

Strong 4Q; draw comfort from superior biz model

- 4QFY11 revenues, EBITDA better than expected:** At ₹4.6bn (+17.5% YoY), 4QFY11 revenues came above JMFe of ₹4.5bn. Reported EBITDA margin at 79% (4QFY10: 84.4%) was marginally below JMFe of 79.5%. Net profit grew 26% YoY to ₹2.08bn (JMFe ₹1.82bn), translating into EPS of ₹5.3 vs ₹4.2 in 4QFY10. FY11 consolidated revenue, EBITDA margin, and net profit stood at ₹20.1bn (+38.6% YoY), 78.4% (+330bps YoY) and ₹7.7bn (+48% YoY) respectively. FY11 consolidated EPS stood at ₹19.5 vs ₹13.2 in FY10 (JMFe ₹18.5).
- Other key highlights:** 1) FY11 consolidated ad revenue/broadcast fees grew c.25%/15% YoY to ₹10.6bn/₹1.5bn respectively, 2) Domestic subscription revenues grew a healthy 48% YoY to ₹5bn with DTH revenues at ₹2.9bn (+58% YoY) and analog revenues at ₹2.1bn (+36% YoY), 3) KAL/SAFM FY11 advertisement revenues grew 44%/70% to ₹510mn/₹360mn respectively. KAL/SAFM reported ₹88mn net profit/₹180mn net loss respectively in FY11.
- Stock underperformance, c.20% discount to 1-yr fwd avg PE offers strong entry opportunity:** Sun TV network has underperformed Sensex/Zee Entertainment by c.17%/20% respectively over the past 6 months and is trading at c.20% discount to its 3-yr average of its 1-yr fwd PE, primarily due to recent concerns over the company. Management is of the view that government's control over cable in Tamil Nadu will help curb under-reporting and will enable the broadcasting community to increase their subscription revenues going forward. We maintain our positive view on Sun TV and see minimal downside risks hereon as we draw confidence from company's superior business model with strong earnings delivery.
- Maintain BUY with revised Mar'12 TP of ₹536:** Following better than expected 4QFY11 results and our inferences from the earnings call, we raise our earning estimates by c.2% for FY12/13E (exhibit 4). We maintain our BUY rating and revise Mar'12 TP to ₹536 (earlier ₹580), which is pegged at 20x (earlier 22x) FY13E consolidated EPS of ₹26.8. The 20x multiple is based on FY11-13E PEG of 1.0, underlying adjusted FY11-13E EPS CAGR of c.20%. We have adjusted FY11-13E CAGR excluding 'Endhiran' post tax profit of c.₹315mn (₹0.8/share) in FY11 to arrive at a like-to-like growth comparison. Our target multiple of 20x is in-line with the 3-yr avg of its 1-yr fwd PE (Exhibit 13). Maintain BUY.

Siddharth Goenka

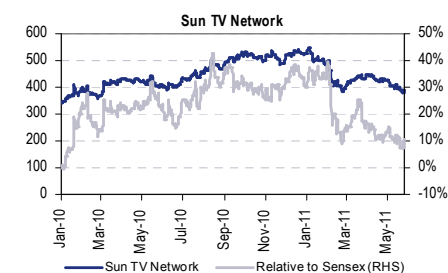
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Key Data

Market cap (bn)	₹150.2/US\$3.3
Shares in issue (mn)	394.1
Diluted share (mn)	394.1
3-mon avg daily val (mn)	₹111.9/US\$2.5
52-week range	₹556.9/370.4
Sensex/Nifty	18,045/5,412
₹/US\$	45.3

Daily Performance



%	1M	3M	12M
Absolute	-11.6	-3.6	-4.6
Relative*	-3.9	-5.6	-14.7

* To the BSE Sensex

Shareholding Pattern (%)

	4Q FY11	4Q FY10
Promoters	77.0	77.0
FII	9.5	8.0
DII	3.1	4.6
Public / others	10.5	10.4

Exhibit 1. Financial Summary (Consolidated)

(₹ mn)

