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Sun TV Network

Rs385

To reign supreme

BUY

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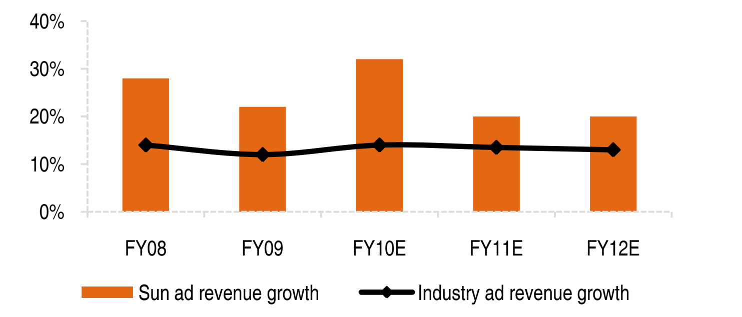
- **20% ad revenue CAGR over FY10-12E, 40% higher than industry, led by pricing power and high inventory utilisation**
- **Content cost to remain low despite new channels (kids and comedy) as only license fees have to be paid for dubbed international programmes; thrust on international subscriber addition to push subscription revenue growth**
- **Valuation premium to sustain; Buy**

Expect 20% ad revenue CAGR over FY10-12

Advertisement revenue grew 37% in Q2FY10 and 46% in Q3FY10 - highest in past eight quarters (See Exhibit 3 on Page 2). We expect the trend to continue due to increasing budget allocation towards regional advertising (intense competition in Hindi GEC space is benefiting regional GECs as advertisers are looking for stable viewership ratings). Given highest viewership share across regional GEC markets, we expect 20% ad revenue CAGR over FY10-12 (40% higher than industry), driven by pricing power, high inventory utilisation, and new channel launches. Our estimate is conservative given that the company has reported ~24% average growth during the last three years, with lowest at 22% in FY09 (economic slowdown).

Exhibit 1: Above industry ad revenue growth to sustain



Source: Company, BRICS Research

Exhibit 2: Ad revenue growth break-up

Particulars	% growth
Ad rate hikes	8-9
Volume growth	6-7
New channel launches	6-7

Source: Company, BRICS Research

Content cost low despite new channel launches

Content cost as percentage of revenue has remained low despite six launches in kids and comedy genres. This is mainly because these channels telecast dubbed versions of international programmes for which only license fees have to be paid.

Valuation premium to sustain; Buy

The stock trades at 22.6x FY11E and 19x FY12E. We expect valuation premium to sustain given Sun's leadership position, high growth (21% earnings CAGR over FY10-12E), and best in industry RoE. BUY.

KEY FINANCIALS (Rs mn)

Y/E 31 March	2008	2009	2010E	2011E	2012E
Revenue	8,610	10,080	13,455	16,390	19,276
EBITDA	6,191	7,698	10,375	12,693	14,922
EBITDA margin (%)	71.9	76.4	77.1	77.4	77.4
PAT	3,642	4,362	5,656	6,730	7,993
FDEPS (Rs)	9.2	11.1	14.4	17.1	20.3
% growth	41.9	19.8	29.7	19.0	18.8
P/E (x)	41.7	34.8	26.8	22.6	19.0
ROCE (%)	34.4	32.7	34.3	33.5	32.6

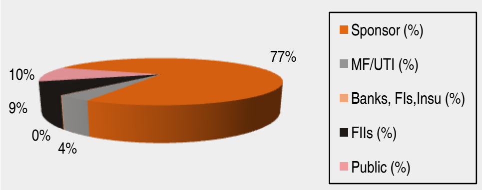
Source: BRICS Research, Company Data

KEY DATA

Bloomberg	SUNTV@IN
Reuters	SUTV.BO
52-wk H/L(Rs)	422.7/136
6-m avg trd value	US$2.9mn
Market cap	Rs151.8bn/US$3.3bn
Shares o/s	394.1mn
Face value	Rs5

