16.2	22.2	9.1	11.9	19.8

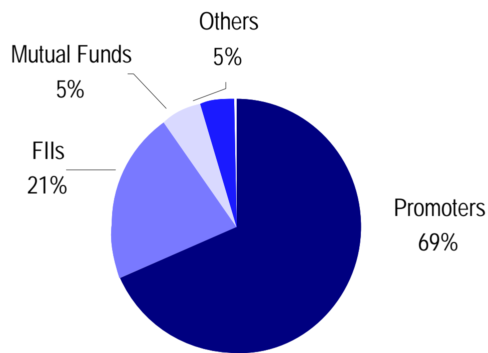
Note: Above data as at 25 April 2007.
Source: UBS estimates

Company background

Long standing newspaper promoted by well known group

HT Media is the second largest print media company in India and the largest listed print media company. It is part of the KK Birla group. Other group companies include Chambal Fertilizers and Zuari Industries. HTML publishes two dailies—H*industan Times* in the English language and *Hindustan* in Hindi. It also has a presence in the Internet media, events and radio segments. *Hindustan Times* was launched almost 80 years ago and the group has a long history in the newspaper business. Shobhana Bhartiya is the chairperson of the company while the CEO and other business heads are professionals drawn from different industries, including consumer and media.

Chart 17: Shareholding pattern as on 31 March 2007



Source: Bombay Stock Exchange

HT Media Ltd.

Income statement (Rsm)	03/02	03/03	03/04	03/05	03/06	03/07E	% ch	03/08E	% ch	03/09E	% ch
Revenues	-	-	4,162.77	6,279.28	8,210.11	10,355.42	26.1	12,602.56	21.7	15,023.97	19.2
Operating expenses (ex depn)	-	-	(4,023.18)	(5,531.37)	(7,026.12)	(8,342.50)	18.7	(9,623.52)	15.4	(11,142.03)	15.8
EBITDA (UBS)	-	-	139.59	747.91	1,183.99	2,012.92	70.0	2,979.03	48.0	3,881.94	30.3
Depreciation	-	-	(151.52)	(226.63)	(385.37)	(397.11)	3.0	(417.48)	5.1	(452.26)	8.3
Operating income (EBIT, UBS)	-	-	(11.93)	521.28	798.62	1,615.81	102.3	2,561.56	58.5	3,429.69	33.9
Other income & associates	-	-	51.25	81.21	82.78	124.17	50.0	124.17	0.0	124.17	0.0
Net interest	-	-	(57.19)	(57.88)	(40.84)	(13.44)	-67.1	86.40	-	172.43	99.6
Abnormal items (pre-tax)	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	-	-	(17.87)	544.61	840.57	1,726.55	105.4	2,772.14	60.6	3,726.29	34.4
Tax	-	-	10.97	(164.82)	(238.97)	(517.97)	116.8	(942.53)	82.0	(1,266.94)	34.4
Profit after tax	-	-	(6.90)	379.79	601.60	1,208.59	100.9	1,829.61	51.4	2,459.35	34.4
Abnormal items (post-tax)	-	-	(16.29)	(106.45)	(228.89)	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Net income (local GAAP)	-	-	(23.19)	273.34	372.71	1,208.59	224.3	1,829.61	51.4	2,459.35	34.4
Net Income (UBS)	-	-	(6.90)	379.79	601.60	1,208.59	100.9	1,829.61	51.4	2,459.35	34.4
Tax rate (%)	0.00	0.00	0.00	30.26	28.43	30.00	5.5	34.00	13.3	34.00	0.0
Pre-abnormal tax rate (%)	0.00	0.00	0.00	30.26	28.43	30.00	5.5	34.00	13.3	34.00	0.0

Per share (Rs)	03/02	03/03	03/04	03/05	03/06	03/07E	% ch	03/08E	% ch	03/09E	% ch
EPS (local GAAP)	-	-	(0.62)	6.55	7.96	5.16	-35.1	7.81	51.4	10.50	34.4
EPS (UBS)	-	-	(0.19)	9.10	12.84	5.16	-59.8	7.81	51.4	10.50	34.4
Net DPS	-	-	0.00	0.92	1.20	0.59	-51.0	0.89	51.4	1.20	34.4
Cash EPS	-	-	3.89	14.52	21.07	6.86	-67.5	9.59	39.9	12.43	29.6
BVPS	-	-	12.19	17.37	29.60	34.09	15.2	36.40	6.8	44.01	20.9

Balance sheet (Rsm)	03/02	03/03	03/04	03/05	03/06	03/07E	% ch	03/08E	% ch	03/09E	% ch
Net tangible fixed assets	-	-	2,885.31	3,823.03	3,736.40	3,977.00	6.4	3,895.98	-2.0	3,978.94	2.1
Net intangible fixed assets	-	-	168.92	157.94	399.85	362.14	-9.4	325.68	-10.1	290.47	-10.8
Net working capital (incl. other assets)	-	-	615.66	438.82	1,466.63	2,103.16	43.4	2,762.42	31.3	3,446.48	24.8
Other liabilities	-	-	0.00	(132.01)	(295.84)	(295.84)	0.0	(295.84)	0.0	(295.84)	0.0
Operating invested capital	-	-	3,669.89	4,287.78	5,307.04	6,146.46	15.8	6,688.24	8.8	7,420.05	10.9
Investments	-	-	436.94	1,009.16	643.97	643.97	0.0	643.97	0.0	643.97	0.0
Total capital employed	-	-	4,106.82	5,296.94	5,951.01	6,790.43	14.1	7,332.22	8.0	8,064.02	10.0
Shareholders' equity	-	-	2,856.64	4,069.54	6,932.79	7,984.26	15.2	8,526.04	6.8	10,307.82	20.9
Minority interests	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total equity	-	-	2,846.21	4,069.54	6,932.79	7,984.26	15.2	8,526.04	6.8	10,307.82	20.9
Net debt / (cash)	-	-	1,260.61	1,227.39	(981.78)	(1,193.83)	21.6	(1,193.83)	0.0	(2,243.80)	88.0
Debt deemed provisions	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Total capital employed	-	-	4,106.82	5,296.94	5,951.01	6,790.43	14.1	7,332.22	8.0	8,064.02	10.0

Cash flow (Rsm)	03/02	03/03	03/04	03/05	03/06	03/07E	% ch	03/08E	% ch	03/09E	% ch
Operating income (EBIT, UBS)	-	-	(11.93)	521.28	798.62	1,615.81	102.3	2,561.56	58.5	3,429.69	33.9
Depreciation	-	-	151.52	226.63	385.37	397.11	3.0	417.48	5.1	452.26	8.3
Net change in working capital	-	-	0.00	115.30	(1,067.96)	(636.53)	-40.4	(659.26)	3.6	(684.06)	3.8
Other (operating)	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating cash flow	-	-	139.59	863.21	116.03	1,376.39	1086.3	2,319.77	68.5	3,197.88	37.9
Net interest received / (paid)	-	-	(57.19)	(57.88)	(40.84)	(13.44)	-67.1	86.40	-	172.43	99.6
Dividends paid	-	-	0.00	(44.23)	(64.38)	(157.12)	144.0	(237.85)	51.4	(319.72)	34.4
Tax paid	-	(0.01)	(0.55)	(22.39)	(64.84)	(517.97)	698.8	(942.53)	82.0	(1,266.94)	34.4
Capital expenditure	-	-	0.00	(1,135.47)	(251.48)	(600.00)	138.6	(300.00)	-50.0	(500.00)	66.7
Net (acquisitions) / disposals	-	-	0.00	0.00	0.00	0.00	-	0.00	-	0.00	-
Other	-	-	-	(659.89)	(256.05)	124.17	-	124.17	0.0	124.17	0.0
Share issues	-	-	0.00	885.45	2,556.48	0.00	-	0.00	-	0.00	-
Cash flow (inc)/dec in net debt	-	-	128.33	(171.19)	1,994.92	212.05	-89.4	1,049.97	395.2	1,407.83	34.1
FX / non cash items	-	-	-	204.41	214.25	0.00	-	(1,049.97)	-	(357.86)	-65.9
Balance sheet (inc)/dec in net debt	-	-	-	33.22	2,209.17	212.05	-90.4	0.00	-	1,049.97	-
Core EBITDA	-	-	139.59	747.91	1,183.99	2,012.92	70.0	2,979.03	48.0	3,881.94	30.3
Maintenance capital expenditure	-	-	(0.01)	(0.01)	(0.01)	(0.01)	0.0	(0.01)	0.0	(0.01)	0.0
Maintenance net working capital	-	-	(0.01)	(0.01)	(0.01)	(0.01)	0.0	(0.01)	0.0	(0.01)	0.0
Operating free cash flow, pre-tax	-	-	139.57	747.89	1,183.97	2,012.90	70.0	2,979.01	48.0	3,881.92	30.3

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

HT Media Ltd.

