

Sun TV Network

Rating: ◀▶

Target price: ▼

EPS: ▼

CMP

Rs. 389

Absolute

Buy

Target

Rs. 500

Relative

Outperform

Too Early to Downgrade, Maintain BUY

We have always liked the sound business model of Sun TV that draws strength from viewer stickiness, group's control over TV distribution (Cable + DTH) and substantial influence over movie distribution in the state of Tamil Nadu. However, AIADMK coming to power in the state of TN has certainly raised risks for Sun TV especially given the election manifesto promising cable services by the government at much lower rates. While its early days to anticipate the exact moves by the government on this front and there implications for Sun TV, we down South believe that in the event of cable distribution takeover by the state concerns on loss of cable & DTH subscription revenues are far lesser compared to those on loss of viewership share/ advertising revenues.

We believe that change of government certainly shall weaken the stranglehold of the group over movie distribution and muscle power to get programming content at low costs. Thus we see the film/ program costs increasing for Sun TV and have accordingly factored higher costs on this account. Also, we factor the negative impact of the recent interim judgment of the Supreme court (lower cap on tariff to be charged to DTH) to affect Sun TV in FY13. Consequently, our FY12 & FY13 estimates stand reduced by 1% and 4.9% respectively.

We believe, it is too early to draw drastic inferences on Sun TV's businesses from the political changes and maintain our penchant for the stock, nevertheless we shall keenly watch out for developments on this front over the coming few months. Post above changes in our estimates our price target on the stock is revised to Rs500 (23x FY12E and 20x FY13E EPS), reiterate BUY.

4QFY11 Result Highlights and Key Takeaways from management interaction

- Overall results were above our estimate as better than estimated Advertising and subscription revenues led to higher than estimated profit. Ad revenue growth of 16% y-o-y beat our expectation of 13%, the growth was encouraging especially as the rate hikes were deferred to April'11 v/s effective Jan'10 last year. Subscription revenues were bolstered by a 17% sequential increase in DTH revenues.

- Management believes ~18% ad revenue growth for FY12 is realistic and despite FMCG's restricting ad spends (evident from 4Q results) such growth numbers likely to be achieved, our interaction with media buyers in TN confirms no stress on Sun TV's ad sales.

Financial summary (Consolidated)

Year	Revenues (Rs. mn)	EBITDA (Rs. mn)	Adj PAT (Rs. mn)	EPS (Rs.)	P/E(x)	EV/EBITDA (x)
FY11	20,135	15,782	7,702	19.5	20.0	9.4
FY12E	21,643	16,712	8,569	21.7	17.9	8.7
FY13E	24,457	18,851	9,734	24.7	15.8	7.5

4QFY11 Update

Date: May 27, 2011

Market Data

SENSEX	18267
Nifty	5474
Bloomberg	SUNTV IN
Shares o/s	394mn
Market Cap	Rs.153bn
52-wk High-Low	Rs. 557-370
3m Avg. Daily Vol	Rs. 117mn
Index member	BSE 200

Latest shareholding (%)

Promoters	77.0
Institutions	12.6
Public	10.4

Stock performance (%)

	1m	3m	12m
Sun TV	-9	-2	-3
Sensex	-6	3	10
M&E Index	-1.2	8.2	4.3

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Sun TV Network

Quarterly Financial Results

CMP	Rs. 389	Absolute	Buy
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Quarterly Financial Result (Standalone)								
Rs. mn\Period	31-Mar-11	31-Mar-10	YoY Growth	31-Dec-10	QoQ Growth	FY11#	FY12E#	YoY Growth
Revenues	4,605	3,919	17.5%	5,980	-23.0%	20,135	21,643	7.5%
Cost of Revenues	283	221	28.1%	226	25.5%	1,373	1,471	7.1%
Employee cost	453	167	171.5%	481	-5.8%	1,919	2,189	14.1%
Other Expenditure	230	222	3.4%	255	-9.9%	1,060	1,271	19.9%
Total Operating Cost	966	610	58.3%	962	0.5%	4,352	4,931	13.3%
EBITDA	3,639	3,309	10.0%	5,018	-27.5%	15,782	16,712	5.9%
EBITDA margins	79.0%	84.4%	-541bps	83.9%	-490bps	78.4%	77.2%	-117bps
Depreciation & Amortisation	678	848	-20.0%	1,740	-61.0%	4,805	4,391	-8.6%
Other income	172	85	103.2%	91	89.5%	487	651	33.7%
EBIT	3,132	2,545	23.1%	3,369	-7.0%	11,465	12,972	13.1%
Interest	14	2	513.0%	1	984.6%	23	26	14.7%
PBT	3,118	2,542	22.7%	3,367	-7.4%	11,442	12,946	13.1%
Tax	1,035	892	16.1%	1,112	-7.0%	3,831	4,424	15.5%
Effective tax rate	33.2%	35.1%		33.0%		33.5%	34.2%	
PAT	2,083	1,651	26.2%	2,255	-7.6%	7,611	8,521	12.0%
PAT margin	45.2%	42.1%	312bps	37.7%	753bps	37.8%	39.4%	157bps
Minority Interest	-	-		-		-55.2	-47.8	
PAT after Minority Interest	2083	1651	26.2%	2255	-7.6%	7667	8569	11.8%
EPS (Rs.)	5.29	4.19	26.2%	5.72	-7.6%	19.5	21.7	11.3%