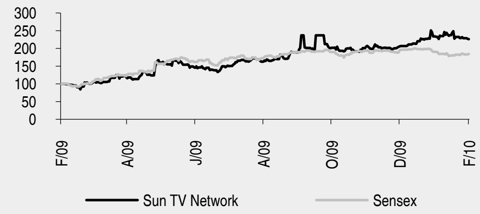
Source: Bloomberg

SHAREHOLDING (%)



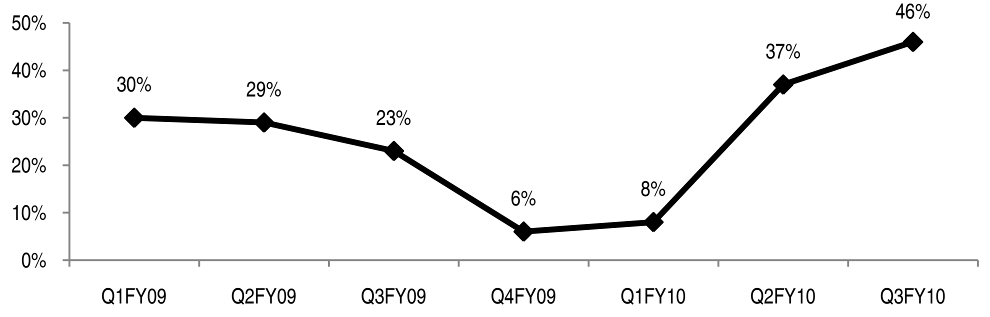
Source: CMIE

PRICE PERFORMANCE



Source: Bloomberg

Exhibit 3: Quarterly ad revenue growth back to historical growth rates



Source: Company, BRICS Research

New channels gaining traction

Chutti TV, a Tamil channel for kids launched in 2008, today commands viewership which is higher than what even main GECs of competitors have been able to achieve. Based on success of Chutti TV, Sun launched two more kid channels in April 2009 called Kushi TV (Telugu) and Chintu TV (Kannada) respectively. This has enhanced Sun's ability to bundle its offerings to advertisers. Also, as content for new channels is largely a dubbed version of international programmes or sourced from existing content library of Sun programming costs remain low.

Highest viewership share in most regional markets

While Hindi GEC segment is getting increasingly fragmented due to competition, Sun continues to enjoy highest viewership share (60-70%) in most regional markets it operates in (despite low entry barrier). This augurs well for ad revenue growth.

Competitive advantage: Perpetual movie rights

Movie content generates high viewership (~15% of weekly GRPs) for regional GECs. Sun has an extensive movie library including telecast rights for 8,000 titles which constitute ~80% of major movies releases in South India (across all four languages). The company holds perpetual rights for most of the titles. Almost 80% of revenue goes to EBITDA level as cost has been fully written off. Further, movie library has untapped revenue potential from video on demand from DTH players.