Y/E March	FY09	FY10	FY11	FY12E	FY13E
Net sales	10,394	14,528	20,134	21,646	24,951
Sales growth (%)	19.5	39.8	38.6	7.5	15.3
EBITDA	6,099	8,845	12,103	13,645	16,316
EBITDA (%)	58.7	60.9	60.1	63.0	65.4
Adjusted net profit	3,683	5,199	7,698	8,703	10,558
EPS (₹)	9.3	13.2	19.5	22.1	26.8
EPS growth (%)	12.7	41.1	48.1	13.1	21.3
ROCE (%)	23.9	34.6	47.0	49.3	57.2
ROE (%)	21.6	28.3	36.4	35.4	36.3
PE (x)	40.8	28.9	19.5	17.3	14.2
Price/Book value (x)	8.8	7.6	6.7	5.6	4.8
EV/EBITDA (x)	23.9	16.2	11.8	10.2	8.3

Note: We define EBITDA as 'reported EBITDA less amortisation of film broadcasting/distribution rights'

Source: Company data, JM Financial. Note: Valuations as of 26/05/2011

JM Financial Research is also available on:
Bloomberg - JMFR <GO>, Thomson Publisher & Reuters.

Please see important disclosure at the end of the report

- **Key takeaways from 4QFY11 earnings call:** As per management 1) change of government in Tamil Nadu is unlikely to affect the strong business model of Sun TV, which has grown beyond any political control. The control over cable by government will however improve reporting and help broadcasters attain higher subscription revenue growth, 2) blended average ad rate hike of c.13% effective April'11 will help the company achieve steady growth in FY12 as well, 3) SAFM is expected to achieve net profit breakeven in FY12, 4) paid DTH subs at 6.95mn and blended ARPUs at c.₹36 at end of 4QFY11 are expected to grow at a similar rate in FY12, 5) Sun Pictures released one movie in 4QFY11, which generated ₹90mn revenues. Going forward, company is looking to release 7 to 8 movies at an average cost of ₹100mn per movie.

Exhibit 2. PEG-based Mar'12 TP implies 41% upside We assign 20x multiple to arrive at Mar'12 TP of ₹536

2-yr Target PEG (x) [Rounded]	1.0
FY11-13E EPS CAGR (adjusted)	19.6%
Target P/E (x) [Rounded]	20.0
Mar'13 EPS (₹)	26.8
Target Price (₹)	536
Potential upside/downside to TP	40.6%

	CMP (₹)	TP (₹)	FY11-13E CAGR		FY13E P/E	
			EBITDA	EPS	Current	Target
Sun TV *	381	536	16.1%	19.6%	14.2	20.0
ZEEL	138	154	19.8%	19.4%	17.0	19.0
Dish TV	76	66	81.2%	NM	NM	NM

Note *: 1) EBITDA for Sun TV is normalized EBITDA

2) We have adjusted FY11-13E EPS CAGR excluding 'Endhiran' financials in FY11

Source: Bloomberg, JM Financial, NM: Not meaningful

Exhibit 3. Sun TV - JM Financial vs Consensus Our estimates are broadly in-line with consensus

Y/E Mar (₹ mn)	2012E	2013E
Sales		
JM Financial	21,646	24,951
Consensus (Mean)	21,956	25,285
JM Financial vs. Consensus	-1.4%	-1.3%
EBIT		
JM Financial	16,671	19,457
Consensus (Mean)	16,418	19,057
JM Financial vs. Consensus	1.5%	2.1%
Net Profit		
JM Financial	8,703	10,558
Consensus (Mean)	8,648	10,119
JM Financial vs. Consensus	0.6%	4.3%

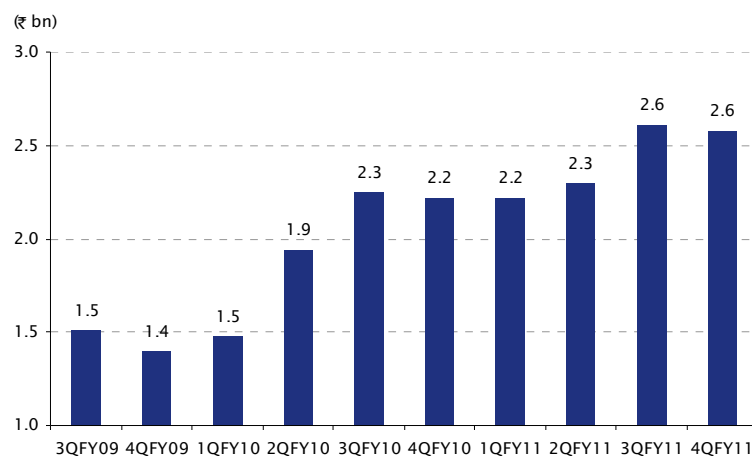
Source: Bloomberg, JM Financial

Exhibit 4. Revised summary (Consolidated)

