

Sun TV Network

Update

23 December 2010

Buy

Target Price: Rs594

CMP: Rs528*

Upside: 13%

*as on 22nd December 2010

Sun TV marches on

With growth continuing across divisions (advertising, analogue and DTH subscription rates) and a strong movie portfolio, we revise our earnings estimates upwards and continue to maintain a BUY rating on the stock with a target price of Rs594.

- **Advertisement growth robust; rate hike expected:** We believe the buoyancy in advertising, especially by FMCG and local advertisers which form the bulk of advertisement revenue for Sun TV Network, will continue. We have modelled 25.2% ad revenue growth in FY11 but the company has already achieved 32% in H1FY11 itself and we expect further upside to our estimates. For FY12 and FY13 we have modelled 22.8% and 17.7% ad revenue growth respectively.
- **DTH subscription revenues expand:** DTH subscription revenues grew by 82% in H1FY11 and we expect it to grow 56% in FY11 to Rs2.85bn and to Rs4.1bn by FY13E. It currently has 6.6mn subscribers with an average ARPU of Rs35.
- **Strong focus on international and analogue subscriptions:** We believe the Sun 18 JV, new management team with its focus on North and Southern India and higher collection efforts at the ground level are having a positive affect on subscription revenues. Internationally too the management expects revenues to cross Rs1bn mark in the next two years due to new per subscriber based model and tie-ups with Global Media Management LLC and World Media Connect LLC for North America.
- **Movie portfolio stays strong:** Though the management continues to be tight lipped on numbers for *Endhiran*, we have modelled Rs1.5bn in revenues from this movie for H2FY11 against the cost of Rs1.2bn.
- **Estimates increased:** We are increasing our FY11 and FY12 revenue estimates by 1.8% and 3.1% respectively and PAT by 1.9% and 4.7% and introducing FY13 estimates.
- **Maintain BUY:** We continue to maintain BUY rating on the stock with all growth drivers for the company still in place. The stock is currently trading at 23x FY12E and 19.5x FY13E EPS and we value the stock at Rs594 (previous Rs526), 22x FY13 EPS.

Ankit Kedia
Ankit.kedia@centrum.co.in
91 22 4215 9634

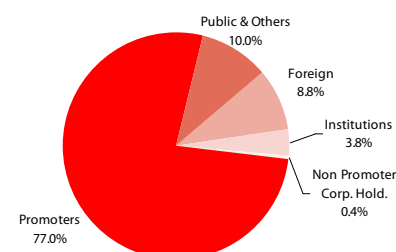
Malladi Vishwakant
malladi.vishwakant@centrum.co.in
91 22 4215 9632

Key Data

Bloomberg Code	SUNTV IN
Reuters Code	SUTV.BO
Current Shares O/S (mn)	394.1
Diluted Shares O/S(mn)	394.1
Mkt Cap (Rsbn/USDbn)	207.9/4.6
52 Wk H / L (Rs)	550/328
Daily Vol. (3M NSE Avg.)	218,028
Face Value (Rs)	5

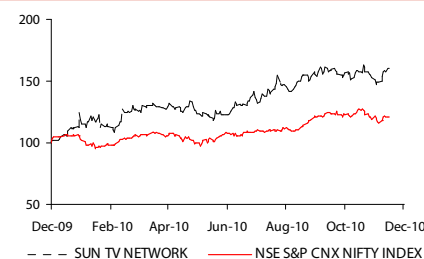
USD = Rs45.1

Shareholding Pattern (%)



As on 30 September 2010

One Year Indexed Stock Performance



Price Performance (%)