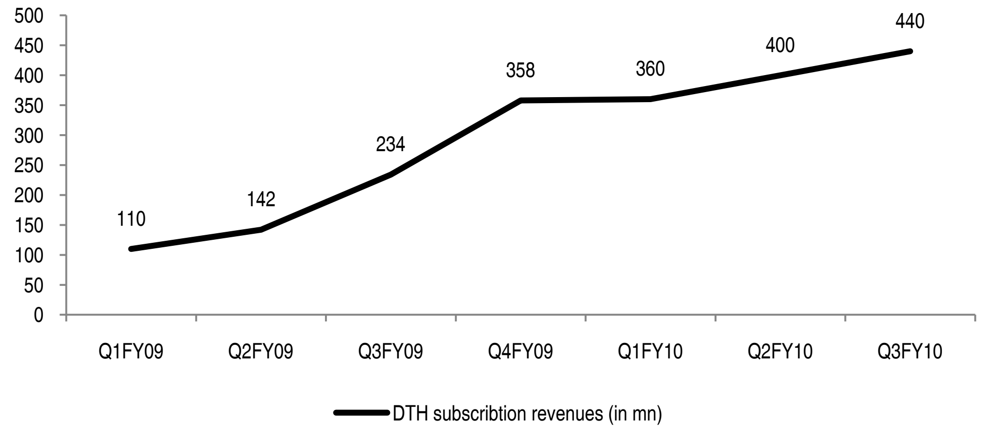
Sun Pictures: Rs1bn revenue annually

The company has forayed into movie production and distribution business through a wholly-owned subsidiary Sun Pictures that is expected to have annual revenue of ~Rs1bn from FY11 on annual capex of Rs700mn.The revenue from this segment will remain less than 10% of overall revenue as management is likely to grow the business in a phased manner. A big budget movie, "Endhiran (The Robot)" starring Rajnikanth and Aishwarya Rai would be released in Q1FY11. Sun plans to dub this movie in Hindi and major regional languages.

8mn DTH subscribers by FY12E

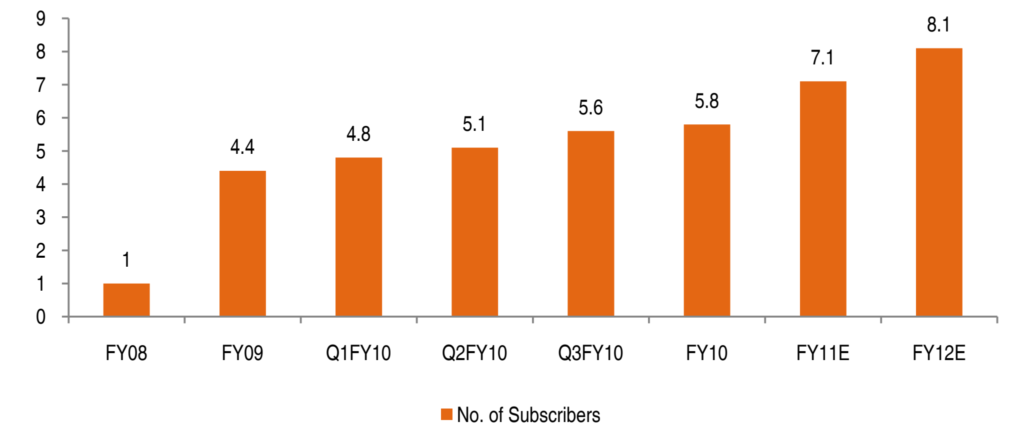
Currently, Sun has around 5.6mn subscribers who pay Rs26/*month*. We expect it to have ~8mn DTH subscribers by FY12. Also, Sun has not entered into any fixed subscription revenue from broadcasters, which ensures income from every incremental subscriber.

Exhibit 4 DTH revenue growth led by strong subscribers additions:



