

Sun TV Network

BUY
Upgrade from Hold
Rs233

Standing tall

Reason for report: Recommendation change

Sun TV Network's Q4FY09 results were strong with revenues and PAT growing 12% YoY and 25% YoY to Rs2.75bn and Rs1.14bn respectively. EBITDA margin jumped 1760bps YoY to 81.8%, but EBIT margin was tempered on higher amortisation of acquired Movie rights. The radio business reported Rs332mn revenues and Rs688mn loss (Sun TV's share) in FY09, which was higher than the guidance. FY09 consolidated revenues were at Rs10.4bn and PAT at Rs3.68bn. Sun TV witnessed the strongest growth among media companies in a relatively tough quarter as regards advertising. This highlights the strength of its market position and regional ad market. We marginally lower FY10E & FY11E EPS estimates to Rs11.1 and Rs13.1 respectively. We raise our target price to Rs262 from Rs184 based on FY11E P/E of 20x. We upgrade Sun TV to BUY from Hold; recommend buying on dips.

- **Q4FY09 revenues grew a strong 11.9% YoY** in a tough quarter, when most media companies witnessed a decline in advertising revenues. Sun TV's strong revenue growth was driven by regional advertising, which was also the case for Zee News and Jagran Prakashan.
- **DTH revenues propelled growth**, contributing Rs840mn revenues or 40% to the overall Pay TV revenues. Sun TV reported Rs2.1bn and guided for Rs3-3.2bn Pay TV revenues in FY10 driven by DTH revenues.
- **Radio losses high at Rs688mn** in FY09 versus Rs403mn loss in FY08, driven by expansion. Radio revenues increased to Rs332mn in FY09 from Rs89mn. Cash infusion by the foreign partner, Astro Malaysia in the radio business to increase its stake from 7% to 20% will help Sun TV meet operating losses.
- **Upgrade to BUY.** Sun TV has been able to sustain its growth trajectory in a relatively difficult year for media companies, which indicates the robustness of its business model. We raise our target price to Rs262 from Rs184 based on FY11E P/E of 20x. We upgrade Sun TV to BUY from Hold; recommend buying on dips.

Media

Earnings revisions

| (%) | FY10E | FY11E |
|--------|-------|-------|
| Sales | ↑ 3.2 | ↑ 2.5 |
| EBITDA | ↑ 9.3 | ↑ 8.6 |
| EPS | ↓ 0.5 | ↓ 1.3 |

Target price revision

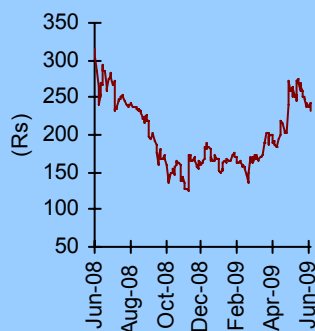
Rs262 from Rs184

Shareholding pattern

| | Sep '08 | Dec '08 | Mar '09 |
|-------------------------|---------|---------|---------|
| Promoters | 77.0 | 77.0 | 77.0 |
| Institutional investors | 8.4 | 11.6 | 11.6 |
| MFs and UTI | 1.4 | 2.5 | 2.5 |
| Insurance Cos. | 0.1 | 0.1 | 0.1 |
| FII | 7.0 | 9.0 | 9.0 |
| Others | 14.6 | 11.4 | 11.4 |