Rating: Buy 2

Price target: Rs215.00

Company profile

HT Media is the largest listed print media company in India. The KK Birla group is its majority shareholder. HT Media publishes two major titles—Hindustan Times in Delhi, Mumbai and other cities in North India, and Hindustan—a Hindi language newspaper in many North Indian cities. It has launched a business newspaper. HT Media has licences for radio stations in four cities.

Valuation (x)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
P/E (local GAAP)	-	-	11.6	34.3	22.7	16.9
P/E (UBS)	-	-	7.2	34.3	22.7	16.9
P/CEPS	-	-	4.4	25.8	18.4	14.2
Net dividend yield (%)	-	-	1.3	0.3	0.5	0.7
P/BV	-	-	3.1	5.2	4.9	4.0
EV/revenue (core)	-	-	2.6	3.8	3.1	2.6
EV/EBITDA (core)	-	-	17.8	19.7	13.3	10.1
EV/EBIT (core)	-	-	26.4	24.6	15.5	11.4
EV/OpFCF (core)	-	-	17.8	19.7	13.3	10.1
EV/op. invested capital	-	-	4.4	6.9	6.2	5.5

Enterprise value (Rsm)	03/05	03/06	03/07E	03/08E	03/09E
Average market cap	-	21,628.10	41,458.71	41,458.71	41,458.71
+ minority interests	0.00	0.00	0.00	0.00	0.00
+ average net debt (cash)	1,244.00	122.81	(1,087.80)	(1,193.83)	(1,718.81)
+ pension obligations and other	0.00	0.00	0.00	0.00	0.00
- non-core asset value	(1,009.16)	(643.97)	(643.97)	(643.97)	(643.97)
Core enterprise value	-	21,106.93	39,726.93	39,620.91	39,095.92

Growth (%)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
Revenue	-	50.8	30.7	26.1	21.7	19.2
EBITDA (UBS)	-	NM	58.3	70.0	48.0	30.3
EBIT (UBS)	-	-	53.2	102.3	58.5	33.9
EPS (UBS)	-	-	41.2	-59.8	51.4	34.4
Cash EPS	-	NM	45.1	-67.5	39.9	29.6
Net DPS	-	-	29.9	-51.0	51.4	34.4
BVPS	-	42.5	70.4	15.2	6.8	20.9

Margins (%)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
EBITDA / revenue	-	11.9	14.4	19.4	23.6	25.8
EBIT / revenue	-	8.3	9.7	15.6	20.3	22.8
Net profit (UBS) / revenue	-	6.0	7.3	11.7	14.5	16.4

Return on capital (%)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
EBIT ROIC (UBS)	-	13.1	16.6	28.2	39.9	48.6
ROIC post tax	-	9.1	11.9	19.8	26.3	32.1
Net ROE	-	11.0	10.9	16.2	22.2	26.1

Coverage ratios (x)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
EBIT / net interest	-	10.4	21.6	NM	-	-
Dividend cover (UBS EPS)	-	9.8	10.7	8.8	8.8	8.8
Div. payout ratio (%, UBS EPS)	-	10.2	9.3	11.4	11.4	11.4
Net debt / EBITDA	-	1.6	NM	NM	NM	NM

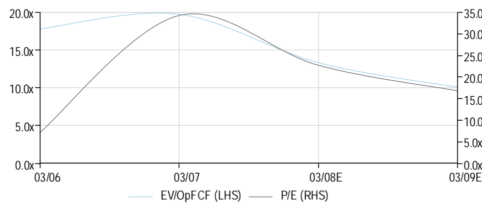
Efficiency ratios (x)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
Revenue / op. invested capital	-	1.6	1.7	1.8	2.0	2.1
Revenue / fixed assets	-	1.8	2.0	2.4	2.9	3.5
Revenue / net working capital	-	11.9	8.6	5.8	5.2	4.8

Investment ratios (x)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
OpFCF / EBIT	-	1.4	1.5	1.2	1.2	1.1
Capex / revenue (%)	-	18.1	3.1	5.8	2.4	3.3
Capex / depreciation	-	5.0	0.7	1.5	0.7	1.1

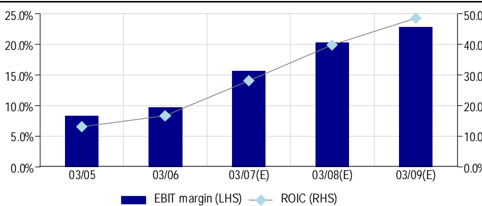
Capital structure (%)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
Net debt / total equity	-	30.2	(14.2)	(15.0)	(14.0)	(21.8)
Net debt / (net debt + equity)	-	23.2	(16.5)	(17.6)	(16.3)	(27.8)
Net debt (core) / EV	-	-	0.6	(2.7)	(3.0)	(4.4)

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs177.00 on 25 Apr 2007 23:39 HKT Market cap(E) may include forecast share issues/buybacks.

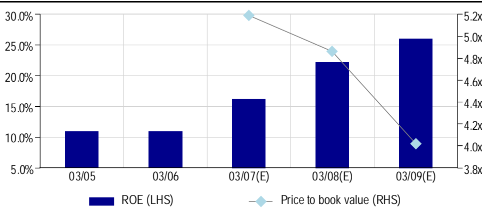
Value (EV/OpFCF & P/E)



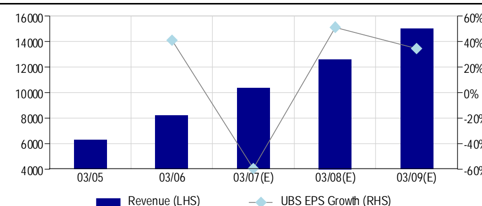
Profitability



ROE v Price to book value



Growth (UBS EPS)



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Global Equity Research

India

Broadcasting

Rating	Reduce 2
	Prior: Not Rated
Price target	Rs1,203.00/US$29.64
	-
Price	Rs1,639.60/US$40.39

RIC: SUTV.BO BBG: SUNTV IN

26 April 2007

UBS Investment Research

Sun TV

Premium too high

- **Dominant broadcaster in South India**

Sun is the dominant broadcaster in its home state of Tamil Nadu with ratings 3x that of its nearest competitor. Its merger with Gemini and Udaya would make it the leader in two other southern states. We expect Sun to maintain its dominance, given its strong content sourcing, and its competitors' low focus on these markets.

- **New revenue streams in pay-TV and overseas markets**

We expect new streams of subscription revenue (Sun TV has recently converted to pay-TV) and deeper penetration into overseas markets to be the major revenue drivers for next two years. We expect Sun's radio business to focus on the south while its other stations will likely lose money.

- **Earnings CAGR of 28% over FY07-09E**

We forecast a 28% EPS CAGR for Sun (including Gemini and Udaya) over the next two years, driven by our forecast revenue CAGR of 24%, and slight margin improvement. Higher pay-TV revenue growth is an upside risk to our estimates.

- **Stock looks richly valued; PT of Rs1,203**

Sun is trading at a high premium to all peers and we find the premium excessive. We base our Rs1,203 price target on a DCF valuation, assuming 13% WACC and 5% terminal growth. A pending a secondary share issue to dilute the promoter's holding could also be a dampener. We initiate coverage with a Reduce 2 rating.

Highlights (Rsm)	03/05	03/06	03/07E	03/08E	03/09E
Revenues	2,903.10	3,219.10	6,457.97	8,073.08	9,941.60
EBIT (UBS)	1,152.90	1,888.00	4,403.28	5,385.51	6,896.73
Net Income (UBS)	767.60	1,302.30	2,918.06	3,732.73	4,761.71
EPS (UBS, Rs)	383.80	21.00	29.62	37.89	48.33
Net DPS (UBS, Rs)	0.00	32.06	9.09	11.63	14.84

Profitability & Valuation	5-yr hist av.	03/06	03/07E	03/08E	03/09E
EBIT margin %	-	58.6	68.2	66.7	69.4
ROIC (EBIT) %	-	53.8	76.3	71.0	81.9
EV/EBITDA (core) x	-	-	22.3	17.0	13.5
PE (UBS) x	-	-	55.4	43.3	33.9
Net dividend yield %	-	-	0.6	0.7	0.9

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items.
Valuations: based on an average share price that year, (E): based on a share price of Rs1,639.60 on 25 Apr 2007 23:39 HKT

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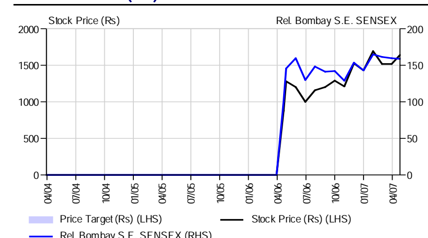
Trading data (local/US$)	
52-wk range	Rs1,824.05-884.25/US$41.45-19.25
Market cap.	Rs113bn/US$2.78bn
Shares o/s	68.9m (ORD)
Free float	10%
Avg. daily volume ('000)	10
Avg. daily value (Rsm)	15.8