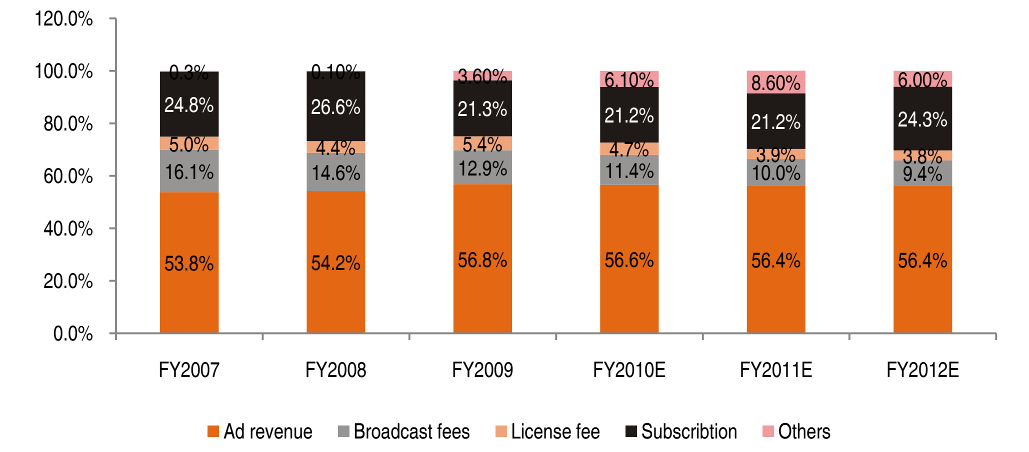
Source: Company, BRICS Research

Exhibit 5: Sustained increase in DTH subscriber base (in mn)



Source: company, BRICS Research

Exhibit 6: Revenue break-up



Source: Company, BRICS Research

Tapping international subscription market

Overseas revenue contributed 6% to total revenue in FY09 as compared to 25% of Zee Entertainment's revenue. Sun's tie-up with Comcast, one of the biggest overseas cable operator, and EchoStar, an overseas DTH service provider, could lead to significant increase in its international subscriber base. We believe that such a shift will drive up overseas subscription revenue due to a jump in subscriber base, given the vast South Indian population settled abroad. Sun is increasing its focus on international market and has set up a subsidiary, Sun TV Network Europe, in UK to broadcast and distribute its channels in UK and Europe.

Revenue mix to remain in favour of advertising

In FY09, Sun's standalone revenue stood at Rs10.39bn. Revenue from advertisements contributed Rs5.72bn (56.3% of total revenue), while subscription contributed around 21.3%. Subscription as a share of total revenue will be around 24% by FY12.

EBIDTA margin to remain around 76% despite new channel launches

Sun's unique content sourcing model has led to lower programming cost. Also, the company's dominant position in Southern markets has allowed it to demand higher advertisement rates, resulting in higher ad revenue. With its vast bouquet of channels, the company's subscription revenue is also rising. These have enabled highest EBIDTA margin (76% in FY10E) in the television broadcasting industry.

EBITDA margin higher than national players is mainly due to:

- No carriage fees
- Lower content cost due to broadcasting-based revenue structure
- Lower personnel costs
- Lower distribution and marketing costs given its strong dominance

INCOME STATEMENT

Y/E 31 March	2008	2009	2010E	2011E	2012E
Revenue	**8,610**	**10,080**	**13,455**	**16,390**	**19,276**
Operating exp	2,419	2,382	3,080	3,697	4,354
EBITDA	**6,191**	**7,698**	**10,375**	**12,693**	**14,922**
Depreciation	1,129	1,840	2,670	3,300	3,550
EBIT	**5,062**	**5,858**	**7,705**	**9,393**	**11,372**
Other income	649	833	1,000	900	840
Interest paid	56	39	70	85	93
PBT	**5,656**	**6,652**	**8,635**	**10,208**	**12,119**
Tax	1,401	2,290	2,979	3,478	4,126
APAT	**3,642**	**4,362**	**5,656**	**6,730**	**7,993**
Minority interest	—	—	—	—	—
EO inc / (exp)	—	—	—	—	—
PAT	**3,642**	**4,362**	**5,656**	**6,730**	**7,993**
Shares o/s (mn nos)	394	394	394	394	394
Revenue growth (%)	27.6	17.1	33.5	21.8	17.6
PAT growth (%)	41.9	19.8	29.7	19.0	18.8
EBITDA margin (%)	71.9	76.4	77.1	77.4	77.4
FDEPS (Rs) recurring	**9.2**	**11.1**	**14.4**	**17.1**	**20.3**
FDEPS (Rs) reported	**9.2**	**11.1**	**14.4**	**17.1**	**20.3**

