



In partnership. With trust.

Sun TV Network

4QFY16 Result Update

Sector: Media

CMP: ₹ 382

FY17 to show robust revenue growth; remains our Top-Pick

Recommendation: Buy

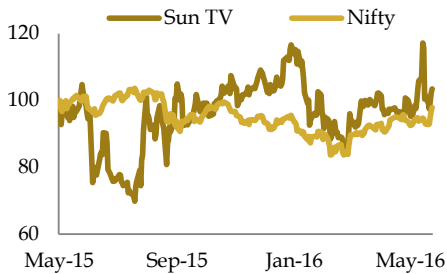
Market statistics

Current stock price (₹)	382
Shares O/S (cr.)	39.4
Mcap (₹ cr)	15,066
52W H/L (₹)	438/256
6m avg. volume	1,083,416
Bloomberg	Z.IN

Shareholding pattern

Promoters	75.00
Domestic Institution	3.03
Foreign Institution	16.69
Non-institution	5.28
of which more than 1%	
DVI Fund Mauritius Ltd	3.86
HDFC Trustee Company Limited	1.93
Equity Fund	

Sun TV Network vs Nifty



Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
RoE (%)	24.7	27.1	26.9
EPS (₹)	22.7	28.0	31.0
CEPS (₹)	35.5	41.4	46.0
P/E (x)	16.6	13.5	12.2
P/BV (x)	4.1	3.7	3.3
EV/EBITDA (x)	7.7	6.6	5.9
Income growth (%)	7.3	15.0	13.4
EBITDA growth (%)	5.8	17.3	11.6
PAT growth (%)	15.3	22.1	10.9

Standalone 4Q revenues (+4% YoY) were lower-than our estimate, as Sun TV reported muted Advertising growth (-5.6% YoY) impacted by Chennai floods and lower-than-expected growth in the non-Tamil markets. Adjusted EBITDA (net of Movie acquisition costs) stood at ₹3.43bn, was 2.8% higher than our estimate, on account of lower-than-expected movie acquisition cost. PAT stood at ₹2.18bn. Management indicated Sun would pursue higher ratings and double-digit ad growth. Based on the stronger trend in advertisement growth, Sun may exceed our FY17E EBITDA, provided the 12 minute ad-cap is not brought back. In case, ad-cap gets reinstated, we may have to trim our forecasts, but that would not change our investment thesis. Hence, we maintain our Buy rating and continue to believe it should be a stock to be held on for long-term to play out the digitalization theme.

Advertisement and subscriptions expected to be robust in FY17: Advertisement revenue were muted at (5.6)% YoY impacted in the month of January on account of Chennai floods and lower pick up in the non-Tamil markets in the months of February and March and it lost GEC viewership in Telugu and Kannada markets leading to lower ad growth. The company has invested heavily in GEC content (fiction and non-fiction programming) and will be launching 10 new shows in Telugu, 8 new shows in Kannada and 9 new shows in Malayalam in June to arrest share loss in these markets. The company has a strong viewership share in movie genre. Our FY17 advertisement revenue forecast implies 10.3% YoY growth. 4Q subscription revenue was lower-than our estimates. The management has guided for advertisement revenue for FY17 to be better than FY16, while subscription revenues and Cable would grow ~15%. The major increase in Cable would be seen post Phase III digitization.

Movie acquisition cost to be lower YoY: Movie acquisition costs have been declining (-19%YoY) and management had previously guided to a 10 to 15% decline, implying quarterly average of ₹1.15bn. Sun TV reported ₹837mn movie acquisition cost in 4Q, ₹1,160mn in 3Q, ₹993mn in 2Q (₹5.1bn for FY15, ₹4.1bn in FY16) and expects it to remain ₹3.5-3.8bn in FY17. Sun expenses the entire movie purchase cost upon first telecast, whereas revenues keep accruing upon repeat telecast.

Other details: (1) Cost of production per channel on annualized basis is ~INR350-360mn. High managerial remuneration (which increased 20% YoY to INR1,440mn) remains a key concern. (2) **Radio:** Red FM entities have Income of INR890mn, EBITDA INR370mn and PAT of INR220mn while South East Radio has income of INR1030mn, EBITDA of INR280mn and PAT of INR310mn. (3) **GRP:** Higher GRP in fiction and non-fiction shows helps is better monetisation than GRPs in movies; hence the company plans to concentrate on these segments. (4) Sun TV has launched new TV shows in Telegu and Kannada from April 2016. Some new big launches have been postponed to June 2016 because of IPL season going on.

Our Buy rating is based on assumptions which we believe are conservative. We assume: (1) ~10.3% YoY growth in advertisement revenues in FY17; (2) Further market share loss in Tamil GEC, loss of No.1 position in Telugu GEC, and stable market shares in Kannada/Malayalam language GECs; (3) Sun's advertisement growth continues to underperform market growth over long-term; (4) Phase-I and II digitization gets captured fully by FY17, and; (5) No subscription revenue upside from potential distribution of Sun's channels on US cable networks.