(₹ mn)	FY12E			FY13E		
	Revised	Old	% Chg	Revised	Old	% Chg
Net Revenues	21,646	21,486	0.7	24,951	25,008	-0.2
EBITDA	16,671	16,876	-1.2	19,457	19,804	-1.8
% margin	77.0	78.5		78.0	79.2	
Normalized EBITDA	13,645	13,468	1.3	16,316	16,128	1.2
% margin	63.0	62.7		65.4	64.5	
Net profit	8,703	8,496	2.4	10,558	10,381	1.7
EPS (₹)	22.1	21.6	2.2	26.8	26.3	1.9

Source: Company, JM Financial

Exhibit 5. Sun TV - Quarterly performance of ad revenues



Source: Company, JM Financial

Exhibit 6. Sun TV – Global valuation comparables

Ticker	Currency	Y/E	Price	Mkt Cap. (US\$mn)	FY11-13E CAGR			PEG (x)		EVG(x)			P/E (x)			EV/EBITDA (x)			EV/Sales (x)		
					Rev	EBITDA	EPS	FY11-13E	FY11-13E	FY11E	FY12E	FY13E	FY11E	FY12E	FY12E	FY11E	FY12E	FY13E			
USA																					
Times Warner	TWX US	USD	Dec	35.4	38,697	4.6%	8.0%	15.5%	0.7	0.9	12.8	11.2	9.6	7.6	7.1	7.0	1.8	1.7	1.8		
Viacom Inc	VIA/B US	USD	Dec	49.6	29,524	4.1%	7.3%	14.1%	0.8	1.1	13.7	11.8	10.5	8.9	8.2	7.6	2.5	2.4	2.3		
News Corp	NWSA US	USD	June	17.2	45,766	7.0%	15.1%	20.4%	0.6	0.4	15.3	12.8	10.5	7.6	6.7	5.5	1.4	1.4	1.2		
CBS Corp	CBS US	USD	Dec	26.7	18,031	3.9%	7.0%	17.5%	0.7	1.0	15.5	12.8	11.3	8.1	7.1	5.9	1.6	1.5	1.3		
Lin TV Corp	CBS US	USD	Jan	4.7	257	1.7%	1.3%	8.7%	0.7	4.5	11.0	6.0	9.3	7.5	5.8	7.3	2.1	1.9	2.0		
Asia																					
Seven Network Ltd.	SEV AU	AUD	June	8.8	2,861	11.1%	8.3%	13.0%	0.9	1.1	13.4	11.8	10.5	10.5	9.4	9.1	1.0	0.9	0.8		
Tokyo Broadcasting	9401 JT	JPY	Mar	947.0	2,218	1.3%	6.7%	32.1%	0.8	1.3	38.7	25.3	22.2	10.5	8.8	8.4	0.8	0.7	0.7		
TV Asahi Corp	9409 JT	JPY	Mar	115,400.0	1,428	1.7%	6.9%	13.5%	1.4	0.3	24.5	18.4	19.0	2.9	2.4	2.3	0.2	0.2	0.2		
Nippon TV Network	9404 JT	JPY	April	11,310.0	3,528	1.5%	7.7%	4.3%	2.7	0.6	12.9	11.6	11.9	5.4	4.4	3.8	0.7	0.6	0.6		
Television B'casts Ltd.	511 HK	HKD	Dec	47.4	2,664	2.8%	0.1%	0.0%	-918.7	117.1	13.2	12.9	13.3	7.2	6.9	6.7	3.5	3.3	3.1		
Europe																					
Mediaset	MS IM	EUR	Dec	3.7	6,176	4.3%	7.3%	10.1%	0.9	0.5	10.2	9.1	8.4	3.9	3.5	3.2	1.3	1.2	1.1		
Modern Times Group	MTGB SS	SEK	Dec	420.6	4,466	7.3%	11.0%	15.1%	0.8	0.8	14.1	12.0	10.7	10.7	8.8	7.9	2.1	1.9	1.6		
TVN	TVN PW	PLN	Dec	16.8	2,042	9.5%	15.8%	35.6%	0.5	0.5	23.9	16.4	13.0	10.5	8.6	7.3	2.9	2.6	2.3		
ITV	ITV LN	GBP	Dec	0.7	4,423	3.6%	8.2%	10.8%	0.8	0.6	9.9	8.7	8.1	5.9	5.1	4.5	1.3	1.2	1.1		
B Sky B	BSY LN	GBP	June	8.4	23,992	6.2%	10.6%	15.8%	1.1	0.9	20.9	17.5	15.6	11.4	9.6	8.8	2.5	2.2	2.1		
India																					
Sun TV Network	SUNTV IN	INR	Mar	381.2	3,316	11.3%	16.1%	17.1%	1.0	0.6	19.5	17.3	14.2	11.9	10.3	8.3	7.2	6.5	5.4		
Sun TV Network at TP	SUNTV IN	INR	Mar	535.9	4,661	11.3%	16.1%	17.1%	1.4	0.9	27.4	24.3	20.0	17.0	14.8	12.1	10.2	9.3	7.9		
Zee Entertainment	Z IN	INR	Mar	138.1	2,981	11.4%	19.8%	19.4%	1.0	0.7	24.4	20.4	17.1	16.8	13.4	11.0	4.3	3.8	3.3		
Zee Entertainment at TP	Z IN	INR	Mar	154.0	3,324	11.4%	19.8%	19.4%	1.2	0.8	27.2	22.7	19.0	18.8	15.1	12.5	4.8	4.3	3.7		
IBN18	IBN18 IN	INR	Mar	90.6	475	26.6%	66.8%	152.8%	0.2	0.1	96.3	23.7	15.1	18.6	9.8	6.7	2.2	1.8	1.4		