Balance sheet data 03/07E	
Shareholders' equity	Rs14.2bn
P/BV (UBS)	11.3x
Net Cash (debt)	Rs6.77bn

Forecast returns	
Forecast price appreciation	-26.6%
Forecast dividend yield	0.0%
Forecast stock return	-26.6%
Market return assumption	12.8%
Forecast excess return	-39.4%

EPS (UBS, Rs)	03/07E			03/06
	From	To	Cons.	Actual
Q1	-	0.00	-	-
Q2	-	0.00	-	-
Q3E	-	0.00	-	-
Q4E	-	0.00	-	-
03/07E	-	29.62	-	
03/08E	-	37.89	-	

Performance (Rs)



Source: UBS

www.ubs.com/investmentresearch

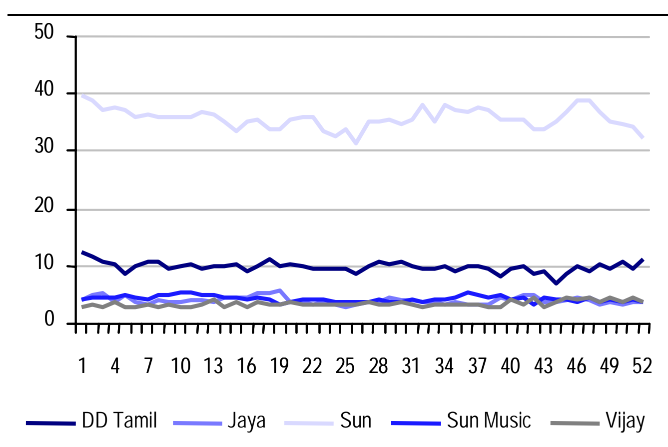
Summary and Investment Case

The largest television network in South India

Sun has been the undisputed leader for some time in the South Indian market and is likely to maintain its dominance in the near to medium term

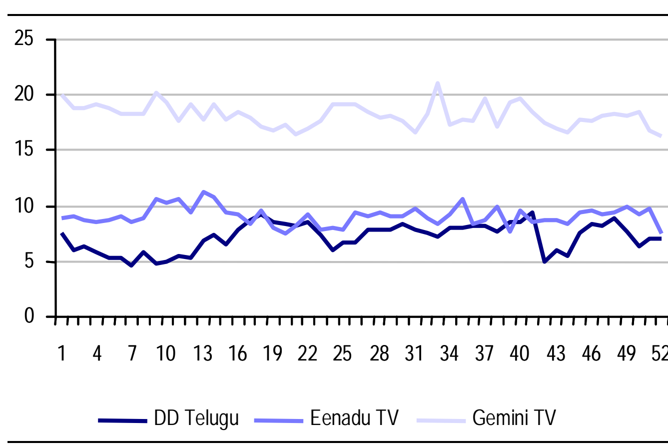
Sun is the leader in television broadcasting in the southern states of Tamil Nadu, Andhra Pradesh, and Karnataka—the most significant markets in India after the Hindi-language markets. Sun's viewership ratings in its markets have remained well above the competition's (see charts 18 and 19). We expect this dominance to continue over the medium term, as there is no foreseeable competition emerging. Other networks such as Star and Zee have made forays into these markets with limited results. Given intensifying competition in the Hindi language entertainment space, we do not expect significant investment/activity by Star and Zee in South India in the near term.

Chart 18: Sun's ratings in Tamil Nadu—2006



Source: ACNielsen

Chart 19: Gemini's (Sun network) ratings in Andhra Pradesh—2006

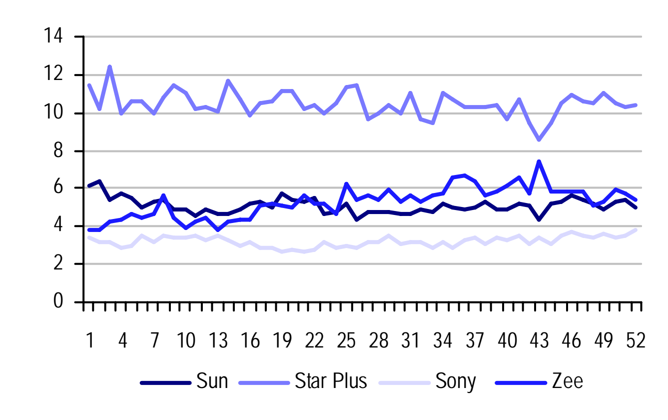


Source: ACNielsen

Sun's ratings compare favourably with Zee and Sony's on an overall basis, but fall in the higher socioeconomic classes

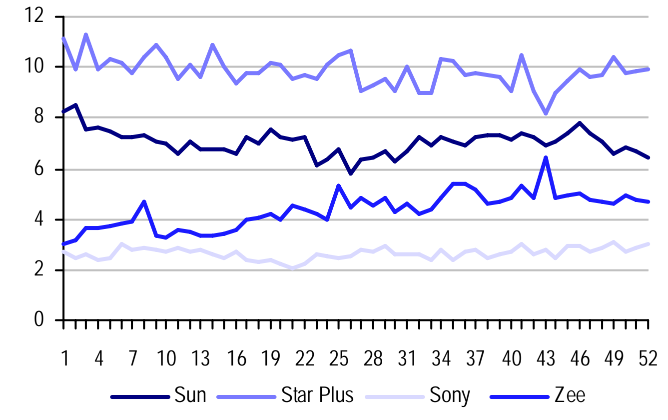
Even if we compare Sun's ratings with those of the dominant Hindi channels such as Star Plus (part of Rupert Murdoch's News Corp), Zee, and Sony, Sun's overall share is second only to Star's and above Sony's and Zee's. However, Sun's ratings would fall if we take the base as the top socioeconomic classes (SEC A and B) and age of 15+ years (see charts 22 and 23) that have higher disposable income. We believe this factor is important in determining ad rates, as channels with more viewership in the higher SECs will likely realise better rates.

Chart 20: Sun's ratings, all viewers—2005



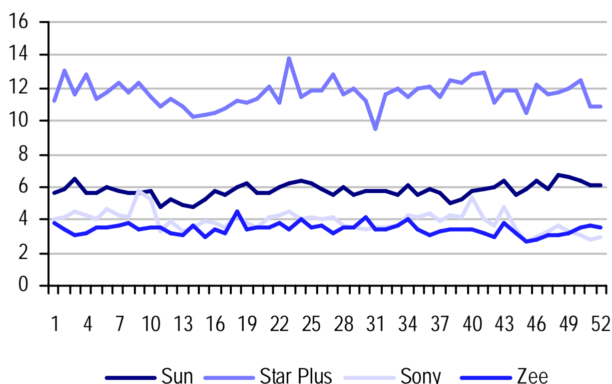
Source: ACNielsen

Chart 21: Sun's ratings, all viewers—2006



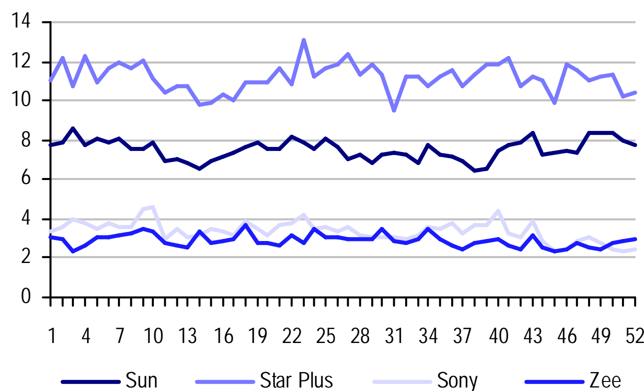
Source: ACNielsen

Chart 22: Ratings for channels, viewers in SEC A, B, age 15+—2005



Source: ACNielsen

Chart 23: Ratings for all channels, viewers in SEC A, B, age 15+—2006



Source: ACNielsen

South India has the highest C&S penetration rate, but low reach

Sun's dominance has ensured high cable penetration but the overall market is small in South India

South India is one of the most penetrated cable and satellite (C&S) markets, but television's absolute reach is relatively low compared with the Hindi-speaking markets. All the southern states have 85%+ C&S penetration, with Tamil Nadu and Andhra Pradesh at 90%+, compared with 73% for the Hindi-speaking markets. However, total TV-owning households for the southern channels at 10.7m are almost 40% of the Hindi-speaking markets at 26m. We believe the high penetration rates restrict growth in the near term, but low TV reach augurs well for the long term.