Source: NSE

Price chart


Vikash Mantri, CFA

vikash_mantri@isecld.com

+91 22 6637 7161

Suchitra W L

suchitra_wl@isecld.com

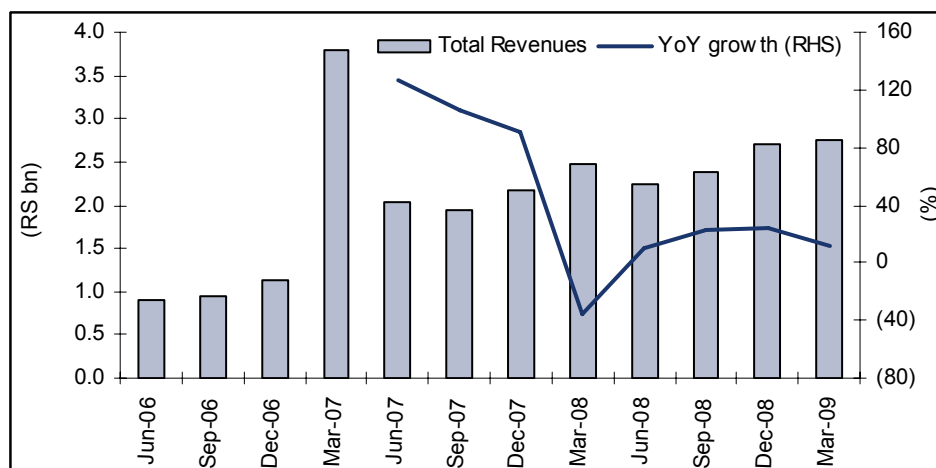
+91 22 6637 7510

| | | | | | | |
|--------------------------|--------------------|-------------------------|-------|--------|--------|--------|
| Market Cap | Rs91.8bn/US\$1.9bn | Year to Mar | 2008 | 2009E | 2010E | 2011E |
| Reuters/Bloomberg | SUTV.BO/SUN IN | Revenue (Rs mn) | 8,699 | 10,394 | 12,510 | 14,663 |
| Shares Outstanding (mn) | 394.1 | Rec. Net Income (Rs mn) | 3,267 | 3,612 | 4,371 | 5,158 |
| 52-week Range (Rs) | 316/126 | EPS (Rs) | 8.3 | 9.2 | 11.1 | 13.1 |
| Free Float (%) | 23.0 | % Chg YoY | 32.2 | 10.6 | 21.0 | 18.0 |
| FII (%) | 8.95 | P/E (x) | 28.1 | 25.4 | 21.0 | 17.8 |
| Daily Volume (US\$/'000) | 630 | CEPS (Rs) | 11.4 | 14.8 | 17.9 | 20.9 |
| Absolute Return 3m (%) | 37.5 | EV/E (x) | 14.8 | 12.3 | 10.1 | 8.5 |
| Absolute Return 12m (%) | (25.8) | Dividend Yield (%) | 1.1 | 1.3 | 1.6 | 2.2 |
| Sensex Return 3m (%) | 43.4 | RoCE (%) | 22.5 | 19.5 | 22.4 | 24.8 |
| Sensex Return 12m (%) | (0.5) | RoE (%) | 23.6 | 21.4 | 22.9 | 23.9 |

Revenue growth remains strong

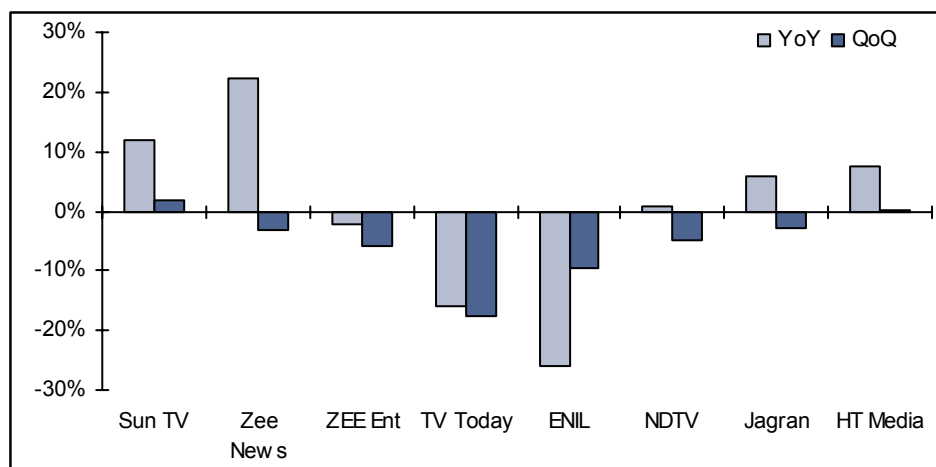
Revenue growth remains strong in a challenging time as Sun TV reported 11.9% revenue growth in Q4FY09 and 17% in FY09. Ad revenues grew 6% in a relatively tough quarter, when most media companies witnessed a decline. Subscription revenues, driven by Rs360mn DTH revenues in Q4FY09 and Rs840mn in FY09, helped overall revenue growth. Overall, subscription revenues stood at Rs2.1bn. The management has guided for Rs3-3.2bn subscription revenue in FY10.

