

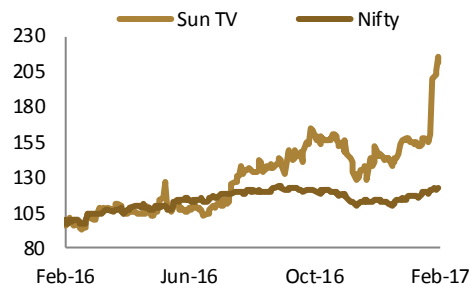
Market statistics

Current stock price (₹)	724
Shares O/S (cr.)	39.4
Mcap (₹ cr)	28,512
52W H/L (₹)	773/312
6m avg. volume	2,317,555
Bloomberg	SUNTV.IN

Shareholding pattern

Promoters	75.00
Domestic Institution	1.69
Foreign Institution	16.75
Non-institution	6.6
of which more than 1%	
Selvam Selvi	1.78
Shanmugasundaram Selvam	1.74

Sun TV Network vs Nifty



Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
RoE (%)	24.7	26.0	25.5
EPS (₹)	22.7	26.9	29.9
CEPS (₹)	35.5	38.6	43.9
P/E (x)	16.6	26.9	24.2
P/BV (x)	4.1	7.0	6.2
EV/EBITDA (x)	7.7	14.5	12.5
Income growth (%)	7.3	9.3	13.4
EBITDA growth (%)	5.8	7.3	14.8
PAT growth (%)	15.3	17.4	11.2

Standalone 3Q revenues (+2.7% YoY) were higher-than our estimate, as Sun TV reported better Domestic Cable/International revenues compared to our expectations. Advertising growth was down 6.9% YoY. Adjusted EBITDA (net of Movie acquisition costs) stood at `3.42bn, was in-line with our estimates, on account of higher-than-expected movie acquisition cost. PAT stood at `2.4bn. Management indicated Sun would pursue higher ratings and double-digit ad growth from 4QFY17. Based on the stronger trend in advertisement growth, Sun may exceed our FY18E 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 FY18: Sun's ad revenues declined 6.9% YoY. Reclassification of revenue from OTT platforms as cable subscription partly boosted cable growth. EBITDA at `4.39bn was 2.2% ahead of estimate due to lower than expected (1) movie amortization cost—down 16% YoY in 3Q and 9MFY17 and (2) employee costs increased by just 2% YoY despite 11% YoY increase in PBT. The company has a strong viewership share in movie genre. Our FY17 advertisement revenue forecast implies flattish growth. 2Q subscription revenue was higher-than our estimates. The management has guided for advertisement revenue for FY18 to be better than FY17, 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: Sun's programming cost increased by 14% YoY (or modest `193 mn) in 9MFY17 even as it partially moved from slot sale model (programming costs on private producer's P&L) to commission model (programming costs on P&L) and launched a number of new shows. The absolute increase in programming cost of `193 mn is much lower than savings on movie costs; movie amortization costs declined 16% YoY and by `517 mn in 9MFY17.

Digitization gains yet to be realized: Digitization has been slow in Sun TV's key market Tamil Nadu due to the presence of state-owned Arasu cable as dominant force in TV distribution space. With resolution of court cases related to phase-III of digitization, we believe the process cannot now be delayed for long. Sun TV will be the major beneficiary of speeding up of digitization in the state.

Our Buy rating is based on assumptions which we believe are conservative. We assume: (1) flattish 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 `724, Sun TV Network is trading at 1-yr forward EV/EBITDA of 14.5x, a 69% premium to trailing 3-yr average (8.6x) and 40% higher than its previous peak (10.3x in July-14). It is a clear break-out in terms of overhang being taken out. 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

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**Exhibit 1: Quarterly details**