Table 39: Sun's markets have lower TV owning HH but higher C&S penetration (indexed)

	TV-owning households				C&S penetration %			Colour TV penetration %		
	2002	2005	2006	CAGR (%)	2002	2005	2006	2002	2005	2006
Total market	100	100	100	5	65	74	84	55	76	81
Chennai	5	4	4	3	82	95	99	59	87	91
Other 5 metros	33	31	32	4	73	84	90	63	82	87
Other Sun markets	18	17	18	4	77	86	91	51	70	73
Hindi speaking markets	69	71	71	5	60	67	73	55	76	81

Source: ACNielsen, National Readership Survey

Ad rates are low, but could stay at significant discount

Lower reach in high spending markets/ classes could keep rates at a discount

We believe Sun's network ad rates have some room to grow as they are significantly lower than the Hindi channels' rates. However, a lower reach might keep rates at a significant discount, in our view. We forecast a 16% ad revenue CAGR for FY07-09, in line with growth over FY04-06. We forecast an 87% increase in FY07 because of the merger with Gemini and Udaya TV.

Table 40: Sun's ad rates are low

Channel	Peak ad rates (Rs/10 sec)
Sun TV	22,500
Zee TV	150,000
Star TV	300,000

Source: Company data, UBS

Competitive advantage in content sourcing

Sun's extensive movie library and its leadership position give it an advantage in sourcing content

Sun TV and its main channels follow a unique model, wherein content producers purchase slots on the channels in return for about 60% of advertising time. The rest of the ad time is sold by Sun TV. Sun's high viewership share ensures that most production houses want to be on Sun. At the same time, the model lowers Sun's programming risk significantly. Any non-performing programme can be immediately pulled off the air with little or no cost implications.

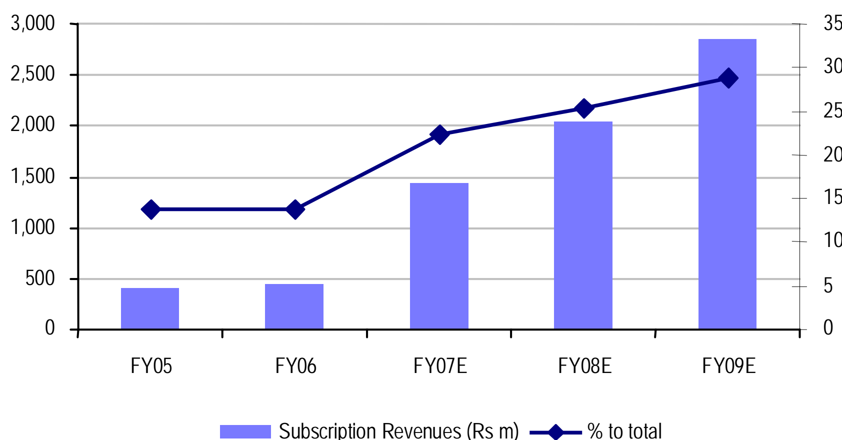
Sun has an extensive film library of over 7,500 titles and it generally acquires most new titles. Film and film-related programmes attract significant viewership given the popularity of movies in South India (the four states produce the highest number of movies in India). All the top 10 programmes on the flagship channel are movie-based and almost half of the total airtime is dedicated to movie-based programming.

Conversion to pay would boost revenues and margins

Sun TV has gone pay in all TN except Chennai. Pay TV revenues expected to grow seven fold in three years

Three channels on Sun's network converted to pay in December 2006 in all areas except Chennai (where conditional access—CAS—has been implemented) for a fee of Rs12/month. Other channels might follow suit. We estimate total pay-TV revenue could grow seven-fold to Rs2.8bn in FY09 from Rs440m in FY06, and its share in total revenue could increase to 29% from 14% over the same period. However, 1) the fee for the viewer has remained the same, with pay revenue likely being paid by distributors, and 2) the CAS areas of Chennai (where consumer would have to pay) have been left out. We believe the real test of pay-TV would be when consumers pay for the channels.

Chart 24: Share of subscription revenue to grow



Source: Company data, UBS estimates

Overseas revenues could be a driver too

Sun has not yet fully penetrated the overseas markets

Sun has been relatively slow in expanding overseas, but is now ramping up its presence. Overall international revenue at 4% of total revenues is low, compared with Zee at 20%. The US is Sun's biggest market, contributing 60% of international revenue, but with only 28,000 subscribers. We believe the potential to grow this segment is significant, given the large South Indian immigrant population. We forecast an international revenue CAGR of 35% over FY07-09.

Table 41: Sun's overseas revenues

	FY05	FY06	FY07E	FY08E	FY09E
Sun's overseas revenues (Rs m)	88	176	264	396	555
As a % of the total	3.0	5.5	4.1	4.9	5.6
Zee's overseas revenues (Rs m)	2,904	2,938	3,570	4,018	4,525
As a % of the total	20.8	20.6	20.6	23.3	20.6

Source: Company data, UBS estimates

Radio—significant potential, but with execution risk

We expect Sun's radio initiative to succeed only in the towns where it has a content advantage

Sun has won licences in all 44 cities in the second round of licensing, primarily through its subsidiaries—South Asia FM and Kal Radio. Of these, six are operational. Twenty-one of the 44 channels are in South India and remaining in the north and east. While the south is an existing stronghold and Sun has a strong content library, ex-south cities will be a challenge, in our view. Moreover, most of the ex-south cities are of C and D categories (small), and we believe revenue and earnings potential might not be significant. We forecast a radio revenue CAGR of 60% over FY07-09, driven by new station launches. However, we estimate radio will contribute only 4% to total revenue in FY09.

Table 42: Radio licences

Sun TV		South Asia FM	
Chennai	Coimbatore	Aizawl	Allahabad
Tirunalveli		Asansol	Aurangabad
Kal Radio		Bhopal	Bhopal
Bangalore	Cochin	Gangtok	Guwahati
Gulbarga	Hyderabad	Indore	Jabalpur
Kannur	Kozhikode	Jaipur	Jamshedpur
Madurai	Mangalore	Kanpur	Lucknow
Mysore	Pondicherry	Ahmedabad	Nagpur
Rajahmundry	Thiruvananthapuram	Nasik	Pune
Thrissur	Trichy	Rajkot	Shillong
Tirupati	Tuticorin	Siliguri	Vadodara
Vijaywada	Warangal	Varanasi	

Source: Company data

Valuation seems unjustified, our PT is Rs1203

Sun is trading at a significant premium to Zee—the only comparable Indian company—and to global peers. While we think a premium might be justified given its dominant position, but we believe the current premium is excessive. Our DCF-based 12-month price target is Rs1,203, which still implies a premium to Zee.

Merger with Gemini and Udaya could lead to dilution

Merger will increase promoter stake necessitating dilution

Sun is merging with two of its promoter's companies—Gemini TV and Udaya TV, which operate TV broadcasting businesses in Andhra Pradesh and Karnataka, respectively. As the promoter holds more than 97% of the company, the merger will increase its holdings in Sun to about 94%. As per listing norms, the minimum free float should be 90%. Hence the company is planning to undertake a secondary issue to lower the promoter's stake. This could act as a share price dampener, especially since the funds are not required for the business and will likely dilute returns.

Company risks

Decline in viewership because of competition

Competition could increase as the market grows

We believe intensifying competition is the biggest risk for Sun TV. Other large networks, for example, Star and Zee have been on the periphery of the southern markets, but seem unwilling to invest significant amounts We believe this could change over the next three to four years because of two factors: 1) a growing market, which becomes more attractive to the competition, and 2) a stabilising Hindi entertainment segment (currently in a highly competitive phase) would enable networks to focus on other markets. We have not factored in the impact of increased competition (a slowdown in revenue growth or decline in margins) in our estimates as it lacks visibility, although competition remains a significant risk.

Sensitive to ad rates

Low growth in ad rates could affect our estimates adversely and vice versa

Almost 50% of Sun's revenue accrues from advertising. Even broadcast revenue (from the sale of slots to content producers) is linked to the advertising cycle, and broadcasting fees tend to move in tandem with ad rates. Thus, dependence on ad rates is high at 70% of revenue. Based on our estimates, a 5% slower growth rate in FY08 ad revenue will lead to a 4.7% drop in EPS.

Regulatory risk

The sector is subject to high scrutiny by the government, although the Indian media is relatively free with respect to content. Moreover, news content and radio are subject to foreign ownership limits which restrict the ability to raise capital.

Association with one political group

Political change could impact fundamentals

Family members of Sun's chairman are politically active and owe their allegiance to DMK—the party in power in Tamil Nadu and a member of ruling coalition in the central government. Any change in the political landscape and a resulting backlash could have an impact on the company. That said, Sun has thrived and maintained its dominance over many years and political changes have had little impact on its performance in the past.

Upside risks

Higher revenue and earnings, especially from pay-TV

We expect pay-TV revenues to grow at a 40% CAGR over FY07-FY09 from a small base. Since Sun has turned pay only recently, our estimates could vary meaningfully on the upside.

Low floating stock resulting in scarcity premium

Sun's free float is only 6%, and should increase to 10%, as per listing norms. A low free float could keep valuations stretched for a long time. Also, Sun and Zee are the only listed broad-based TV companies in India and are likely to remain on investors' radars, in our view.