Note:

1) Figures for companies with reporting year ending Dec 2010/11/12 and June 2011/12/13 correspond to FY11/12/13 respectively.

2) PEG denotes FY11-13E EPS CAGR to FY12E P/E multiple, EVG denotes FY11-13E EBITDA CAGR to FY12E EV/EBITDA multiple

3) 'Normalized EBITDA' is used for all EBITDA-based metrics for Sun TV

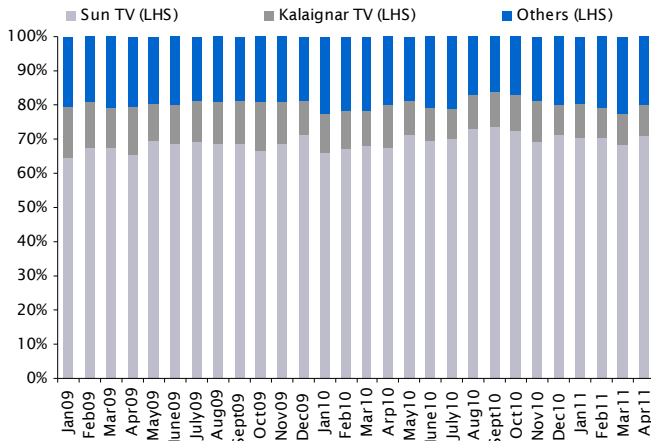
4) * JMF estimates

5) NM: Not meaningful, NA: Not available

Source: Bloomberg, JM Financial, Valuations as on 26/05/2011

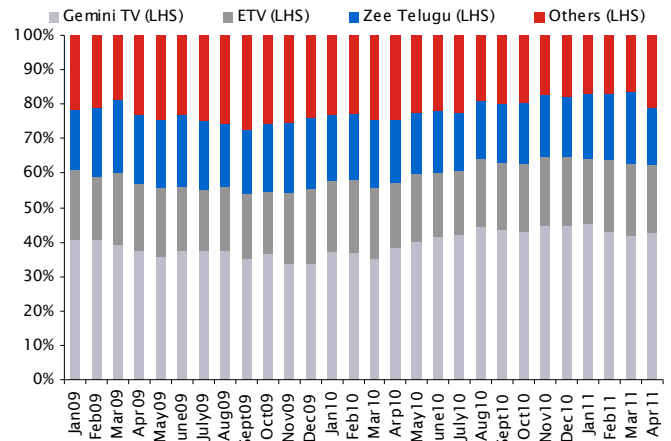
Sun TV Network viewership share in South India

Exhibit 7. Viewership – Tamil GEC
Sun TV is the clear market leader with >65% share



