Company Flash

17 January 2008 | 7 pages

HT Media (HTML.BO)

Results

3QFY08: Below Expectations, Margins to Remain Subdued

- **3QFY08 below expectations** — HTML's 3QFY08 profit growth of 9.8% yoy was 8% below our estimates, though EBITDA margins fared much better than expected. Declining raw material cost (newsprint) and stabilising employee expenses resulted in 71bps EBITDA margin expansion, despite investments in new ventures like Mint.

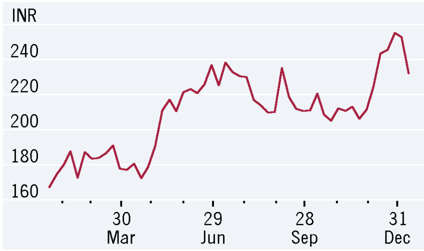
- **Advertising growth remains robust, but English slowing** — Advertising revenues grew 17.6% yoy, driven by 30% growth for Hindi newspaper, though English advertising seems to be slowing. HT Media is still largely dependent on its flagship English newspaper *Hindustan Times'* Delhi edition for its advertising revenues (we estimate about 65%) and any increase in competitive intensity / slowdown in market in Delhi could hamper growth

- **Margins should remain subdued** — HT Media has plans to expand the footprint for its Hindi newspaper, expand the business newspaper 'Mint' and further roll out its radio business. The expansion will entail significant investments over the next two years, and are likely to keep the margins subdued, despite expected savings in raw material costs.

- **Valuations appear rich** — The stock is trading at 27.8xFY09E P/E and we believe that near-term earnings growth could slow due to slowing English advertising market and margin pressure due to new newspaper launches. As such our FY08E-FY10E EPS CAGR of 26% builds in a reasonably optimistic scenario and downside risks to earnings seem to outweigh any upside risks. Maintain SELL, price target Rs212 based on 25xFY09E P/E

Sell/Low Risk	**3L**
Price (17 Jan 08)	Rs236.00
Target price	Rs212.00
Expected share price return	-10.2%
Expected dividend yield	0.6%
Expected total return	**-9.6%**
Market Cap	Rs55,278M
	US$1,410M

Price Performance (RIC: HTML.BO, BB: HTML IN)



Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	373	1.59	36.3	148.4	8.2	7.0	0.1
2007A	1,151	4.91	208.9	48.0	7.1	15.8	0.1
2008E	1,555	6.64	35.1	35.5	6.1	18.4	0.6
2009E	1,988	8.49	27.9	27.8	5.2	20.3	0.8
2010E	2,496	10.66	25.5	22.1	4.5	21.7	1.0

