

INDIA

TV Today Network

BUY
Maintained
Rs79

Adverse environment takes a toll

Reason for report: Q2FY13 results review and earnings revision

TV Today Network's (TVT) Q2FY13 earnings were weak and in line with the weak macro-environment and delay in festive season this year. Revenues declined 4.9% YoY as against 9.7% decline in ad revenues for Zee News and 13.8% decline in revenues for TV18 (news). EBITDA slipped into the red for the first time in two years with marginal loss of Rs17mn led mainly by revenue miss. Radio business showed some discipline with revenues growing by 44% YoY and costs declining 21% YoY resulting in EBIT loss narrowing to Rs28mn in Q2FY13 as against Rs50mn loss in Q2FY12. We have revised our FY13 EPS estimates by ~49% mainly to factor-in lower revenue growth; however, our FY14 estimates get downgraded by 9.5%. With phase-1 of digitisation nearing completion, we see TVT as a major beneficiary leading to lower carriage fees paid by broadcasters and increase in subscription revenues. We maintain BUY on TVT with a revised target price of Rs93/share based on 12x FY14 P/E (earlier: 10x).

- ▶ **Television segment was weak with broadcasting revenues declining 6.3% YoY and 5.5% QoQ to Rs647mn, the lowest in past eight quarters.** The segment also reported an EBIT loss of Rs32mn in Q2FY13 as against profits of Rs43mn in Q1FY13 and Rs39mn in Q2FY12. We have lowered our revenue growth estimate for FY13 to 3% from 8% earlier on account of the weak environment and lower than expected H1FY13 performance. However, our FY14 revenue growth estimate remains at 12%.
- ▶ **Radio segment performance was stable with revenues increasing 44% YoY to Rs27mn.** The company was able to control costs in the segment with EBIT loss narrowing to Rs28mn in Q2FY13 as against Rs45mn in Q1FY13. We however continue to maintain our negative view of the segment and don't expect it to breakeven in near future.
- ▶ **Consolidated EBITDA loss was at Rs17mn in Q2FY13 as against profit of Rs31mn in Q1FY13 and Rs17mn in Q2FY12.** EBITDA margin was below expectations mainly due to lower revenue growth and higher other expenses. The company reported a loss of Rs91mn for the quarter.
- ▶ **Maintain BUY with a target price at Rs93/share.** TVT has delivered a return of 76% YTD. Mandatory digitisation is a key positive trigger for the company, as it will reduce carriage fees paid by broadcasters and increase their subscription revenues.

| | | | | | | |
|--------------------------|--------------------|-------------------------|-------------|-------------|--------------|--------------|
| Market Cap | Rs4.7bn/US\$87.6mn | Year to Mar | 2011 | 2012 | 2013E | 2014E |
| Reuters/Bloomberg | TVTO.BO/TVT IN | Revenue (Rs mn) | 2,933 | 3,084 | 3,174 | 3,566 |
| Shares Outstanding (mn) | 59 | Rec. Net Income (Rs mn) | 124 | 105 | 114 | 463 |
| 52-week Range (Rs) | 68/42 | EPS (Rs) | 2.1 | 1.8 | 1.9 | 7.8 |
| Free Float (%) | 42.5 | % Chg YoY | (59.7) | (17.4) | 8.1 | 306.4 |
| FII (%) | 0.0 | P/E (x) | 36.9 | 44.6 | 41.3 | 10.2 |
| Daily Volume (US\$/'000) | 353 | CEPS (Rs) | 4.9 | 4.1 | 4.6 | 10.6 |
| Absolute Return 3m (%) | 22.4 | EV/E (x) | 19.6 | 19.5 | 19.1 | 6.8 |
| Absolute Return 12m (%) | 31.4 | Dividend Yield (%) | 1.0 | 0.9 | 0.9 | 3.9 |
| Sensex Return 3m (%) | 9.1 | RoCE (%) | 1.0 | 1.7 | 1.7 | 10.4 |
| Sensex Return 12m (%) | 7.3 | RoE (%) | 4.0 | 3.3 | 3.5 | 13.7 |

Media

Target price Rs93

Earnings revision

| (%) | FY13E | FY14E |
|--------|--------|-------|
| Sales | ↓ 4.5 | ↓ 4.5 |
| EBITDA | ↓ 29.1 | ↓ 3.4 |
| EPS | ↓ 48.7 | ↓ 9.5 |