	1M	6M	1Yr
Sun TV	5.9	31.0	58.6
NIFTY	(0.4)	12.6	20.0

Source: Bloomberg, Centrum Research
*as on 22nd December 2010

Y/E Mar (Rsmn)	Rev	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj. EPS	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY09	10,394	19.5	7,368	70.9	3,683	12.8	9.3	23.4	20.7	56.5	27.8
FY10	14,528	39.8	10,909	75.1	5,199	41.2	13.2	29.0	26.1	40.0	18.7
FY11E	19452	33.9	15,221	78.2	7,235	39.2	18.4	35.0	32.5	28.8	13.3
FY12E	22233	14.3	17,277	77.7	9,048	25.1	23.0	36.6	34.5	23.0	11.4
FY13E	25714	15.7	20,020	77.9	10,645	17.7	27.0	36.2	34.6	19.5	9.6

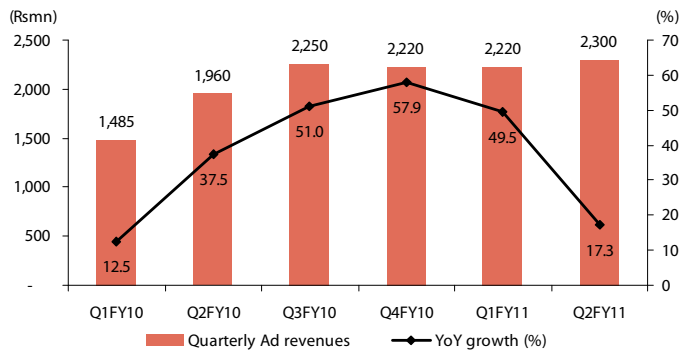
Source: Company, Centrum Research Estimates

Please refer to important disclosures/disclaimers in Appendix A

Advertisement growth robust; Rate hike expected

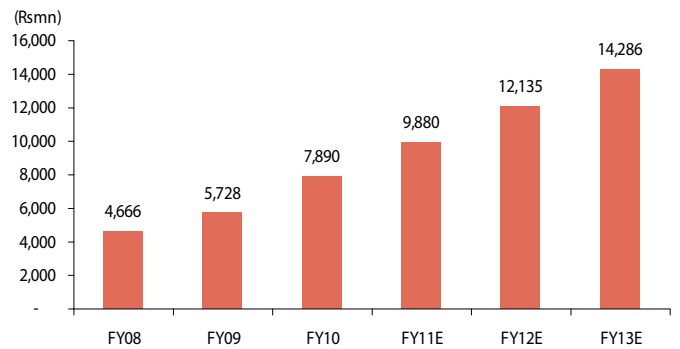
We believe the buoyancy in advertising, especially from FMCG and local advertisers which form the bulk of advertisement revenue for Sun TV Network, will continue. We have modelled 25.2% ad revenue growth in FY11 but the company has already achieved 32% in H1FY11 itself and we expect further upside from our estimates. For FY12 and FY13 we have modelled 22.8% and 17.7% ad revenue growth respectively due to increasing inventory utilisation on weekends and non-prime timeslots. Also, new channels launched during the last couple of years are bearing fruit now helping to aid growth further. We also believe the company could take a rate hike in Q4FY11 which could help it attain higher ad revenues.