Financials

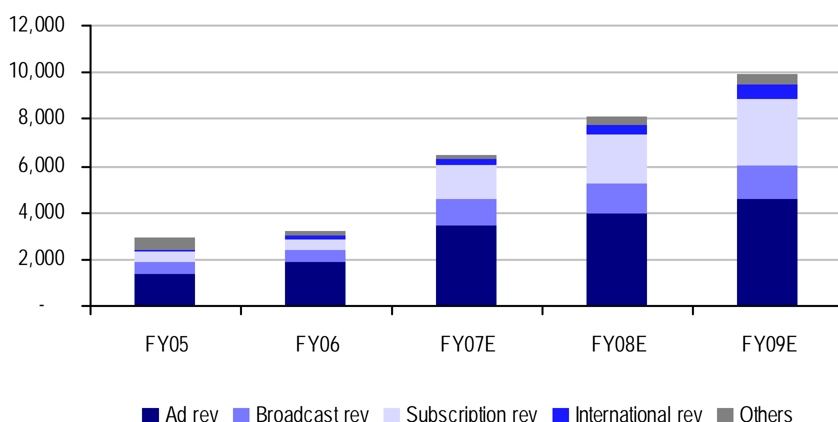
All our estimates incorporate the merger with Gemini TV and Udaya TV. However, we have not accounted for the impending dilution (to meet the regulatory requirement on free float) as the timing and size are uncertain.

Revenues to grow at 24% CAGR over FY07-FY09E

We forecast an overall revenue CAGR of 24% over FY07-09 of Rs9.9bn, driven by a 16% CAGR in ad revenue, a 14% CAGR in broadcast revenue, and a 41% CAGR in pay-TV revenue. We believe our ad growth assumptions are reasonable given the strong upturn in the advertising cycle because of strong overall economic growth and Sun's stranglehold on its markets.

Ad revenue will likely remain the primary revenue contributor

Chart 25: Strong revenue CAGR of 24% over FY07-09E

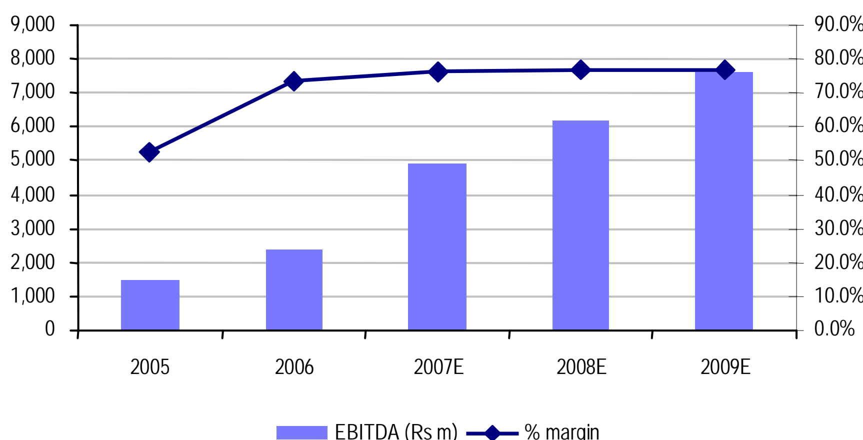


Source: Company data, UBS estimates

We assume the EBITDA margin will expand gradually on better operating leverage. However, the scope for margin expansion is limited, given the already high level. We forecast a 25% EBITDA CAGR over FY07-09.

Scope for margin expansion is limited given already high levels; we expect moderate expansion

Chart 26:EBITDA margins to flatten post FY07E



Source: Company data, UBS estimates

Table 43: Profit and loss (Rs m)

Year end March	2005	2006	2007E	2008E	2009E
Revenues	2,903	3,219	6,458	8,073	9,942
Cost of goods sold	(1,630)	(1,174)	(1,732)	(2,300)	(2,580)
Gross profit	1,273	2,046	4,726	5,773	7,362
SGA	(120)	(158)	(323)	(387)	(465)
Other core income	-	-	-	-	-
EBIT	1,153	1,888	4,403	5,386	6,897
Income from associates	-	-	-	-	-
Other investment income	9	69	69	69	69
Pension	-	-	-	-	-
Abnormal items (pre-tax)	-	-	-	-	-
Interest	63	38	87	378	474
Other pre-tax non-operating	-	-	-	-	-
Goodwill	-	-	-	-	-
Profit before taxes	1,224	1,995	4,559	5,832	7,440
Taxes	(457)	(693)	(1,641)	(2,100)	(2,678)
Profit after tax	768	1,302	2,918	3,733	4,762
Minorities	-	-	-	-	-
Preferred dividends	-	-	-	-	-
Abnormal items (post-tax)	-	-	-	-	-
Net income	768	1,302	2,918	3,733	4,762
Revenue growth		11%	101%	25%	23%
EBIT margin	40%	59%	68%	67%	69%
EBIT growth		64%	133%	22%	28%
Net profit growth		70%	124%	28%	28%

Source: Company data, UBS estimates

Table 44: Balance sheet (Rs m)

Year end 31 March	2005	2006	2007E	2008E	2009E
Net tangible fixed assets	1,501	1,027	1,359	1,750	2,006
Net intangible fixed assets	88	206	151	151	151
Net working capital	734	3,016	2,281	2,752	3,294
Other long-term liabilities	(48)	(32)	(32)	(32)	(32)
Total invested capital	2,276	4,217	3,760	4,622	5,420
Investments/other assets	357	493	3,714	3,714	3,714
Total capital employed	2,632	4,711	7,474	8,336	9,134
Net (cash)/debt	(1,431)	1,612	(6,769)	(8,334)	(10,631)
Provisions	-	-	-	-	-
Minority Interests	-	-	-	-	-
Shareholders Funds	4,063	3,099	14,244	16,670	19,765
Financing capital employed	2,632	4,711	7,474	8,336	9,134
Fixed asset growth		-32%	32%	29%	15%
Working capital growth		311%	-24%	21%	20%
Capital employed growth		79%	59%	12%	10%

Source: Company data, UBS estimates

Table 45: ROCE/ROE decomposition

Year end 31 Mar	2005	2006	2007E	2008E	2009E
Asset turnover		99.2%	161.9%	192.6%	198.0%
EBIT margin	39.7%	58.6%	68.2%	66.7%	69.4%
EBIT ROIC		58.2%	110.4%	128.5%	137.4%
Taxes	62.7%	65.3%	64.0%	64.0%	64.0%
Returns on invested capital		38.0%	70.7%	82.2%	87.9%
IC as a % of capital employed		88.4%	65.5%	53.0%	57.5%
Returns on other invested capital		10.6%	2.1%	1.2%	1.2%
Other assets/CE		11.6%	34.5%	47.0%	42.5%
Returns on capital employed		34.8%	47.0%	44.2%	51.0%
Leverage		104.5%	71.6%	54.7%	51.2%
Minorities		100.0%	100.0%	100.0%	100.0%
Exceptionals		100.0%	100.0%	100.0%	100.0%
ROE		36.4%	33.7%	24.1%	26.1%
ROE (adjusted)		36.4%	33.7%	24.1%	26.1%

Source: Company data, UBS estimates

Table 46: Cash flow statement (Rs m)

Year end 31 Mar	2005	2006	2007E	2008E	2009E
EBIT	1,153	1,888	4,403	5,386	6,897
Depreciation	363	472	523	809	744
Capex	-	341	(800)	(1,200)	(1,000)
Change in working cap	-	(2,439)	735	(471)	(542)
Other operating	6	85	69	69	69
Operating free cash flow	1,522	347	4,930	4,593	6,168
Interest	63	38	87	378	474
Taxes paid	(454)	(709)	(1,641)	(2,100)	(2,678)
Free cash flow	1,131	(324)	3,375	2,871	3,964
Net acquisitions / disposals	-	-	-	-	-
Investments in associates	-	(318)	-	-	-
Dividends	-	(2,267)	(1,021)	(1,306)	(1,667)
Share issues / buybacks	-	600	6,027	-	-
Other	-	(437)	-	-	-
Change in short term debt	-	1,911	(2,333)	-	-
Change in long term debt	-	-	-	-	-
Change in preferred debt	-	-	-	-	-
Net change in cash	1,131	(834)	6,048	1,565	2,297
Free cash flow yield	1.0%	-0.3%	2.9%	2.5%	3.4%
Dividend yield	0.0%	1.9%	0.5%	0.7%	0.9%
Capex/sales	0.0%	-10.6%	12.4%	14.9%	10.1%
Net debt to equity	-35.2%	52.0%	-47.5%	-50.0%	-53.8%

Source: Company data, UBS estimates

Price target derivation

Our 12-month price target is Rs1,203. We use a DCF methodology as our primary valuation tool, given Sun's high and consistent free cash flow, assuming a WACC of 13% and a terminal growth rate of 5%—in line with our assumptions for other media companies. Our beta assumption of 0.9 is marginally lower than Sun's historical one-year beta of 1.0, but it is in line with that of other media stocks globally. Our capex-to-sales ratio of 6% is higher than that of other companies, given that Sun invests in movie rights acquisitions every year, but then amortises them in the same year. Thus, the depreciation-to-sales ratio is also relatively higher at 5%. A sensitivity analysis of our DCF value suggests the current share price is difficult to justify, even with very optimistic assumptions.