\ mn	3QFY16	2QFY17	3QFY17	QoQ (%)	YoY (%)
Revenues	5,741	6,255	5,894	(5.8)	2.7
- Operating costs	1,337	1,592	1,497	(5.9)	12.0
EBITDA	4,404	4,663	4,397	(5.7)	(0.2)
EBITDA margin (%)	76.7	74.6	74.6	5bps	(211)bps
- Interest expense	5	2	7	218.2	45.8
- Depreciation	1,348	1,030	1,107	7.4	(17.9)
+ Other income, net (incl forex)	246	488	389	(20.2)	58.3
PBT	3,298	4,119	3,673	(10.8)	11.4
- Taxes	1,142	1,415	1,272	(10.1)	11.3
Effective tax rate (%)	34.6	34.4	34.6	27bps	(1)bps
PAT	2,156	2,704	2,401	(11.2)	11.4
Net margin (%)	37.5	43.2	40.7	(249)bps	319bps

Source: Company

Exhibit 2: Revenue break-up

\ mn	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17
Ad revenue	2,916	3,040	3,240	3,014	2,984	2,870	3,150	3,094	2,778
YoY Growth	7.2	7.8	15.7	15.8	2.3	(5.6)	(2.8)	2.7	(6.9)
Broadcast	290	280	290	281	270	260	250	293	230
YoY Growth	(6.5)	7.7	7.4	(9.2)	(6.9)	(7.1)	(13.8)	4.0	(14.8)
Total ad revenue	3,206	3,320	3,530	3,295	3,254	3,130	3,400	3,387	3,008
YoY Growth	5.8	7.8	14.9	13.1	1.5	(5.7)	(3.6)	2.8	(7.6)
Subscription revenue									
Analog	580	570	540	576	580	600	740	680	750
YoY Growth	7.4	11.8	12.5	17.5	-	5.3	37.0	18.1	29.2
DTH	1,329	1,350	1,390	1,399	1,503	1,560	1,580	1,610	1,670
YoY Growth	17.6	11.6	8.6	7.6	13.1	15.6	13.7	15.1	11.1
International	360	340	370	354	350	360	380	400	390
YoY Growth	9.1	9.7	12.1	4.1	(2.8)	5.9	2.7	13.0	11.2
Total sub. Revenue	2,269	2,260	2,300	2,328	2,433	2,520	2,700	2,690	2,810
YoY Growth	13.4	11.3	10.0	9.3	7.2	11.5	17.4	15.5	15.5

Source: Company



Financials

Income Statement (` mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
Revenues	23,954	25,698	28,093	31,869	36,007
Op. Expenses	7,181	7,956	9,062	10,023	11,228
EBITDA	16,772	17,742	19,031	21,846	24,779
Other Income	989	1,106	1,493	1,450	1,750
Depreciation	6,153	5,049	4,613	5,503	6,048
EBIT	11,608	13,799	15,911	17,793	20,481
Interest	23	22	22	41	49
PBT	11,586	13,777	15,890	17,752	20,432
Tax	3,760	4,755	5,301	5,972	6,911
PAT	7,826	9,022	10,589	11,780	13,521
Minority	(6)	(68)	-	-	-
Adj Pat	7,820	8,954	10,589	11,780	13,521

Key Parameters

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
Per share (`)					
EPS	19.8	22.7	26.9	29.9	34.3
CEPS	35.5	35.5	38.6	43.9	49.7
BVPS	87.3	91.9	103.6	117.1	132.7
DPS	11.3	15.5	13.0	14.0	16.0
Payout (%)	66.3	79.8	56.6	54.8	54.6
Valuation (x)					
P/E	19.1	16.6	26.9	24.2	21.1
P/BV	4.3	4.1	7.0	6.2	5.5
EV/EBITDA	8.3	7.7	14.5	12.5	10.9
Dividend Yield (%)	3.0	4.1	1.8	1.9	2.2
Return ratio (%)					
EBITDA Margin	70.0	69.0	67.7	68.5	68.8
PAT Margin	32.7	35.1	37.7	37.0	37.6
ROAE	23.1	24.7	26.0	25.5	25.9
ROACE	34.3	36.4	37.4	37.2	37.9
Leverage Ratios (x)					
Long Term D/E	-	-	-	-	-
Net Debt/Equity	(0.3)	(0.4)	(0.4)	(0.4)	(0.4)
Debt/EBITDA	-	-	-	-	-
Interest Coverage	-	-	-	-	-
Current ratio	9.7	9.7	9.8	10.1	10.4
Growth Ratios (%)					
Income growth	7.7	7.3	9.3	13.4	13.0
EBITDA growth	11.1	5.8	7.3	14.8	13.4
PAT growth	5.0	15.3	17.4	11.2	14.8
Turnover Ratios					
F.A Turnover x	2.2	3.0	2.9	3.0	3.1
Debtors Days	96	112	112	110	110
Payable days	18	35	35	36	36