Target price revision

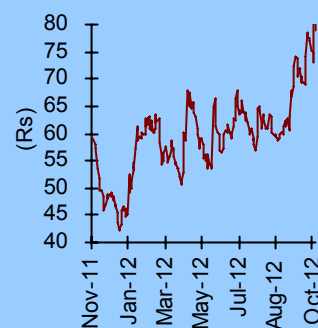
Rs93 from Rs86

Shareholding pattern

| | Mar '12 | Jun '12 | Sep '12 |
|-------------------------|---------|---------|---------|
| Promoters | 57.5 | 57.5 | 57.5 |
| Institutional investors | 5.9 | 5.6 | 4.1 |
| MFs and UTI | 2.1 | 1.8 | 0.3 |
| Insurance Cos. | 3.8 | 3.8 | 3.8 |
| FIs | 0.0 | 0.0 | 0.0 |
| Others | 36.6 | 36.9 | 38.4 |

Source: BSE

Price chart



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Table 1: Q2FY13 result review*(Rs mn, year ending March 31)*

| | I-Sec estimates | Q2FY13 | Q2FY12 | % chg YoY | % chg QoQ | YTD FY13 | YTD FY12 | % chg |
|------------------------------------|--------------------|-------------|------------|--------------|--------------|--------------|--------------|---------------|
| Total revenues | 751 | 673 | 708 | (4.9) | (4.7) | 1,380 | 1,412 | (2.3) |
| Expenditures | 694 | 690 | 691 | (0.2) | 2.2 | 1,365 | 1,370 | (0.4) |
| Transmission & production costs | 98 | 90 | 91 | (1.2) | 3.6 | 177 | 186 | (4.8) |
| Employee cost | 233 | 233 | 228 | 2.4 | (1.2) | 469 | 475 | (1.1) |
| Ad, promotion & distribution costs | 225 | 217 | 224 | (3.1) | (0.6) | 435 | 429 | 1.3 |
| Other expenses | 139 | 150 | 148 | 1.0 | 11.6 | 284 | 280 | 1.4 |
| EBITDA | 56 | (17) | 17 | NM | NM | 15 | 42 | (65.4) |
| Other income | 16 | 6 | 15 | (62.7) | (71.2) | 25 | 27 | (8.4) |
| Depreciation | 36 | 43 | 35 | 23.7 | 20.0 | 79 | 70 | 14.2 |
| Finance expenses | 4 | 5 | 1 | NM | NM | 7 | 2 | NM |
| PBT | 33 | (59) | (4) | NM | NM | (47) | (2) | NM |
| Less: Provision for tax | 10 | 32 | (3) | NM | NM | 32 | 1 | NM |
| Adjusted PAT | 23 | (92) | (1) | NM | NM | (80) | (4) | NM |
| Operating margin (%) | 7.5 | (2.5) | 2.4 | | | 1.1 | 3.0 | |
| NPM (%) | 3.0 | (13.6) | (0.1) | | | (5.8) | (0.3) | |

Source: Company data, I-Sec research

Earnings lowered factoring weak ad environment

We revise our earnings estimates for TVTN by factoring-in lower revenues in keeping with the overall slowdown in the ad environment. We have lowered our revenue growth estimate for FY13 to 3% from 8% while maintaining our FY14 revenue growth estimate at 12%. We have revised our FY14 cost estimates factoring lower employee and production costs. Our revised EPS estimate for FY14 stands at Rs7.8 (earlier: Rs8.6).

Table 2: Earnings revision*(Rs mn)*

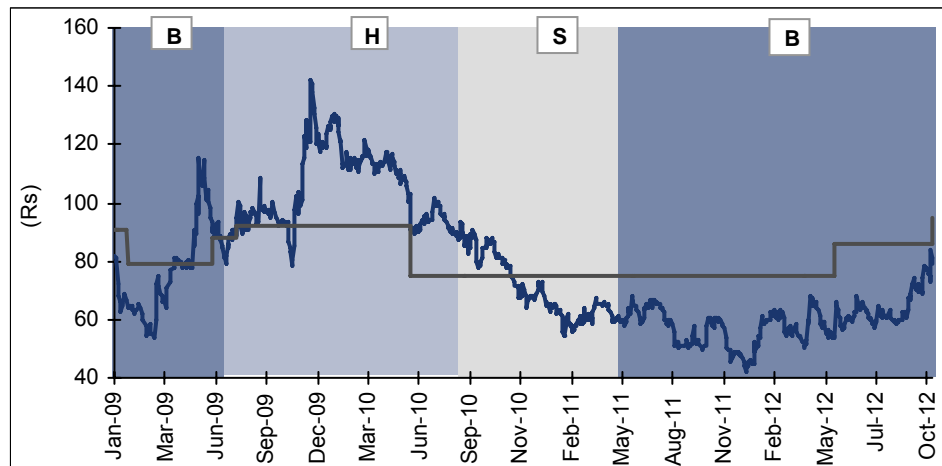
| | FY13E | | | FY14E | | |
|----------|---------|---------|---------|---------|---------|---------|
| | Revised | Earlier | chg (%) | Revised | Earlier | chg (%) |
| Revenues | 3,174 | 3,325 | (4.5) | 3,566 | 3,732 | (4.5) |
| EBITDA | 265 | 374 | (29.1) | 739 | 766 | (3.4) |
| PAT | 114 | 222 | (48.7) | 463 | 511 | (9.5) |