Chart 1: Q4FY09 revenue growth strong at 11.9% YoY



Source: Company data, I-Sec Research

Chart 2: Strongest revenue growth versus peers

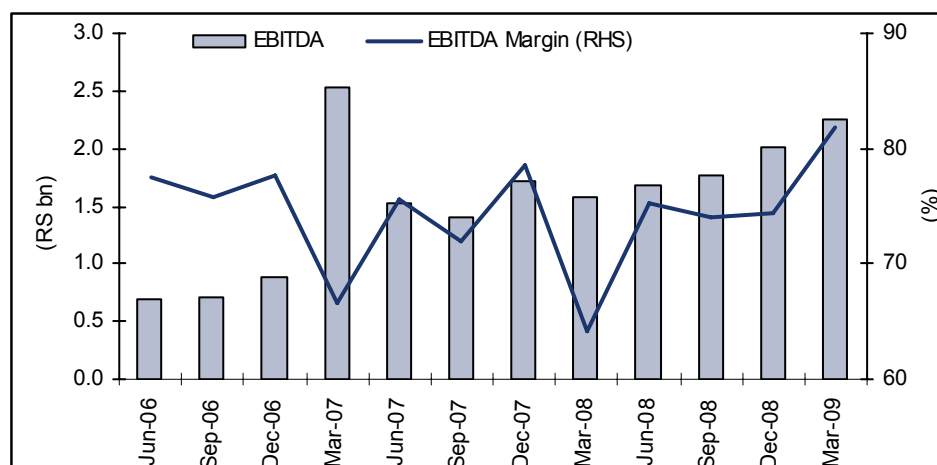


Source: Company data, I-Sec Research

EBITDA margin rose to 81.8%

EBITDA margin rose to 81.8% led by change in accounting for Movie expenses, which are being amortised from the current quarter. Depreciation and amortisation rose 49% QoQ, driven by amortisation of expenses of Movies released in Q4FY09. Sun Motion Pictures reported Rs280mn revenues in FY09 and Rs180mn in Q4FY09.

Chart 3: EBITDA margin increased



Source: Company data, I-Sec Research

Other highlights

- **Radio business – FY10 revenue guidance of Rs450-500mn; losses marginally lower.** Sun TV's radio subsidiary, SAFM will witness cash infusion by Sun's foreign partner, Astro Malaysia, which will increase the stake of Astro from 7% to 20% leading to 5% dilution for Sun TV. The current tally of operational stations is 42 out of 44 licences, with five launched in FY09.
- **Sun TV will further cement its market standing** and has launched additional channels in the Kids and Comedy genres. *Adithya*, the 24 hours Telugu comedy channel has been launched in February '09, *Ushe TV*, the Kannada comedy channel in April '09 and *Kushi TV*, the Kids channel in April '09.
- **FY10 capex plan** for equipment is at Rs750mn-Rs1bn.
- **Cash at Rs3.3bn** and debt in radio subsidiaries at Rs2bn.
- **Dividend of Re1 has been declared**, taking FY09 dividend pay-out to Rs2.5/share.

Earnings revision

We have factored in marginally higher revenue growth, driven by 12.8% ad revenue growth. PAT will be lower because of higher radio losses being factored in. We have not yet factored in cash infusion in the radio business or dilution of Sun's share in SAFM from 65% at present.