consolidated financials

Sun TV Network

Business Overview

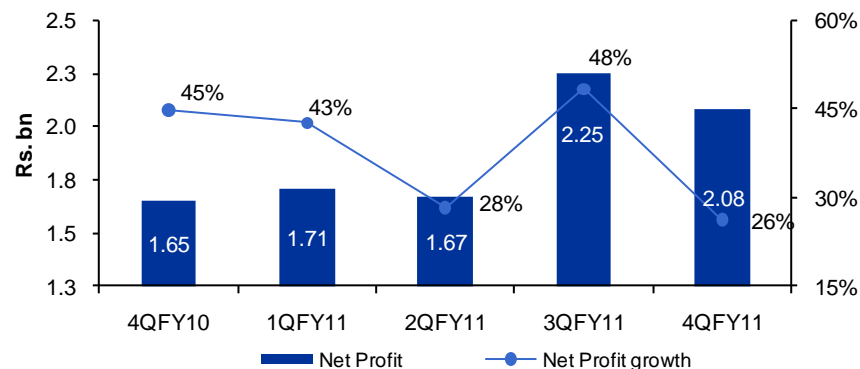
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Key estimate revision

	FY12E			FY13E		
	Old	New	Change	Old	New	Change
Revenue	21,979	21,643	-1.5%	25,106	24,457	-2.6%
EBITDA	17,024	16,712	-2%	19,479	18,851	-3.2%
Margin (%)	77.5%	77.2%	-29bps	77.6%	77.1%	-51bps
PAT	8,690	8,569	-1%	10,235	9,734	-4.9%
PAT Margin	39.5%	39.6%	9bps	40.8%	39.8%	-97bps
EPS	22.1	21.7	-1.6%	26.0	24.7	-5.0%

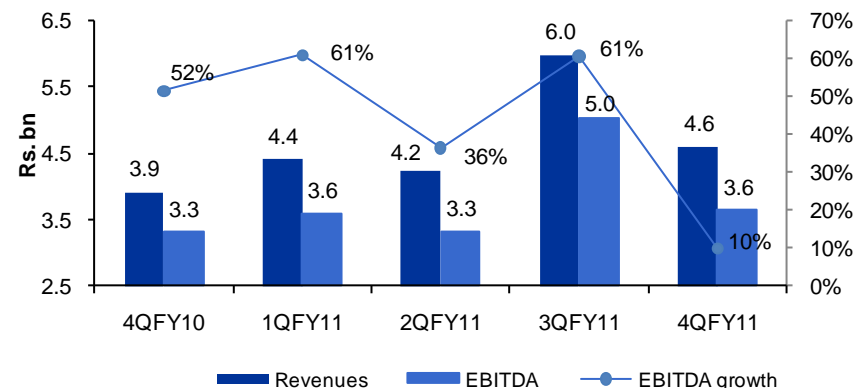
All figures in Rs. mn, except EPS, which is in Rs.

Sustained strong growth in net profit



Source: Company, Spark Research

Snapshot of Operating performance



Source: Company, Spark Research

Healthy growth across Revenue lines

	4QFY11 (Rs mn)	y-o-y
Advertising	2580	16%
Broadcast fees	370	3%
Subscription-Overseas	170	6%
Subscription-Analog	560	22%
Subscription-DTH	820	30%
Movie Distribution/ Production	90	13%

Source: Company, Spark Research

Sun TV Network

Financial Summary (Consolidated)

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Abridged Financial Statements