Source: I-Sec research

Maintain **BUY** with a revised target price of Rs93/share

We maintain our **BUY** rating on TVTN with a target price of Rs93/share (earlier: Rs86) based on 12x FY14 P/E. We expect the company to be a major beneficiary of digitisation leading to reduction in carriage fees and increase in subscription revenues. Investments in loss-making print and radio businesses and lower-than-expected benefits from digitisation are the key risks to our call.

Chart 1: Recommendation history



B: BUY; H: HOLD; S: SELL; A: ADD; R: REDUCE

Source: Bloomberg, I-Sec research

Financial summary

Table 3: Profit and Loss statement

(Rs mn, year ending March 31)

| | FY11 | FY12 | FY13E | FY14E |
|---------------------------------|--------------|--------------|--------------|--------------|
| Operating Income (Sales) | 2,933 | 3,084 | 3,174 | 3,566 |
| Operating Expenses | 2,674 | 2,825 | 2,909 | 2,826 |
| EBITDA | 259 | 259 | 265 | 739 |
| <i>% margins</i> | 9 | 8 | 8 | 21 |
| Depreciation & Amortisation | 160 | 140 | 160 | 167 |
| Gross Interest | 9 | 11 | 18 | 18 |
| Other Income | 96 | 56 | 70 | 88 |
| Recurring PBT | 185 | 164 | 158 | 642 |
| Add: Extraordinaries | - | - | (16) | - |
| Less: Taxes | 60 | 59 | 40 | 180 |
| Net Income (Reported) | 124 | 105 | 103 | 463 |
| Recurring Net Income | 124 | 105 | 114 | 463 |

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

| | FY11 | FY12 | FY13E | FY14E |
|--|--------------|--------------|--------------|--------------|
| Assets | | | | |
| Total Current Assets | 1,945 | 1,589 | 1,669 | 1,982 |
| <i>of which cash & cash eqv.</i> | 330 | 144 | 228 | 365 |
| Total Current Liabilities & Provisions | 734 | 809 | 828 | 797 |
| Net Current Assets | 1,211 | 780 | 841 | 1,185 |
| Investments | | | | |
| <i>of which</i> | 473 | 455 | 455 | 455 |
| <i>Strategic/Group</i> | 455 | 455 | 455 | 455 |
| <i>Other Marketable</i> | 18 | - | - | - |
| Net Fixed Assets | 1,507 | 2,295 | 2,301 | 2,204 |
| <i>of which</i> | | | | |
| <i>intangibles</i> | 323 | 312 | 301 | 290 |
| <i>Capital Work-in-Progress</i> | 874 | 874 | 365 | 375 |
| Total Assets | 3,192 | 3,530 | 3,596 | 3,844 |
| Liabilities | | | | |
| Borrowings | 179 | 504 | 504 | 504 |
| Deferred Tax Liability | (112) | (151) | (151) | (151) |
| Minority Interest | - | - | - | - |
| Equity Share Capital | 297 | 297 | 297 | 297 |
| <i>Face Value per share (Rs)</i> | 5 | 5 | 5 | 5 |
| Reserves & Surplus | 2,821 | 2,874 | 2,940 | 3,188 |
| Net Worth | 3,124 | 3,177 | 3,243 | 3,491 |
| Total Liabilities | 3,192 | 3,530 | 3,596 | 3,844 |