Exhibit 1: Ad revenue quarterly growth



Source: Company, Centrum Research

Exhibit 2: Ad revenue projection

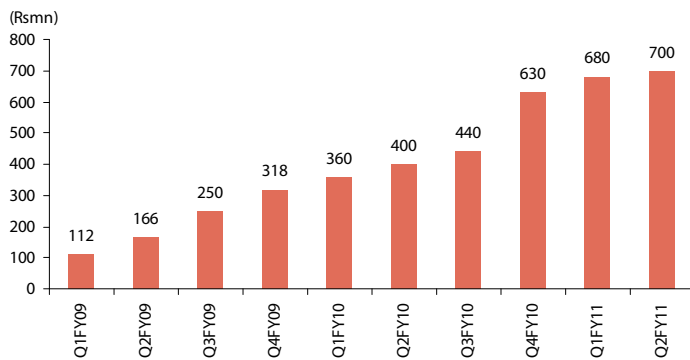


Source: Company, Centrum Research

DTH subscription revenues continue to expand

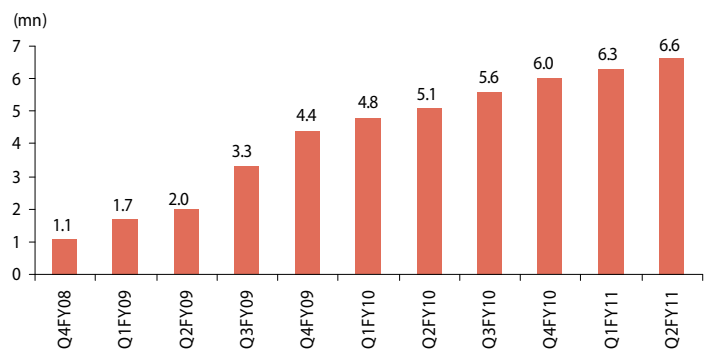
DTH subscription revenues grew 82% in H1FY11 and we expect the company to grow by 56% in FY11 to Rs2.85bn and to Rs4.1bn by FY13E. The pace of subscriber addition continues to remain robust and is currently at 6.6mn subscribers with an average ARPU of Rs35.