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

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Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	148.4	48.0	35.5	27.8	22.1
EV/EBITDA adjusted (x)	46.5	28.0	20.8	15.9	12.3
P/BV (x)	8.2	7.1	6.1	5.2	4.5
Dividend yield (%)	0.1	0.1	0.6	0.8	1.0
Per Share Data (Rs)					
EPS adjusted	1.59	4.91	6.64	8.49	10.66
EPS reported	1.59	4.91	6.64	8.49	10.66
BVPS	28.74	33.46	38.53	45.01	53.02
DPS	0.24	0.30	1.40	1.78	2.35
Profit & Loss (RsM)					
Net sales	8,237	10,393	12,481	14,331	16,226
Operating expenses	-7,439	-8,885	-10,423	-11,661	-12,836
EBIT	**798**	**1,507**	**2,058**	**2,670**	**3,390**
Net interest expense	-135	-143	-143	-143	-143
Non-operating/exceptionals	177	403	443	487	536
Pre-tax profit	**840**	**1,768**	**2,359**	**3,015**	**3,784**
Tax	-239	-614	-801	-1,024	-1,286
Extraord./Min.Int./Pref.div.	-229	-3	-3	-3	-3
Reported net income	**373**	**1,151**	**1,555**	**1,988**	**2,496**
Adjusted earnings	373	1,151	1,555	1,988	2,496
Adjusted EBITDA	1,184	1,904	2,475	3,108	3,850
Growth Rates (%)					
Sales	31.9	26.2	20.1	14.8	13.2
EBIT adjusted	51.9	88.8	36.5	29.7	27.0
EBITDA adjusted	57.4	60.9	30.0	25.6	23.9
EPS adjusted	36.3	208.9	35.1	27.9	25.5
Cash Flow (RsM)					
Operating cash flow	**-2,714**	**3,776**	**3,184**	**2,632**	**2,799**
Depreciation/amortization	385	397	417	438	460
Net working capital	-3,434	2,344	914	-99	-540
Investing cash flow	**114**	**-3,436**	**-2,668**	**-1,864**	**-2,183**
Capital expenditure	-251	-350	-100	-100	-100
Acquisitions/disposals	0	0	0	0	0
Financing cash flow	**2,597**	**-128**	**-518**	**-771**	**-618**
Borrowings	-20	-46	-150	-300	1
Dividends paid	-64	-82	-368	-471	-619
Change in cash	**-3**	**212**	**-3**	**-3**	**-3**
Balance Sheet (RsM)					
Total assets	**10,733**	**11,852**	**13,739**	**15,552**	**17,651**
Cash & cash equivalent	2,678	1,062	550	551	552
Accounts receivable	1,430	1,682	1,694	1,903	2,104
Net fixed assets	3,726	3,611	3,294	2,957	2,597
Total liabilities	**3,801**	**4,013**	**4,714**	**5,009**	**5,232**
Accounts payable	1,311	1,226	1,929	2,167	2,396
Total Debt	1,837	1,800	1,650	1,350	1,201
Shareholders' funds	**6,932**	**7,838**	**9,025**	**10,543**	**12,419**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	14.4	18.3	19.8	21.7	23.7
ROE adjusted	7.0	15.8	18.4	20.3	21.7
ROIC adjusted	10.6	15.8	25.0	36.1	46.6
Net debt to equity	-12.1	9.4	12.2	7.6	5.2
Total debt to capital	20.9	18.7	15.5	11.3	8.8

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HT Media 3QFY08 Results Table

Figure 1. HT Media – 3QFY08 Profit and Loss Summary (Rupees in Millions, Percent)

	3QFY07	3QFY08	% Change YoY
Advertising Revenues	2,336.0	2,748.0	17.6
Circulation and other Revenues	417.1	446.0	6.9
Total Revenues	**2,752.1**	**3,194.0**	**16.1**
Operating Expenses	-2,261.3	-2,601.8	15.1
EBITDA (including investment for Mint)	**490.8**	**592.2**	**20.7**
EBITDA Margin (including Mint) (%)	*17.8*	*18.5*	*71 bps*
EBITDA (excluding investment for Mint)	**536.8**	**698.2**	**30.1**
EBITDA Margin (excluding Mint) (%)	*19.5*	*21.9*	*235 bps*
Other Income	148.9	87.3	-41.4
Interest	-36.2	-44.5	22.9
Depreciation	-97.6	-113.6	16.4
PBT & Exceptional Items	**505.9**	**521.4**	**3.1**
Exceptional Items	0.0	0.0	nm
PBT	**505.9**	**521.4**	**3.1**
Tax	-170.2	-152.8	-10.2
Tax Rate (%)	*33.6*	*29.3*	*-434 bps*
Net Profit	**335.7**	**368.6**	**9.8**
EPS	**1.43**	**1.57**	**9.8**

Source: Company Reports

Figure 2. HT Media – 3QFY08 Cost Summary (Rupees in Millions, Percent)

Key Costs	3QFY07	3QFY08	% Change YoY
Sales	2,752.1	3,194.0	16.1
Raw Materials	1168.8	1225.7	4.9
% of Sales	*42.5*	*38.4*	*-409 bps*
Employee Costs	388.2	432.9	11.5
% of Sales	*14.1*	*13.6*	*-55 bps*
Advertising & Sales Promotion	178.7	317.5	77.7
% of Sales	*6.5*	*9.9*	*345 bps*
Other Expenses	525.6	625.7	19.0
% of Sales	*19.1*	*19.6*	*49 bps*