Table 1: Earnings revision

(Rs mn)

| | FY10E | | | FY11E | | |
|--------|---------|--------|-------|---------|--------|-------|
| | Revised | Old | % chg | Revised | Old | % chg |
| Sales | 12,510 | 12,125 | 3.2 | 14,663 | 14,309 | 2.5 |
| EBITDA | 8,958 | 8,194 | 9.3 | 10,493 | 9,659 | 8.6 |
| PAT | 4,371 | 4,395 | (0.5) | 5,158 | 5,228 | (1.3) |

Source: Company data, I-Sec Research

Table 2: Q4FY09 results review*(Rs mn, year ending March 31)*

| | I-Sec estimates | Q4FY09 | Q4FY08 | % chg YoY | % chg QoQ | FY09 | FY08 | % chg |
|----------------------------|--------------------|--------------|--------------|---------------|---------------|---------------|--------------|--------------|
| Total revenue | 2,650 | 2,759 | 2,465 | 11.9 | 1.9 | 10,082 | 8,611 | 17.1 |
| Expenditure | 782 | 502 | 884 | (43.2) | (27.8) | 2,366 | 2,392 | (1.1) |
| Cost of revenues | 291 | 132 | 173 | (23.7) | (50.7) | 817 | 600 | 36.1 |
| Employee cost | 278 | 263 | 276 | (5.0) | 2.4 | 1,020 | 912 | 11.9 |
| SG&A | 212 | 107 | 434 | (75.3) | (37.4) | 529 | 880 | (39.8) |
| EBITDA | 1,868 | 2,257 | 1,581 | 42.8 | 12.2 | 7,716 | 6,219 | 24.1 |
| Other income | 149 | 154 | 215 | (28.6) | 6.3 | 833 | 649 | 28.3 |
| Depreciation | 452 | 662 | 377 | 75.6 | 48.6 | 1,849 | 1,130 | 63.6 |
| Finance Expenses | 9 | 10 | 11 | (12.6) | 18.3 | 39 | 56 | (30.0) |
| PBT | 1,555 | 1,739 | 1,408 | 23.5 | 2.1 | 6,661 | 5,682 | 17.2 |
| Less: Provision for Tax | 544 | 599 | 494 | 21.4 | 3.1 | 2,290 | 2,012 | 13.8 |
| Adjusted PAT | 1,011.1 | 1,140 | 915 | 24.7 | 1.6 | 4,371 | 3,670 | 19.1 |
| Operating Margin (%) | 70.5 | 81.8 | 64.1 | | | 76.5 | 72.2 | |
| Gross Margin (%) | 89.0 | 95.2 | 93.0 | | | 91.9 | 93.0 | |
| Staff Cost to Revenues (%) | 10.5 | 9.5 | 11.2 | | | 10.1 | 10.6 | |
| Effective tax rate (%) | 35.0 | 34.4 | 35.1 | | | 34.4 | 35.4 | |
| NPM (%) | 38.2 | 41.3 | 37.1 | | | 43.4 | 42.6 | |

Source: Company data, I-Sec Research

Upgrade to BUY

Sun TV has been able to sustain its growth trajectory in a relatively difficult year for media companies, which indicates the robustness of its business model. We raise our target price to Rs262 from Rs184 based on FY11E P/E of 20x. Historically, Sun TV has traded at 2x the Sensex P/E and even during the political feud, traded at an average 75% premium to the Sensex P/E. High market share and focus on regional advertising should help Sun TV sustain growth despite poor macro environment. We recommend Sun TV as a defensive play in the Indian Media sector.

The stock currently trades at FY10E & FY11E P/E of 21.5x and 18x respectively. We believe EV/EBITDA is not the right metric for Sun TV as the company amortises significant Movie-related costs and hence EBITDA is overstated.

Financial Summary

Table 3: Profit and Loss Statement
(Rs mn, year ending March 31)

| | FY08 | FY09E | FY10E | FY11E |
|---------------------------------|--------------|---------------|---------------|---------------|
| Operating Income (Sales) | 8,699 | 10,394 | 12,510 | 14,663 |
| of which Advertising Income | 4,755 | 5,984 | 6,809 | 7,974 |
| of which Pay Channels Income | 2,293 | 2,225 | 3,280 | 3,956 |
| of which Broadcast fee | 1,256 | 1,498 | 1,656 | 1,921 |
| Operating Expenses | 2,724 | 3,020 | 3,552 | 4,170 |
| EBITDA | 5,975 | 7,374 | 8,958 | 10,493 |
| % margins | 68.7 | 70.9 | 71.6 | 71.6 |
| Depreciation & Amortisation | 1,239 | 2,233 | 2,670 | 3,086 |
| Gross Interest | 159 | 138 | 305 | 314 |
| Other Income | 556 | 668 | 776 | 852 |
| Recurring PBT | 5,133 | 5,671 | 6,760 | 7,945 |
| Add: Extraordinaries | - | - | - | - |
| Less: Taxes | 2,015 | 2,342 | 2,641 | 3,027 |
| - Current tax | 1,908 | 2,237 | 2,575 | 2,952 |
| - Deferred tax | 67 | 23 | 25 | 29 |
| - Others | 39 | 82 | 41 | 47 |
| Less: Minority Interest | (148) | (283) | (253) | (240) |
| Net Income (Reported) | 3,267 | 3,612 | 4,371 | 5,158 |
| Recurring Net Income | 3,267 | 3,612 | 4,371 | 5,158 |