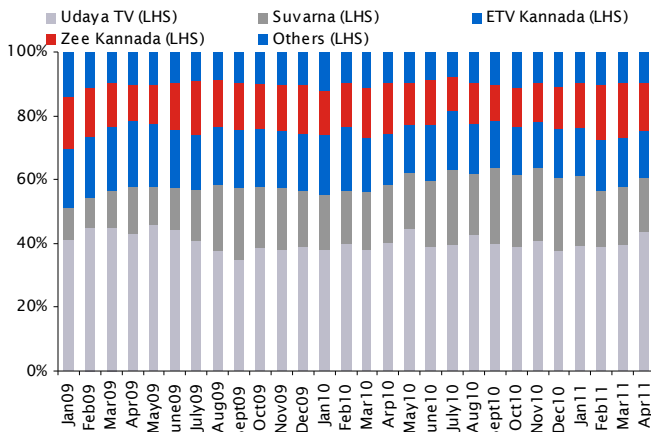
Source: exchange4media

Exhibit 8. Viewership – Telugu GEC
Gemini TV leads with 43% share, ETV next at 20% (Apr'11)



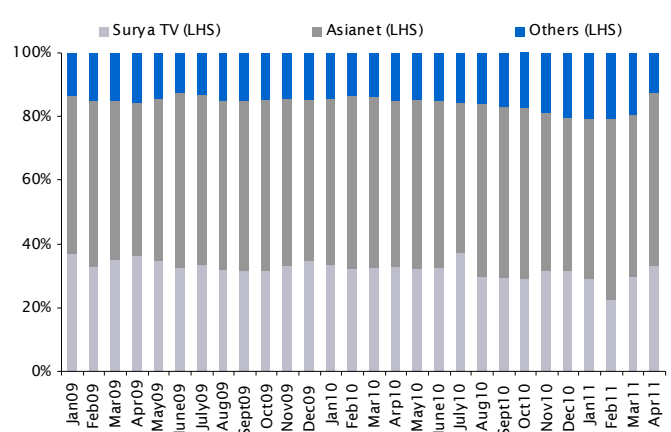
Source: exchange4media

Exhibit 9. Viewership – Kannada GEC
Udaya TV share at 44%, Suvarna follows with 17% share



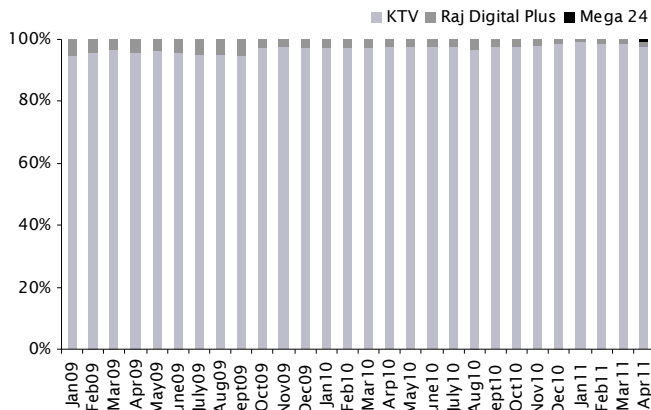
Source: exchange4media

Exhibit 10. Viewership – Malayalam GEC
Asianet leads with 54% share, Surya TV next at c.34% share