Source: Company Reports

HT Media

Company description

HT Media is India's second-largest and one of its oldest newspaper publishing companies. It aims to transform from a single-city newspaper to a national print major. It has a strong presence in Delhi and recently forayed into the Mumbai market. Its long-term plan includes launching or acquiring a business newspaper, entering the rapidly growing radio segment and strengthening its position in the Hindi print segment.

Investment strategy

We have a Sell/Low Risk (1L) rating on the stock on high valuations and slowing earnings growth momentum. While HT Media is well positioned to benefit from strong growth in Indian media, we believe that at 35xFY08E P/E, valuations are expensive. In addition, HT Media is likely to see its earnings growth momentum slow down, given the losses in its new businesses. We are also wary of the high fixed cost base of HT Media, which we believe will stifle operating leverage, once new businesses turn around. The stock now trades at almost 80% premium to our regional print media universe. While HT Media warrants a premium owing to its relatively superior earnings profile and presence in a fast growing market, we find extent of the premium unjustified

Valuation

Our target price of Rs230 is based on 25x FY09E P/E. We benchmark our valuations against global print companies and believe that HTML can trade at a 40%-50% premium to its global peer group average given its relatively strong earnings growth profile. In addition, global newspaper stocks trade at a premium to the broader market valuations given secular earnings growth potential, strong cash flow generation and high capital efficiencies relative to the market. We expect HTML to trade at a premium to Sensex valuations, and also benchmark our valuation against Sensex valuations, attributing a 25-30% premium to HT Media.

Risks

We rate HT Media low risk based on our quantitative risk-rating system because of steady earnings growth and visibility of earnings. Upside to our price target could emerge from earlier than expected break even of new ventures like the business newspaper, increase in market share in key markets like Delhi and Mumbai and decline in paper prices. Key downside risks to our price target could emanate from the entry of new players. If HT Media fails to garner market share in Mumbai, it would be perceived negatively hurting profits. A slowdown in GDP growth or economic activity could result in slowing of overall advertising market growth, adversely impacting HTML's profits.

Appendix A-1

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HT Media (HTML.BO)

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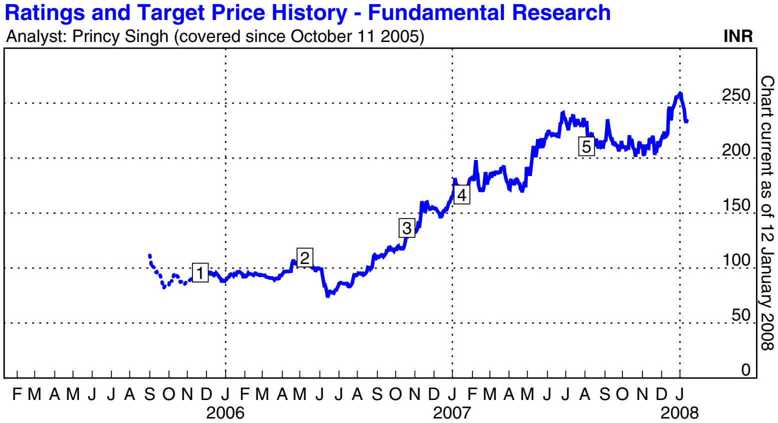
Analyst: Princy Singh (covered since October 11 2005)



#	Date	Rating	Target Price	Closing Price
1:	22 Nov 05	1L	118.00	90.12
2:	9 May 06	1L	*145.00	105.72
3:	19 Oct 06	1L	*190.00	128.68
4:	16 Jan 07	1L	190.00	167.10
5:	3 Aug 07	*3L	*212.00	233.65

*Indicates change.

Rating/target price changes above reflect Eastern Standard Time

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