Exhibit 3: DTH revenues growth



Source: Company, Centrum Research

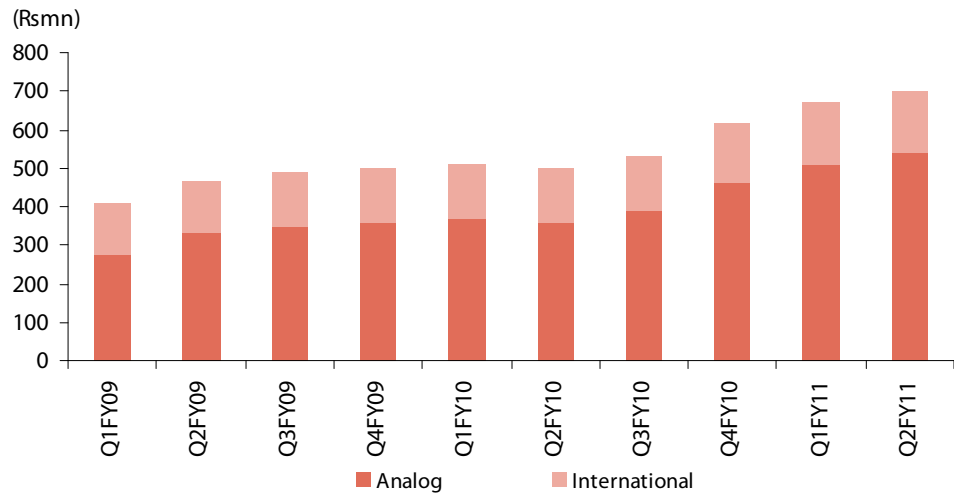
Exhibit 4: DTH subscriber growth



Source: Company, Centrum Research

...with strong focus on international and analogue subscription revenues

Exhibit 5: Analog and international revenues

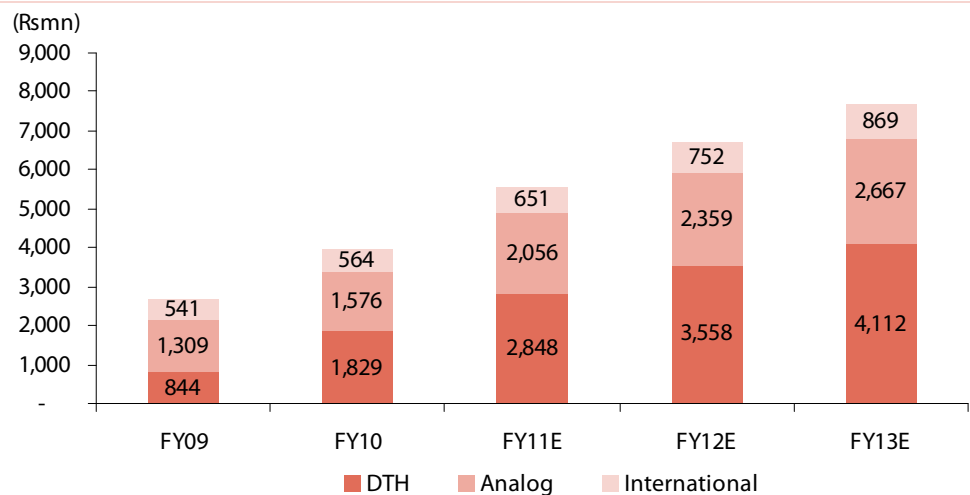


Source: Company, Centrum Research

We believe the company is focussed on increasing its analogue subscription revenues. In H1FY11 it posted an impressive 44% YoY growth and we expect it to register Rs2.1bn in revenues in FY11 and Rs2.66bn by FY13E. We believe the Sun 18 JV, new management team with a focus on North and Southern India and higher collection efforts at the ground level are having a positive affect on subscription revenues.

Internationally too the management expects revenues to cross Rs1bn mark in the next two years due to the new per subscriber based model and tie-ups with Global Media Management LLC and World Media Connect LLC for North America. Though we have modelled Rs0.85bn in revenues from international subscription by FY13E, we believe there is further scope for an upside.

Exhibit 6: Subscription revenue



Source: Company, Centrum Research Estimates

Movies portfolio continues to be strong

Though the management continues to be tight lipped on numbers for *Endhiran*, we have modelled Rs1.5bn in revenues from this movie for H2FY11 against the cost of Rs1.2bn considering that only 60-70% of the cost would be amortised now and the remaining later when broadcasting rights are monetised. We believe revenue numbers could surprise on the positive side though this would only be a one time affair.

Estimates increased; Maintain Buy rating

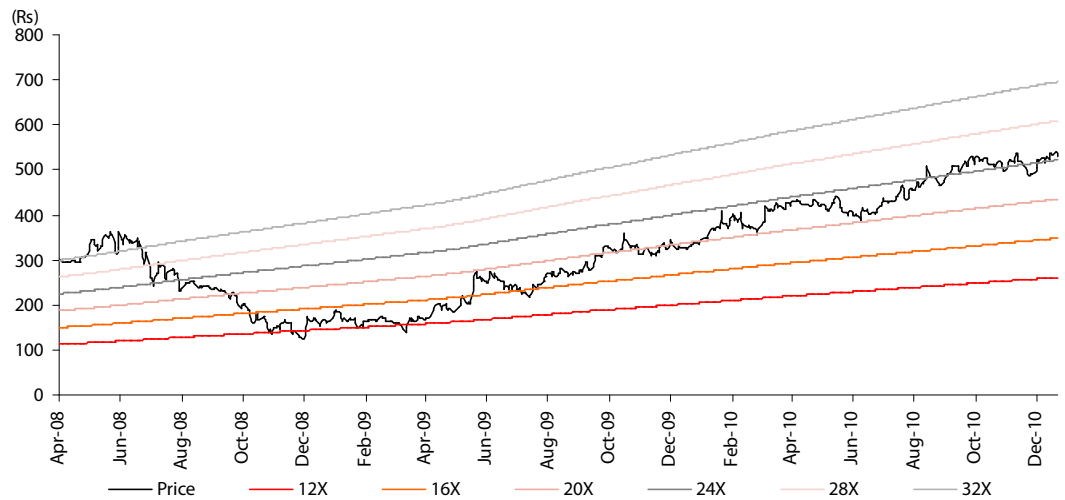
Exhibit 7: Revised estimates

Rsmn	FY11E			FY12E		
	Old	New	Change (%)	Old	New	Change (%)
Revenue	19,107	19,452	1.8	21,574	22,233	3.1
EBITDA	14,879	15,221	2.3	16,742	17,277	3.2
PAT	7011	7,235	3.2	8,643	9,048	4.7

