

Sun TV Network

Below estimates; advertising growth & IPL disappoint



PhillipCapital (India) Pvt. Ltd.

MEDIA: Quarterly Update

11 August 2014

Sun TV's (Sun) Q1FY15 results were below estimates as ad revenue disappointed. IPL losses too were much greater than estimated & accentuated the weak financial performance. We revise our estimates downwards factoring in muted ad revenue growth and wider IPL losses. We continue to value the company at 21x FY16 EPS while maintaining a BUY rating owing to the upside. However we point out that the following factors could continue to dampen Sun TV's valuations: 1) uncertain ad inventory outlook (pursuant to a court case outcome), 2) ongoing investigations against the promoter's family members, and 3) lack of earnings visibility. Below are key highlights of the results conference call.

Ad revenue growth below estimates: Sun TV's ad revenue was flat YoY despite its ad inventory expanding to ~15 minutes. The company though will benefit from a base effect during the remaining 9 months of FY15 as last year during this period its ad revenue declined by 2%. This is the reason for our 7%/10% FY15/16 ad revenue assumption. The company's ad revenue growth is likely to be aided by improvement in sentiment post creation of Telengana & its improving market share in Kannada.

In-line subscription revenue growth: Domestic subscription revenue continued to see rapid growth of 19% YoY as DTH revenue saw a sharp 6% QoQ/21% YoY growth while cable income was down 5% QoQ while improving 15% YoY. Management attributed the QoQ decline in cable revenue to one-time analog income booked in Q3/Q4FY14. Sun TV mentioned that it has juiced out cable income from phases I & II and the same is likely to remain in the Rs 480-500mn/quarter range in the coming quarters. Implementation of DAS phase III & IV remains the next big trigger for domestic subscription revenue growth.

EBIT margins below estimates as IPL losses disappoint: Sun's EBIT was much below estimates as IPL losses came in at Rs 426mn versus an estimated Rs 200mn. Even ex-IPL EBIT was below estimates as operating costs were ahead of estimates. The company's cost of revenue (down 28% YoY) was much below estimates but was more than offset by higher movie amortisation costs; indicating that it continues to rely on movie telecasts while making low investments in fiction/non-fiction content. The company has guided for Rs 1.1-1.2bn/quarter movie amortisation cost; up from Rs 0.9/quarter run-rate in FY14.

Reduce estimates, maintain BUY: We incorporate the muted ad revenue growth, greater than expected IPL loss & tepid subscription revenue outlook in our estimates. We value the company at 21x (15% discount to ZEEL) FY16 EPS arriving at target price of Rs 485 implying a 15% upside & hence a BUY rating. At CMP, Sun TV trades at 21x and 18x FY15 & FY16 earnings. However, we believe that the uncertainty regarding advertising inventory which will be influenced by the outcome of a September 2014 court case, concerns pertaining to the ongoing investigation against the family members of the promoters and weak earnings visibility will continue to have an impact on Sun TV's valuations.

BUY

SUNTV IN | CMP RS 420

TARGET RS 485 (+15%)

Company Data

O/S SHARES (MN) :	394
MARKET CAP (RSBN) :	165
MARKET CAP (USDBN) :	2.7
52 - WK HI/LO (RS) :	488 / 324
LIQUIDITY 3M (USDMN) :	5.1
FACE VALUE (RS) :	5

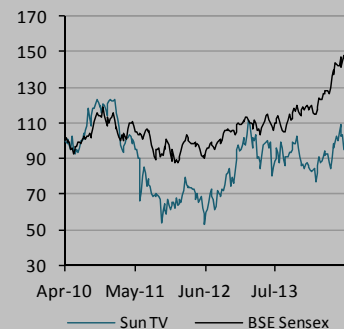
Share Holding Pattern, %

PROMOTERS :	75.0
FII / NRI :	17.0
FI / MF :	1.9
NON PROMOTER CORP. HOLDINGS :	1.0
PUBLIC & OTHERS :	5.1

Price Performance, %

	1mth	3mth	1yr
ABS	-9.6	15.4	1.8
REL TO BSE	-8.5	2.1	-33.0

Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

Other Key Ratios

Rs mn	FY14	FY15E	FY16E
Net Sales	22,236	24,386	27,127
EBIDTA	11,244	12,054	13,821
Net Profit	7,480	7,908	9,090
EPS, Rs	19.0	20.1	23.1
PER, x	22.1	20.9	18.2
EV/EBIDTA, x	14.3	13.2	11.3
P/BV, x	7.2	6.5	5.8
ROE, %	24.2	23.2	24.0

Source: PhillipCapital India Research Est.

