Dish TV (DSTV.BO)

Equity

1QFY11 Results Strong; but In line with Expectations

- **In line results** — Dish TV reported a healthy EBITDA of Rs322m (+105% YoY), in line with estimates. Net revenue growth of 23% YoY lagged the robust 36% YoY growth in gross sub adds — mainly because of the absence of HITS revenues. We note that the suspension of HITS is expected to be EBITDA neutral. Subscription ARPUs increased modestly on a sequential basis (+1% QoQ) to Rs139/sub/month.
- **Strong subscriber growth** — FIFA World Cup 2010 drove subscriber additions during the Q – the industry added ~2.5m subs in 1Q, taking the overall gross sub base to 23m, according to mgmt. Company plans to maintain ~25% incremental share of sub ads going forward – expects to add ~2.5m subs, driven by the large number of sports events during the current fiscal.
- **Lower content costs drives margin expansion** — EBITDA margins expanded by 420bps yoy to ~11% on the back of lower programming costs – at ~40% of net revenues, down from ~42% in FY10. Attractive fixed rate contracts (~92% of the content agreements) & scale benefits have started kicking in. However, selling & distribution costs increased 44% YoY & 30% QoQ, given the investments behind the recent HD launch. Mgmt expects to spend ~Rs1bn on advertising in FY11.
- **Management Call Takeaways** — a) Lower hardware costs & marketing spends/sub led to 14% YoY & 10% QoQ decline in subscriber acquisition costs to Rs2147. b) Mgmt did not provide much clarity on the new TRAI tariff order – mentioned that broadcasters are likely to challenge the order that mandates them to provide channels to digital operators at a maximum of 35% (not 50%) of the corresponding rates for normal cable operators. Also, the proposal that mandates digital platforms to offer pay channels on a-la-carte/individual basis may have some technical issues. c) Gross debt/cash on books is ~Rs9.3bn/5.8bn.
- **Maintain Buy** — Dish TV is well placed to benefit from rapid DTH market growth. Strategic focus on profitability & scale should ensure quicker payback going forward.

Buy/Medium Risk	**1M**
Price (22 Jul 10)	Rs45.80
Target price	Rs48.00
Expected share price return	4.8%
Expected dividend yield	0.0%
Expected total return	**4.8%**
Market Cap	Rs48,705M US$1,033M

Price Performance (RIC: DSTV.BO, BB: DITV IN)

Figure 1. Dish TV (Parent): Quarterly Results Summary (Rs Mn)

	1Q FY 10	2Q FY 10	3Q FY 10	4Q FY10	1Q FY 11	% YoY	% QoQ
Net Revenues	2467	2575	2775	3031	3043	23%	0%
EBITDA	157	231	116	349	322	105%	-8%
EBITDA Margin (%)	6%	9%	4%	12%	11%	421bps	-93bps
EBIT	-532	-499	-663	-497	-567	-7%	-14%
PBT	-692	-562	-762	-598	-632	9%	-6%
PAT	-692	-561	-762	-598	-632	9%	-6%

Source: Company Reports

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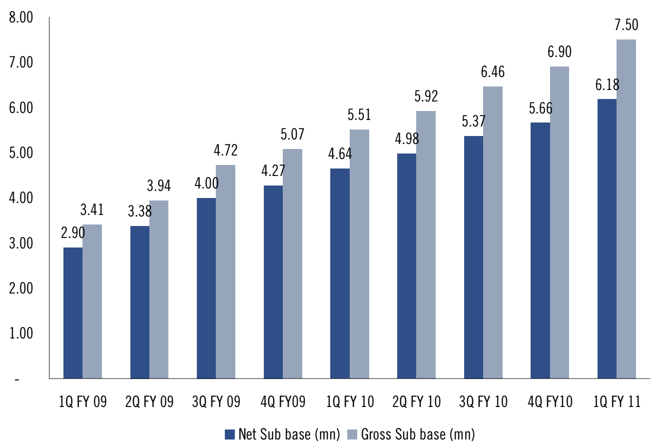
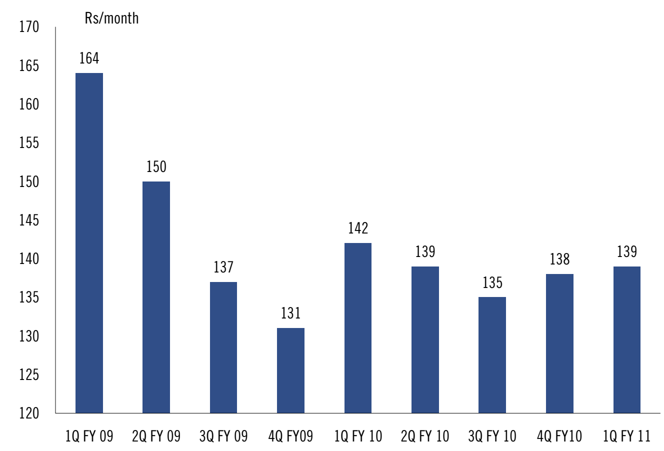
Figure 2. Subscriber Base (m)