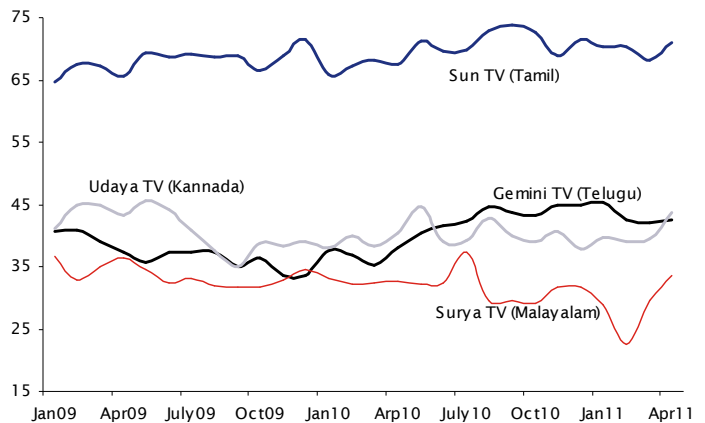
Source: exchange4media

Exhibit 11. Viewership – Tamil Movies
K TV clear leader with over 95% share

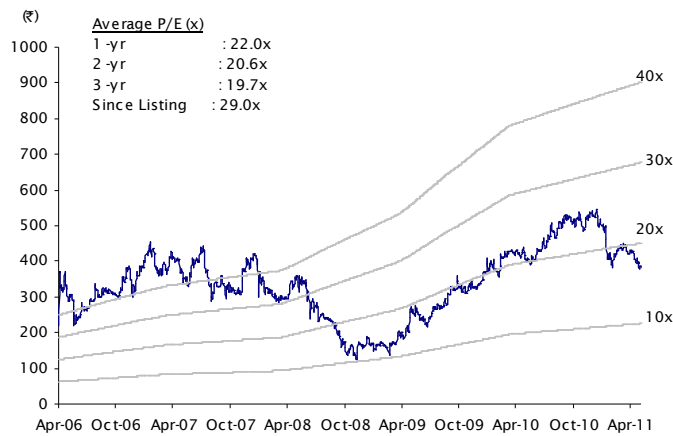


Source: exchange4media

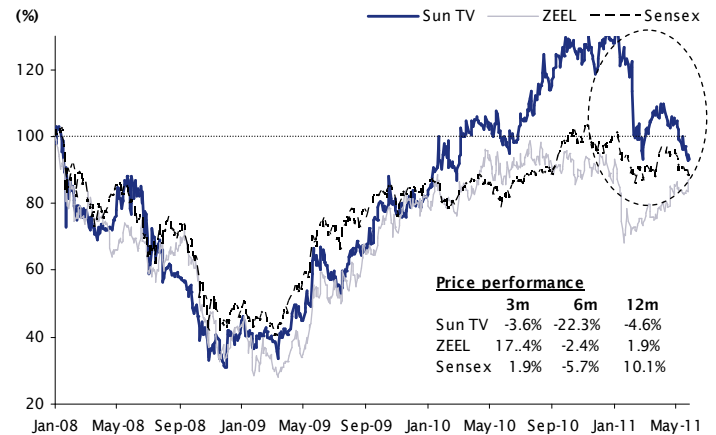
Exhibit 12. Viewership share of leading channels
Sun TV has a maximum viewership in South India



Source: exchange4media

Exhibit 13. Sun TV – 1-yr fwd P/E band
 3 yr average 1-yr fwd P/E multiple is c.20x


Source: Bloomberg, JM Financial

Exhibit 14. Price performance – Sun TV, ZEEL & Sensex
 Sun TV has underperformed Sensex/ZEEL over 6mth period


Source: Bloomberg, JM Financial

4QFY11/FY11 result summary
Exhibit 15. Result Summary

(₹ mn)	Standalone								Consolidated		
	3Q11	4Q10	4Q11A	YoY %	4Q11E	FY11A	FY10	YoY %	FY11A	FY10	YoY %
Total Net Revenues	5,980	3,919	4,605	17.5	4,507	19,237	13,950	37.9	20,135	14,528	38.6
Cost of revenues	226	221	283	28.0	223	1,027	889	15.6	1,373	1,227	11.9
Employee Cost	481	167	453	171.5	420	1,740	1,160	50.0	1,919	1,340	43.3
Other expenses	255	222	230	3.4	281	891	796	12.0	1,063	1,053	1.0
Total Expenses	962	610	966	58.3	924	3,658	2,845	28.6	4,356	3,620	20.3
EBITDA	5,018	3,309	3,639	10.0	3,583	15,579	11,106	40.3	15,779	10,909	44.6
EBITDA %	83.9	84.4	79.0		79.5	81.0	79.6		78.4	75.1	
Normalized EBITDA	3,458	2,670	3,184	19.3	2,828	11,829	8,966	31.9	12,103	8,845	36.8
Normalized EBITDA %	57.8	68.1	69.2		62.7	61.5	64.3		60.1	60.9	
Depreciation & amortization	1,740	848	678	-20.0	940	4,474	2,854	56.7	4,805	3,209	49.7
EBIT	3,278	2,460	2,961	20.3	2,642	11,105	8,251	34.6	10,974	7,700	42.5
EBIT %	54.8	62.8	64.3		58.6	57.7	59.1		54.5	53.0	
Interest expense	1	2	14		2	20	12		23	49	
Other Income	91	85	172	103.2	88	468	425	10.1	487	350	39.3
PBT	3,367	2,542	3,118	22.7	2,728	11,553	8,664	33.3	11,439	8,000	43.0
Taxes	1,112	892	1,035	16.1	912	3,831	2,990	28.1	3,831	2,991	28.1
% Tax Rate	33.0	35.1	33.2		33.4	33.2	34.5		33.5	37.4	
Net profit	2,255	1,651	2,084	26.2	1,816	7,722	5,674	36.1	7,608	5,009	51.9
Add: Associate profits	-	-	-		-	-	-		35	8	
Less: Minority Interest	-	-	-		-	-	-		-55	-182	
PAT after MI	2,255	1,651	2,084		1,816	7,722	5,674		7,698	5,199	
EPS (₹)	5.7	4.2	5.3	26.2	4.6	19.6	14.4	36.1	19.5	13.2	48.1
Equity shares o/s (mn)	394.1	394.1	394.1		394.1	394.1	394.1		394.1	394.1	