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Sun TV Q1FY15 results							
(In Rs mn)	Q1FY15	Q4FY14	QoQ (%)	Q1FY14	YoY (%)	PC est.	Vs. est (%)
Total revenue	6,336	5,202	22%	6,019	5%	6,649	-5%
O/w: Advertising	2,804	2,820	-1%	2,792	0%	2,988	-6%
O/w: Domestic subs.	1,766	1,720	3%	1,480	19%	1,761	0%
Cable	483	510	-5%	420	15%	515	-6%
DTH	1,283	1,210	6%	1,060	21%	1,246	3%
O/w: International subs.	330	310	6%	290	14%	301	10%
O/w: Slot fee income	270	260	4%	350	-23%	260	4%
O/w: IPL income	1,143	4		985		1,269	-10%
O/w: Others	40	87	-54%	130	-69%	70	-43%
Income ex-IPL	5,193	5,197	0%	5,033	3%	5,380	-3%
Cost of revenue	419	435	-4%	450	-7%	477	-12%
IPL franchise fee	851	-		851		851	
Employee expenses	458	506	-10%	442	4%	516	-11%
Other expenses	932	260	258%	739	26%	930	0%
Other expenses (ex-IPL)	214	254	-16%	297	-28%	311	-31%
EBITDA	3,677	4,000		3,537		3,875	
O/w: broadcasting EBITDA	4,112	4,002	3%	3,844	7%	4,075	1%
O/w: IPL EBITDA	(435)	(2)		(308)		(200)	
EBITDA margin (%)	58.0%	76.9%		58.8%		58.3%	-24 bps
Broadcast EBITDA margin (%)	79.2%	77.0%	219 bps	76.4%	280 bps	75.7%	344 bps
Depreciation & amortisation	1,390	1,123	24%	1,174	18%	1,179	18%
Depreciation	190	220	-14%	210	-10%	220	-14%
Amortisation	1,200	900	33%	964	24%	959	25%
EBIT	2,287	2,877	-20%	2,363	-3%	2,695	-15%
EBIT margin (%)	36.1%	55.3%		39.3%		40.5%	-444 bps
EBIT ex-IPL	2,722	2,879	-5%	2,671	2%	2,895	-6%
EBIT margin ex-IPL (%)	43.0%	55.3%		44.4%		43.5%	-59 bps
PAT	1,656	1,976	-16%	1,644	1%	1,866	-11%
PAT margin (%)	26.1%	38.0%		27.3%		28.1%	-192 bps
EPS (Rs)	4.2	5.0	-16%	4.2	1%	4.7	-11%

Source: Company, PhillipCapital India

Important highlights of the results conference call:

- **Ad revenue:**
 - Sun believes that some part of ad spends got diverted to large news channels (mostly Hindi) & the regional GEC category suffered.
 - Market sentiment in Telengana seems to be picking up post the separation of the states.
 - The company's inventory position is ~15 minutes. This situation is likely to continue till the September 2014 court case hearing of the 10+2 minutes advertising cap (enforced on broadcasters by the TRAI).