Balance Sheet (` mn)

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
Equity Share Capital	1,970	1,970	1,970	1,970	1,970
Reserves & Surplus	32,445	34,227	38,822	44,147	50,290
Total Shareholders Fund	34,415	36,197	40,792	46,117	52,260
Minority Interest	547	1,756	1,756	1,756	1,756
Non- current liabilities	269	238	250	258	268
Deferred tax liabilities	226	176	176	176	176
Other LT liabilities & Prov	43	62	74	82	92
Current Liabilities	2,219	2,704	3,079	3,405	3,814
Trade payables	719	817	943	1,043	1,169
Other cur liabilities & Prov	1,500	1,886	2,135	2,362	2,645
Total Liabilities	37,450	40,894	45,876	51,536	58,098
Assets					
Non- current Assets	17,415	14,593	15,843	17,164	18,515
Fixed assets	11,372	8,674	9,674	10,674	11,674
Non-current investments	2,694	3,783	3,783	3,783	3,783
Long-term loans & adv	3,075	1,820	2,001	2,270	2,565
Other non-current assets	273	317	385	437	493
Current assets	20,035	26,301	30,034	34,372	39,583
Current investments	2,802	2,557	2,557	2,557	2,557
Trade receivables	7,575	8,246	9,005	10,215	11,542
Inventories	5	11	12	13	14
Cash & bank balances	7,593	10,931	13,534	15,999	19,157
Short-term loans & adv	1,095	1,120	1,231	1,397	1,578
Other current assets	966	3,437	3,694	4,191	4,735
Total Assets	37,450	40,894	45,876	51,536	58,098

Cash flow Statement

Year End-March	FY15	FY16	FY17E	FY18E	FY19E
PBT	11,586	13,777	15,890	17,752	20,432
Depreciation	6,119	4,999	4,613	5,503	6,048
Interest Exp	23	22	22	41	49
Others	135	1,141	-	-	-
CF before W.cap	17,863	19,939	20,524	23,296	26,529
Inc/dec in W.cap	2,734	1,458	992	1,860	1,985
Op CF after W.cap	15,129	18,482	19,532	21,436	24,544
Less Taxes	3,760	4,755	5,301	5,972	6,911
Net CF From Operations	11,370	13,727	14,231	15,464	17,632
Inc/(dec) in F.A + CWIP	4,213	2,351	5,613	6,503	7,048
(Pur)/sale of Investments	342	844	-	-	-
Others	(23)	(22)	(22)	(41)	(49)
CF from Invst Activities	(4,578)	(3,217)	(5,634)	(6,544)	(7,097)
Loan Raised/(repaid)	-	-	-	-	-
Equity Raised	(106)	(25)	-	(0)	0
Dividend	5,187	7,147	5,994	6,455	7,377
Others	-	-	-	-	-
CF from Fin Activities	(5,293)	(7,172)	(5,994)	(6,455)	(7,377)
Net inc /(dec) in cash	1,499	3,338	2,603	2,465	3,158
Op. bal of cash	6,094	7,593	10,931	13,534	15,999
Cl. balance of cash	7,593	10,931	13,534	15,999	19,157



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