Valuations and risks. At CMP of ₹382, Sun TV Network is trading at 1-yr forward EV/EBITDA of 6.6x, a 24% discount to trailing 3-yr average (8.6x) and 37% below recent peak (10.3x in July-14). Hence, we maintain our Buy rating. Key risks are: (1) Drastic loss in Tamil GEC dominance; (2) Key person dependency; and (3) Political interference in the business.

ANALYST

Naushil Shah

+91-22 4224 5125

naushil.shah@trustgroup.co.in



Exhibit 1: Quarterly details

₹ mn	4QFY15	3QFY16	4QFY16	QoQ (%)	YoY (%)
Revenues	5,486	5,741	5,707	(0.6)	4.0
- Operating costs	1,253	1,337	1,441	7.8	15.0
EBITDA	4,233	4,404	4,266	(3.1)	0.8
EBITDA margin (%)	77.2	76.7	74.7	(197)bps	(241)bps
- Interest expense	5	5	8	58.3	61.7
- Depreciation	1,384	1,348	1,007	(25.3)	(27.3)
+ Other income, net (incl forex)	234	246	223	(9.4)	(4.9)
PBT	3,078	3,298	3,475	5.4	12.9
- Taxes	1,048	1,142	1,294	13.3	23.5
Effective tax rate (%)	34.1	34.6	37.2	261bps	320bps
PAT	2,030	2,156	2,180	1.1	7.4
Net margin (%)	37.0	37.5	38.2	66bps	120bps

Source: Company

Exhibit 2: Revenue break-up

₹ mn	Q4FY14	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Ad revenue	2,820	2,800	2,603	2,916	3,040	3,240	3,014	2,984	2,870
YoY Growth	4.7	0.4	11.4	7.2	7.8	15.7	15.8	2.3	(5.6)
Broadcast	260	270	310	290	280	290	281	270	260
YoY Growth	(27.8)	(22.9)	(10.7)	(6.5)	7.7	7.4	(9.2)	(6.9)	(7.1)
Total ad revenue	3,080	3,070	2,913	3,206	3,320	3,530	3,295	3,254	3,130
YoY Growth	0.9	(2.2)	8.6	5.8	7.8	14.9	13.1	1.5	(5.7)
Subscription revenue									
Analog	510	480	490	580	570	540	576	580	600
YoY Growth	34.2	14.3	(0.4)	7.4	11.8	12.5	17.5	-	5.3
DTH	1,210	1,280	1,300	1,329	1,350	1,390	1,399	1,503	1,560
YoY Growth	21.0	20.8	19.9	17.6	11.6	8.6	7.6	13.1	15.6
International	310	330	340	360	340	370	354	350	360
YoY Growth	19.2	13.8	5.3	9.1	9.7	12.1	4.1	(2.8)	5.9
Total sub. Revenue	2,030	2,090	2,130	2,269	2,260	2,300	2,328	2,433	2,520
YoY Growth	23.8	18.1	12.2	13.4	11.3	10.0	9.3	7.2	11.5

Source: Company

Financials

Income Statement (₹ mn)

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Revenues	22,236	23,954	25,698	29,550	33,510
Op. Expenses	7,139	7,181	7,956	8,740	10,294
EBITDA	15,097	16,772	17,742	20,810	23,216
Other Income	866	989	1,106	1,150	1,150
Depreciation	4,783	6,153	5,049	5,298	5,898
EBIT	11,180	11,608	13,799	16,663	18,468
Interest	46	23	22	41	41
PBT	11,134	11,586	13,777	16,622	18,427
Tax	3,682	3,760	4,755	5,605	6,208
PAT	7,452	7,826	9,022	11,017	12,219
Minority	28	(6)	(68)	-	-
Adj Pat	7,480	7,820	8,954	11,017	12,219

Key Parameters

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Per share (₹)					
EPS	19.0	19.8	22.7	28.0	31.0
CEPS	31.1	35.5	35.5	41.4	46.0
BVPS	80.9	87.3	91.9	103.2	115.5
DPS	9.5	11.3	15.5	14.3	16.0
Payout (%)	58.6	66.3	79.8	59.6	60.4
Valuation (x)					
P/E	18.2	19.1	16.6	13.5	12.2
P/BV	4.9	4.3	4.1	3.7	3.3
EV/EBITDA	9.7	8.3	7.7	6.6	5.9
Dividend Yield (%)	2.4	3.0	4.1	3.8	4.2
Return ratio (%)					
EBIDTA Margin	67.9	70.0	69.0	70.4	69.3
PAT Margin	33.5	32.7	35.1	37.3	36.5
ROAE	23.6	23.1	24.7	27.1	26.9
ROACE	35.2	34.3	36.4	39.3	39.1
Leverage Ratios (x)					
Long Term D/E	-	-	-	-	-
Net Debt/Equity	(0.2)	(0.3)	(0.4)	(0.4)	(0.4)
Debt/EBITDA	-	-	-	-	-
Interest Coverage	-	-	-	-	-
Current ratio	5.5	9.7	9.7	13.2	12.7
Growth Ratios (%)					
Income growth	15.6	7.7	7.3	15.0	13.4
EBITDA growth	7.1	11.1	5.8	17.3	11.6
PAT growth	5.8	5.0	15.3	22.1	10.9
Turnover Ratios					
F.A Turnover x	1.8	2.2	3.0	3.1	3.1
Debtors Days	91	96	112	109	110
Payable days	16	18	35	36	35