- **Subscription revenue:**
 - The company recorded some catch-up revenue in Q3FY14 & Q4FY14; hence current quarter analog income was down QoQ. Guidance of Rs 48-50cr/quarter till phase III & IV digitization, which will bring in an incremental 20mn subscribers (huge upside).
 - The company believes that if Arasu is given a DAS licence, it'll lead to quicker digitization of TN. This will improve Sun's subscription revenue trajectory.
 - The company says that it won't get impacted by the TRAI guidelines on ownership (only one distribution company can be owned by group) as all its content deals are done on an arm's length basis.
 - The company has outlined a vision of Rs 15-20bn subscription revenue growth in FY17. We believe that this remains highly aspirational in the context of its limited ability to monetise Arasu Cable so far

- **Content/programming investments:**
 - **Movie capex:** The company has guided for Rs 1.05-1.20bn quarterly movie amortization in FY15
 - **Resurrection of market share in Telugu remains an aspiration:** management mentioned that it is continuing to make efforts to achieve the same.
 - The company is launching 'Fear Factor' dubbed in three languages. This is likely to increase its Q2FY15 cost of revenue versus current quarter base.

Change of estimates

(Rs mn)	Earlier estimates		Revised estimates		Upgrade/(downgrade) (%)	
	FY15E	FY16E	FY15E	FY16E	FY15E	FY16E
Revenue	25,675	28,431	24,386	27,127	(5.0)	(4.6)
EBIT	13,533	15,297	12,054	13,821	(10.9)	(9.7)
EBIT margin (%)	52.7	53.8	49.4	50.9	-328 bps	-286 bps
PBT	13,280	15,104	11,873	13,678	(10.6)	(9.4)
PAT	8,898	10,120	7,955	9,164	(10.6)	(9.4)
PAT margin (%)	34.7	35.6	32.6	33.8	-204 bps	-181 bps
EPS (Rs)	22.5	25.5	20.1	23.1	(10.8)	(9.5)

Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Net sales	19,230	22,236	24,386	27,127
Growth, %	4	16	10	11
Total income	19,230	22,236	24,386	27,127
Raw material expenses	-5,046	-6,011	-6,974	-7,574
Employee expenses	-1,994	-2,564	-2,845	-3,102
Other Operating expenses	-1,301	-2,417	-2,513	-2,630
EBITDA (Core)	10,890	11,244	12,054	13,821
Growth, %	1.2	3.3	7.2	14.7
Margin, %	56.6	50.6	49.4	50.9
Depreciation	-1,216	-930	-980	-1,029
EBIT	9,674	10,314	11,074	12,792
Growth, %	2.8	6.6	7.4	15.5
Margin, %	50.3	46.4	45.4	47.2
Interest paid	-49	-46	-68	-86
Pre-tax profit	10,426	11,250	11,873	13,678
Tax provided	-3,306	-3,682	-3,918	-4,514
Profit after tax	7,120	7,568	7,955	9,164
Others (Minorities, Associates)	-25	-88	-47	-74
Net Profit	7,096	7,480	7,908	9,090
Growth, %	2.3	5.4	5.7	15.0
Net Profit (adjusted)	7,096	7,480	7,908	9,090
Unadj. shares (m)	394	394	394	394
Wtd avg shares (m)	394	394	394	394

Balance Sheet

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Cash & bank	4,162	6,094	7,153	10,338
Debtors	5,835	6,342	6,681	7,432
Inventory	5	6	6	6
Loans & advances	1,567	1,409	1,693	1,884
Other current assets	573	741	1,336	1,486
Total current assets	12,142	14,593	16,870	21,146
Investments	432	2,595	2,595	2,595
Gross fixed assets	36,004	36,732	42,506	48,436
Less: Depreciation	-22,235	-23,009	-27,087	-32,481
Add: Capital WIP	28	28	28	28
Net fixed assets	13,797	13,751	15,447	15,983
Non-current assets	4,021	2,577	2,577	2,577
Total assets	32,396	35,636	39,609	44,421
Current liabilities	2,945	3,039	3,801	4,847
Provisions	19	8	9	10
Total current liabilities	2,964	3,046	3,810	4,856
Non-current liabilities	1,260	1,229	1,229	1,229
Total liabilities	4,224	4,276	5,039	6,086
Paid-up capital	1,970	1,970	1,970	1,970
Reserves & surplus	25,884	28,984	32,153	35,874
Shareholders' equity	28,172	31,360	34,570	38,336
Total equity & liabilities	32,396	35,636	39,609	44,421