Note: Normalized EBITDA is defined as 'reported EBITDA less amortisation of film broadcasting/distribution rights'

Source: Company, JM Financial

Exhibit 16. OPEX breakup

	Standalone						Consolidated	
	3Q10	4Q09	4Q10A	4Q10E	FY10A	FY09	FY10A	FY09
Cost of revenues	3.8	5.6	6.2	5.0	5.3	6.4	6.8	8.4
Employee Cost	8.0	4.3	9.8	9.3	9.0	8.3	9.5	9.2
Other Costs	4.3	5.7	5.0	6.2	4.6	5.7	5.3	7.2

Source: Company, JM Financial

Financial Tables (Consolidated)

Profit & Loss		(₹ mn)				
Y/E March	FY09	FY10	FY11	FY12E	FY13E	
Net sales (Net of excise)	10,394	14,528	20,134	21,646	24,951	
Growth (%)	19.5	39.8	38.6	7.5	15.3	
Other operational income	0	0	0	0	0	
Raw material (or COGS)	2,382	3,291	5,049	4,727	5,011	
Personnel cost	1,155	1,340	1,919	2,119	2,509	
Other expenses (or SG&A)	757	1,053	1,063	1,154	1,114	
EBITDA	6,099	8,845	12,103	13,645	16,316	
EBITDA (%)	58.7	60.9	60.1	63.0	65.4	
Growth (%)	15.9	45.0	36.8	12.7	19.6	
Other non-op. income	0	0	0	0	0	
Depreciation and amort.	936	1,145	1,129	1,272	1,318	
EBIT	5,163	7,700	10,974	12,373	14,998	
Add: Net interest income	530	300	465	567	824	
Pre tax profit	5,693	8,000	11,439	12,940	15,822	
Taxes	2,293	2,991	3,831	4,308	5,251	
Add: Extraordinary items	0	0	0	0	0	
Less: Minority interest	-283	-190	-90	-71	13	
Reported net profit	3,683	5,199	7,698	8,703	10,558	
Adjusted net profit	3,683	5,199	7,698	8,703	10,558	
Margin (%)	35.4	35.8	38.2	40.2	42.3	
Diluted share cap. (mn)	394	394	394	394	394	
Diluted EPS (₹.)	9.3	13.2	19.5	22.1	26.8	
Growth (%)	12.7	41.1	48.1	13.1	21.3	
Total Dividend + Tax	1,153	3,449	4,021	4,595	5,744	

Note: We define EBITDA as 'reported EBITDA less amortization of film broadcasting/distribution rights'
Source: Company, JM Financial

Balance Sheet		(₹ mn)				
Y/E March	FY09	FY10	FY11	FY12E	FY13E	
Share capital	1,970	1,970	1,970	1,970	1,970	
Other capital	0	878	0	0	0	
Reserves and surplus	15,046	16,885	20,563	24,671	29,485	
Networth	17,016	19,734	22,533	26,641	31,455	
Total loans	716	1	1	1	1	
Minority interest	385	371	315	286	299	
Sources of funds	18,117	20,106	22,850	26,929	31,756	
Intangible assets	7,352	9,866	13,617	16,525	19,751	
Fixed assets	7,562	9,016	11,373	13,752	15,538	
Less: Deprn. and amort.	6,768	9,904	14,708	18,810	23,269	
Net block	8,146	8,978	10,281	11,467	12,019	
Capital WIP	1,572	3,149	1,849	1,839	1,124	
Investments	1,804	1,813	1,791	1,791	1,791	
Def tax assets/- liability	-261	-339	-410	-489	-584	
Current assets	8,811	10,812	13,673	17,149	22,590	
Inventories	1	27	14	12	12	
Sundry debtors	2,412	3,292	4,300	4,553	5,111	
Cash & bank balances	3,655	4,834	6,020	9,386	13,753	
Other current assets	1,075	1,070	1,354	1,037	1,079	
Loans & advances	1,667	1,589	1,985	2,163	2,635	
Current liabilities & prov.	2,188	4,607	4,472	5,138	5,523	
Current liabilities	1,720	1,839	2,737	2,828	3,047	
Provisions and others	468	2,768	1,735	2,309	2,475	
Net current assets	6,622	6,205	9,201	12,012	17,067	
Others (net)	234	301	137	308	339	
Application of funds	18,117	20,106	22,850	26,929	31,756	

