

Feb.
14

Investor Briefing

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SUN TV NETWORK

SECTOR: Media & Entt.

Sensex:	29,094.90
CMP (Rs):	436
Target price (Rs):	495
52 Week h/l (Rs):	488/298.55
FV (RS)	5.00
Market cap (cr):	17,180.12
Avg volume	52876
Industry P/E	38.81
P/E	23.48
EPS	18.57
BSE code:	532733
NSE code:	SUNTV

Prices as on 14 Feb, 2015

Shareholding pattern

Dec '14	(%)
Promoters	75.0
Institutions	19.5
Public & others	5.5

Performance rel. to sensex

	Opm%	Npm %	EPS
SUNTV	81.5	38.7	5.43
ZEEL	35.7	23.4	1.83
DISHTV	28.93	-0.40	-0.03
HATHWAY	11.97	-24.27	-3.69

COMPANY OVERVIEW:

Sun TV Network Limited had its humble beginnings in 'Poomalai' - a monthly video magazine. Today, it grew upto India's largest television network which, power packed Thirty Two TV channels and Forty Five FM Radio stations in several Indian languages in infotainment covering movies, entertainment, music, documentary and news, each carries its own distinctive content and brand personality while collectively providing audiences a range of choice.

Investment Argument:

Sun TV Network Ltd (Sun) posted a better than expected performance as all the segments of the company put up a strong show. Advertising revenues grew by 7.4% yoy and 12% qoq as most of the client verticals spent more on advertising during the festive quarter as well as due to Sun TV's strengthening presence in all the four geographies. DTH revenues showed a very strong traction by growing 17.7% yoy and 11% qoq despite DAS implementation getting delayed as subscribers as well as realizations improved. Analog revenues also surprisingly grew by 6% and 17% yoy and qoq respectively as viewership share improved. Thus, overall domestic subscription income grew by 14% yoy and 13% qoq.

Growth Review:

On account of increase in ad inventory minutes and expected hike in ad rates and making of Saturday prime time, we may see some escalation in operating margins on a yearly basis. ~77% margins in Q3 are not sustainable considering the company's efforts to increase the market share in markets like AP expected to increase the other expenses. But on yearly basis, we expect the full year margins for FY15E/FY 16E/FY17E to be at 69.3%/70.9%/71.6% up from 68% in FY14. Thereon even if there is some growth in subscription revenues; which we are expecting to happen, margins may move up. At the bottomline, however, increase in amortization charges associated with increased telecast of movies to gain market share may result into some dampening of the bottomline.

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PERFORMANCE HIGHLIGHTS:

Delay in DAS implementation has always been one of the overhangs on the stock performance. GOI extending the deadline for Phase 3 and Phase 4 has put additional pressure on Sun's domestic subscription and DTH revenues. However, Q3 saw both the businesses putting stunning performances on the back of DTH subscriber growth coupled with pricing. Delay will result into the postponement in growth expected from FY 16 onwards by a year. Secondly, the implementation of Phase 1 and 2 in Chennai and Coimbatore is at a stand-still. This is acting as a double whammy to the prospects of growth in subscription revenues of Sun TV.

HIGHLIGHTS THE FACT:

- 1) The company has launched couple of new serials in the fiction genre which is leading Gemini channel of Sun to gain back its market leadership position.
- 2) The company has increased its original programming hours by including Saturday in prime time.
- 3) Increase in ad inventory to 18 minutes from 10-12 minutes in GEC accompanied with rate hike in sight and making of Saturday prime time will lead to a strong growth in ad business.
- 4) In presence of DAS, subscription income will see an extra boost of 20-25% growth which we have not yet factored in.
- 5) On the subscription revenues, despite the absence of DAS implementation, DTH business along with analog business posted a good show in Q3.

TECHNICALLY VIEW:

The stock is currently trading above 50 days and 100 days, moving average that is all about good bullish signal on daily base. RSI & MFI is present at 44.20 and 61 respectively, which is sideways & completed the consolidation formation for the support come around 410-400. The stock is currently in uptrend and now some more upside is expecting with major support is found 400 level. ADX is above 20 showing uptrend signal on the daily base.

VALUATION & OUTLOOK:

We see strengthening of brand Sun TV in markets like TN, Karnataka and Kerala and a regaining of market share and number one position in AP on the back of improved content. With new launch of couple of serials and higher movie telecast in AP has already starting to yield results. Above that, increase in ad inventory to 18 minutes from 10-12 minutes in GEC accompanied with rate hike in sight and making of Saturday prime time will lead to a strong growth in ad business.

CONCLUSION:

Improvement in IPL may act as additional positive triggers for the stock. We have rolled our estimate to FY17E based on which we arrive at a target price of Rs495, with an upside of 20s%.

We retain our Buy recommend in this script with a price target of Rs 495 in the short term outlook. So Entry would be around 425-435 as recomanded in this counter.