

Equities

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Sun TV Network (SUTV.BO)

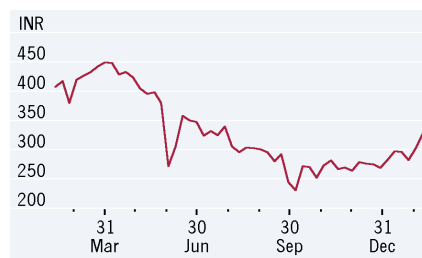
Alert: 3QFY12 Results - Core Business Below Expectations

Company Update

- Weak Quarter** — Excluding the impact of the blockbuster movie, Endhiran, from last year's base, we estimate revenues and EBIT declined ~5% and ~19% yoy respectively – below expectations. Headline revenues at Rs4.25bn missed estimates by ~10%, on the back of poor ad revenues (-6.5% yoy, +4% QoQ). Reported PAT at Rs1.68bn (down 26% yoy) was lower than our / street estimates of Rs1.99bn / Rs1.87bn.
- Advertising declines by 6.5% yoy** — Mgmt indicated the weak ad revenues (of Rs2.44bn) in the festive quarter were driven by the broad market slowdown. The outlook still remains sluggish, but mgmt believes it continues to outperform market growth given its dominant positioning.
- The Arasu impact** — The adverse impact of Tamil Nadu (TN) government's revival of the discounted state run cable business, Arasu, was visible – non DTH pay revenues declined sharply by ~45% yoy and ~38% QoQ to ~Rs290m. Mgmt noted that while the business in TN was impacted, non TN analog cable revenues increased by ~7-8%. It continues to negotiate with Arasu and is hopeful of signing a contract soon.
- Are there silver linings?** — Both DTH related subscription and international pay revenues rose ~20% yoy to Rs840m and Rs240m respectively. DTH subscription revenues recovered sequentially (now back to 1QFY12 levels) - we believe the company is on track to exceed guidance of ~12-15% yoy growth in this segment. International pay revenues have been buttressed by some overflow from 2Q, but trends remain healthy – a reflection of the efforts to increase channel availability across more networks as well new channel additions.
- Radio breakeven in FY13E** — Mgmt noted that the weaker ad environment has impacted radio revenues and operating profits in the current year. 9MFY12 radio revenues and EBITDA are ~Rs620m and ~Rs60m respectively. Breakeven has been delayed by a year to FY13E now. As far as Phase 3 bidding is concerned, mgmt expects to restrict itself to the southern states.
- Balance-sheet takeaways** — a) Efforts to control debtors continue – debtor days are ~90days (v/s 100 days, end Sept11); b) Mgmt is likely to incur additional capex on the new launched HD channels by about Rs350-400m, in addition to the regular capex of Rs0.8-1bn. It has spent Rs1.85bn on acquisition of satellite rights YTD; c) Cash on the books is ~Rs4.5bn - lower QoQ given the debt repayment and dividend payouts.
- Expect near-term pressure on the stock** — Given the weaker-than-expected results, there is likely to be pressure on consensus estimates. Ad revenue market is still sluggish and pay revenue growth will partly depend on some agreement with Arasu. Longer term, Sun's strong positioning in South India is a positive; dividend yield of ~3-4% should support the stock to some extent.

Neutral/High Risk	2H
Price (10 Feb 12)	Rs340.50
Target price	Rs280.00
Expected share price return	-17.8%
Expected dividend yield	3.8%
Expected total return	-14.0%
Market Cap	Rs134,186M
	US\$2,714M

Price Performance (RIC: SUTV.BO, BB: SUNTV IN)



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Results Summary

Figure 1. Sun TV Network (Parent): Reported Results (Rs Mn, %)

	3Q FY 11	3Q FY 12	%yoy
Net Sales	5980	4251	-28.9
Total Expenditure	-962	-840	-12.7
Operating Profit	5018	3411	-32.0
Operating Margin (%)	83.9	80.2	-367 bps
Depreciation and Amortisation	-1740	-1125	-35.4
EBIT	3278	2287	-30.2
EBIT Margin (%)	54.8	53.8	-102 bps
Other Income	91	232	155.9
Interest	-1	-36	2,684.6
PBT	3367	2483	-26.3
Tax	-1112	-804	-27.7
Tax Rate (%)	33.0	32.4	-65 bps
PAT	2255	1679	-25.5
Exceptional Items	0	0	
Net Profit	2255	1679	-25.5
Cost Details			
Cost of Revenues	226	251	11.1
% of sales	3.8	5.9	213 bps
Staff Costs	481	403	-16.3
% of sales	8.0	9.5	143 bps
Other Expenditure	255	186	-26.9
% of sales	4.3	4.4	12 bps
Ex Endhiran			
Net Sales	4,470	4,251	-4.9
EBIT	2838	2287	-19.4
EBIT Margin (%)	63.5	53.8	-969 bps