Source: Company, Centrum Research Estimates

We introduce FY13 estimates and increase our FY11 and FY12 PAT estimates by 1.9% and 4.7% respectively on back of higher ad growth and subscription revenues. We continue to have a BUY rating on the stock with all the growth drivers for the company still in place. We believe advertising growth would be strong in the coming quarter while subscription and the DTH business are set to get bigger. The movie business could throw positive surprises which could keep the stock price firm. The stock is currently trading at 23x FY12E and 19.5x FY13E EPS. We value the stock at Rs594, 22x FY13 EPS giving 10% premium to our ZEEL target multiple considering its dominance and historic premium.

Exhibit 8: 1-year forward rolling P/E



Source: Bloomberg, Centrum Research

Financials consolidated

Exhibit 9: Income Statement

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Net Sales	10,394	14,528	19,452	22,233	25,714
Growth (%)	19.5	39.8	33.9	14.3	15.7
Cost of Revenues	1,114	1,227	1,261	1,394	1,537
% of Sales	10.7	8.4	6.5	6.3	6.0
Employee Cost	1,155	1,340	1,811	2,151	2,558
%of Sales	11.1	9.2	9.3	9.7	9.9
Admin & other expenses	757	1,053	1,159	1,412	1,599
% of sales	7.3	7.2	6.0	6.3	6.2
EBIDTA	7,368	10,909	15,221	17,277	20,020
EBIDTA Margins (%)	70.9	75.1	78.2	77.7	77.9
Depreciation	2,205	3,209	4,559	4,100	4,530
PBIT	5,163	7,700	10,662	13,177	15,490
Interest expenses	138	49	87	41	41
PBT for operations	5,025	7,650	10,575	13,136	15,449
Other income	668	350	502	630	730
PBT	5,693	8,000	11,078	13,765	16,178
Provision for tax	2,293	2,991	3,938	4,735	5,528
Effective tax rate (%)	40.3	37.4	35.5	34.4	34.2
PAT	3,400	5,009	7,140	9,030	10,650
Share of profit from associates	2	8	14	15	17
Minority interest	281	182	81	3	(22)
PAT after Minority Interest	3,683	5,199	7,235	9,048	10,645
Growth (%)	12.8	41.2	39.2	25.1	17.7
PAT Margins (%)	35.4	35.8	37.2	40.7	41.4

Source: Company, Centrum Research Estimates

Exhibit 10: Balance Sheet

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Share Capital	1,970	1,970	1,970	1,970	1,970
Reserves & Surplus	15,046	16,885	20,564	25,001	29,883
Preference shares in subsidiary	-	878	878	878	878
Minority Interest	385	371	290	287	310
Total Loan Funds	716	1	-	-	-
Deferred Tax Liab	261	339	339	339	339
Total Capital Employed	18,378	20,445	24,041	28,476	33,380
Gross Block	14,914	18,870	25,562	29,624	33,734
Accumulated Depreciation	6,768	9,775	14,334	18,450	22,430
Net Block	8,146	9,095	11,229	11,174	11,304
Capital WIP	1,572	3,149	1,200	1,200	1,200
Investments	1,805	2,280	2,280	2,280	2,280
Non Current Assets	233	300	519	704	841
Deffered Tax Assets	-	-	-	-	-
Inventory	1	27	27	27	27
Debtors	2,449	3,292	4,540	4,924	6,019
Loans & advances	1,667	1,589	1,916	1,557	2,366
Other Current Assets	1,192	1,070	1,464	1,520	1,671
Cash & bank balances	3,654	4,250	5,982	11,700	15,576
Current liabilities and provisions	2,343	4,607	5,114	6,610	7,904
Misc Expenditure	1	-	-	-	-
Total	18,378	20,445	24,041	28,476	33,380