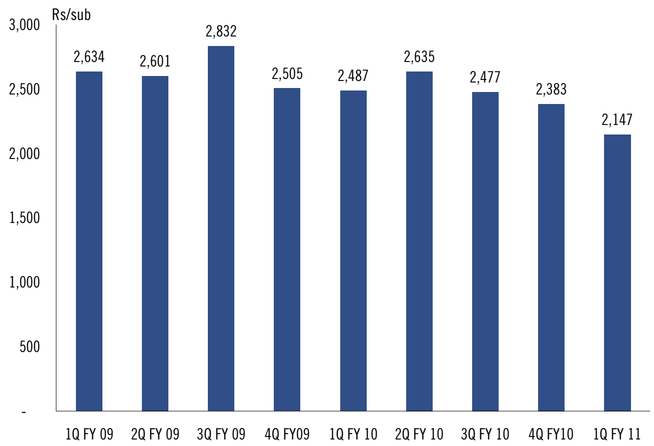
Source: Company Reports

Figure 3. Monthly ARPU based on subscription revenue (Rs)



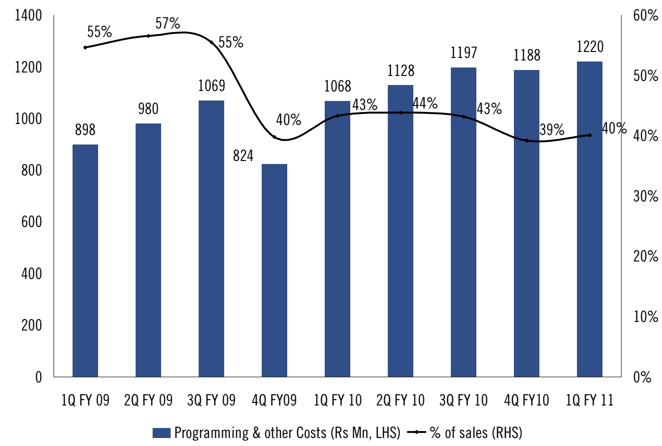
Source: Company Reports

Figure 4. Subscriber Acquisition Cost (Rs/subscriber)



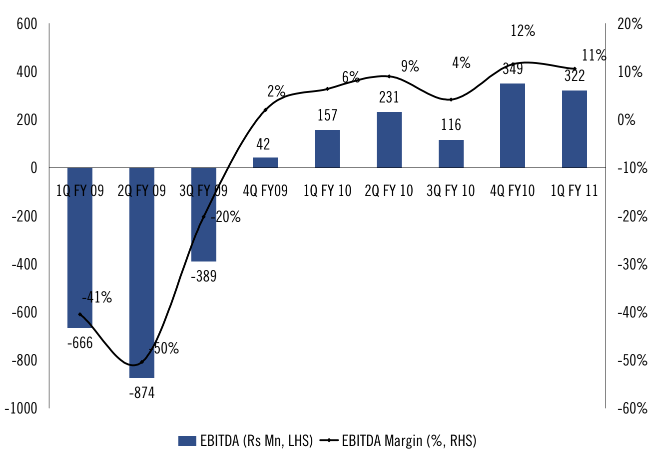
Source: Company Reports

Figure 5. Programming & Other Costs (Rs Mn, % of Sales)



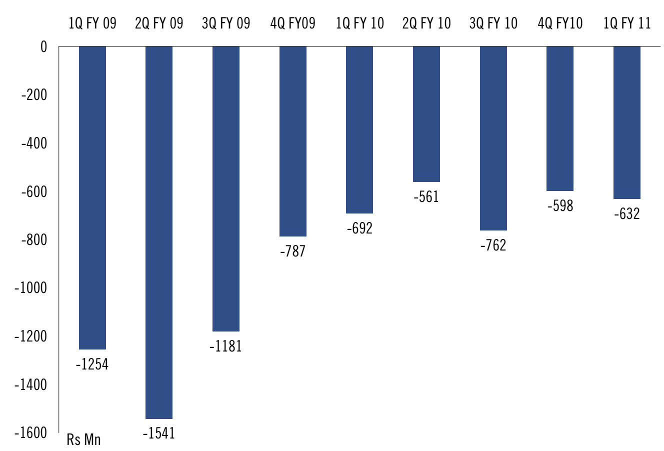
Source: Company Reports

Figure 6. EBITDA and EBITDA Margin Trends (Rs Mn, %)