Balance Sheet (₹ mn)

Year End-March	FY14	FY15	FY16	FY17E	FY18E
Equity Share Capital	1,970	1,970	1,970	1,970	1,970
Reserves & Surplus	29,918	32,445	34,227	38,673	43,515
Total Shareholders Fund	31,888	34,415	36,197	40,644	45,485
Minority Interest	406	547	1,756	1,756	1,756
Non-current liabilities	303	269	238	248	260
Deferred tax liabilities	260	226	176	176	176
Other LT liabilities & Prov	43	43	62	72	85
Current Liabilities	3,039	2,219	2,704	2,969	3,497
Trade payables	470	719	817	910	1,072
Other cur liabilities & Prov	2,568	1,500	1,886	2,059	2,425
Total Liabilities	35,636	37,450	40,894	45,616	50,998
Assets					
Non-current Assets	18,448	17,415	14,593	15,967	17,303
Fixed assets	13,313	11,372	8,674	9,674	10,674
Non-current investments	2,559	2,694	3,783	3,783	3,783
Long-term loans & adv	2,566	3,075	1,820	2,104.93	2,386.99
Other non-current assets	10	273	317	405	459
Current assets	17,188	20,035	26,301	29,649	33,695
Current investments	2,595	2,802	2,557	2,557	2,557
Trade receivables	6,342	7,575	8,246	9,472	10,741
Inventories	6	5	11	12	13
Cash & bank balances	6,094	7,593	10,931	12,427	14,508
Short-term loans & adv	1,409	1,095	1,120	1,295	1,469
Other current assets	741	966	3,437	3,886	4,407
Total Assets	35,636	37,450	40,894	45,616	50,998

Cash flow Statement

Year End-March	FY14	FY15	FY16	FY17E	FY18E
PBT	11,134	11,586	13,777	16,622	18,427
Depreciation	4,758	6,119	4,999	5,298	5,898
Interest Exp	46	23	22	41	41
Others	116	135	1,141	-	-
CF before W.cap	16,055	17,863	19,939	21,960	24,366
Inc/dec in W.cap	(1,002)	2,734	1,458	1,950	1,760
Op CF after W.cap	17,056	15,129	18,482	20,010	22,606
Less Taxes	3,682	3,760	4,755	5,605	6,208
Net CF From Operations	13,374	11,370	13,727	14,405	16,397
Inc/(dec) in F.A + CWIP	4,736	4,213	2,351	6,298	6,898
(Pur)/sale of Investments	2,279	342	844	-	-
Others	(46)	(23)	(22)	(41)	(41)
CF from Invst Activities	(7,062)	(4,578)	(3,217)	(6,339)	(6,939)
Loan Raised/(repaid)	-	-	-	-	-
Equity Raised	0	(106)	(25)	(0)	(0)
Dividend	4,380	5,187	7,147	6,570	7,377
Others	-	-	-	-	-
CF from Fin Activities	(4,380)	(5,293)	(7,172)	(6,570)	(7,377)
Net inc / (dec) in cash	1,932	1,499	3,338	1,496	2,081
Op. bal of cash	4,162	6,094	7,593	10,931	12,427
Cl. balance of cash	6,094	7,593	10,931	12,427	14,508



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.co.in	+91-22-4084-5074
Institutional Sales				
Sriram Rangarajan	Sales		sriram.rangarajan@trustgroup.co.in	+91-22-4224-5216
Vivek Kumar	Sales		vivek.kumar@trustgroup.co.in	+91-22-4224-5197
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.co.in	+91-22-4224-5123
Nitin Dalvi	Dealer		nitin.dalvi@trustgroup.co.in	+91-22-4084-5089
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Research Team				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.co.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.co.in	+91-22-4224-5125
Naveen Trivedi	Analyst	Consumer Staple & Durable	naveen.trivedi@trustgroup.co.in	+91-22-4224-5181
Shashwat Nanda	Analyst	Rates & Credit Research	shashwat.nanda@trustgroup.co.in	+91-22-4224-5038
Tejas Sarvaiya	Analyst	Seeds, Exchanges & MidCap	tejas.sarvaiya@trustgroup.co.in	+91-22-4084-5064
Ritu Chaudhary	Associate	Consumer Durable	ritu.chaudhary@trustgroup.co.in	+91-22-4224-5183

DISCLAIMER

We are committed to providing completely independent and transparent recommendations to help our clients reach a better decision. This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. The intent of this document is not in recommendatory nature. The recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Trust Financial Consultancy Services Pvt. Ltd. has not independently verified all the information given in this document. Accordingly, no representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. Trust Financial Consultancy Services Pvt. Ltd., its affiliates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through analysis of Trust Financial Consultancy Services Pvt. Ltd. The views expressed are those of analyst and the Company may or may not subscribe to all the views expressed therein. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. Copyright in this document vests exclusively with Trust Financial Consultancy Services Pvt. Ltd.