Source: Company data, I-Sec research

Table 7: Quarterly trend

(Rs mn, year ending March 31)

| | Dec-11 | Mar-12 | Jun-12 | Sep-12 |
|----------------------|--------|--------|--------|--------|
| Net sales | 787 | 885 | 706 | 673 |
| % growth (YoY) | (6) | 5 | 0 | (5) |
| EBITDA | 79 | 137 | 31 | (17) |
| Margin (%) | 10 | 15 | 4 | (2) |
| Other income | 22 | 8 | 19 | 6 |
| Add: Extraordinaries | (7) | 7 | (16) | - |
| Net profit | 40 | 69 | 12 | (92) |

Source: Company data

Table 5: Cash flow statement

(Rs mn, year ending March 31)

| | FY11 | FY12 | FY13E | FY14E |
|---|--------------|--------------|-------------|------------|
| Operating Cashflow | 161 | 237 | 233 | 582 |
| Working Capital Changes | 64 | 197 | 24 | (208) |
| Capital Commitments | (774) | (928) | (191) | (110) |
| Free Cashflow | (549) | (494) | 66 | 264 |
| Cashflow from Investing | | | | |
| Activities | 95 | 74 | 70 | 88 |
| Issue of Share Capital | 0 | - | - | - |
| Buyback of shares | - | - | - | - |
| Inc (Dec) in Borrowings | (480) | 325 | - | - |
| Dividend paid | (52) | (52) | (48) | (215) |
| Extraordinary Items | - | - | (16) | - |
| Chg. in Cash & Bank balances | (968) | (186) | 85 | 137 |

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

| | FY10 | FY11 | FY12E | FY13E |
|--|--------|--------|-------|-------|
| Per Share Data (Rs) | | | | |
| Recurring EPS | 2.1 | 1.8 | 1.9 | 7.8 |
| Reported EPS | 2.1 | 1.8 | 1.7 | 7.8 |
| Recurring Cash EPS | 4.9 | 4.1 | 4.6 | 10.6 |
| Dividend per share (DPS) | 0.8 | 0.8 | 0.7 | 3.1 |
| Book Value per share (BV) | 53.9 | 53.4 | 54.5 | 58.7 |
| Growth Ratios (%) | | | | |
| Operating Income | 3.0 | 5.2 | 2.9 | 12.3 |
| EBITDA | (50.3) | 0.2 | 2.3 | 178.9 |
| Recurring Net Income | (59.7) | (15.3) | 8.1 | 306.4 |
| Diluted Recurring EPS | (59.7) | (17.4) | 8.1 | 306.4 |
| Diluted Recurring CEPS | (45.3) | (15.8) | 11.4 | 130.2 |
| Valuation Ratios (x) | | | | |
| P/E | 36.9 | 44.6 | 41.3 | 10.2 |
| P/CEPS | 16.1 | 19.1 | 17.2 | 7.5 |
| P/BV | 1.5 | 1.5 | 1.4 | 1.3 |
| EV / EBITDA | 19.6 | 19.5 | 19.1 | 6.8 |
| EV / Operating Income | 1.7 | 1.6 | 1.6 | 1.4 |
| EV / Operating FCF | 22.5 | 11.7 | 19.7 | 13.5 |
| Operating Ratios (%) | | | | |
| Production cost/Sales | 13.2 | 13.0 | 13.3 | 12.8 |
| Other Income / PBT | 51.8 | 34.3 | 44.5 | 13.7 |
| Effective Tax Rate | 32.7 | 35.9 | 28.0 | 28.0 |
| NWC / Total Assets | 27.6 | 18.0 | 17.0 | 21.3 |
| Receivables (days) | 114.9 | 111.2 | 101.3 | 94.5 |
| Payables (days) | 56.8 | 50.3 | 45.0 | 50.0 |
| D/E Ratio (x) | 0.0 | 0.1 | 0.1 | 0.1 |
| Return/Profitability Ratios (%) | | | | |
| Recurring Net Income Margins | 4.1 | 3.4 | 3.5 | 12.7 |
| RoCE | 1.0 | 1.7 | 1.7 | 10.4 |
| RoNW | 4.0 | 3.3 | 3.5 | 13.7 |
| Dividend Payout Ratio | 35.9 | 42.4 | 36.0 | 40.0 |
| Dividend Yield | 1.0 | 0.9 | 0.9 | 3.9 |
| EBITDA Margins | 8.8 | 8.4 | 8.4 | 20.7 |

Source: Company data, I-Sec research

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New I-Sec investment ratings (all ratings based on absolute return)

BUY: >15% return; ADD: 5% to 15% return; REDUCE: Negative5% to positive5% return; SELL: < negative 5% return

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