Source: Company data, I-Sec Research

Table 4: Balance Sheet
(Rs mn, year ending March 31)

| | FY08 | FY09E | FY10E | FY11E |
|--|---------------|---------------|---------------|---------------|
| Assets | | | | |
| Total Current Assets | 8,755 | 11,524 | 10,920 | 13,749 |
| of which cash & cash eqv. | 4,297 | 3,405 | 1,147 | 2,295 |
| Total Current Liabilities & Provisions | 2,516 | 4,958 | 5,615 | 6,449 |
| Net Current Assets | 6,239 | 6,566 | 5,304 | 7,300 |
| Investments | | | | |
| of which | 1,803 | 2,303 | 2,803 | 2,803 |
| Strategic/Group | 1,803 | 2,303 | 2,803 | 2,803 |
| Other Marketable | 1 | 1 | 1 | 1 |
| Net Fixed Assets | 7,668 | 10,151 | 11,174 | 11,673 |
| of which | | | | |
| Capital Work-in-Progress | 2,218 | 2,218 | 2,218 | 2,218 |
| Total Assets | 15,796 | 19,106 | 19,368 | 21,862 |
| Liabilities | | | | |
| Borrowings | 695 | 2,095 | 50 | 50 |
| Deferred Tax Liability | 11 | 11 | 11 | 11 |
| Minority Interest | 604 | 321 | 68 | (172) |
| Equity Share Capital | 1,970 | 1,970 | 1,970 | 1,970 |
| Face Value per share (Rs) | 5 | 5 | 5 | 5 |
| Reserves & Surplus* | 12,515 | 14,708 | 17,268 | 20,003 |
| Net Worth | 14,486 | 16,678 | 19,238 | 21,973 |
| Total Liabilities | 15,796 | 19,106 | 19,368 | 21,862 |

Source: Company data, I-Sec Research

Table 7: Quarterly trends
(Rs mn, year ending March 31)

| | Jun-08 | Sep-08 | Dec-08 | Mar-09 |
|----------------------|--------------|--------------|--------------|--------------|
| Net sales | 2,236 | 2,379 | 2,708 | 2,759 |
| % growth (YoY) | 10.5 | 22.3 | 24.4 | 11.9 |
| EBITDA | 1,683 | 1,763 | 2,013 | 2,257 |
| Margin (%) | 75.3 | 74.1 | 74.3 | 81.8 |
| Other income | 164 | 372 | 144 | 154 |
| Add: Extraordinaries | - | - | - | - |
| Net profit | 1,025 | 1,083 | 1,122 | 1,140 |

Source: Company data

Table 5: Cash Flow Statement
(Rs mn, year ending March 31)

| | FY08 | FY09E | FY10E | FY11E |
|--|----------------|----------------|----------------|--------------|
| Operating Cash flow | 4,724 | 5,200 | 6,290 | 7,421 |
| Working Capital Changes | (1,216) | (1,219) | (996) | (847) |
| Capital Commitments | (5,936) | (5,216) | (4,193) | (3,585) |
| Free Cash Flow | (2,428) | (1,235) | 1,101 | 2,988 |
| Cash flow from Investing Activities | 556 | 668 | 776 | 852 |
| Issue of Share Capital | 985 | - | - | - |
| Buyback of shares | - | - | - | - |
| Inc (Dec) in Borrowings | (172) | 1,400 | (2,045) | - |
| Dividend paid | (1,153) | (1,469) | (1,812) | (2,423) |
| Extraordinary Items | - | - | - | - |
| Chg. in Cash & Bank balance | (2,196) | (893) | (2,257) | 1,148 |