Source: Company, Centrum Research Estimates

Exhibit 11: Cash flow

Y/E March (Rsmn)	FY09	FY10	FY11E	FY12E	FY13E
Cash flows from operating					
Profit before tax	5,693	8,000	11,078	13,765	16,178
Depreciation & amortisation	2,205	3,209	4,559	4,100	4,530
Others	(419)	1,148	(955)	(558)	(1,221)
Operating charges before WC	7,479	12,356	14,681	17,308	19,487
Working capital changes	413	1,273	(1,226)	1,229	(898)
Cash inflow from operations	7,892	13,630	13,455	18,536	18,589
Income tax paid	(2,017)	(2,991)	(3,938)	(4,735)	(5,528)
CF from operations	5,875	10,639	9,518	13,801	13,060
Cash flows from investing					
Capex	(7,085)	(5,532)	(4,744)	(4,061)	(4,110)
Investments	3,370	(125)	502	630	730
CF from investment activities	(3,715)	(5,657)	(4,241)	(3,432)	(3,380)
Cash flow from financing					
Share capital & premium	-	-	-	-	-
Borrowings/ repayments	68	-	-	-	-
Dividend paid	(1,844)	(3,458)	(3,458)	(4,611)	(5,763)
Interest paid	(312)	(49)	(87)	(41)	(41)
CF from financing activities	(2,088)	(3,507)	(3,545)	(4,652)	(5,804)
Net increase/decrease in cash	72	1,474	1,732	5,718	3,876
Cash at beginning of the year	3,582	3,654	4,250	5,982	11,700
Cash at the end of the year	3,654	5,128	5,982	11,700	15,576

Source: Company, Centrum Research Estimates

Exhibit 12: Key Ratios

Y/E March	FY09	FY10	FY11E	FY12E	FY13E
Margin ratios (%)					
EBIDTA Margins	70.9	75.1	78.2	77.7	77.9
PBIT Margins	49.7	53.0	54.8	59.3	60.2
PBT Margins	54.8	55.1	56.9	61.9	62.9
PAT Margins	35.4	35.8	37.2	40.7	41.4
Growth ratios (%)					
Revenues	19.5	39.8	33.9	14.3	15.7
EBIDTA	23.3	48.1	39.5	13.5	15.9
Net Profit	12.8	41.2	39.2	25.1	17.7
Return Ratios (%)					
ROCE	20.7	26.1	32.5	34.5	34.6
RoIC	23.9	34.6	43.6	59.6	65.7
ROE	23.4	29.0	35.0	36.6	36.2
Turnover Ratios					
Average collection period(days)	86.0	82.7	85.2	80.8	85.4
Average payment period (days)	82.8	61.2	55.7	49.8	45.5
Working Capital Cycle (days)	3.3	21.5	29.5	31.1	40.0
Per Share (Rs)					
EPS	9.3	13.2	18.4	23.0	27.0
CEPS	14.9	21.3	29.9	33.4	38.5
Book Value	43.2	47.8	57.2	68.4	80.8
Dividend	2.5	7.5	7.5	10.0	12.5
Valuations (x)					
PER	56.5	40.0	28.8	23.0	19.5
P/BV	12.2	11.0	9.2	7.7	6.5
EV/EBIDTA	27.8	18.7	13.3	11.4	9.6
EV/Sales	19.7	14.0	10.4	8.8	7.5
M-cap/Sales	20.0	14.3	10.7	9.4	8.1

Source: Company, Centrum Research Estimates

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REGD. OFFICE Address

Bombay Mutual Bldg., 2nd Floor, Dr. D. N. Road, Fort,
Mumbai - 400 001

Correspondence Address

Centrum House, 6th Floor, CST Road, Near Vidya Nagari Marg,
Kalina, Santacruz (E), Mumbai 400 098.
Tel: (022) 4215 9000