Source: Company, JM Financial

Cash flow statement		(₹ mn)				
Y/E March	FY09	FY10	FY11	FY12E	FY13E	
Reported net profit	3,683	5,199	7,698	8,703	10,558	
Depreciation and amort.	2,032	3,135	4,804	4,102	4,459	
-Inc/dec in working cap.	274	-981	-848	-227	-460	
Others	-220	-14	-55	-29	13	
Cash from operations (a)	5,770	7,339	11,599	12,549	14,570	
-Inc/dec in investments	-2	-8	21	0	0	
Capex	-4,082	-5,544	-4,808	-5,278	-4,296	
Others	-1,300	2,577	-962	783	-228	
Cash flow from inv. (b)	-5,384	-2,975	-5,749	-4,495	-4,524	
Inc/-dec in capital	0	967	-878	0	0	
Dividend+Tax thereon	-1,153	-3,449	-4,021	-4,595	-5,744	
Inc/-dec in loans	21	-715	0	0	0	
Others	102	11	234	-93	65	
Financial cash flow (c)	-1,030	-3,185	-4,664	-4,688	-5,679	
Inc/-dec in cash (a+b+c)	-643	1,179	1,186	3,366	4,367	
Opening cash balance	4,298	3,655	4,834	6,020	9,386	
Closing cash balance	3,655	4,834	6,020	9,386	13,753	

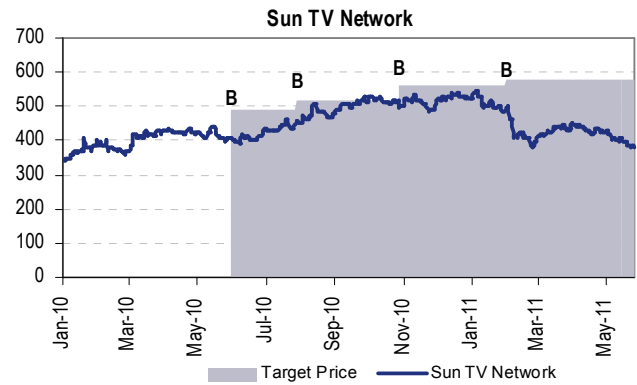
Source: Company, JM Financial

Key Ratios						
Y/E March	FY09	FY10	FY11	FY12E	FY13E	
BV/Share (₹)	43.2	50.1	57.2	67.6	79.8	
ROCE (%)	23.9	34.6	47.0	49.3	57.2	
ROE (%)	21.6	28.3	36.4	35.4	36.3	
Net Debt/equity ratio (x)	-0.3	-0.3	-0.3	-0.4	-0.5	
Valuation ratios (x)						
PER	40.8	28.9	19.5	17.3	14.2	
PBV	8.8	7.6	6.7	5.6	4.8	
EV/EBITDA	23.9	16.2	11.8	10.2	8.3	
EV/Sales	14.0	9.9	7.1	6.4	5.4	
Turnover ratios (no.)						
Debtor days	85	83	78	77	75	
Inventory days	0	1	0	0	0	
Creditor days	70	43	38	43	48	

Source: Company, JM Financial

History of earnings estimates and target price

Date	FY11E EPS (₹)	% Chg.	FY12E EPS (₹)	% Chg.	Target Price	Target Date	% Chg.
31-May-10	17.1		20.4		490	Mar-11	
28-Jul-10	17.8	4.1	20.8	2.0	520	Mar-11	6.1
28-Oct-10	18.1	1.7	21.0	1.0	564	Sep-11	8.5
31-Jan-11	18.5	2.2	21.6	2.9	580	Mar-12	2.8

Recommendation history**JM Financial Institutional Securities Private Limited**

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