

Sun TV Network Ltd.

INR 408

Sun TV!! continues to shine

BUY

Sun TV registered a robust ~40% growth in FY10 net sales backed by higher inventory utilization and better price yields. EBITDA margin improvement is attributable mainly to lower content and staff cost along with higher yields. With growing advertising market, Sun TV's restructured efforts to capture growth in Pay TV and successful track record in Movie business, we see top line to continue to post double digit growth.

Strong revenue performance to continue - Q4FY10 results were above our as well as street estimates. The robust 50.7% y-o-y growth was driven on the back of strong revenue performance from advertising, DTH and Movie business. Advertising segment (~56% of the total revenues) increased 51.3% y-o-y to Rs 222 crore due to higher inventory utilization (over 55%) and increased corporate spending from sectors like FMCG, Auto, Retail and Telecom. The company also increased its ad rates during January 2010 which will take some time to fully rollout. Pay TV revenues increased 51.2% y-o-y to Rs 62 crore primarily on the back of 77% y-o-y growth in DTH revenues, which in turn improved due to combination of growth in DTH volumes and blended ARPU. Movie segment reported significantly higher 85.3% y-o-y growth to Rs 63 crore in Q4FY10 due to its success in Tamil movies.

Impressive margin performance: The company reported EBITDA margin of 84% during the quarter led by better utilization and higher yields. Also the reduction in staff and content cost helped improved margins. We expect operating performance to improve going forward mainly on account of increase in average advertisement rate by 16% from Q4FY10. Net margins growth could not catch the proportional pace of growth in EBITDA margin on account of lower other income and higher depreciation & amortization expenses in Q4FY10.

Management outlook: Management taking a conservative stance expects advertisement revenue to increase in the range of 15-20% and Pay TV revenues in the range of 20-25%. Also expects the US region to contribute higher Pay TV revenues. Sun TV is also launching a big budget movie *Endhiran* in Q2FY11 along with 02 small budget movies anytime this month. Sun TV now expects SAFM to break even in FY11.

Our View - We believe the company with its dominant presence and limited competitive threat in South Indian market is poised for higher growth on the back of growing advertising and subscription revenues. Regional advertising market in India offers significant opportunities and Sun TV is well placed to capture this growth in terms of optimum inventory utilization from its GEC and non-GEC channels. Meanwhile growing DTH penetration and Sun TV's integrated focus on overseas markets is expected to drive its Pay TV revenues. Furthermore we are optimistic about the company's track record in launching successful movies. With no debt and net cash of Rs 436.58 crore, we believe Sun TV is better placed than its peers and deserves premium valuation. Thus, with raising our previous estimates we upgrade our rating from a "Hold" to "Buy" on the stock with 24-month target price of Rs 477, which represents an upside of 19%. At the CMP of Rs 402, the company's stock is trading at 18.6x its FY12E EPS of Rs 21.69 per share.

Key Financials

Rs. Crore

Particulars	FY09	FY10E	FY11E	FY12E
Revenue	1039	1,453	1,772	2,056
EBITDA	737	1,126	1,353	1,575
PAT	368	520	730	855
EPS	9.35	13.19	18.52	21.69
P/E	43.04	30.49	21.72	18.55
P/BV	9.10	8.41	6.40	5.20
EV/EBITDA	21.49	13.98	11.64	9.99



Price Target (INR): 477

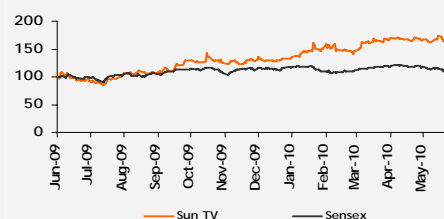
Market Data 01 June, 2010

Shares outs (Cr)	39.41
Equity Cap (Rs. Cr)	197.0
Mkt Cap (Rs. Cr)	15,584
52 Wk H/L (Rs)	453/210
Avg Vol (1yr avg)	1,15,700
Face Value (Rs)	5.0
Bloomberg Code	SUNTV.IN

Market Info:

SENSEX	16,550
NIFTY	4,964

Price Performance



Share Holding pattern (%)