Rs. mn	FY09	FY10	FY11E	FY12E	FY13E
Profit & Loss					
Revenues	10,394	14,528	20,135	21,643	24,457
EBITDA	7,368	10,909	15,782	16,712	18,851
Depreciation	2,205	3,209	4,805	4,391	5,135
EBIT	5,163	7,700	10,978	12,321	13,716
Other Income	668	350	487	651	989
Interest	138	49	23	26	27
PBT	5,693	8,000	11,442	12,946	14,679
Net Profit	3,683	5,199	7,702	8,569	9,734
Adjusted Net Profit	3,683	5,199	7,702	8,569	9,734
Balance Sheet					
Shareholders Equity	17,401	20,104	23,786	28,273	33,957
Deferred Tax	261	339	410	410	410
Total debt	716	1	1	1	1
Total Networth & Liabilities	18,378	20,445	24,198	28,684	34,368
Net fixed assets	8,146	8,978	11,132	11,247	10,959
CWIP & Intangibles under developm	1,572	3,149	1,000	2,250	3,000
Investments	5,099	6,198	8,217	10,717	14,717
Non Current Assets	233	300	137	397	471
Current assets	5,516	6,427	8,184	8,911	10,482
Current liabilities	2,188	4,607	4,472	4,836	5,260
Net current assets	3,328	1,820	3,712	4,075	5,221
Misc exp not w/off	-	-	-	-	-
Total Assets	18,378	20,445	24,198	28,684	34,368
Cash Flows					
Cash flow s from Operations	5,875	7,471	10,769	12,065	13,952
Cash flow s from Investing	(3,715)	(6,544)	(7,278)	(8,230)	(9,571)
Cash flow s from Financing	(2,088)	(838)	(3,409)	(4,060)	(4,061)
Free cash flow to fund	957	1,652	3,811	7,559	9,105
Free cash flow to equity	652	900	5,937	7,533	9,078

Key metrics

	FY09	FY10	FY11E	FY12E	FY13E
Growth ratios (%)					
Sales	19.5%	39.8%	38.6%	7.5%	13.0%
EBITDA	23.3%	48.1%	44.7%	5.9%	12.8%
Net Profit	12.7%	41.2%	48.1%	11.3%	13.6%
Margin ratios (%)					
EBITDA	70.9%	75.1%	78.4%	77.2%	77.1%
EBIT	49.7%	53.0%	54.5%	56.9%	56.1%
Net Profit	35.4%	35.8%	38.3%	39.6%	39.8%
Performance ratios					
RoE (%)	21.6	28.0	36.9	34.4	32.5
RoCE (%)	34.1	41.5	51.4	49.1	46.6
Dividend Yield (%)	0.6	0.6	1.9	2.2	2.2
Total Assets Turnover (x)	0.7	0.9	1.0	1.1	1.1
Fixed Assets Turnover (x)	2.0	2.5	2.3	2.3	2.6
Financial stability ratios					
Net Debt to Equity (x)	0.0	0.0	0.0	0.0	0.0
Debtor days	85	83	78	78	78
Loans and Advances	59	40	36	39	39
Other current assets	38	27	25	28	30
Creditor days	55	39	39	39	39
Other current liabilities	152	147	191	191	191
Working capital days	117	46	67	69	78
Valuation metrics					
Market Cap (Rs.mn)	153,691	153,691	153,691	153,691	153,691
Diluted Shares (mn)	394	394	394	394	394
Adjusted EPS (Rs.)	9.3	13.2	19.5	21.7	24.7
P/E (x)	41.7	29.6	20.0	17.9	15.8
EV (Rs. mn)	150,753	148,859	147,662	145,388	141,068
EV/ EBITDA (x)	20.5	13.6	9.4	8.7	7.5
EV/ Operating cash flow (x)	25.7	19.9	13.7	12.1	10.1

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Absolute Rating Interpretation	
BUY	Stock expected to provide positive returns of > 15% over a 1-year horizon
ADD	Stock expected to provide positive returns of <=15% over a 1-year horizon
REDUCE	Stock expected to fall <=15% over a 1-year horizon
SELL	Stock expected to fall >15% over a 1-year horizon
Relative Rating Interpretation	
OUTPERFORM	Stock expected to outperform sector index /sector peers in our coverage
UNDERPERFORM	Stock expected to underperform sector index/ sector peers in our coverage

Recommendation History				
Date	CMP	Target price	Absolute Rating	Relative Rating
23-Feb 11	410	508	Buy	O-PF
1-Feb 11	491	595	Buy	O-PF
13-Jan 11	500	616	Buy	O-PF
3-Jan 11	524	616	Buy	O-PF

Analyst Certification

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