Our DCF-based PT of Rs1,203, assumes a WACC of 13% and a terminal growth rate of 5%

Table 47: Primary DCF assumptions

Risk Free Rate	8.5%
Market Risk premium	5.0%
Capex to sales	6.0%
Operating margin	80%
Intermediate growth	20%
Terminal Year	5.0%
FCF Multiple	13.1
WACC	13.0%
Beta	0.9
Tax rate	36%
Debt-equity	0%
WC to sales	1.0%
Depreciation to sales	5.0%

Source: UBS estimates

Table 48: DCF sensitivity to WACC and terminal growth rates

	11.0%	12.0%	13.0%	14.0%	15.0%
WACC-> Growth					
3%	1,334	1,173	1,045	941	855
4%	1,462	1,266	1,115	995	897
5%	1,633	1,387	1,203	1,061	949
6%	1,873	1,548	1,317	1,144	1,011
7%	2,232	1,773	1,468	1,251	1,089

Source: UBS estimates

Sun appears expensive on all traditional valuation parameters such as PE and EV/EBITDA—even after accounting for growth. It is trading at a 50% premium to Zee and an even higher premium to regional and global broadcasting companies. We believe Sun should trade at a premium to Zee given 1) Sun's stronger foothold in its markets, and 2) its superior profitability and cash flows. However, the current premium is unwarranted, in our opinion, since we forecast a 40% EPS CAGR for Zee over FY07-09, higher than Sun's 28%. At our price target the stock would trade at a multiple of 30x estimated FY09 EPS, still at a 30% premium to Zee.

Sun's premium to other stocks could narrow

Table 49: Comparative valuation of broadcasting companies

	Mrkt cap	PE (x)			EV/EBITDA(x)			ROE (%)			ROIC (%)		
	US$m	FY2007E	FY2008E	FY2009E	FY2007E	FY2008E	FY2009E	FY2007E	FY2008E	FY2009E	FY2007E	FY2008E	FY2009E
Broadcasting													
Fuji Television Network	5,624	25.5	27.6	N.A.	7.8	8.5	N.A.	4.9	5.6	5.1	8.4	8.2	7.4
Viacom Inc.	33,033	19.2	19.3	16.6	11.6	12.2	10.9	19.8	20.9	20.2	10.6	13.3	12.3
Walt Disney Co.	70,998	21.0	16.1	17.1	9.9	10.8	9.7	11.5	11.8	11.8	6.8	8.1	8.6
TVB	2,932	19.3	16.0	14.7	10.1	10.9	10.1	26.6	29.3	29.7	41.0	43.9	46.4
Cheil Communications	1,218	16.1	17.9	14.5	9.7	12.8	9.9	18.1	15.1	17.1	137.1	1,880.9	(1,623.7)
Zee	3,085	45.9	29.3	23.7	32.4	21.1	17.0	8.5	10.0	14.1	11.4	6.9	8.2
Sun TV	2,729	54.7	42.8	33.5	17.9	17.0	13.5	36.4	33.7	24.1	27.5	35.1	48.8

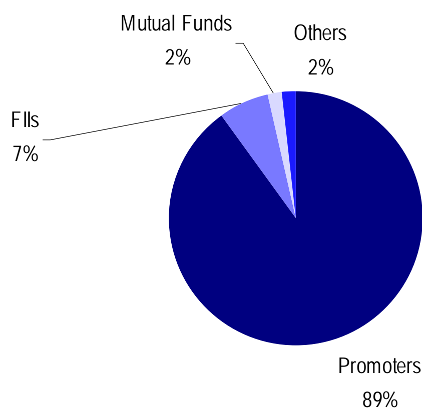
Note: Above data as at 25 April 2007.
Source: UBS estimates

Company background

Sun announces bonus and stock split

Sun launched its first TV channel—Sun TV in 1993 with three hours of programming. The channel was converted to a 24-hour channel in 1995. The company launched its radio stations in 2003 and has obtained licences to operate in 44 cities. Kalanithi Maran, the chairman and founder of the company is also the largest shareholder. The company listed on the Bombay and national stock exchanges in April 2006 at Rs875/share. Two group companies, Gemini TV and Udaya TV, operating broadcasting businesses in the states of Andhra Pradesh and Karnataka, respectively, are to be merged with Sun TV. Post the merger (for which all clearances have been obtained) the promoters' stakes will increase to about 94%. This should fall to a maximum of 90% as per listing norms, and the company proposes to do a secondary issue to achieve this. Sun also announced a stock split (1:1) and bonus share issue (1:1) recently.

Chart 27: Shareholding pattern as on 31 March 2007



Source: Bombay Stock Exchange

Sun TV Limited

Income statement (Rsm)	-	03/03	03/04	03/05	03/06	03/07E	% ch	03/08E	% ch	03/09E	% ch
Revenues	-	-	-	2,903.10	3,219.10	6,457.97	100.6	8,073.08	25.0	9,941.60	23.1
Operating expenses (ex depn)	-	-	-	(1,386.90)	(859.20)	(1,532.18)	78.3	(1,878.27)	22.6	(2,301.06)	22.5
EBITDA (UBS)	-	-	-	1,516.20	2,359.90	4,925.78	108.7	6,194.81	25.8	7,640.54	23.3
Depreciation	-	-	-	(363.30)	(471.90)	(522.50)	10.7	(809.31)	54.9	(743.81)	-8.1
Operating income (EBIT, UBS)	-	-	-	1,152.90	1,888.00	4,403.28	133.2	5,385.51	22.3	6,896.73	28.1
Other income & associates	-	-	-	9.00	69.30	69.30	0.0	69.30	0.0	69.30	0.0
Net interest	-	-	-	62.50	37.70	86.89	130.5	377.59	334.6	474.14	25.6
Abnormal items (pre-tax)	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Profit before tax	-	-	-	1,224.40	1,995.00	4,559.47	128.5	5,832.40	27.9	7,440.17	27.6
Tax	-	-	-	(456.80)	(692.70)	(1,641.41)	137.0	(2,099.66)	27.9	(2,678.46)	27.6
Profit after tax	-	-	-	767.60	1,302.30	2,918.06	124.1	3,732.73	27.9	4,761.71	27.6
Abnormal items (post-tax)	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Minorities / pref dividends	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Net income (local GAAP)	-	-	-	767.60	1,302.30	2,918.06	124.1	3,732.73	27.9	4,761.71	27.6
Net Income (UBS)	-	-	-	767.60	1,302.30	2,918.06	124.1	3,732.73	27.9	4,761.71	27.6
Tax rate (%)	-	0.00	0.00	37.31	34.72	36.00	3.7	36.00	0.0	36.00	0.0
Pre-abnormal tax rate (%)	-	0.00	0.00	37.31	34.72	36.00	3.7	36.00	0.0	36.00	0.0

Per share (Rs)	-	03/03	03/04	03/05	03/06	03/07E	% ch	03/08E	% ch	03/09E	% ch
EPS (local GAAP)	-	-	-	383.80	21.00	29.62	41.0	37.89	27.9	48.33	27.6
EPS (UBS)	-	-	-	383.80	21.00	29.62	41.0	37.89	27.9	48.33	27.6
Net DPS	-	-	-	0.00	32.06	9.09	-71.6	11.63	27.9	14.84	27.6
Cash EPS	-	-	-	565.45	28.62	34.92	22.0	46.10	32.0	55.88	21.2
BVPS	-	-	-	58.98	44.98	144.58	221.4	169.20	17.0	200.62	18.6

Balance sheet (Rsm)	-	03/03	03/04	03/05	03/06	03/07E	% ch	03/08E	% ch	03/09E	% ch
Net tangible fixed assets	-	-	-	1,501.40	1,027.20	1,359.30	32.3	1,749.99	28.7	2,006.18	14.6
Net intangible fixed assets	-	-	-	87.70	205.60	151.00	-26.6	151.00	0.0	151.00	0.0
Net working capital (incl. other assets)	-	-	-	1,087.30	3,191.00	5,677.37	-24.4	6,148.10	20.6	6,689.95	19.7
Other liabilities	-	-	-	(47.70)	(31.60)	(31.60)	0.0	(31.60)	0.0	(31.60)	0.0
Operating invested capital	-	-	-	2,628.70	4,392.20	7,156.07	62.9	8,017.49	12.0	8,815.53	10.0
Investments	-	-	-	3.50	318.30	318.30	0.0	318.30	0.0	318.30	0.0
Total capital employed	-	-	-	2,632.20	4,710.50	7,474.37	58.7	8,335.79	11.5	9,133.83	9.6
Shareholders' equity	-	-	-	4,063.30	3,099.00	14,243.74	359.6	16,670.02	17.0	19,765.13	18.6
Minority interests	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Total equity	-	-	-	4,063.30	3,099.00	14,243.74	359.6	16,670.02	17.0	19,765.13	18.6
Net debt / (cash)	-	-	-	(1,431.10)	1,611.50	(6,769.37)	-	(8,334.22)	23.1	(10,631.29)	27.6
Debt deemed provisions	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Total capital employed	-	-	-	2,632.20	4,710.50	7,474.37	58.7	8,335.79	11.5	9,133.83	9.6