BALANCE SHEET

Y/E 31 March	2008	2009	2010E	2011E	2012E
Net fixed assets	**4,840**	**6,980**	**9,180**	**10,850**	**12,610**
Investments	**2,590**	**2,590**	**2,590**	**2,590**	**2,590**
Current assets	**9,613**	**10,486**	**13,607**	**17,855**	**23,111**
Inventories	**3**	**1**	**10**	**20**	**20**
Sundry debtors	2,480	2,290	2,850	3,200	3,480
Cash & bank balance	4,170	3,640	6,177	9,805	14,461
Loans & advances	2,220	3,110	3,220	3,450	3,730
Total assets	**17,117**	**20,034**	**25,357**	**31,275**	**38,290**
Networth	12,740	15,960	20,466	26,064	32,919
Share capital	1,970	1,970	1,970	1,970	1,970
Reserves & surplus	10,770	13,990	18,496	24,094	30,949
Minority interest	—	—	—	—	—
Total debt	**—**	**—**	**—**	**—**	**—**
Secured loans	—	—	—	—	—
Unsecured loans	—	—	—	—	—
Current liabilities & prov	**2,407**	**2,104**	**2,921**	**3,241**	**3,401**
Current liabilities	1,240	1,635	1,920	2,020	2,100
Provisions	1,167	469	1,001	1,221	1,301
Net deferred tax liab	**—**	**—**	**—**	**—**	**—**
Total liabilities	**17,117**	**20,034**	**25,357**	**31,275**	**38,290**

CASH FLOW STATEMENT

Y/E 31 March	2008	2009	2010E	2011E	2012E
Net Profit	3,642	4,362	5,656	6,730	7,993
Depreciation	1,130	1,660	2,670	3,300	3,550
Amortisation	—	—	—	—	—
Interest paid	56	39	70	85	93
Chg in working capital	(1,211)	(1,011)	(299)	(520)	(520)
Other op activities	770	(451)	530	220	80
Cash flow from op (a)	4,386	4,598	8,627	9,815	11,196
Capital expenditure	(3,391)	(3,800)	(4,870)	(4,955)	(5,299)
Chg in investments	(1,281)	(140)	—	—	—
Other investing act	(970)	—	—	—	—
Cash flow from inv. (b)	(5,642)	(3,940)	(4,870)	(4,955)	(5,299)
Free cash flow (a+b)	—	—	—	—	—
Equity raised/(repaid)	980	—	—	—	—
Debt raised/(repaid)	—	—	—	—	—
Interest paid	(56)	(39)	(70)	(85)	(93)
Dividend (incl. tax)	(1,150)	(1,150)	(1,150)	(1,150)	(1,150)
Other fin. activities	—	—	—	—	—
Cash flow from fin. (c)	(226)	(1,189)	(1,220)	(1,235)	(1,243)
Net chg in cash (a+b+c)	(1,482)	(530)	2,537	3,625	4,653

KEY RATIOS

Y/E 31 March	2008	2009	2010E	2011E	2012E
Raw material to sales	0.1	0.1	0.1	0.1	0.1
SGA to sales	—	—	—	—	—
Effective tax rate	24.8	34.4	34.5	34.1	34.0
Dividend yield (%)	0.8	0.8	0.8	0.8	0.8
ROE (%)	28.6	27.3	27.6	25.8	0.2
ROCE (%)	34.4	32.7	34.3	33.5	32.6
Net debt/Equity (%)	(0.3)	(0.2)	(0.3)	(0.4)	(0.4)
PAT margin (%)	42.3	43.3	42.0	41.1	41.5
Inventory (days)	0.1	—	0.3	0.4	0.4
Payable (days)	53.0	59.0	52.0	45.0	40.0
Receivable (days)	105	83	77	71	66

VALUATIONS

Y/E 31 March	2008	2009	2010E	2011E	2012E
EV/op. cash flow (x)	32.2	30.9	16.2	13.8	11.7
PER (x)	41.7	34.8	26.8	22.6	19.0
PCE (x)	31.8	24.5	18.2	15.1	13.2
Price/Book (x)	11.9	9.5	7.4	5.8	4.6
EV/EBITDA (x)	23.9	19.3	14.0	11.2	9.2

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