Source: Company, PhillipCapital India Research Estimates

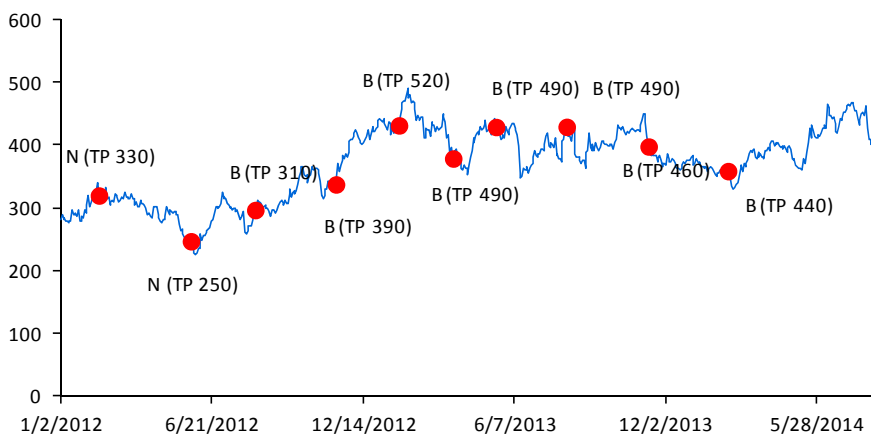
Cash Flow

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Pre-tax profit	10,426	11,250	11,873	13,678
Depreciation	1,006	930	980	1,029
Chg in working capital	-1,926	1,008	-455	-45
Total tax paid	-4,062	-3,682	-3,918	-4,514
Cash flow from operating activities	5,444	9,506	8,480	10,149
Capital expenditure	-2,526	-884	-2,676	-1,565
Chg in investments	1,169	-2,163	0	0
Cash flow from investing activities	-1,356	-3,047	-2,676	-1,565
Free cash flow	4,087	6,459	5,804	8,584
Debt raised/(repaid)	0	-7	0	0
Dividend (incl. tax)	-3,823	-4,357	-4,739	-5,370
Cash flow from financing activities	-3,823	-4,364	-4,745	-5,399
Net chg in cash	265	2,096	1,060	3,185

Valuation Ratios & Per Share Data

	FY13	FY14	FY15E	FY16E
Per Share data				
EPS (INR)	18.0	19.0	20.1	23.1
Growth, %	2.3	5.4	5.7	15.0
Book NAV/share (INR)	70.7	78.5	86.6	96.0
FDEPS (INR)	18.0	19.0	20.1	23.1
CEPS (INR)	21.1	21.3	22.6	25.7
CFPS (INR)	18.4	20.2	21.5	25.8
DPS (INR)	9.5	9.5	10.4	11.7
Return ratios				
Return on assets (%)	23.3	22.3	21.3	21.9
Return on equity (%)	25.5	24.2	23.2	24.0
Return on capital employed (%)	25.4	24.5	23.4	24.5
Turnover ratios				
Asset turnover (x)	1.1	1.2	1.2	1.3
Sales/Total assets (x)	0.6	0.7	0.6	0.6
Sales/Net FA (x)	1.5	1.6	1.7	1.7
Working capital/Sales (x)	0.3	0.2	0.2	0.2
Working capital days	95.6	89.6	88.5	80.2
Liquidity ratios				
Current ratio (x)	4.1	4.8	4.4	4.4
Quick ratio (x)	4.1	4.8	4.4	4.4
Interest cover (x)	n/a	n/a	n/a	n/a
Dividend cover (x)	1.9	2.0	1.9	2.0
Total debt/Equity (%)	3.5	3.1	2.8	2.6
Net debt/Equity (%)	(11.4)	(16.6)	(18.1)	(24.8)
Valuation				
PER (x)	23.3	22.1	20.9	18.2
Price/Book (x)	5.9	5.3	4.8	4.4
EV/Net sales (x)	8.4	7.2	6.5	5.8
EV/EBITDA (x)	14.9	14.3	13.2	11.3
EV/EBIT (x)	16.8	15.6	14.4	12.2

Recommendation Chart



Source: PhillipCapital India Research

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