Source: Company Reports

Figure 2. Sun TV Network (Parent): Segmental Revenue Trends (Rs Mn, %)

Revenue Details -	3Q FY 11	3Q FY 12	%yoy
Ad revenues	2,610	2,440	-6.5
Broadcast sales	420	410	-2.4
DTH	700	840	20.0
Non DTH pay	530	290	-45.3
International pay	200	240	20.0
Movies/Others	1,520	31	-98.0

Source: Company Reports

Sun TV Network

Valuation

Our target price of Rs280 is based on 13x March13E consolidated EPS. Our target multiple is around trough levels, factoring in the dual risks of a) moderating growth going forward (we forecast ~5% EPS CAGR over FY11-13E v/s ~44% EPS CAGR over FY09-11) and b) the political uncertainties around the promoter family. We note that our target multiple is much lower than the historical 5-year average multiples (>25x one year forward P/E), and just a tad higher than the trough multiples witnessed around the last downturn (~11x). In relative terms, our target P/E multiple will be at a marginal premium (~10%) to the market, much lower than the historical avg. P/E premium of ~70% to the BSE Sensex.

Risks

We rate Sun TV Network shares as High Risk given the political uncertainties around the promoter family which may weigh on the stock price. Key downside risks to our target price include: 1) With increasing competitive intensity in various states, Sun TV could lose market share as channel fragmentation would be in play. This also increases the cost of content and may impact operating margins. 2) Higher than estimated funding for the radio ventures could change financials, return ratios and cash flow profile. 3) Adverse political equations could hurt the stock. Upside risks to our target price include: 1) Company could manage issues with cable / DTH operators better and improve its domestic subscription revenues. 2) Movie business could result in high returns, which may provide upside risk to our estimates. 3) With decent cash flows, any increase in dividend payouts could result in a higher yield and positively impact the stock.

Appendix A-1

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Sun TV Network (SUTV.BO)

Ratings and Target Price History Fundamental Research

Analyst: Surendra Goyal, CFA



	Date	Rating	Target Price	Closing Price
1	10-Jun-09	*2M	*298.00	264.45
2	30-Oct-09	2M	*360.00	314.05
3	22-Jan-10	2M	*435.00	380.30

* Indicates change

	Date	Rating	Target Price	Closing Price
4	2-Jun-10	*2L	*450.00	399.75
5	28-Oct-10	2L	*525.00	499.50
6	1-Aug-11	*2M	*345.00	309.75

	Date	Rating	Target Price	Closing Price
7	5-Oct-11	*2H	*265.00	231.45
8	7-Oct-11	Stock rating system changed		
9	3-Nov-11	2H	*280.00	273.35

Rating/target price changes above reflect Eastern Standard Time

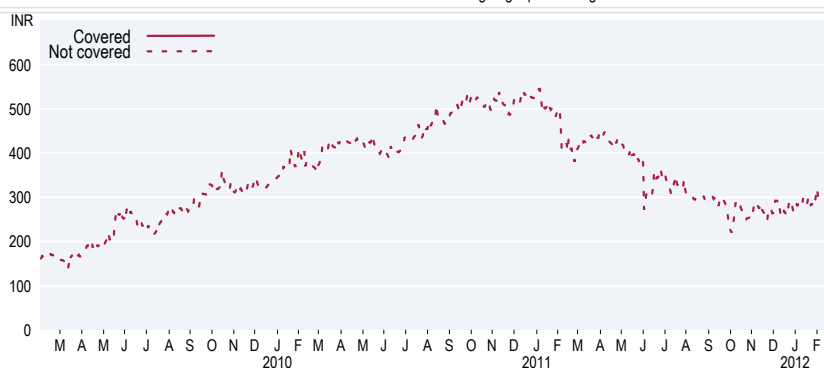
Sun TV Network (SUTV.BO)

Ratings and Target Price History

Best Ideas Research

Relative Call (3 Month)

Analyst: Surendra Goyal, CFA



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Data current as of 31 Dec 2011

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