Particulars	31-Dec	31-Dec	Chg
Promoters	77.0	77.0	-
Institutions	4.6	3.9	0.7
Foreign	8.0	8.7	(0.7)
Public/Others	10.4	10.4	-
Total	100.0	100.0	

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Financial Snapshot

Rs in crore

Particulars	Q4FY10	Q4FY09	% Chg	Q3FY10	% Chg
Net sales	392	260	50.7%	395	-0.8%
Operating Expenditure	61	105.1	-42.0%	82.6	-26.2%
EBITDA	331	155	113.6%	313	5.9%
<i>OPM (excl. other Income)</i>	84%	60%	<i>2486bps</i>	79%	<i>534bps</i>
Other Income	8.5	10	-15.0%	8.4	1.2%
Interest	0.2	10	-98.0%	0.2	0.0%
Depreciation/ Amortization	84.8	50	69.6%	88.5	-4.2%
Profit before tax	254	105	142.5%	232	9.6%
Tax	89.2	35.8	149.2%	80.3	11.1%
Tax rate	35.1%	34.1%	<i>94bps</i>	34.6%	<i>48bps</i>
Net Profit	165	69	139.1%	152	8.8%
<i>NPM (%)</i>	42.2%	26.6%	<i>1558bps</i>	38.4%	<i>371bps</i>
EPS	4.19	2.89	45.0%	3.86	8.5%

Source: Company, BSE, KRC Research

Break-up of Revenue

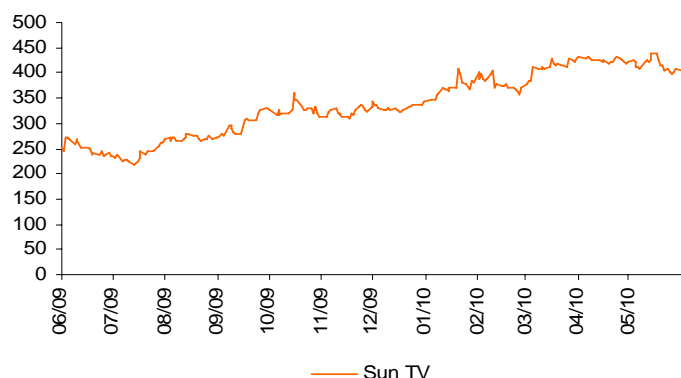
Rs in Cr

Particulars	Q4FY10	Q4FY09	% Chg	Q3FY10	% Chg
Advertising	222	147	51.33%	225	-1.33%
Broadcasting fees	36	36.9	-2.44%	35	2.86%
Pay channel	16	15	6.67%	14	14.29%
DTH	46	26	76.92%	39	17.95%
Movies	63	34	85.29%	44	43.18%
Others	8.9	1.4	535.71%	38.1	-76.64%
Total	392	260	50.73%	395	-0.81%

Source: Company, BSE, KRC Research

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Sun TV Network Limited



Rating Legend

Our Rating	Upside
Strong Buy	More than 25%
Buy	15% - 25%
Hold	10% - 15%
Reduce	Nil - 10%
Sell	Less than 0%

Other Stocks in the sector under our active coverage: Media and Entertainment

Ticker	Company	Recom	As of	Return	Bmk	Outper	BARR
Summary	Coverage 8	Avg Rating: 3.9		12.85%	8.27%	4.58%	
HTML	IN HT Media Ltd	Buy	05/11/10	18.58%	10.20%	8.38%	
JAGP	IN Jagran Prakashan Ltd	Buy	05/05/10	37.89%	9.63%	28.26%	
Z	IN Zee Entertainment Enterprises Ltd	Sell	05/03/10	17.94%	12.60%	5.34%	
DBCL	IN DB Corp Ltd	Buy	03/26/10	0.48%	0.91%	-0.43%	4th
DQE	IN DQ Entertainment International Ltd	Subscribe	03/08/10	-13.13%	-6.56%	-6.56%	
PVRL	IN PVR Ltd	Hold	02/16/10	55.60%	11.81%	43.79%	1st
SUNTV	IN Sun TV Network Ltd	Hold	01/21/10	26.28%	15.71%	10.58%	
NDTV	IN New Delhi Television Ltd	Accumulate	10/15/08	-40.85%	11.86%	-52.71%	

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