

Sun TV Network (SUNTV)

RESULT UPDATE ✓

WHAT'S CHANGED...

PRICE TARGET.....	Changed from Rs 269 to Rs 257
EPS (FY09E).....	Changed from Rs 10.44 to Rs 10.32
EPS (FY10E).....	Changed from Rs 14.15 to Rs 13.53
RATING.....	Changed from Performer to Hold

Current price Rs 242.5	Target price Rs 257
Potential upside 6%	Time Frame 12 months

HOLD

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Declining subscription revenues...

On a standalone basis, Sun TV posted a topline of Rs 223.57 crore for Q1FY09, growing 10.5% Y-o-Y and declining 9.3% Q-o-Q. EBITDA grew 10.0% Y-o-Y and 6.5% Q-o-Q while EBITDA margins improved by 1120 bps Q-o-Q to reach traditional levels of ~75%. The blip in EBITDA margin in the last quarter was due to a one time write off to the tune of Rs 31 crore. The Q-o-Q decline in topline was largely due to the drop in domestic subscription revenues. The advertising and broadcasting revenue grew 20% Y-o-Y, while revenues from international markets grew 43%.

Power cuts impact domestic subscription revenue

The revenues from domestic subscription of pay channels declined sharply from ~Rs 50 crore in Q4FY08 to ~Rs 30 crore in Q1FY09. The loss of revenue was primarily due to power cuts (7-8 hours) in Karnataka and Kerala, which led to non payment of subscription by affected subscribers. The revenue from this business was further affected by change in revenue recognition policy of the company (accrual basis to cash basis) and churn in subscribers from cable to DTH. The subscriber base of DTH grew to 1.7 million in Q1FY09 from ~1 million in Q4FY08 resulting in revenues of Rs 11.12 crore as compared to Rs 11.1 crore in four months of FY08. We expect Sun TV to generate Rs 51.6 crore from this business in FY09.

Radio

In Q1FY09, the company launched 14 FM radio stations under its subsidiaries Kal radio and South Asia FM. Sun TV holds licenses for 44 radio stations besides three stations under Red FM. In total, 44 stations are on air while the remaining three are expected to be launched in CY09. The company enjoys market leadership in all the FM stations of Kal Radio and second position for most of the South Asia FM. The radio business is expected to post a loss of Rs 25-30 crore in FY09 as compared to Rs. 40 crore for FY08. We expect this segment to break even post FY10 after the radio stations gain mass and popularity.

Key Financials

Rs. Crore	Standalone			Consolidated			
	Q1FY09	Q4FY08	Q-o-Q Growth	Q1FY08	Y-o-Y Growth	FY09E	FY10E
Revenues	223.56	246.44	-9.3%	202.34	10.5%	1,043.06	1,250.77
Cost of Revenue	19.78	17.30	14.3%	13.15	50.4%	105.86	124.74
Employee expense	24.49	27.64	-11.4%	22.46	9.0%	114.07	131.64
Other expenses	11.02	43.46	-74.6%	13.81	-20.2%	87.00	101.99
EBIDTA	168.27	158.04	6.5%	152.92	10.0%	736.14	892.40
EBIDTA margin	75.3%	64.1%	1120bps	75.6%	.03bps	70.6%	71.3%
Other income	16.38	21.50	-23.8%	14.91	9.9%	58.09	93.36
Interest	0.03	1.08	-97.2%	0.48	-93.8%	8.80	8.80
Depreciation	27.82	37.72	-26.2%	24.30	14.5%	160.30	170.75
PBT	156.80	140.74	11.4%	143.05	9.6%	625.13	806.21
Tax	54.27	49.34	10.0%	49.98	8.6%	235.02	285.21
PAT	102.53	91.40	12.2%	93.07	10.2%	390.12	520.99
EPS	2.60	2.32	12.2%	2.36	10.2%	10.32	13.53

Source: Company, ICICIdirect.com Research

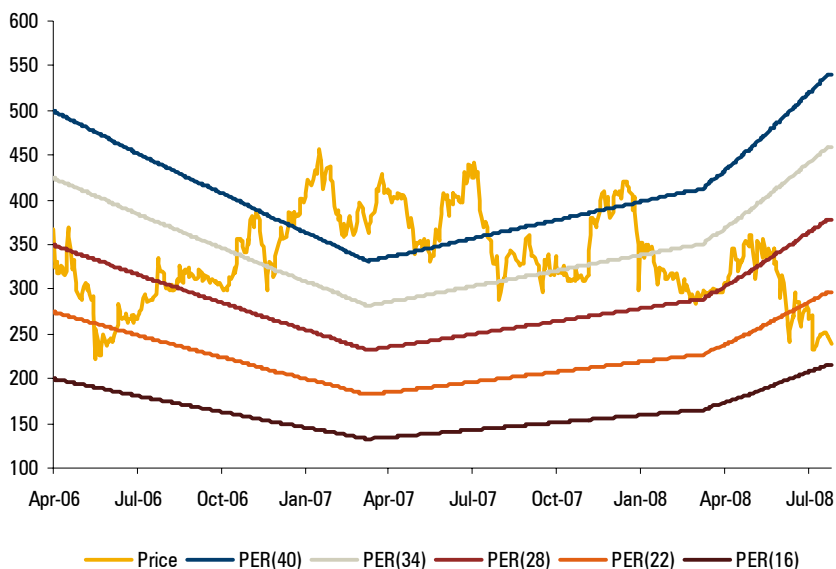
Traction in international business

The company has shifted from a fixed license fee regime to a subscriber based fees in some of its international markets resulting in Y-o-Y growth of 43% revenue from this business. We estimate revenues from international operations to grow 33% at Rs 54 crore in FY09.

Valuations

The decline in subscriber base of cable TV and the inability of company to collect subscription revenues in this quarter has had an adverse effect on the topline of the company. Although the revenues from DTH, advertisement, broadcasting and international businesses continue to grow at a steady pace we believe the decline in cable revenues coupled with losses in the radio business will be a drag on the company's future earnings. At the CMP of Rs 242.5, the stock is fairly valued and is trading at 23.5x FY09E EPS of Rs 10.32 and 17.93x FY10E EPS of Rs 13.53. We rate the company as **HOLD** and value the company at 10x FY10 EV/EBITDA and 19x FY10 EPS of Rs 13.53 with a target price of Rs 257.

Exhibit 1: PE Chart



Source: ICICIdirect.com Research

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Outperformer: 20% or more

Performer: Between 10% and 20%

Hold: $\pm 10\%$ return

Underperformer: -10% or more

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