Source: Company Reports

Figure 7. Net Loss Trends (Rs Mn)



Source: Company Reports

Dish TV

Company description

Dish TV is the leader in the Direct to Home (DTH) satellite broadcast operations in India. It has a strong backing of the Essel Group, the parent of the Zee Network. After its launch in 2005, the company now has ~7m subscribers with a wide distribution network and strong infrastructure. With the advent of digital technology, Dish is able to offer superior services with a good range of about 250 television channels & services.

Investment strategy

We rate Dish TV Buy/Medium Risk (1M). Aggressive investments by large corporates in the DTH category translate into high market growth, driven by consumers shifting from analog cable, as well as, increase in new subs from cable dark areas. We think management focus has shifted from a pure growth-oriented strategy to one based on a mix of both calibrated subscriber growth and profitability. The recent capital issues provide management adequate capital for subscriber acquisition and profitable growth for next 18 months. Low cost base, scale benefits and attractive content tie ups will ensure quicker payback as contribution/sub is likely to rise ~1.6x over FY10E-12E. Consensus estimates are high likely leading to some volatility near earnings. That said, we believe sharp stock underperformance over the past year prices in near-term pricing pressure and gives long-term investors a good opportunity to build positions. We expect ~26% revenue CAGR over FY10-12E, with EBITDA margins expanding ~1750bps to over the same period to ~25%.

Valuation

Dish TV operates in an industry at a nascent stage with high growth rates (on a small base), so we do not use equity multiples approach as our primary valuation methodology, given that current financials would not truly reflect the value of the business. We thus think a DCF would be best suited, giving a target price of Rs48 per share (WACC = 11.7% and g = 4.5%). The stock will trade at 13x FY12E EV/EBITDA at our target price, which we think is reasonable given (a) high growth in the business, (b) We expect margins to hit ~25% in FY12E, and, (c) Positive FCF FY12E onwards as the business achieves critical size. At our target price, Dish TV would trade at 3.9x/3x FY11E/FY12E EV/Sales, which is at a premium to global peers trading between 1-3x. We think this is justified given the superior revenue growth outlook (~26% CAGR over FY10-12E for Dish TV v/s. global C&S average of ~7%).

Risks

We rate Dish TV shares Medium Risk overriding the High Risk rating suggested by quantitative risk-rating system that tracks 260-day historical share price volatility. We think this is warranted given Dish TV's strong leadership position in India's DTH industry. As funding concerns are behind us, a lower risk rating is justified. Key downside risks that could impede the stock from reaching our target price are: 1) Irrational competition may negatively impact ARPUs and churn. 2) Dish TV imports most of its consumer premise equipments (dollar denominated), and thus, currency fluctuations could significantly impact profitability. 3) The DTH industry is highly regulated and adverse changes in government policies may impact business prospects. 4) Investments in subsidiaries and group companies could be an overhang.

Appendix A-1

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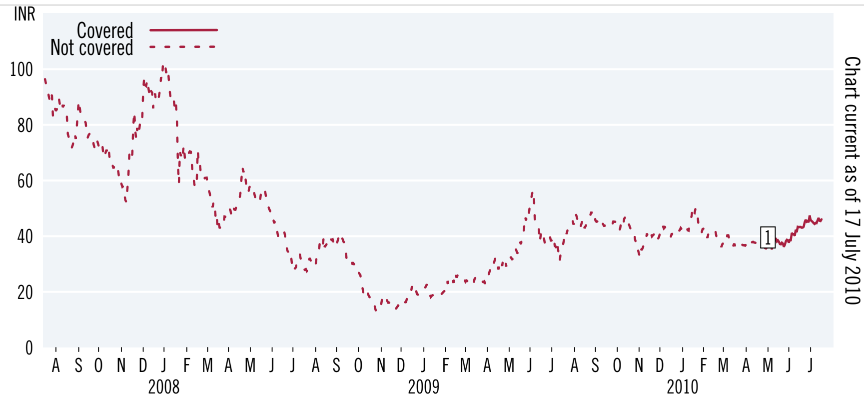
Dish TV (DSTV.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Surendra Goyal, CFA
Covered since May 1 2010



	Date	Rating	Target Price	Closing Price
1	1-May-10	*1M	*48.00	35.90

* Indicates change

Rating/target price changes above reflect Eastern Standard Time

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