Cash flow (Rsm)	-	03/03	03/04	03/05	03/06	03/07E	% ch	03/08E	% ch	03/09E	% ch
Operating income (EBIT, UBS)	-	-	-	1,152.90	1,888.00	4,403.28	133.2	5,385.51	22.3	6,896.73	28.1
Depreciation	-	-	-	363.30	471.90	522.50	10.7	809.31	54.9	743.81	-8.1
Net change in working capital	-	-	-	0.00	(2,438.90)	734.63	-	(470.73)	-	(541.85)	15.1
Other (operating)	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating cash flow	-	-	-	1,516.20	(79.00)	5,660.42	-	5,724.08	1.1	7,098.69	24.0
Net interest received / (paid)	-	-	-	62.50	37.70	86.89	130.5	377.59	334.6	474.14	25.6
Dividends paid	-	-	-	0.00	(2,266.60)	(1,021.32)	-54.9	(1,306.46)	27.9	(1,666.60)	27.6
Tax paid	-	0.00	0.00	(454.00)	(708.80)	(1,641.41)	131.6	(2,099.66)	27.9	(2,678.46)	27.6
Capital expenditure	-	-	-	0.00	340.80	(800.00)	-	(1,200.00)	50.0	(1,000.00)	-16.7
Net (acquisitions) / disposals	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Other	-	-	-	-	(669.40)	69.30	-	69.30	0.0	69.30	0.0
Share issues	-	-	-	0.00	600.00	6,027.00	904.5	0.00	-	0.00	-
Cash flow (inc)/dec in net debt	-	-	-	1,130.90	(2,745.30)	8,380.87	-	1,564.85	-81.3	2,297.07	46.8
FX / non cash items	-	-	-	-	(297.30)	0.00	-	(.00)	-	0.00	-
Balance sheet (inc)/dec in net debt	-	-	-	-	(3,042.60)	8,380.87	-	1,564.85	-81.3	2,297.07	46.8
Core EBITDA	-	-	-	1,516.20	2,359.90	4,925.78	108.7	6,194.81	25.8	7,640.54	23.3
Maintenance capital expenditure	-	-	-	(0.01)	(0.01)	(0.01)	0.0	(0.01)	0.0	(0.01)	0.0
Maintenance net working capital	-	-	-	0.00	0.00	0.00	-	0.00	-	0.00	-
Operating free cash flow, pre-tax	-	-	-	1,516.19	2,359.89	4,925.77	108.7	6,194.80	25.8	7,640.53	23.3

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Note: For some companies, the data represents an extract of the full company accounts.

Global Equity Research

India

Broadcasting

Rating	Reduce 2
Price target	Rs1,203.00

Sun TV Limited

Company profile

Sun together with its newly merged group companies, Udaya and Gemini TV, is the largest TV broadcaster in South India. Kalanithi Maran is the majority shareholder. Sun and its subsidiaries have radio licences in 44 cities.

Valuation (x)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
P/E (local GAAP)	-	-	-	55.4	43.3	33.9
P/E (UBS)	-	-	-	55.4	43.3	33.9
P/CEPS	-	-	-	47.0	35.6	29.3
Net dividend yield (%)	-	-	-	0.6	0.7	0.9
P/BV	-	-	-	11.3	9.7	8.2
EV/revenue (core)	-	-	-	NM	NM	NM
EV/EBITDA (core)	-	-	-	22.3	17.0	13.5
EV/EBIT (core)	-	-	-	25.0	19.5	15.0
EV/OpFCF (core)	-	-	-	22.3	17.0	13.5
EV/op. invested capital	-	-	-	NM	NM	NM

Enterprise value (Rsm)	03/05	03/06	03/07E	03/08E	03/09E
Average market cap	-	-	112,952.04	112,952.04	112,952.04
+ minority interests	0.00	0.00	0.00	0.00	0.00
+ average net debt (cash)	(1,431.10)	(2,209.80)	(2,578.94)	(7,551.80)	(9,482.76)
+ pension obligations and other	0.00	0.00	0.00	0.00	0.00
- non-core asset value	(3.50)	(318.30)	(318.30)	(318.30)	(318.30)
Core enterprise value	-	-	110,054.81	105,081.94	103,150.98

Value (EV/OpFCF & P/E)

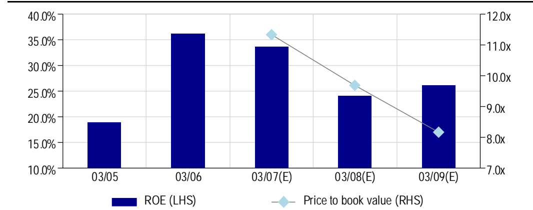
Profitability

Growth (%)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
Revenue	-	-	10.9	100.6	25.0	23.1
EBITDA (UBS)	-	-	55.6	108.7	25.8	23.3
EBIT (UBS)	-	-	63.8	133.2	22.3	28.1
EPS (UBS)	-	-	-94.5	41.0	27.9	27.6
Cash EPS	-	-	-94.9	22.0	32.0	21.2
Net DPS	-	-	-	-71.6	27.9	27.6
BVPS	-	-	-23.7	NM	17.0	18.6

Margins (%)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
EBITDA / revenue	-	52.2	73.3	NM	NM	NM
EBIT / revenue	-	39.7	58.6	68.2	66.7	69.4
Net profit (UBS) / revenue	-	26.4	40.5	45.2	46.2	47.9

Return on capital (%)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
EBIT ROIC (UBS)	-	-	53.8	NM	71.0	NM
ROIC post tax	-	-	35.1	48.8	45.4	52.4
Net ROE	-	18.9	36.4	33.7	24.1	26.1

ROE v Price to book value

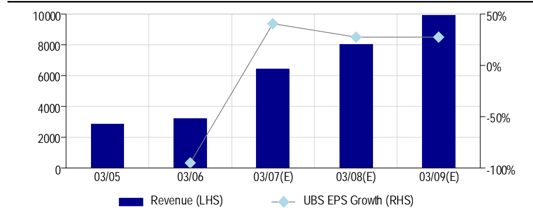


Coverage ratios (x)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
EBIT / net interest	-	-	-	-	-	-
Dividend cover (UBS EPS)	-	-	0.7	3.3	3.3	3.3
Div. payout ratio (%, UBS EPS)	-	-	152.6	30.7	30.7	30.7
Net debt / EBITDA	-	NM	0.7	NM	NM	NM

Efficiency ratios (x)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
Revenue / op. invested capital	-	-	0.9	1.1	1.1	1.2
Revenue / fixed assets	-	-	2.3	4.7	4.7	4.9
Revenue / net working capital	-	-	1.7	2.4	3.2	3.3

Investment ratios (x)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
OpFCF / EBIT	-	1.3	1.2	1.1	1.2	1.1
Capex / revenue (%)	-	0.0	NM	12.4	14.9	10.1
Capex / depreciation	-	0.0	NM	1.5	1.5	1.3

Growth (UBS EPS)



Capital structure (%)	5Yr Avg	03/05	03/06	03/07E	03/08E	03/09E
Net debt / total equity	-	(35.2)	52.0	(47.5)	(50.0)	(53.8)
Net debt / (net debt + equity)	-	(54.4)	34.2	(90.6)	(100.0)	NM
Net debt (core) / EV	-	-	-	(2.3)	(7.2)	(9.2)

Source: Company accounts, Thomson Financial, UBS estimates. (UBS) valuations are stated before goodwill, exceptionals and other special items. Valuations: based on an average share price that year, (E): based on a share price of Rs1,639.60 on 25 Apr 2007 23:39 HKT Market cap(E) may include forecast share issues/buybacks.

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Analyst

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■ Statement of Risk

The industry faces several risks, including: 1) intensifying competition, which could impact margins; 2) an economic slowdown, which could impact sector growth, and 3) unfavourable regulatory changes that could impact performance. As a significant portion of our target value is from subsidiaries which are new businesses, and as radio is an evolving medium in India, we assign predictability level of 2 for ENIL. HTIL's new initiatives will be the key growth drivers, but might miss our estimates—both on the downside and upside. Hence, we assign a predictability level of 2 for HTIL. Sun TV's growth depends on ad rate hikes, which have not grown consistently in the past. Hence, we assign a predictability level of 2.