Source: Company data, I-Sec Research

Table 6: Key Ratios
(Year ending March 31)

| | FY08 | FY09E | FY10E | FY11E |
|-----------------------------|------|-------|-------|-------|
| Per Share Data (Rs) | | | | |
| EPS(Basic Recurring) | 8.3 | 9.2 | 11.1 | 13.1 |
| Diluted Recurring EPS | 8.3 | 9.2 | 11.1 | 13.1 |
| Recurring Cash EPS | 11.4 | 14.8 | 17.9 | 20.9 |
| Dividend per share (DPS) | 2.5 | 3.1 | 3.8 | 5.1 |
| Book Value per share (BV) | 36.8 | 42.3 | 48.8 | 55.8 |
| Growth Ratios (%) | | | | |
| Operating Income | 28.3 | 19.5 | 20.4 | 17.2 |
| EBITDA | 26.0 | 23.4 | 21.5 | 17.1 |
| Recurring Net Income | 26.3 | 6.8 | 23.7 | 19.4 |
| Diluted Recurring EPS | 32.2 | 10.6 | 21.0 | 18.0 |
| Diluted Recurring CEPS | 22.0 | 29.7 | 20.5 | 17.1 |
| Valuation Ratios (x) | | | | |
| P/E | 28.1 | 25.4 | 21.0 | 17.8 |
| P/CEPS | 20.4 | 15.7 | 13.0 | 11.1 |
| P/BV | 6.3 | 5.5 | 4.8 | 4.2 |
| EV / EBITDA | 14.8 | 12.3 | 10.1 | 8.5 |
| EV / Operating Income | 16.7 | 15.6 | 12.8 | 10.8 |
| EV / Operating FCF | 25.1 | 22.7 | 17.1 | 13.6 |

| | | | | |
|---------------------------------|------|------|------|------|
| Operating Ratio | | | | |
| Cost of revenues / Revenues (%) | 8.8 | 10.5 | 9.1 | 9.3 |
| Selling Expenses/ Sales (%) | 11.0 | 7.5 | 8.5 | 8.5 |
| Other Income / PBT (%) | 10.8 | 11.8 | 11.5 | 10.7 |
| Effective Tax Rate (%) | 39.2 | 41.3 | 39.1 | 38.1 |
| NWC / Total Assets (%) | 12.3 | 16.5 | 21.5 | 22.9 |
| Receivables (days) | 97 | 119 | 137 | 139 |
| Payables (days) | 43 | 69 | 94 | 95 |
| D/E Ratio (x) | 4.9 | 12.6 | 0.3 | 0.3 |

| | | | | |
|---------------------------------------|------|------|------|------|
| Return/Profitability Ratio (%) | | | | |
| Recurring Net Income Margins | 33.7 | 30.1 | 31.0 | 31.7 |
| RoCE | 22.5 | 19.5 | 22.4 | 24.8 |
| RoNW | 23.6 | 21.4 | 22.9 | 23.9 |
| Dividend Payout Ratio | 30.2 | 33.9 | 34.5 | 39.1 |
| Dividend Yield | 1.1 | 1.3 | 1.6 | 2.2 |
| EBITDA Margins | 68.7 | 70.9 | 71.6 | 71.6 |

Source: Company data, I-Sec Research

I-Sec investment ratings (all ratings relative to Sensex over next 12 months)

BUY: +10% outperformance; **HOLD:** -10% to +10% relative performance; **SELL:** +10% underperformance

ANALYST CERTIFICATION

We *Il, Vikash Mantri, PGDM, CFA; Suchitra W L, BE, MBA*, research analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of ICICI Securities Inc.

Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Nonrated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgement by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Vikash Mantri, PGDM, CFA; Suchitra W L, BE, MBA*, research analyst and the author of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its affiliates collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Vikash Mantri, PGDM, CFA; Suchitra W L, BE, MBA* research analyst and the author of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.