■ Analyst Certification

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UBS Investment Research: Global Equity Ratings Definitions and Allocations

UBS Rating	Definition	UBS Rating	Definition	Rating Category	Coverage[1]	IB Services[2]
Buy 1	FSR is > 6% above the MRA, higher degree of predictability	**Buy 2**	FSR is > 6% above the MRA, lower degree of predictability	**Buy**	47%	37%
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	**Neutral**	42%	36%
Reduce 1	FSR is > 6% below the MRA, higher degree of predictability	**Reduce 2**	FSR is > 6% below the MRA, lower degree of predictability	**Sell**	12%	28%

1:Percentage of companies under coverage globally within this rating category.
2:Percentage of companies within this rating category for which investment banking (IB) services were provided within the past 12 months.

Source: UBS. Ratings allocations are as of 31 March 2007.

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).
Predictability Level 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.
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.

EXCEPTIONS AND SPECIAL CASES

US Closed-End Fund ratings and definitions are: Buy: Higher stability of principal and higher stability of dividends; Neutral: Potential loss of principal, stability of dividend; Reduce: High potential for loss of principal and dividend risk.
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; Reduce: 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 Companies Mentioned or Company Disclosure table in the relevant research piece.

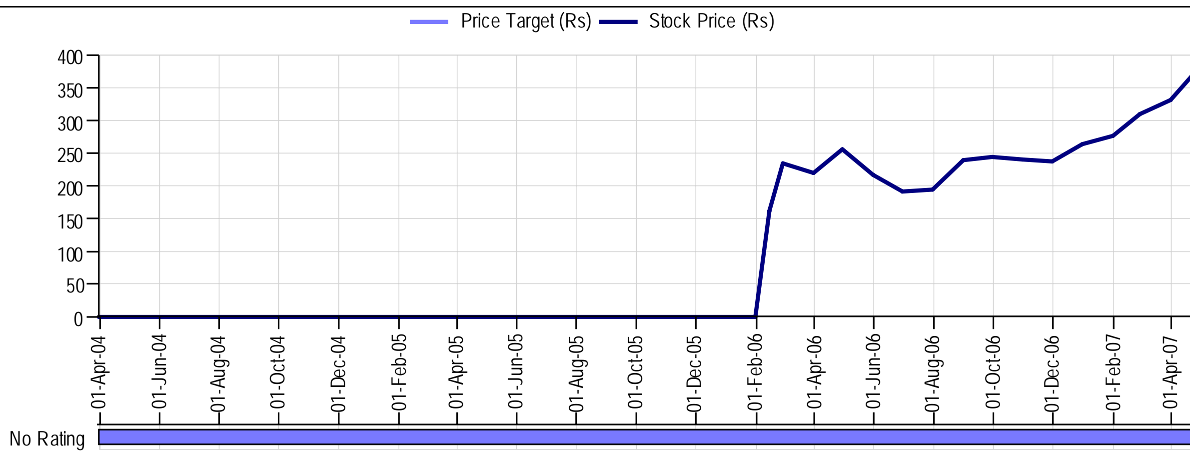
Company Disclosures

Company Name	Reuters	Rating	Price	Price date
Entertainment Network India Limited	ENIL.BO	Not Rated	Rs374.05	25 Apr 2007
HT Media Ltd.	HTML.BO	Not Rated	Rs177.00	25 Apr 2007
Sun TV Limited	SUTV.BO	Not Rated	Rs1,639.60	25 Apr 2007

Source: UBS. All prices as of local market close.

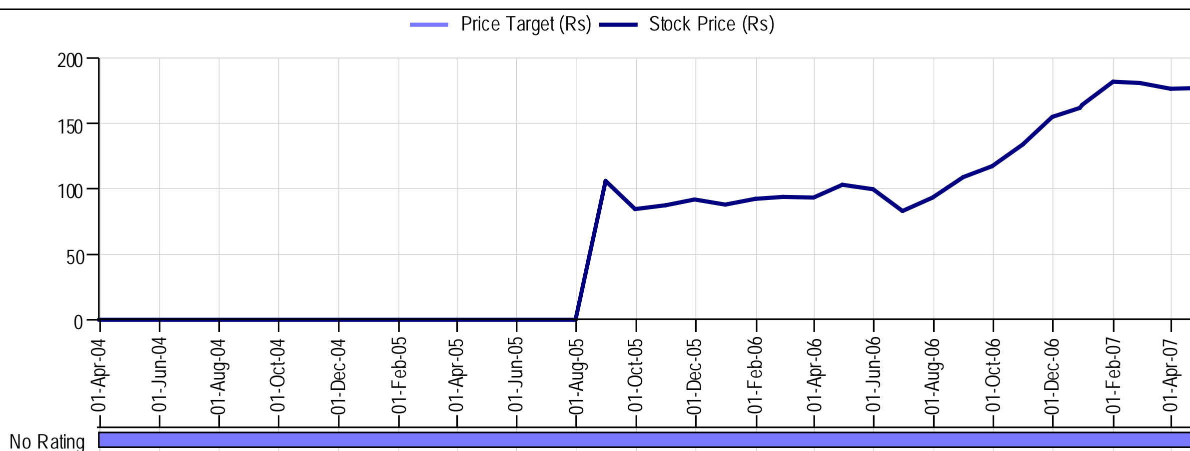
Unless otherwise indicated, please refer to the Valuation and Risk sections within the body of this report.

Entertainment Network India Limited (Rs)



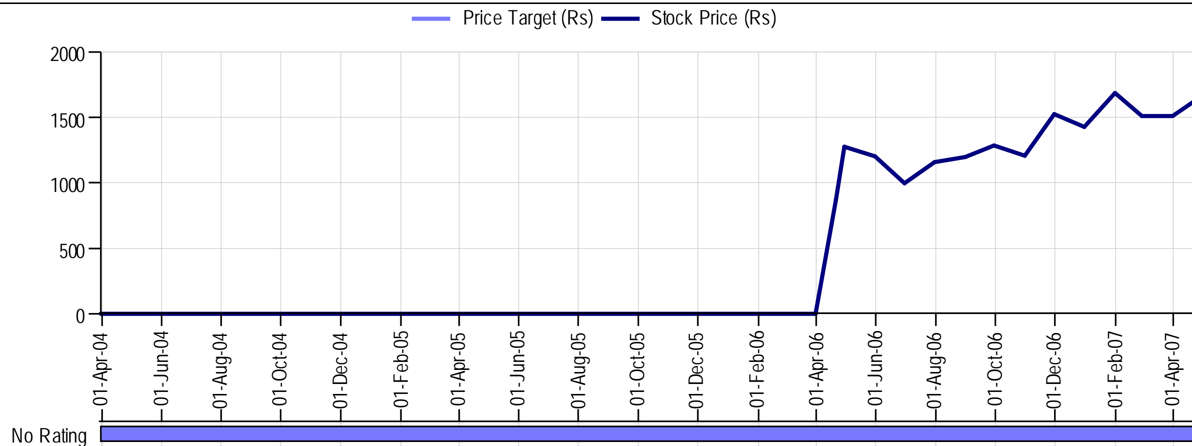
Source: UBS; as of 25 Apr 2007

HT Media Ltd. (Rs)



Source: UBS; as of 25 Apr 2007

Sun TV Limited (Rs)



Source: UBS; as of 25 Apr 2007

Additional Prices: Agora, PLN43.20 (25 Apr 2007); Austereo Group Limited, A$2.10 (25 Apr 2007); BSkyB, 565p (25 Apr 2007); Cheil Communications Co., Won242,500 (25 Apr 2007); Fuji Television Network, ¥290,000 (25 Apr 2007); GCap Media, 217p (25 Apr 2007); JCDecaux, €22.97 (25 Apr 2007); Macquarie Media Group, A$4.25 (25 Apr 2007); Mediaset, €8.28 (24 Apr 2007); Modern Times Group AB, SKr399.50 (25 Apr 2007); New York Times Co., US$23.51 (25 Apr 2007); Next Media Ltd, HK$2.60 (25 Apr 2007); Nippon Television Network, ¥20,290 (25 Apr 2007); ProSiebenSat1, €26.60 (25 Apr 2007); Singapore Press, S$4.44 (25 Apr 2007); South China Morning Post, HK$2.97 (25 Apr 2007); Star Publications (M), RM3.54 (25 Apr 2007); TF1, €25.38 (25 Apr 2007); Tribune Co., US$32.78 (25 Apr 2007); TVB, HK$51.65 (25 Apr 2007); Viacom Inc., US$42.75 (25 Apr 2007); Vivendi, €31.31 (25 Apr 2007); Walt Disney Co., US$35.32 (25 Apr 2007); Worldspace, Inc., US$3.49 (25 Apr 2007); XM Satellite Radio Holdings Inc, US$11.01 (25 Apr 2007); Zee Entertainment Enterprises Ltd, Rs287.60 (25 Apr 2007); Source: UBS. All prices as of local market close.

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